



## MODULE 2 - UNIT 4: FINDING STOCKS TO INVEST IN

Welcome to Unit 4! You now have a good understanding of the importance of economic moats and their importance in identifying what makes a good business. As part of Young Investors Society you will be competing in a Stock Pitch Competition. In this unit, you will learn how to come up with a good initial list of stocks.

### DESCRIPTION

Unit 3 will teach students the keys to coming up with a good initial list of stocks. Students will practice coming up with investment ideas. They will learn how to conduct a stock screen and how to utilize the S&P 500 and Dow Jones. Students will learn good locations for accessing research reports and will wrap up with an field trip and activity creating their own list of initial stocks in preparation for the Stock Pitch Competition.

### CORE OBJECTIVES

Lesson One: Coming Up with Investment Ideas

- Identify businesses you know that offer a competitive moat.
- Analyze and customize stock screeners to evaluate a stock for investment.

Lesson Two: Using Research Reports to Evaluate Stocks

- Use the S&P 500 and Dow Jones Industrial Average to evaluate stocks for investment.
- Interpret and evaluate research reports.
- Understand the role of a stockholder in a company.

Lesson Three: Make a List

- Utilize knowledge of competitive moats, stock screeners, and stock reports to create a list of initial stocks for investment.

### LENGTH

Approximately 90 minutes, split up into three (3) 20 to 40-minute lessons.

## CONTENT STANDARDS

### LESSON ONE

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](http://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.

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.

### LESSON TWO

CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY ([councilforeconed.org](http://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.

D2.ECOo.3.9-12. Analyze the ways in which incentives influence what is produced and distributed in a market system.

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.

### LESSON THREE

CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY ([councilforeconed.org](http://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.

D2.ECOo.3.9-12. Analyze the ways in which incentives influence what is produced and distributed in a market system.

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.

## ADDITIONAL RESOURCES

- Access to Computers and Internet is preferred, but not required
- YIS Website [www.yis.org](http://www.yis.org) – curriculum, videos and lesson plans
- YIS Glossary of Terms (full database at [yis.org/resources](http://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](mailto: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](http://www.seekingalpha.com))
- Motley Fool – great daily content and stock picks ([www.motleyfool.com](http://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: COMING UP WITH INVESTMENT IDEAS

### OVERVIEW

The first lesson of Unit 4 will give students a solid grounding in the process of picking initial stocks for investment by focusing on investing in what you know. Students will practice discerning between popular companies that are terrible investments and those that are solid companies. Students will practice using stock screens.

### LESSON SUMMARY

**Warm-up:** Students will reflect on their own spending habits to create a list of “sticky” companies.

**Learning Activity:** Students will make lists of popular companies and debate their investment potential and then practice using stock screens to evaluate their choices.

**Wrap-Up:** Students will discuss the list they created and pinpoint the strengths and weaknesses of their final choices.

### OBJECTIVES

**Students will be able to:**

- Identify businesses you know that offer a competitive moat.
- Analyze and customize stock screeners to evaluate a stock for investment.

### MATERIALS AND PREP

- Copies of Handout 4.1
- YIS Prezi Unit 4.1
- Access to computers and internet

### RESOURCES

- YIS Website [www.yis.org](http://www.yis.org)
- Google stock screener

## LESSON ONE: COMING UP WITH INVESTMENT IDEAS

### TEACHING GUIDE

#### Warm-Up: Five Minutes

1. Have Prezi 4.1 up when students enter the room.
2. As students enter, invite them to the Prezi or board to make a list of products they spend money on constantly. Encourage them to list big things (shoes, phones, etc) and little things (soda brands, toothpaste, etc).
3. Once all students have entered the room and had a chance to participate, ask everyone to sit down.
4. Ask students why they listed these brands. Give each student a chance to explain one thing.
5. Explain that their answers show why these purchases are “sticky” or why consumers return to these products again and again.
6. Ask students to work with a partner and make a list of five of the companies they think will make a good investment.
7. Each partner set will share one of their choices with the class and explain why they think it is a good investment.
8. Leave the list of companies on the board or Prezi for the learning activity

#### Learning Activity: 20 minutes

1. Explain to students that a common investment motto is to “invest in what you know.” Asks students if they think this is good advice. Why or why not?
2. Tell students a story about Peter Lynch, a famous investor. His wife told him about L’eggs, a brand of pantyhose sold by Hanes that women could purchase at the grocery store instead of making a separate trip to the department store. He listened to his wife and decided to invest in Hanes because of that product and made a good return.
3. Explain to students that a popular company now does not mean it is a great investment. Ask them to consider life when they were babies. Their parents shopped at Sears, used Netscape to surf the internet, took pictures on film, bought GM cars, and flew on Delta airlines.
4. Ask if any of the students know what happened to these companies. Explain they all went bankrupt. Well-known does not mean it is a good business.
5. Warren Buffet taught that we want to own simple, easy to understand businesses, but that these businesses need a competitive moat around them.



