

PFL Academy

Teacher Guide: Chapter 5.5 — Understanding Monetary Risks

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Chapters 5.1-5.4 (Saving, Investing, Strategies)

LESSON FLOW

5 min THE CHALLENGE

- Read Maya's three-option scenario. Poll: "Which friend's advice sounds best?"
- Discuss why each option might seem appealing (and dangerous).
- Preview that today reveals how to identify and manage different types of risk.

10 min CORE CONCEPTS

- Introduce the four risk types with real examples. Use Anna, Sam, Michael, Taylor stories.
- Emphasize that "no risk" claims are themselves a red flag for fraud risk.
- Discuss inflation as "the silent thief"—money loses value even sitting still.

25-28 min APPLY IT

- **Part A (6 min):** Risk identification exercise. Quick matching—ensure students can distinguish risk types.
- **Part B (7 min):** Risk tolerance quiz. Emphasize no "right" answer—it's personal.
- **Part C (7 min):** Portfolio design. The "110 minus age" rule is a starting guideline.
- **Part D (8 min):** Solve Maya's challenge. Connect back to all concepts.

10 min CHECK YOUR UNDERSTANDING

- Focus on Q1 (inflation risk for retirement) and Q4 (paradox of "safe" investments).
- Discuss: Why do scams still work even when red flags seem obvious?

DIFFERENTIATION

Support

- Create a simple 2x2 matrix: High/Low Risk vs. High/Low Return.
- Provide a pre-made portfolio template with example allocations.
- Use concrete dollar amounts instead of percentages.
- Pair students for the risk tolerance assessment discussion.

Extension

- Research historical market crashes and recovery times.
- Calculate the exact inflation-adjusted value of savings over 30 years.
- Create a "fraud detection guide" with investigation steps.
- Analyze how risk tolerance should change at different life stages.

ANSWER KEY

Part A: Risk Identification

- 1. "Limited time" triple-your-money call:** Fraud Risk. Red flags include pressure tactics, unrealistic returns, and unsolicited contact.
- 2. Fed raises rates, all stocks decline:** Market Risk. Economy-wide factors affecting all investments regardless of individual company performance.
- 3. Retail company files bankruptcy:** Financial Risk. Company-specific inability to manage debt and obligations.
- 4. Savings earns 0.5%, costs rise 4%:** Inflation Risk. Purchasing power eroding despite account balance remaining stable.

Part B: Risk Tolerance Assessment

Risk tolerance results vary by individual. Look for students to honestly assess their reactions and connect their tolerance level to appropriate investment strategies.

5. Accept responses that demonstrate self-awareness about risk tolerance and provide reasoning. Students should connect their quiz results to how they'd actually react to market volatility.

Part C: Portfolio Design

Sample Portfolio Allocations:

Conservative: 20% Stocks, 50% Bonds, 30% Cash

Moderate: 50% Stocks, 35% Bonds, 15% Cash

Aggressive: 80% Stocks, 15% Bonds, 5% Cash

6. Accept reasonable allocations where stocks decrease and bonds/cash increase as risk tolerance decreases. Total must equal 100%.
7. Diversification helps manage market risk by spreading investments across asset types. When stocks decline, bonds might hold steady or rise. Different investments respond differently to the same economic events, reducing overall portfolio volatility.

Part D: Maya's Challenge

- 8. Cryptocurrency option risks:** Fraud Risk (no legitimate investment "guarantees" 50% returns), Market Risk (crypto is extremely volatile), Financial Risk (unregulated, no FDIC protection). The word "guaranteed" is itself a fraud red flag.
- 9. Savings account risks:** Inflation Risk is most relevant. At 1% interest vs. 3% inflation, Maya loses ~2% purchasing power annually. Over 10+ years, this "safe" option could lose 20-30% of real value. Safe from market drops but not safe from inflation.
- 10. Diversified approach benefits:** Addresses market risk (bonds buffer stock declines), inflation risk (stocks provide growth to outpace inflation), financial risk (spread across many companies), and provides liquidity (some cash for emergencies).
- 11. Recommendation:** Option 3 (diversified). Sample allocation: \$12,000 stocks/index funds (60%), \$6,000 bonds (30%), \$2,000 savings (10%). Reasoning should connect to time horizon and risk tolerance.

Part E & Check Your Understanding

12. Questions before investing: Is the seller/company registered with regulators? What's the verifiable track record? Why is this "tip" being shared? What are the actual risks? Can I verify claims independently? How would I get my money back?

1. C (Inflation Risk—money in savings loses purchasing power over 30 years)
2. Main purpose of diversification: Reduce overall portfolio risk by spreading investments across different asset types. When one investment declines, others may hold steady or rise, smoothing out returns.
3. Asset allocation should become more conservative (more bonds, less stocks) as one approaches retirement. Less time to recover from market drops means less tolerance for volatility.
4. "Safe" investments can be risky for long-term goals because inflation erodes purchasing power. A savings account might be "safe" from market drops, but if it earns less than inflation, you're actually losing real value over time. For retirement (30+ years), you need growth to maintain purchasing power.

COMMON MISCONCEPTIONS

Misconception	Clarification
"Risk means I could lose everything."	Risk means uncertainty, not guaranteed loss. With diversification, you're unlikely to lose everything. Risk is the trade-off for potential returns—managed properly, it's a tool, not a danger.
"Savings accounts are completely safe."	Safe from market drops and FDIC insured, yes. But NOT safe from inflation. Over long periods, "safe" savings actually lose purchasing power. Different types of safety for different risks.
"Higher risk always means higher returns."	Higher risk means higher POTENTIAL returns, not guaranteed higher returns. You're compensated for taking risk, but that compensation isn't automatic—it's a possibility that works out over long time periods.