MODULE 2 - UNIT 1: THE SEVEN GOLDEN RULES OF INVESTING

Welcome Young Investors! Congratulations on joining the Young Investors Society. It is our goal to make you master investors. Many of the lessons you will learn have been used by successful investors over several generations. You will notice that a recipe for success is easy to follow, but is actually followed by few.

DESCRIPTION

This unit will teach students the basic formula for becoming a successful investor. Students will be introduced to the concept of investing, gain an understanding of compound interest, build their vocabulary, learn about the Superinvestors, and understand the Seven Golden Rules to Investing.

CORE OBJECTIVES

Lesson One: Who are investors? Why invest?

- Identify if you are a spender or an investor
- Understand the effects of compound interest

Lesson Two: What does it really mean to invest in the Stock Market?

- Understand key terms such as “stock,” “stock market,” etc
- Identify stock tickers of popular companies and make an argument for investing

Lesson Three: Beating the Market

- Become familiar with the Superinvestors, as well as Graham and Dodd
- Identify the common traits of successful investors

Lesson Four: Seven Golden Rules of Investing

- Understand the Seven Golden Rules to investing

LENGTH

Approximately 2 hours, split up into four (4) 20 to 40-minute lessons.

CONTENT STANDARDS

LESSON ONE
CCSS.MATH.CONTENT.HSA.REI.B.3
Solve linear equations and inequalities in one variable, including equations with coefficients represented by letters.
D2.Eco.1.9-12. Analyze how incentives influence choices that may result in policies with a range of costs and benefits for different groups.
CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY (councilforeconed.org)
Standard V: **Financial Investing** Financial investment is the purchase of Financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.

LESSON TWO
CCSS.ELA-LITERACY.RI.11-12.7
Integrate and evaluate multiple sources of information presented in different media or formats (e.g., visually, quantitatively) as well as in words in order to address a question or solve a problem.
CCSS.ELA-LITERACY.SL.11-12.1
Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY (councilforeconed.org)
Standard V: **Financial Investing** Financial investment is the purchase of Financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.

LESSON THREE
CCSS.ELA-LITERACY.RI.11-12.1
Cite strong and thorough textual evidence to support analysis of what the text says explicitly as well as inferences drawn from the text, including determining where the text leaves matters uncertain.
CCSS.ELA-LITERACY.W.11-12.4
Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.
CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY (councilforeconed.org)
Standard V: **Financial Investing** Financial investment is the purchase of Financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.
research.

LESSON FOUR
CCSS.ELA-LITERACY.SL.11-12.1
Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
CCSS.ELA-LITERACY.SL.11-12.3
Evaluate a speaker's point of view, reasoning, and use of evidence and rhetoric, assessing the stance, premises, links among ideas, word choice, points of emphasis, and tone used.
CCSS.ELA-LITERACY.SL.11-12.4
Present information, findings, and supporting evidence, conveying a clear and distinct perspective, such that listeners can follow the line of reasoning, alternative or opposing perspectives are addressed, and the organization, development, substance, and style are appropriate to purpose, audience, and a range of formal and informal tasks.

ADDITIONAL RESOURCES

- Access to Computers and Internet is preferred, but not required
- YIS Website www.yis.org – curriculum, videos and lesson plans
- YIS Glossary of Terms (full database at yis.org/resources)
- Zacks.com – for company research including ratios and screens
- Morningstar.com -- for company research including ratios and screens
- Gurufocus.com -- for company analysis
- Y-Charts – for company analysis and stock graphs.
- Wallstreetsurvivor.com -- for basic stock concepts
- Yahoo Finance and Yahoo Finance App -- for stock charts and basic company information
- Greenblatt, Joel. *The Little Book That Beat the Market.*
- Guest Speakers -- Write Contact@yis.org if you want help arranging a financial professional to come to your class
- Seeking Alpha – online portal of stock research reports (www.seekingalpha.com)
- Motley Fool – great daily content and stock picks (www.motleyfool.com)
- Investopedia.com – the “Wikipedia” of Investing, great online glossary of terms
- Stockcharts.com – for tracking stock market performance and comparison between stocks.

LESSON ONE: WHO ARE INVESTORS? WHY INVEST?

OVERVIEW

The first lesson of Unit One is focused on helping students gain an understanding of why people are motivated to invest. Students will be asked to consider the decisions we make each day to invest our money or to spend it. They will gain an understanding of short-term satisfaction versus long-term returns. Students will learn about compounding interest and apply this knowledge to real life scenarios.

LESSON SUMMARY

Warm-up: Students will take a short quiz to determine if they are investors or spenders. A short discussion follows.

Learning Activity: Students will learn how to calculate compounding interest and the effects of compound interest by completing Handout 1.1.

Wrap-Up: Students will apply knowledge of compounding interest to understand the importance of starting early and earning a high return.

Keep an eye out throughout the lessons for Investors' Tips on how to enable students to take over and lead. YIS is focused on creating a student-led learning environment where our student members take responsibility for their own learning.