***By Unit 4, students should be completing most activities with very limited help from the teacher. Teachers should consider turning over parts of***

## LESSON ONE: COMING UP WITH INVESTMENT IDEAS

6. Review economic moats with students by asking the class to list the different moats: Intangible Assets, High Switching Costs, Network Effect, and Low Cost Advantage.
7. Pass out Handout 4.1.
8. Each student in class should choose three companies of products they can't live without.
9. Using Handout 4.1, students should determine if the company has an economic moat.
10. After five minutes, students will break into small groups of four and share their investment ideas with their group and explain why they think each investment is a good investment or not.
11. Students can remain in their small groups.
12. Explain to students that after making an initial determination using the first four questions on their handout, they will then want to run a stock screen.
13. Explain that a stock screen is a way to filter out the characteristics you want in an investment. It is similar to picking out a car. You narrow down your choices by the things like gas mileage, color, horsepower, etc. Then you only test drive the cars that meet your criteria. A stock screen does the same for stocks.
14. Students will now use google stock screen (insert link) to conduct stock screens for the three stocks they chose earlier. Encourage students to work with each other and help each other. Allow plenty of time for students to play around with the options and explore the stock screener. Students may also explore Zacks.com, Yahoo finance, and Uncle Stock.
15. As students are working, remind them that a company does not necessarily need to meet all the thresholds on the handout to be a good investment. A company that is cheap and growing is ideal, but rare. The best investors stay disciplined and find the best combinations.
16. After students have conducted their stock screens, allow them time to discuss what they learned with their classmates. Debate is encouraged!

### **Wrap-Up: Ten minutes**

1. Explain to students that there are different types of successful investors. A growth investor looks for high growth companies growing more than 20% a year that also have high margins meaning a gross margin above 50%. Deep-value investors look for very cheap companies with a Price/Book below 1x.
2. Ask students to reflect on their stock screen activity and determine which type of investor they are more likely to be.
3. Remind students to hold onto their investment ideas for the next lesson.

## Handout 4.1 Investment Ideas Cheat Sheet

**Think of products you are familiar with and answer the following question to determine if they have an economic moat.**

1. What products am I happy to pay a price premium for because the service they offer can't be replicated by another? (Brand, Quality)
2. What services do I continue paying for because switching services would be too costly or a huge inconvenience? (High Switching Costs)
3. What platform do I use because it is the only one where I can meet up with a certain type of people and because the network or marketplace can't even be compared to a peer? (Network Effect)
4. What products have been around for generations – you can picture your parents and grandparents enjoying them and easily picture your grandkids enjoying them as well? (Sustainability, Brand)

**Use these standards to conduct a more formal stock screen of your investment ideas.**

You want to find a **great company** that is **growing** and you can **buy cheap**. Here are a couple of factors you can look for:

- A business that has very stable earnings, with little fluctuation year to year
- A company that has positive cash generation (Cash generation is the cash profits minus the investment costs to grow the business.)
- A company that consistently makes a healthy return on capital
- A company that pays a dividend that grows consistently every year

### **IS THE COMPANY GOOD?**

- **5y Return on Equity**: greater than 12% (Also use Return on Investment)
- Good companies often have **high margins** (Gross Margin > 30%, Operating Margin > 15%)
- Interest Coverage above 3 times
- Stable earnings and Return on Equity through the years (look at a chart, or look over the past 10 years, on Morningstar.com or zacks.com)

### **IS THE COMPANY GROWING?**

- 5y revenue growth greater than 4% per year
- 5y earnings growth (and EPS) greater than 4% per year
- Forecasted growth in the next 5 years

### **IS THE STOCK CHEAP?**

- P/E ratio below 15x (market average)
- Dividend yield above 3%
- P/Book ratio below 2x

## LESSON TWO: USING RESEARCH REPORTS TO EVALUATE STOCKS

### OVERVIEW

In the second lesson of Unit Four, students will learn how to use the S&P 500 and Dow Jones as investment research. Students will analyze research reports written by other investors and present their findings to the class. Students will combine the methods presented in the previous lesson with the new information they learn in this lesson to gain a comprehensive understanding of how to make an initial decision on an investment.

