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ABSTRACT

This teaching guide contains learning objectives that focus on the following: how to design a personal financial plan; how financial markets work; how to select among various saving and investment options; how to find out and use investment information; and how to recognize and protect oneself against investment fraud. The guide can be the framework of a course or a supplement to existing high school courses in social studies, economics and consumer economics, business education, personal finance, and mathematics. Each unit contains learning objectives, background information for teachers and students, suggested activities, overheads, handouts, and worksheets. Appendices contain a glossary of terms and resource lists. The guide is divided into the following units: (1) "Financial Decisions" (personal financial planning, factors that influence decisions, a plan to reach financial goals, protection against financial risk); (2) "How Financial Markets Work" (types of financial markets, how securities are bought and sold, regulation of financial markets, factors that affect price); (3) "Investment Choices" (why people save and invest, types of savings and investments, selecting savings and investments; how long will it take to double your money?); (4) "Investment Information" (information about markets and securities, selecting financial professionals); and (5) "Investment Fraud" (scams, schemes and swindles, how telemarketing fraud works, inside Boiler Rooms"; "Types of Investment Scams; fraudulent sales techniques, how to victim-proof yourself; protecting the investor). (BT)

FINANCIAL LITERACY
two thousand and one

BASICS OF SAVING AND INVESTING

A Teaching Guide

A Product of Investor Protection Trust

National Association of Securities Dealers, Inc.

North American Securities Administration Association

National Institute for Consumer Education

1998 Edition

BASICS OF SAVING AND INVESTING

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FINANCIAL LITERACY
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A MESSAGE TO TEACHERS

Basics of Saving and Investing: A Teaching Guide is a project of Financial Literacy 2001, a national financial education effort co-sponsored by the Investor Protection Trust, the National Association of Securities Dealers, Inc., the North American Securities Administrators Association and the Indiana Securities Division of the Office of Secretary of State. The National Institute for Consumer Education joined with these groups to create this curriculum guide for high school-level instruction in the principles of personal finance and investing.

Basics of Saving and Investing: A Teaching Guide contains learning objectives that focus on:

- how to design a personal financial plan
- how financial markets work
- how to select among various saving and investment options
- how to find and use investment information
- how to recognize and victim-proof yourself against investment fraud

The teaching guide can be the framework of a course or a supplement to existing high school courses in social studies, economics and consumer economics, business education, personal finance and mathematics. An invaluable web site resource for teachers using the guide can be found at **http://www.fl2001.org**, the official web site for the Financial Literacy 2001 project.

Each unit contains learning objectives, background information for teachers and students, suggested activities, overheads, handouts and worksheets and additional resources — including non-commercial web sites — and the Appendix contains a glossary of terms.

Hundreds of classroom teachers have used earlier editions of this guide. We hope you and your students find it a useful educational tool.

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PERSONAL FINANCE EDUCATION FRAMEWORK

Basics of Saving and Investing: A Teaching Guide draws its concepts from the Classification of Concepts in Consumer Education, a framework developed at the National Institute for Consumer Education at Eastern Michigan University (http://www.emich.edu/public/coe/nice). Funding for the research was provided by the U.S. Department of Education. Selected concepts addressed in this teaching guide include:

Financial Choices and Decisions

- Financial markets
- Financial products and services
- Personal values, goals, needs and wants
- Using financial information to make decisions

Money Management

- Financial planning, record keeping
- Personal economic resources
- Spending
- Consumer credit
- Saving and investing
- Insurance
- Taxes

Investor Protection

- Rights and responsibilities
- Laws and agencies
- Fraud and redress

In addition, the concepts, teaching strategies and materials used in this guide are compatible with the Jumpstart Coalition for Personal Financial Literacy's *Personal Financial Management Guidelines* and those concepts in the *Voluntary National Standards in Economics* that deal with personal economic decisions.

UNIT ONE FINANCIAL DECISIONS

Topic Outline

FINANCIAL LITERACY
two thousand and one

UNIT ONE FINANCIAL DECISIONS

Unit Objectives

- Discuss the benefits of planning personal financial affairs.
- Consider factors that influence financial decisions.
- Design a personal financial plan.
- Discuss ways to protect assets against financial risk.

Pre-Test exercise

Ask students to write a brief paragraph on the following:

Your uncle in Evansville just gave you $1,000 to spend as you wish. What will you do with this money and why?

At the end of the unit ask students to reconsider the paragraph they wrote at the beginning of the unit.