OBJECTIVES

Students will be able to:

- Understand key terms such as "stock," "stock market," etc
- Identify stock tickers of popular brands and make an argument for investing

MATERIALS AND PREP

- Calculators
- Post-It notes or note cards
- Copies of Handout 1.1
- YIS PowerPoint presentation Unit 1.1

RESOURCES

- YIS Website www.yis.org

LESSON ONE: WHO ARE INVESTORS? WHY INVEST?

TEACHING GUIDE

Warm-Up: Ten Minutes

Introduction:

1. Have PowerPoint Unit 1.1 up when students enter the classroom.
2. Welcome students to the Young Investors Society! Briefly explain the benefits of belonging to YIS.
3. Ask each student to introduce themselves and explain what motivated them to join YIS.

Activity: Are you an Investor?

1. Ask students the following questions:

    I'll give you $100 today or a new Mercedes next year? Which one will you take?

    A) The cash
    B) The car
    C) Why are you even looking at other options, you'd be crazy not to take the car!

    I'll give you $100 today or $100 next year. Which one will you take? Think about it...

    A) The cash today
    B) The same cash next year
    C) Of course you wouldn't wait! What's the point? You wouldn't get anything in return for waiting.

2. Explain to students that their answers to these questions indicate whether they are more likely to be an investor or a spender. A person choosing to take the cash rather than waiting on a car is a spender. And we all inherently understand that there is no point in waiting to take $100 if there is no return. An investor understands the future is worth somewhere between $100 and a new car.
3. Ask students: How much could the future be worth for a bit of sacrifice today? Point out the example from the question and another real life example. For example, waiting to see a new release movie until it is released on Netflix can save money. Ask students for their own examples of when the sacrifice is worth the wait. Explain that this is the key question investors ask themselves each day.
4. Distribute one post-it note or note card to each student. Ask them to write their answer to the following question on their card.

    How much cash would you be willing to give up today in return for a promise to receive $500 five years from now? $50? $100? $300? $450? $499?

5. Have students raise their answers or post on the board so everyone can see.
6. Have students break into smaller groups or partners and discuss what the number they picked says about them? Are they cautious? Optimistic? Etc

Learning Activity: 20 minutes

Introduction:

1. Ask students who they picture when they hear the word investor. Explain that we are all investors from a small business owner to a student trying to save enough quarters for dinner. Everyone has to make choices about how to manage the money we make and we all want to end up with as much money as possible.
2. When you are trying to build wealth you must ask yourself two questions: Am I able to save each year? When I save, where do I put the money?
3. Explain to students that understanding compound interest is critical to answering the question of how to build wealth.

Learning Activity 1:

1. Pass out Handout 1.1. Explain to students that they will be working together to learn how to calculate compound interest.
2. Allow students 10 minutes to complete the handout. Circulate during activity to help answer questions and keep on task.
3. Regroup and address any major questions from students.

Ask students who quickly understand the concept of compoundin g interest to circulate the room and help other

Learning Activity 2:

1. Ask students to picture the following scenario:

   Let's assume you're 20 years old and just took a job as a firefighter, your childhood dream. Your salary is meager, but you make the goal to save $1,000 dollars per year and put it in a retirement account. You work and save for the next 50 years until you retire.
2. Ask students where they could put the money. (savings accounts, retirement accounts, invest in real estate, etc)
3. Explain that you are going to show them the long-term effects of compounding interest.
4. Present the following options to the students:

   Savings Account: (otherwise known as the "under the mattress" approach) The easiest and "safest" thing is you could just put the money in cash. Nice and safe! It will never go away and it won't go up and down.

Average Annual Return: 0%
Amount Accumulated in 50 Years: $50,000

Bonds or Real Estate. Most people say that they get most of their retirement funds from investing in their home and watching it increase in value. Or investing in bonds. Both of these options will grow in line with inflation, which on average is about 3% per year.
Average Annual Return: 3%
Amount Accumulated in 50 Years: $116,000

The Stock Market. Scary, right? It goes up and down. There are times when it can decline by 20% in a short period of time, inducing panic and scary headlines. But over time, the stock market grows as companies and economies grow. In every ten-year period, the stock market earns you about 8-10% returns. In fact, over the last century, the S&P 500 (the largest 500 companies in the US) have returned 9.8% per year.
Average Annual Return: 9.8%
Amount Accumulated in 50 Years: $1,359,199

5. Ask students which option makes the most sense if your goal is to earn the most money. Answer is obvious when you understand compounding interest.
6. Explain that there is a fourth option and it is one famous investors including Warren Buffet have used with great success.

    Beating the Market. This isn't easy, it isn't for everyone, but let's say you take a few hours per week. You do your homework, and invest in some exceptional companies through the stock market, and earn an extraordinary 20% return per year. This is a very high return (even 12% per year is quite a feat), but let's just assume you're really good at finding great stocks.
    Average Annual Return: 20%
    Amount Accumulated in 50 Years: $109,826,119 (Yes, that's over $100 million dollars)
7. Remind students that this is an incredible result for a firefighter saving just $1000 a year. The difference between 3% and 10% may seem small, but compound interest makes it huge.