### LESSON SUMMARY

**Warm-up:** Students will explore the S&P 500 and the Dow Jones.

**Learning Activity:** Students will study research reports and share their findings with the class.

**Wrap-Up:** Students will discuss due diligence and what it means to be a shareholder.

### OBJECTIVES

**Students will be able to:**

- Use the S&P 500 and Dow Jones Industrial Average to evaluate stocks for investment.
- Interpret and evaluate research reports.
- Understand the role of a stockholder in a company.

### MATERIALS AND PREP

- Internet access
- Computers or smartphones for research
- Copies of Handout 4.2
- YIS Prezi Unit 4.2

### RESOURCES

- YIS Website [www.yis.org](http://www.yis.org)
- Investor blogs and research reports

## TEACHING GUIDE

### Warm-Up: Ten Minutes

1. Have Prezi 4.2 up when students enter the classroom.
2. As students enter room, direct them to computers and instruct them to look up the Dow Jones Industrial Average and S&P 500.
3. After all students have arrived and are engaged in research, explain that the Dow Jones represents 30 of the largest and most significant companies in the United States and the S&P 500 is a list of the largest and most common companies in the United States.
4. As students continue to research, have them consider these questions about companies on the lists:
  - Does the sector look interesting?
  - Do I know and like this company's products?
  - Do I have certain expertise about this company's products that would give me an edge?
  - Do I expect this company to grow?
5. Instruct students to choose one company they would like to invest in that appears on the Dow Jones or S&P 500 and call it out. If a company has already been called, you must choose another!

### Learning Activity: 30 minutes

1. Pass out Handout 4.2.
2. Students will use the list of research report resources to browse and read a variety of research reports.
3. Tell students to find one research report that they find intriguing and valuable and one they find less valuable.
4. Allow students 15-20 minutes to explore research reports.
5. Students will reconvene and each student will give a brief 1-2 minute presentation on the report they found the most valuable and the one they found valueless. They should make sure to explain the reasons for their opinions.
6. By the end of this activity, students should each have a list of a few interesting companies they could potentially invest in. This list may include companies from this lesson, lesson 1, or companies they discovered in earlier units.

### Wrap-Up: Ten minutes

1. Ask students to reflect back on the Golden Rules. Which golden rule have we been emphasizing with this unit? Answer: Do your own homework.

2. Explain that when you buy stock of a company you are buying a piece of the company and becoming an owner. You need to carefully consider your investment before making such a big decision.
3. Ask students how they decide which movie to go see or which phone to buy. Explain that some people spend more time on that decision than they do on their investment decisions.
4. Review these important steps with students. Explain that these steps are called **due diligence**.
  - a. Make sure the company is actually investible, or **publicly traded**.
  - b. Go to the **company website**, click on the “Investor Relations” tab, and find a recent company presentation to get an overview of the business.
  - c. Read through the more in-depth **Annual Report**, also on the company website. Sections to focus on are the Management Discussion & Analysis and the Segment Reporting.
  - d. Read **other investors’ opinions** on the company.
  - e. Look through the **company’s financials** on sites like Morningstar.com. Evaluate the trends of the main company metrics.
5. Explain to students that the stock market aggregates the opinions and knowledge of market participants to come up with a consensus on a company’s worth. While it is important to consider this, a wise investor has done their own homework and has a strong understanding of the company and is able to ignore scary headlines or panic to hold onto a good stock for the long-term.
6. Ask students to discuss the following questions with each other
  - a. What does it mean to be a shareholder of a company?
  - b. How is it possible to believe in a company or know it so well that you are confident that you are right and the market is wrong about what it is worth?
  - c. Why does the market get it wrong sometimes?
7. Pass out Handout 4.3 and instruct students to complete on their own time before the next meeting. Students should form teams of 2-4 students and share contact information to make plans. If it is not possible for students to complete the activity on their own, arrange a formal field trip to complete it. If a formal field trip is not possible, instruct students to use the companies from the Dow Jones to complete the activity.

## Handout 4.2

### Source List for Research Reports

**Seeking Alpha:** Seekingalpha.com is an excellent databank of investor reports on companies. Some of the writers are professional investors, some are not, but there is a plethora of articles written on companies, both large and small.

**SumZero:** Similar to Seeking Alpha, sumzero.com is an online platform where investment professionals write investment reports and promote stock ideas.

**Wall Street Journal and The Financial Times:** These are the two newspapers that every needs investor reads each day. Most people need to pay for online access, but you can read the articles for free if you copy the article's title into Google and access it through Google directly (a legal and very useful trick!).