Discussion Starter

Worksheet 1.14

A MONEY MANAGEMENT CHECKLIST

Discuss areas where participants plan to improve their financial planning knowledge and skills.

You can successfully manage your money if you have the know-how and the will to set aside some of today's income for the things you will want and need in the future. This unit will focus on basic financial planning principles to be considered by Hoosiers prior to investing.

PERSONAL FINANCIAL PLANNING

Could you spend 10 percent less and still have fun? If you could save 10 percent of your income for future goals, what would those goals be? It takes more than luck to get what you want out of life. You have to know what you want and then commit to a plan to meet your goals. The hazards of not planning include the risk of having a lifestyle of limited choices.

Benefits of a Plan

A financial plan can be a positive force that helps strengthen personal relationships as people work together to achieve goals. A financial plan helps people

- live within their income
- identify financial priorities
- allocate funds to meet expenses
- meet financial emergencies and reduce credit use
- reduce uncertainty and conflict about financial affairs
- gain a sense of financial independence and control
- save and invest to reach financial goals.

People want to feel comfortable about their financial affairs. A recent national survey showed that 75 percent of college freshmen are concerned about their future financial security as compared with only 44 percent in 1970.

What causes some people to feel financially secure and others not? Conditions that promote financial well-being include:

- income to meet current needs
- savings to meet financial emergencies
- insurance to cover major risks (health, life, property and disability insurance)
- savings and investment programs to meet future goals
- participation in household financial affairs.

Introduce the unit topics by viewing and discussing one of the following videos:

Master Your Future, 1997

Money Management: Budgets Aren't for Pushovers, 1994

See Selected Resources 1.12.

FINANCIAL CASE STUDY

Worksheet 1.16

Mary Ortega
Single Young Adult
Have students work in small groups to provide local data for the Mary Ortega case study. This data will be used to develop a financial plan for Mary, using the worksheets in this unit.

FACTORS THAT INFLUENCE DECISIONS

Financial security is an important goal for most people. Yet people sometimes miss the opportunity to become financially independent because they avoid making decisions and taking action to influence their financial well-being. Sometimes they may not know what action to take. At other times, they simply procrastinate.

Among the factors that influence one's financial decisions are our values, goals and attitudes, age and stage in the life cycle, level of education and external factors such as income and employer-provided benefits.

Values and Goals

A value is something that a person considers to be important. Financial values vary from person to person. Not everybody wants the same lifestyle. Some people dream of having expensive cars, spacious homes and many possessions. Others search for the simple life, uncluttered by material goods. Our values influence the way we earn, spend, save, invest and spend money. Personal values are influenced by family and friends, by television and movies, and by what attracts us in the marketplace.

A goal is a preferred condition you work toward. Our goals are based on our values. Since we have a limited amount of money, we choose those things we value most. For example, you may want to go to college, yet you want to earn money to buy a new car. If you cannot afford both, you must make a choice.

Social scientists explain that people often use money to gain security, power, freedom, love and acceptance. If taken to extremes, such motivations will produce an unbalanced lifestyle. For example, the search for power can turn to greed, which, in turn, can foster unethical behavior in the marketplace.

Age and Stage in the Life Cycle

Financial responsibilities change as people live through various stages of the life cycle. Young single adults face a different set of financial tasks than do households with young children. People in their 40s and 50s are usually at the peak of their lifetime annual earnings. Yet these people often face financial challenges such as paying college costs for their children, stepping up their retirement savings program, and taking financial responsibility for aging parents.

Extended Learning Activity

Teacher and student groups could create additional case studies for the following situations, then develop a financial plan for each situation, using the worksheets 1.19 - 1.24.

- College student living at home
- Young married couple, no children
- Married couple with two teenagers
- Single woman with one child
- Retired person living alone

Explain that each group will prepare a personal financial plan for the life cycle stage they are studying.

FINANCIAL TASKS OF YOUNG ADULTS

Overhead 1.18

Among the tasks young adults face as they move into the 18-26 age group are to

- select and train for a career
- establish and maintain a good credit record
- develop a personal financial plan
- consider insurance protection
- start a savings and investment program

Education, Income and Employer-Provided Benefits

The odds are against winning the lottery or inheriting great wealth. So the primary source of funds for most people is income from employment. On average, the higher your educational level, the higher your annual income and overall lifetime income will be.

A steady job builds financial security, while unemployment can play havoc with financial well-being. People with job skills that are in high demand are less likely to be unemployed. In addition, these people have the choice of jobs that offer a favorable package of income and benefits.