Wrap-Up: Ten minutes

1. Ask students to consider the effects on the firefighter if he or she did not start investing in the stock market at age 20. Show them the following table.

Age	Amount per year	Interest Rate	Total at age 70
40	$1000	9.8%	$190,773
30	$1000	9.8%	$535,682
20	$1000	9.8%	$1,359,199

2. Ask students what would happen to the total if they started at age 15? Invested more per year? Got a better interest rate?
3. Explain that the two most critical factors in increasing the return, aside from investing more money, are:
    - Earning a high interest rate.
    - Starting early
4. Explain that this is what YIS is helping them do. They will learn the skills necessary to earn high interest rates and give them the resources to start investing early.
5. Show the students the previous table with age 15 included:

Age	Amount per year	Interest Rate	Total at age 70
40	$1000	9.8%	$190,773
30	$1000	9.8%	$535,682
20	$1000	9.8%	$1,359,199
15	$1000	9.8%	$2,224,948

6. Ask each student to take a note card and write down an investment goal. They need to include how much they would like to invest, a goal for interest rate, when they want to start, and how long they will keep the money there. Have students turn in the note cards. Before next lesson, calculate the totals for the students and have them ready.

Handout 1.1

"Compound interest is the eighth wonder of the world"
– *Albert Einsten*

Where should I invest? Choosing where to invest your money is one of the most important money decisions that people will make in their life. It makes the difference between scraping by and being wealthy.

The formula for calculating a return each year is:

$$A = P(1 + r)$$

A = Ending Balance
P = Starting Balance
r = Annual percentage rate of return

For example, if you started out with $100, and had a 5% return on Year 1 and a 3% loss on year 2, the amount at the end of two years would be:

A = $100 (1.05) (.97) = $101.85

Challenge:
Divide up into groups. Let's suppose that you've inherited $100,000! You just turned 20 years old. Decide where to invest the money under difference scenarios and how you will maximize this nest egg as you grow older.

Here are the Possible Investments:

A) Growth Stocks – Go up 12% each year, but every 5th year goes down by 5%.
B) Blue Chip Stocks – Go up 10% each year, but every 5th year goes down by 3%
C) Real Estate– Goes up 3% each year 1-9, then every 10th year goes up 10%.
D) Government Bonds – Goes up 2% each year
E) Rare Art - stays flat for 40 years, then on 41st year goes up by 200% (triples) when you sell it, then you keep the money in cash after that.

<u>Scenario 1</u>
What is the most you could save by the time you are 25 years old?

<u>Scenario 2</u>
What is the most you could save by the time you are 50 years old?

<u>Scenario 3</u>
What is the most you could save by the time you are 70 years old?

Discuss:
What did you learn about compounding? Is it better to invest in a high return asset that has volatility, one that has consistent but lower returns, or one that goes up the most at the end? Does the amount of time invested change the best investment?

Tip: If you have access to Excel or another spreadsheet software, you can more quickly calculate compounding interest scenarios.

LESSON TWO: WHAT DOES IT REALLY MEAN TO INVEST IN THE STOCK MARKET?

OVERVIEW

The second lesson of Module Two, Unit One will allow students to gain a basic understanding of what the stock market is and how it functions. Students will learn what it means to buy a stock and why there are fluctuations in the stock market. Students will practice presenting their analysis of why a stock is a good investment and learn how to identify stock tickers.

LESSON SUMMARY

Warm-up: Students will watch and discuss two videos about stocks and the stock market.

Learning Activity: Students will learn how to identify stock tickers and present an argument with evidence to convince classmates to invest in a company and complete Handout 1.2.

Wrap-Up: Students will demonstrate knowledge of critical vocabulary.

OBJECTIVES

Students will be able to:

- Identify if you are a spender or an investor
- Understand the effects of compound interest

MATERIALS AND PREP

- Internet access
- Computers or smartphones for research
- Copies of Handout 1.2
- YIS PowerPoint presentation Unit 1.2

RESOURCES

- YIS Website www.yis.org
- https://yis.org/videos/stock-market-101/

YOUNG INVESTORS SOCIETY

TEACHING GUIDE

Warm-Up: Ten Minutes

Introduction:

1. Have PowerPoint 1.2 up when students enter the classroom.
2. Briefly review the previous lesson and share with students the results of their investment plans from Lesson 1 Wrap-Up.
3. Ask if there are any questions about compounding interest and it's effects.
4. Explain to students that they will be learning about the basics of the stock market in today's lesson.

Activity:

1. Students will watch two videos to learn the basics of stocks and the stock market. Make sure students view Lesson 1 and Lesson 2. https://yis.org/videos/stock-market-101/
2. Pause between videos to check for understanding and answer questions.
3. Once videos are finished, have students break into pairs and do the following:
   Explain what a stock is.
   Expain what the stock market is and why it goes up and down.
4. Regroup and ask students if everyone is comfortable with what a stock is, what the stock market is, and why it goes up and down. Check understanding by asking students to briefly discuss what types of companies they would be interested in investing in today if they had $500.