**Motley Fool:** Fool.com is an always-interesting mix of financial news, investment strategies, and large doses of humor balanced by hard hitting serious news and opinion. Tom and Dave Gardner and their talented staff have been delivering their unique and informed message since 1993 and the Fool is now a full-service financial media enterprise. If you'd like your investing information tinged with some pleasant sarcasm and edgy laughs, the Fool might be perfect for you.

**Jim Cramer:** The host of CNBC's Mad Money and co-founder of TheStreet.com is a journalist, lawyer, and "infotainer" (his term). He's been dispensing financial and investment information to anyone listening since the mid-1990s. If you need a break from reading financial statements or waiting for your stock screener to advise you on your next hot investment, Cramer might add some zest to your day. A former hedge fund manager, Cramer has been in the investment trenches for some time. You may not agree with all that he says, but you will be informed and entertained.

**GuruFocus:** GuruFocus.com tracks the stock trades of successful investment managers to see what they are buying and selling. It also provides stock recommendations based on different investment criteria and has a robust stock screening tool.

**Value Investors Club:** Valueinvestorsclub.com is an online investment club where top investment managers come together to share their best stock ideas.

**Beyond Proxy:** Beyondproxy.com is one of the most successful investment blogs. It compiles interviews with portfolio managers and stock reports.

**There are thousands of investor blogs in addition to the above list. Some are good, some are not, and a few are truly excellent. There are many free sources available to provide thoughts on companies and the market.**

## LESSON THREE: MAKE A LIST

### OVERVIEW

During the third lesson of Unit Four, students will apply their knowledge of moats, stock screeners, and stock reports to create their own list of initial stocks for investment. Students will have completed an off-site activity prior to this lesson and should bring their completed work with them.

### LESSON SUMMARY

**Warm-up:** Students will work in groups to discuss their initial list of stocks.

**Learning Activity:** Students will follow the due diligence steps to narrow their investment list from their activity.

**Wrap-Up:** Students will present their list to a small group.

### OBJECTIVES

**Students will be able to:**

- Utilize knowledge of competitive moats, stock screeners, and stock reports to create a list of initial stocks for investment.

### MATERIALS AND PREP

- Internet access
- Computers or smartphones for research
- Copies of Handout 4.3
- YIS Prezi Unit 4.3

### RESOURCES

- YIS Website [www.yis.org](http://www.yis.org)
- Investor blogs and research reports

## TEACHING GUIDE

### Warm-Up: Ten Minutes

1. Have Prezi 4.3 up when students enter the room.
2. Students should have their notes from their field trip activity including a list of companies that may be good investments.
3. Students should form small groups and discuss the following questions about their lists:
  - a. If you are interested in buying the stock of a company that makes a consumer product, how loyal do its customers seem to be to that product?
  - b. Are there many companies that sell the same or similar products?
  - c. How much of a price premium would you be willing to pay for that brand of product when compared to its competitors?
  - d. Do you think that strong demand for that product might be just a fad or something that will last well into the future?
4. Give students 10 minutes to discuss questions and narrow down their lists if they choose

### Learning Activity: 30 Minutes

1. Remind students of the method of due diligence
  - a. Make sure the company is actually investible, or **publicly traded**.
  - b. Go to the **company website**, click on the “Investor Relations” tab, and find a recent company presentation to get an overview of the business.
  - c. Read through the more in-depth **Annual Report**, also on the company website. Sections to focus on are the Management Discussion & Analysis and the Segment Reporting.
  - d. Read **other investors’ opinions** on the company.
  - e. Look through the **company’s financials** on sites like Morningstar.com. Evaluate the trends of the main company metrics.
2. Students will have 30 minutes to conduct due diligence on the companies they selected. Students may work individually or together.
3. At the end of the activity, each student should have narrowed their investment list down after completing due diligence on the companies they are most interested in.

## LESSON THREE: MAKE A LIST

### **Wrap-Up: Ten minutes**

1. Students will form small groups.
2. Give students a few minutes to briefly discuss their due diligence research and share their narrowed lists with their groups.

### Handout 4.3

Now that you have an understanding of how to choose initial stocks for investment, it's time to take your knowledge into the real world. Set aside some time with your group to go to a shopping center or grocery store to scout for investment ideas.

Pay attention to people carrying shopping bags or people's shopping carts. Consider the following questions:

1. Which stores are well represented?
2. How full are the shopping bags or carts?
3. Visit the stores of the shops that seem the most successful.
4. What are customers picking up?
5. What merchandise are customers buying?
6. What products are the asking for?
7. What products are emphasized on displays?
8. What products are easy to see because of where they are displayed?
9. If you like a particular brand, check to see how many competing options there are?
10. How are the competing products priced?