Many employers provide their workers benefits that would be expensive if purchased by individuals. A few years ago, employee benefits left little opportunity for individual choice. Today, employers offer many options. For example, several different health insurance plans may be available to the employee.

Some employers contribute to employee savings and investment programs. For example, a company may contribute 50 cents for every dollar the employee saves or invests in company-approved plans.

Some employers offer flexible compensation plans that allow employees to divert some of their earnings to expenses such as child care or legal services. These flexible plans can be adapted to meet the different needs of households at various stages of the life cycle. As the number of options grows, so does the need for informed financial decision making.

A PLAN TO REACH FINANCIAL GOALS

Savings are an essential ingredient in everyone's financial plan. Whether your financial goals are longer range — establishing a business or buying a home — or shorter-term goals like putting a down payment on a car, saving is the way to reach your objective. Once you get into the habit of putting money away instead of spending it, you'll be surprised at how gratifying it is to watch your savings grow.

A financial plan is a tool to help you reach your goals. It is not a straightjacket to keep you from enjoying life. Think of a financial plan as a road map to help you get where you want to go. People use a road map when they begin a trip where they have not traveled before, yet many will take a financial journey through life without a road map. As a sage once said, "If you don't know where you are going, you may end up somewhere else."

A financial plan works best if you keep it simple, use realistic income and expense estimates, and periodically review and adjust the plan to reflect changing conditions and goals. A common mistake people make is to prepare a financial plan and then fail to put it into action.

Developing a Financial Plan

An effective financial plan involves information gathering, decision making, action and evaluation. Steps in the financial planning process include

1. identify financial goals
2. figure net worth
3. estimate income and expenses
4. review personal debt situation
5. allocate savings to reach goals
6. balance income and expenses
7. implement the plan
8. review and modify the plan as necessary

Questions people may ask while designing their financial plan include

- What are my short- and long-term goals?
- What is my total income after taxes and deductions?
- What are my current living expenses?
- What changes in living expenses do I expect?
- How much can I save each month for future goals such as college expenses or a down payment on a car?
- Am I using credit wisely?
- How can I protect against inflation?
- How can I plan for retirement?

Identify Goals

The first step in designing a financial plan is to identify your goals. Saving and investing will be more successful if you have specific goals in mind. And it is easier to identify and rank goals if you group them into short-term and long-term goals.

- Short-term goals are those to be reached within a year or less. Examples of short-term financial goals are to build an emergency fund, buy a new coat, pay off a credit card or get a new apartment.

Develop a Financial Plan

Have small groups complete the following worksheet for their case study after each topic has been discussed in class.

SETTING GOALS

Worksheet 1.19

Discussion About Goals

Discuss the cost of personal goals such as:

- spring break vacation trip
- wedding with 100 guests
- furniture for a new apartment
- a college education

Class Exercise

Have students use data from their personal financial situation to complete worksheets 1.20 through 1.24. Or ask students to develop a financial data sheet for a typical young person living away from home in the local area.

Data needed: income from all sources and expenses, including rent, utilities, food, clothing, transportation, loan repayment, insurance, education, recreation, health care, other expenses and savings.

ESTIMATE YOUR INCOME

Worksheet 1.20

NET WORTH STATEMENT

Worksheet 1.21

RECORD YOUR EXPENSES

Worksheet 1.22

MATCH INCOME AND EXPENSES

Worksheet 1.23

- **Long-term goals** are those to be achieved in more than a year, sometimes five or more years. Examples of typical long-term goals are home ownership, college education, special dream vacation, money to start a business and building a comfortable retirement income.
- Short- and long-term goals are often related. A short-term goal may be to save $100 a month in order to reach the long-term goal of saving $3,000 for a down payment on a new car. After you have identified your goals, the question is: How much will each goal cost? Are some goals more important than others? Decide when you hope to reach each goal and estimate how much money to save each month to reach each goal. Where will you put your savings dollars? Units Three and Four will explore savings and investment choices, and the effects of compounding on savings.

Figure Net Worth

Once you are earning a living, you should prepare a net worth statement once a year. This will enable you to compare your annual net worth statements and, if necessary, modify your financial behavior or your goals to meet your changing financial situation.

A net worth statement, sometimes called a balance sheet, is a comparison of what you own and what you owe. It is like a photograph of your financial condition at a specific time.