Learning Activity: 20 minutes

Introduction:

1. Ask students to call out some of their favorite products.
2. Explain to students that many of their favorite products are owned by companies that produce a variety of products. For example, Apple is a publically traded company that produces iPhones, Apple TVs, iPads, etc.
3. Explain to students that each publically traded company is identified by a stock ticker, an abbreviation that identifies the company on the stock market.
4. Explain to students that they will be working to discover the companies that produce certain products and learn how to identify a stock ticker.

Learning Activity:

1. Pass out Handout 1.2. Allow students to work in partners or small groups.

2. Allow students 15 minutes to complete the handout. Circulate during activity to help answer questions and keep on task.
3. Regroup and address any major questions from students.
4. Students will each make a short presentation to the class about a product they would be interested in investing in and why they believe it is a good investment. Presentations can also be done in small groups to save time.

Are your students taking the online lesson quizzes on MyYIS portal at yis.org? This will increase engagement!

Wrap-Up: Ten minutes

1. Explain to students that they were introduced to several critical vocabulary words during the course of today's lesson. These include shareholder, stock ticker, stock, stock market, and capital. Ask students to write these words down on a piece of paper.
2. Ask students to partner with a classmate. Students will take turns telling their partner a story including all five of the words. As students tell their stories, their partners will check off the words from their list.
3. Hand out the article "The Superinvestors of Graham-and-Doddsville" or make sure students have access to the article at http://www8.gsb.columbia.edu/alumni/news/superinvestors. Make sure students also have Handout 1.3. These resources are available in Lesson 1.3.
4. Ask students to read the article before the next meeting and complete the first half of Handout 1.3.

Handout 1.2

"Without a saving faith in the future, no one would ever invest at all. To be an investor, you must be a believer in a better tomorrow" **Benjamin Graham**

All companies have owners. A small company started by a single individual may have only him or her as the single owner. Large corporations that have stock, shares that are traded by the general public, have many shareholders. To organize the buying and selling of these shares by the public, companies use the stock market. In fact, US government regulations require that a company *must* go public once it reaches a certain number of owners. This is to allow a large number of owners to easily buy and sell their shares of stock in the company.

Pretend a close friend is starting a small company. The company is doing really well, but needs more money, or capital, to expand. They ask you to be part owner in the business by investing some of your savings. You agree because you believe in what the company is producing. Would you sell your ownership in the company a few days later? Most likely not! It should be the same thing when you decide to buy a public company's stock. The only real difference is your friend's company is a private company with just two shareholders, while there are many more shareholders in a public company with shares in the "stock market."

Now it is your turn to consider which real-life companies you would like to invest in and practice identifying the stock tickers for your favorite products. Using a search engine and finance.yahoo.com, complete the table.

Product	Company	Stock Ticker	Reasons it may be a good investment
Example: IPhone	Apple	AAPL	-Dependable product -Good customer service -Customer loyalty
ESPN			
Pampers			
YouTube			
Sprite			

Now choose three products that you love. Choose one product to present to the class. Be prepared to share the reasons you think it may be a good investment.

Product	Company	Stock Ticker	Reasons it may be a good investment

LESSON THREE: BEATING THE MARKET

OVERVIEW

During the third lesson of Unit One, students will contrast the efficient market hypothesis and the practice of value investing. Students will research Superinvestors and gain an understanding of the principles that Superinvestors follow.

LESSON SUMMARY

Warm-up: Students will watch and discuss two videos about efficient market hypothesis and value investing.

Learning Activity: Students will research and present the investing strategies of the Superinvestors.

Wrap-Up: Students will apply knowledge of Superinvestors to several scenarios.

OBJECTIVES

Students will be able to:

- Become familiar with the Superinvestors, as well as Graham and Dodd
- Identify the common traits of successful investors

MATERIALS AND PREP

- Copies of Superinvestors article by Warren Buffet - http://www8.gsb.columbia.edu/alumni/news/superinvestors
- Copies of Handout 1.3
- YIS PowerPoint presentation Unit 1.3

RESOURCES

- YIS Website www.yis.org
- http://www.investopedia.com/video/play/efficient-market-hypothesis/
- http://www.investopedia.com/video/play/what-is-value-investing/

YOUNG INVESTORS SOCIETY

TEACHING GUIDE

Warm-Up: Ten Minutes

Introduction:

1. Divide class into groups of four. Each student needs a coin. Instruct students to each predict whether they will flip heads or tails. Each student flips their coin at the same time. Repeat ten times. Each student keeps track of the number of times they were correct.
2. Determine who guessed their coin toss correctly the most times.
3. Ask students why they think that individual student won. After hearing from students, explain the common response is to assume that it was just random, which is true. But what if the winner of the coin toss game was actually doing something different from everyone else and suppose everyone that did what he/she did started winning too. Perhaps they had a special method and strategy for guessing correctly. Wouldn't you be curious what that strategy was?
4. Explain that this analogy is put forward by the single most successful investor, Warren Buffet, and was presented in the article the students read.

