PFL Academy

Teacher Guide: Chapter 5.3 — Evaluating Saving and Investment Strategies

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Chapters 5.1-5.2

LESSON FLOW

5 min **THE CHALLENGE**

- Read Liam and Julia's scenarios. Ask: "Who would you advise to invest in stocks?"
- Highlight that same investment can be right for one person, wrong for another.
- Preview that time horizon is the key differentiator.

10 min **CORE CONCEPTS**

- Review the 5 key terms. Draw the risk-return spectrum on board.
- Explain that diversification reduces risk without necessarily reducing returns.
- Discuss liquidity: "How fast can you get cash without penalty?"

25-28 min **APPLY IT**

- **Part A (12 min):** Analysis of the comparison table. Work through scenarios together.
- **Part B (8 min):** Growth projections—the difference after 40 years is dramatic.
- **Part C (5-8 min):** Risk tolerance assessment. Emphasize no "right" answer.

10 min **CHECK YOUR UNDERSTANDING**

- Focus on Q2 (contrasting Liam and Julia) and Q4 (staying course during downturn).
- Connect back to compounding lesson: time heals market drops.

DIFFERENTIATION

Support

- Create a simplified decision tree based on time horizon.
- Color-code the comparison table by risk level.
- Walk through the growth projection calculations step-by-step.
- Pair students for scenario analysis.

Extension

- Research actual mutual fund and stock returns over the past 10 years.
- Create a personal investment strategy for multiple goals.
- Analyze the impact of fees on long-term investment returns.

ANSWER KEY

Part A: Investment Vehicle Analysis

Liam: Best option: CD or savings account. Why NOT stocks: With only 18 months, the market could drop significantly right when he needs the money. He can't afford to lose principal. He should also: Save more monthly (needs $3,000 more; CD interest alone won't close gap).

Julia: Best option: Mutual Fund or Stock Index Fund. Why is risk acceptable: With 48 years, she has time to ride out multiple market cycles. Historically, markets recover from downturns given enough time.

Part B: Growth Projections

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Difference Calculation:
$45,259 (Stocks) - $1,489 (Savings) = $43,770 more

With $50/month added for 40 years:
$131,000 vs. $14,974 (one-time investment)
Regular contributions dramatically increase final value.
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1. $45,259 - $1,489 = **$43,770 more** with stock index

2. Regular contributions ($131,000) are nearly 9× more than the one-time investment ($14,974). Consistent investing has enormous impact.

Part C: Risk Tolerance Assessment

> *Risk tolerance responses vary. No wrong answers. Look for students to match their tolerance to appropriate investments: Conservative → CDs/Bonds; Moderate → Mixed Mutual Funds; Aggressive → Stock Funds.*

Check Your Understanding

1. B (Higher potential returns typically come with higher risk)

2. Liam needs certainty in 18 months; a market drop could prevent his car purchase. Julia has 40+ years; short-term volatility won't affect her retirement if she stays invested.

3. $5,000 × 1.025 = **$5,125**

4. No, she shouldn't sell. With 40+ years, she has plenty of time for recovery. Historically, markets have always recovered from downturns. Selling locks in losses.

5. *Accept thoughtful responses that identify a specific goal, time horizon, and appropriate vehicle with reasoning.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Safe investments are always better."	For long-term goals, "safe" investments may actually be risky because they don't outpace inflation. Appropriate risk depends on time horizon.
"I should wait until the market is doing well to invest."	Timing the market is nearly impossible. Regular investing (dollar-cost averaging) means sometimes buying low, sometimes high—which averages out over time.
"Young people should be conservative investors."	Actually, young people can often afford MORE risk because they have time to recover from downturns. Conservative investing is more appropriate as you near your goal.