To figure your net worth, list all of the things you own (assets), then list money owed to others (liabilities). Total your assets and your liabilities, then subtract your total liabilities from your total assets. Do you have a positive or a negative net worth?

It is not uncommon for young adults to have a negative net worth as they incur debts greater than their current income. A recent U.S. Census Report revealed that 11 percent of households have a zero or negative net worth while nine percent were worth a quarter of a million dollars or more. As with income, wealth tends to rise with educational level and is higher for homeowners and married couples.

Estimate Income and Expenses

Total all the income you expect to receive during the coming year. Begin with regular income such as wages, gifts, allowances, interest and dividends.

Keep careful records for two or three months to see where the money goes. Use old records, receipts, bills and cancelled checks to estimate future expenses. Now is the time to consider which expenses can be cut back and which should be increased. If you spent too much last year on clothes and recreation, you may decide to cut back on spending in these areas and apply the money to a specific goal.

GIFT EXPENDITURE CHART

Worksheet 1.24

Expenses that come due periodically can be broken down into monthly amounts in the budget. For example, if your car insurance is $1,200 per year, payable in two payments of $600, it could be shown in the budget as a $100 monthly expense. During months when there are no car insurance payments, the money can be set aside in a savings account so that when the payment is due, the money is there to pay for it.

Being Smart About Credit

More and more high school and college students are using credit cards. Credit is important because it shows merchants, banks, employers and landlords how reliable you are when it comes to debt repayment. A bad credit history can make it tough to buy a house, a new car or the furniture for a new apartment.

Fewer than 40 percent of American credit card holders pay the entire balance they owe each month. When they sign the credit application they agree to pay interest on the balance owed. If you use a credit card that charges 18 percent interest and you do not pay the entire balance each month, you are adding 18 percent to the cost of the items you buy.

If you only make the minimum payment on your credit card, it can take ten to 20 years to pay off a purchase. In the meantime, the interest you pay may add up to more than the cost of the original purchase!

YOUR CREDIT REPORT

Overhead 1.25

Your credit report is an important record that can influence your financial life for years to come. It contains your credit history and debt repayment record. Future employers, landlords and credit grantors are among those who can get a copy of your credit report from credit reporting agencies. College students who fail to pay their phone bills, for example, can have a negative credit record. Negative information will likely stay on your credit record for seven years, a bankruptcy for ten years. For employment and mortgage applications over $75,000, negative information can be kept for a lifetime.

Credit is a powerful personal finance tool that can make it possible to get your first car and a home mortgage. Smart use of credit means avoiding the trap of using credit cards indiscriminately to simply acquire more things. Ask yourself:

- Do I really need it? Can I really afford it?
- Why exactly do I want it?
- What happens if I can't pay this off?

Overhead 1.26

KEYS TO CREDIT SUCCESS

What Other People Spend

Overhead 1.27

CONSUMER EXPENDITURE SURVEY

Credit Reporting Agencies:

Experian (1-800-682-7654)

Equifax (1-800-685-1111)

TransUnion (216-779-7200)

Learn about these non-profit credit counseling services on the Web:

Credit Counselors Corporation
http://web.creditcounselors.com

Debt Counselors of America
http://www.dca.org

Review Personal Debt Situation

Credit allows people to have and enjoy things now and pay for them later. It can be a cushion in emergencies and it is convenient. But credit costs money and can tempt us to overspend.

How much debt can you afford? One liberal rule of thumb is that no more than 20 percent of a household's take-home pay should be committed to consumer installment and credit card debt. Students and part-time workers, however, should not carry this much debt.

Paying cash is almost always less expensive than using credit. When you do use credit, it is in your best interest to borrow as little as possible, seek the lowest finance charge and pay off the loan as soon as possible.

Individuals and families who are experiencing debt problems can receive credit counseling and assistance in managing their financial affairs from non-profit consumer credit counseling services.

Allocate Savings to Reach Goals

Financial advisors often suggest that you pay yourself first. That is, establish a set amount to save each payday and put it in savings rather than spending the money on current consumption. The habit of saving regularly for future goals is a powerful financial tool, even if the amount saved each payday is small. People living at low income levels may find it difficult to save money because current income is needed for current living expenses, but even a few dollars a month can grow and contribute to financial security.

Balance Income and Expenses

Compare your total monthly income with the total estimated expenses. If expenses exceed income, where are you overspending? Which expenditures can be postponed? How can you increase your income?

If your income exceeds expenses, you can increase savings for goals, satisfy more immediate wants and increase giving to worthy causes.