Learning Activity: 20 minutes

Introduction:

1. Students will watch the videos about the efficient market hypothesis and value investing from Investopedia.
   http://www.investopedia.com/video/play/efficient-market-hypothesis/
   http://www.investopedia.com/video/play/what-is-value-investing/
2. During the video, students should take notes on why the efficient market hypothesis may not be accurate and list the rules of value investing.

Learning Activity:

1. Ask students to take out their Superinvestors article and Handout 1.3.
2. Students will partner up and review their answers to the reading comprehension questions.
3. Circulate room to ensure students are correct on their answers.
4. Give students 5 minutes to discuss their answers with their partners. Instruct each set of partners to choose one habit they think is most critical to becoming a Superinvestor and find an example from the text to back up idea.
5. Each partner set will present their idea for a habit to the class. Class will create a master list of habits of Superinvestors.

THE MARKET

6. If none of the students come up with the following three habits, make sure to add them to the list and discuss what they mean with the class:
   -Superinvestors exploit the discrepancy between the traded price and the underlying value.
   -Superinvestors have a consistent and rational approach.
   -Superinvestors do their own research.

Wrap-Up: Ten minutes

1. Students will consider the following investor scenarios in small groups or as a class and determine if each investor would more likely be considered a value investor or a proponent of the efficient market hypothesis.
2. Read each investor scenario aloud. Allow for a few moments of group discussion and have each group share their answer and why.
   Scenario 1: Liz has been interested in investing in the stock market for a long time. She finally decides to invest $5000. He carefully researches a cheese company's value, including their debt and their profits. She determines the company's stock is underpriced compared to the value of the company so she invests. (value investor)
   Scenario 2: Alex is not very concerned with the value of the companies when he makes his stock picks. He believes the markets will rise over time so he invests in a basket of many stocks or an ETF. (Efficient market hypothesis)
   Scenario 3: Jack carefully researched his investment options and invested a significant amount of money in a media company. The stock price of the company has been volatile for the past year and many shareholders sold their stock. However, Jack was patient and left his investment alone and is now enjoying seeing a steady rise in the value of his shares. (value investor)

Throughout the lessons, ask students to present scenarios or lead discussions rather than the teacher

Handout 1.3

Games are won by players who focus on the playing field - not by those whose eyes are glued to the scoreboard. –Warren Buffet

Make notes on the following questions while reading "The Superinvestors of Graham-and-Doddsville" by Warren Buffet. Bring your notes to the next meeting for a discussion.

1. Why does Buffet argue Superinvestors can't be explained by random chance?

2. What variables do Superinvestors focus on?

3. Explain what type of relationship between price and value that a Superinvestor looks for.

4. Why is Buffet convinced there is inefficiency in the market?

5. After reading about Superinvestors, what do you think are three of their most important practices or habits?

LESSON FOUR: SEVEN GOLDEN RULES OF INVESTING

OVERVIEW

During the fourth lesson of Unit One, students will learn the Seven Golden Rules for Investing and will apply this knowledge to a variety of scenarios.

LESSON SUMMARY

Warm-up: Students will write a rule for becoming a Superinvestor based on their knowledge of value investing.

Learning Activity: Students will teach each other the Seven Golden Rules of Investing and apply their knowledge to a variety of scenarios.

Wrap-Up: Students will learn the Eighth Golden Rule of Investing.

OBJECTIVES

Students will be able to:

- Understand the Seven Golden Rules of Investing

MATERIALS AND PREP

- Copies of Handout 1.4
- YIS PowerPoint presentation Unit 1.4

RESOURCES

- YIS Website www.yis.org

LESSON FOUR: SEVEN GOLDEN RULES OF INVESTING

TEACHING GUIDE

Warm-Up: Ten Minutes

1. Ask students to recall the discussion from the last meeting about the habits of Superinvestor. Have students share what they remembered out loud.
2. Keeping these habits in mind, students will each write one rule for investing that keeps the habits in mind. Give students three minutes to write their rule.
3. Each student will share their rule with the class.
4. Discuss with students ways in which rules ensure success. A successful football player follows certain rules and so do successful students. Investing in the stock market is no different, except you stand to make a lot of money if you follow the rules. Just like Warren Buffet and other Superinvestors.
5. Explain to students that YIS has developed a list of the Seven Golden Rules of Investing based on the patterns of the most successful investors. These rules will provide the foundation for student's participation in the stock pitch competition and form a solid basis for successful long-term investing.

Learning Activity: Forty Minutes

Introduction:

1. Divide class into seven groups.
2. Explain that each group will be given the information for one of the Seven Golden Rules for Investing. Working together they will have ten minutes to create a plan for teaching their assigned rule to the rest of the class.

Learning Activity 1:

1. Pass out one rule to each group. Rules can be found in Handout 1.4. Cut apart before class so each class only sees their rule.
2. Give students 10 minutes to plan out their teaching plan. Circulate room and ensure each group clearly understands their rule.
3. Starting with Gold Rule #1 and continuing in order, each group will teach their rule to the rest of the class.
4. Each student should write take notes on the rules for the next activity.

This activity is a great opportunity to get students excited about running the meeting and teaching. Encourage creativity! Allow props! Provide posterboard and markers!

Learning Activity 2:

1. Students can remain in their groups. Pass out copies of the scenarios found on Handout 1.4.
2. Working together, each group will choose the best answers to each scenarios. Give groups ten minutes to go over the scenarios and answer them.
3. Go over the answers as a group.
4. Allow students time to ask questions about the rules.

Wrap-Up: Ten minutes

1. Ask students if they know something else Warren Buffet is known for besides making tons of money on the stock market. Students should recognize Buffet for his philanthropy efforts also.
2. Explain to students the 8^{th} Golden Rule of Investing: Once you are succssful find ways to give back to the world.
3. Explain to students that YIS is investing in them because we want them togain wealth and have a better life, but we also hope they use their success to help others.

Handout 1.4

RULE #1: THINK LONG-TERM

Trying to time the stock market or risking it all to "double your money in a year" is at best speculating, at worst gambling. You may as well just take your money to Vegas and lose it there. Those who are able to successfully navigate the stock market are not speculators or gamblers, they are investors. Investors know they can beat the market because they think differently, they think smarter, and they think longer-term.

"Time horizon arbitrage" means that if investors learn to think long-term and can see beyond the daily and quarterly noise, they can gain a real upper hand. In 1964, American Express was a great company but the stock was getting hammered due to an insurance scandal. The company had to pay millions of dollars in fines due to accidentally underwriting barrels of vegetable oil that turned out to be water. That is exactly the time when Warren Buffett began purchasing the stock. The best investors look beyond short term distress and keep their eyes on the long-term horizon.

“Only buy something that you’d be perfectly happy to hold if the market shut down for 10 years.” Warren Buffett

RULE #2: GOOD COMPANIES MAKE GOOD INVESTMENTS (DITTO FOR BAD COMPANIES)

People need to understand that investing is not like placing a bet on whether the Cowboys will cover the spread against the Packers in the big game. Investing is not trying to get the quarterly press release a microsecond before the other person. It is not even about trying to predict which stock that you think will go up the most. Fundamental Investing is buying a tangible piece of a business, or a *share* of that business. And your investment portfolio (the collection of all the different shares you own) is only as good as sum of the companies in that portfolio.

If you buy shares of high quality companies at reasonable prices, you'll end up with a high quality portfolio with less risk. It's as simple as that. Good companies are ones that have a unique advantage that others can't copy. Good companies are ones that generate high returns on capital. Good companies don't need to borrow a lot because their business is self financing.

“It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price” Warren Buffett

RULE #3: BUY WITH A MARGIN OF SAFETY

Nearly every professional investor began his career reading Benjamin Graham's, *The Intelligent Investor*. Warren Buffett called it, "by far, the best book on investing ever written." What makes it so special? One of the reasons is because it introduced the important concept “Margin of Safety.”

In investing, a margin of safety is formed when one buys an investment at less than its value, while using conservative assumptions. The idea of a margin of safety is that you want to buy a business at a price that is low enough that your assessment could be completely wrong and you wouldn't lose much.

"Heads I win.Tails I don't lose much." Mohnish Pabrai, Dhandho Investor

RULE #4: DO YOU OWN HOMEWORK AND OWN WHAT YOU KNOW

There is no substitute for your own work. Buying a stock because CNBC recommended it, or because your uncle recommended it, or the stock chart looks good is a sure way to lose money.

Successful investors know what they own. They buy stocks of companies with products they believe in. Successful investors go the extra mile to analyze the financials of the company to make sure they're not missing anything. Remember, most of the extraordinary gains made in the stock market come after a stock is punished or after it has already risen a lot, but you're not going to have the conviction to stick with it unless you really know the company.

"You have to know what you own, and why you own it." Peter Lynch

RULE #5: DON'T FOLLOW THE HERD, STAY CALM AND RATIONAL

The typical buyer's decision is usually heavily influenced by those around him: buy when others are buying, sell when others are selling. Unfortunately, this is a recipe that is bound to backfire. The best investors are ones that can fight this urge and remain calm through a storm, and remain on the sidelines through a bubble.

The world's greatest investor Warren Buffett said it best, ”Be fearful when others are greedy, and be greedy when others are fearful!”

RULE #6: DON'T PUT ALL YOUR EGGS IN ONE BASKET, BUT DON'T HAVE TOO MANY BASKETS, EITHER

Diversification is one of the most critical strategies for your portfolio so that if one stock blows up, it won't sink the entire ship. As much as we think we won't make a mistake, we will. Even the masters do and that is why we can't put all our eggs in one basket. There's power in diversification.

However, research suggests that 90% of diversification benefits can be obtained in most markets with a portfolio of just over 20 stocks. The more you diversify beyond that, the less you know about each investment (See Rule #4). Your first and second best ideas are always better than your 100th best idea, so while diversifying is crucial, make your best ideas count!

"We try to avoid buying a little of this or that when we are only lukewarm about the business or its price. When we are convinced as to attractiveness, we believe in buying worthwhile amounts". Warren Buffett

RULE #7: NEVER STOP LEARNING

Perhaps the most important rule is learn, learn more, and then keep learning. The fun thing about investing is that the markets are always different and companies are constantly changing. Never stop learning about businesses, never stop learning from other great investors, and never stop learning from your own mistakes. Humility and an eagerness to learn are two traits found in all of the great investors. Even Warren Buffett credits his partner Charlie Munger with teaching him that it's better to buy a great company at a fair price than a fair company at a great price.

"The game of life is the game of everlasting learning. At least it is if you want to win."
Charlie Munger

Using the Golden Rules, select the best answer for each investment scenario. Keep in mind the Golden Rules can apply to other investments (real estate, bonds) not just stocks. Debate if there are differing opinions. Make note of **which Golden Rule(s) are most applicable to each scenario**.

Scenario #1: Which one would you invest in?

A) Company BBB is a grocery store chain. BBB was slow to embrace the trend of organic food, which has resulted in a drop in company sales and a drop in the company's stock price. The switch to organics at BBB is currently underway. BBB's management team forecasts customers who moved away due to the lack of organics will switch back quickly given their competitive pricing and preferred store locations. Also, after digging deeper you discover that the land that BBB owns for their stores is very valuable, worth $10/share at market value, compared to the company trading at $5/share.

B) Company MMQ is a sports clothing company. The company is growing quickly and is much more profitable than other clothing companies, most likely because customers are going nuts over their new jacket line. They have just signed your favorite baseball player to an endorsement deal and you are looking to buy the stock. It's currently trading at a very high valuation due to the high anticipated growth expected this year.

C) Company AAA is a discount retailer. The economy looks to be sluggish over the next several quarters, which could benefit AAA. The stock looks pretty expensive relative to historical valuations. The stock has doubled in the last 3 years.

Scenario #2: Which company would you invest in?

A) Map Snap, ticker MSNAP, is a social media company that has very little revenue and a slower growth rate versus its peer group. You have a family member who works there so you think about buying some stock. A competitor launched a really cool app that is competing directly with Map Snap.

B) Kalifornia Cars, ticker KAR, is a car manufacturing company producing highly fuel efficient cars, only offering hybrids or electric. The company is in good financial health but trades at a substantial discount to the automotive industry. Recent technological improvements will improve margins and boost profits but not for at least two more years.

C) Newzzpaper Inc, ticker NUZ, is a struggling newspaper printing company. Newspaper print subscriptions are in a steady decline as customers opt for electronic delivery of their news. The company trades at a 20% discount to the value of its assets.

Scenario #3:
You are closely watching the quarterly earnings report of your largest holding Gizmo, almost 15% of your stock portfolio. The stock has not performed well as of late and is trading 10% lower than where you acquired your initial shares There are no material changes in your analysis and you have a strong conviction the company's profits are going to be much higher than the market expects in the future. The quarterly earnings are announced and the company's profits were 10% less than analysts expects. The earnings miss was attributed to a 2 week delay in shipments of the newest product. The very next day the Wall Street Journal has an article discussing the recent earnings miss, and the stock declines by another 20%. What do you do with the stock?

A) Sell the stock and cut your losses
B) Do nothing
C) Sell another stock and buy more Gizmo

Scenario #4: Which company would you invest in?

A) Solid company with a slow and steady growth rate. The company is the dominant market leader with a strong brand that has been around for decades, but it's industry is mature and isn't growing very fast. Company pays a steady dividend.
B) Profitable company but using aggressive accounting practices, which may or may not be distorting the reported numbers. The stock is trading at a small discount to where other comparable companies are.
C) Rapidly growing business that has increased revenue 200% over the last three years. To fund this growth the company has accumulated a lot of debt.

Scenario #5: Which investment would you make?

A) A friend has encouraged you to invest your money into an up and coming real estate development in Central America. The early investors look to make significant profits pictures look amazing. There is potential to double your money in a very short time. You know there are risks, but it looks like you buying much below market value, and this could be the investment of a lifetime.

B) You hear about a fantastic investment opportunity in North Dakota. Highly efficient oil wells have been discovered in the Bakken Shale. The towns in North Dakota are booming but there is a significant shortage of housing. Apartments are rented the second they are completed. You can invest in the very next apartment building being built and would recover your money in a very short period of about three to five years and then own the apartments outright. You don't live anywhere near North Dakota but seems like a conservative investment.

C) The condo building you live is in a great neighborhood. It is within walking distance of many great restaurants and shops. You have always wanted to buy another unit in the building and one was recently put on the market. The seller is a realtor and has agreed to reduce the commission which would allow you to purchase the condo well below market value. A fortune 500 company announced it would add several thousand jobs in your area, thus renting out the unit seems highly probable.

Scenario #6

After reading an independent research report you learn that you can invest in emerging markets stocks, which are more volatile but offer greater risk adjusted returns over the long run. This discovery prompts you to ask several financial professionals of the merits to the report, which is confirmed. You continue to research the Emerging Market opportunities and realize the reliability of company research reports can vary from country to country. Secondly, the research is often difficult to obtain and may not be available in English. Not to be discouraged you find a reputable investment management firm that advises a mutual fund specific to Emerging Markets. The well-respected mutual fund is open to new investors. What do you do?

A) Sell everything in your portfolio and put it all in the Emerging Market mutual fund

B) Re-balance your stock portfolio with a modest allocation to the Emerging Market mutual fund

C) Do nothing; the research report is probably inaccurate and seems risky.

ANSWER KEYS

HANDOUT 1.1

Here are the outcomes under difference scenarios by investment type:

	Start	Age 20	Age 21	Age 22	Age 25	Age 50	Age 70
Growth Stocks	100,000	112,000	125,440	140,493	167,422	1,249,661	6,239,862
Blue Chip Stocks	100,000	110,000	121,000	133,100	156,219	902,501	3,671,279
Real Estate	100,000	103,000	106,090	109,273	119,405	304,523	627,301
Government Bonds	100,000	102,000	104,040	106,121	112,616	184,759	274,542
Rare Art	100,000	100,000	100,000	100,000	100,000	100,000	300,000

Answer: **Growth Stocks** is the best option for all three scenarios.

HANDOUT 1.2

Product	Company	Stock Ticker	Reasons it may be a good investment
Example: IPhone	Apple	AAPL	-Dependable product -Good customer service -Customer loyalty
ESPN	Disney	DIS	-answers will vary
Pampers	Procter and Gamble	PG	-answers will vary
YouTube	Google (Alphabet Inc.)	GOOG	-answers will vary
Sprite	Coca-Cola	KO	-answers will vary

HANDOUT 1.3

1. Each one decided their own manner of applying the theory. Each investor was working in a different place and investing in different stocks and companies.
2. Price and Value
3. Look for companies to invest in whose stock prices are lower than the company's value.
4. Graham-Dodd investors have exploited gaps between price and value. Wall Street herds and people trading on emotion can effect market prices.
5. They are not influenced by the herd. They do their research. They have a consistent and rational approach. Answers will vary.

HANDOUT 1.4

1. **BEST INVESTMENT: COMPANY A. RULE: #3 BUY WITH A MARGIN OF SAFETY** Answers B and C don't introduce the concept of buying with a margin of safety. B has a company at a reasonable valuation but trendy fashion is volatile year to year and a difficult business and C may be a good business but is trading above historical metrics. Answer A illustrates a company that is trading at a 50% discount to liquidation value, buying a dollar bill for 50 cents**.**

2. **BEST INVESTMENT: COMPANY B. RULE: #1 THINK LONG TERM** Answers A and C describe companies with uncertain long term horizons. Answer B is a great example of where you can buy at a discount today. Companies that invest in the future often generate lower profits today in exchange for greater profitability down the road.

3. **BEST CHOICE: B. RULE #5: DON'T FOLLOW THE HERD, STAY CALM AND RATIONAL.** It's difficult to stay the course when negative news is released regarding a stock in your portfolio, but selling based on the news would be a mistake if your long term analysis has not changed. Since this position is already 15% of your portfolio and it is unlikely you will sell another stock to buy more, your position will become too concentrated and quite risky. Answer B, do nothing, be rational and stay calm**.**

4. **BEST INVESTMENT: COMPANY A. RULE: #2 GOOD COMPANIES MAKE GOOD INVESTMENTS** Good companies make good investments. Answer B has red flags in their accounting which is worrisome and Answer C offers attractive growth but the company has taken on significantly more debt.

Answer A offers a mature business with consistent growth, competitive advantage (brand), and history of paying a dividend.

5. **BEST INVESTMENT: COMPANY C. RULE: #4 Do your homework, own what you know** C., Do your homework, own what you know. Answer A provides a couple of red flags, buying any asset sight unseen can be risky. Any investment requires due diligence, which generally takes more than a few days. Answer B does not carry the red flags of owning international real estate, however, you don't know the area and are very much betting on a never ending boom in the oil business (which historically goes boom and bust every so often). Answer C is the logical investment, in your same building, a vibrant community, and likely rental demand with a new fortune 500 company office nearby.

6. **BEST CHOICE: B. DON'T PUT ALL YOUR EGGS IN ONE BASKET, DIVERSIFICATION.** Learning of new ways to invest money should be exciting, so wanting to make the greatest returns is natural. Answer A would lead to the greatest risk and expose your portfolio to significant losses. Diversification can lead to lower volatility and minimize the risk. Answer C is incorrect, dismissing independent research as inaccurate violates Golden Rule #4, Do your homework! Answer B is the prudent course of action provided you agree with the merits of the research report.