Gifts are among those extra expenses that, over time, can throw a budget way out of line. We tend to buy gifts out of obligation or on impulse, and we may not take time to comparison shop. It helps to review what you spent on gifts last year. If you feel that you overspent on gifts, consider ways to reduce spending this year.

While it can be helpful to compare your expenses with what other people spend, each household's situation will be

Overhead 1.28

AVERAGE
HOUSEHOLD
SPENDING

Discuss the overhead ***Average Household Spending*** and the related chart titled ***Consumer Expenditure Survey, 1992-1994***. Point out that housing and transportation together make up 50% of average household expenses. Example discussion questions are:

1. What percentage of total household spending in 1994 was spent on average on health care? **(5.5%)** On entertainment? **(4.9%)**
2. How much is spent in 1994 on transportation? **($6,044)** What percentage of total spending is this? **(19%)**

different, and decisions should be based on your financial goals and current situation. The U.S. Bureau of the Census conducts an annual consumer expenditure survey and reports the data in terms of average annual spending by households. For information on the most recent data, contact the Bureau of Labor Statistics at (202) 606-7828. http://stats.bls.gov.

Implement the Plan

Taking action to implement and monitor the financial plan is essential to its success. Do you have a plan to

- pay your bills?
- balance your checkbook?
- set up a savings account for financial purposes?
- get the best value when purchasing goods and services?

It is important that each household assign tasks and take action to carry out the financial plan. While one person may pay the bills and keep financial records, all adult household members should be involved in major decisions that affect household income and expenses. Open communication among family members about financial affairs can help avoid problems that stem from lack of information or differing opinions about how money is to be spent.

Review and Modify the Financial Plan

A financial plan is not a static thing. It is a tool to help you reach your financial goals. Keep reviewing and modifying the plan until you and other household members are comfortable with the way you are using your income.

An important goal of a financial plan is to protect against financial risk. Two ways people prepare for unexpected expenses and/or a decline in income are with an emergency savings fund and with insurance.

PROTECTION AGAINST FINANCIAL RISK

Discussion: Emergency Fund

Using the suggested guideline that every household should have an emergency fund equal to three times monthly take-home pay, analyze the emergency fund needs of a young single person living alone with monthly take-home pay of $1,500.

Contrast this situation with that of a single parent with two school-aged children and monthly take-home pay of $1,500.

The Emergency Fund

What would you do if one of the following emergencies happened to you?

- Your car has been stolen and you need a car for your job.
- You have a serious tooth ache. Your dental bill is already $800, and you do not have dental insurance.
- You are laid off from your job.

Everyone should have savings to meet financial emergencies that are not covered by insurance. How much money should be in your emergency fund? Where should you keep this money?

The amount of money in the emergency fund will vary with each household. Factors that influence the size of the emergency fund include the amount your household spends for

- food
- rent or house payment
- utilities and home maintenance
- clothing and personal needs of household members
- household debt

Financial advisors suggest that you have money to cover at least three months' living expenses in readily available funds. These funds should be placed in an insured bank or credit union, or in a money market mutual fund where savings can be withdrawn easily when needed.

Insurance

National Association of Insurance Commissioners

http://www.naic.org

Common types of insurance include life, health, disability, property and liability insurance. A reputable insurance agent can help determine how much and what type of insurance is needed. When should you purchase insurance?

- Purchase insurance when the amount of loss would be beyond what you could afford to pay in replacement costs.
- Purchase insurance to protect against a loss that may be uncommon but would be catastrophic if it occurred, such as the death of the wage-earner.
- Purchase health and disability income insurance if your employer does not provide such coverages.

Health insurance. Health insurance provides protection against financial loss resulting from illness, injury and disability. Some employers provide basic health insurance and limited disability insurance. Find out if your employer provides major medical insurance for long-term care. Should you supplement the insurance provided by your employer?

READINGS ON PERSONAL FINANCE

Worksheet 1.29

Have participants collect and review current articles on personal financial planning, using the worksheet titled ***Readings on Personal Finance.***

Most people need income disability insurance to protect against loss of income if they become disabled and unable to work. If not available through the employer, disability insurance can be purchased from life insurance companies.

Life insurance. The basic purpose of life insurance is to protect dependents from economic hardship if the wage-earner should die. Young people with no children usually do not need life insurance. Young couples with children may need life insurance on both parents.

Life insurance comes in two types: term and cash value. Term life insurance pays only if the insured person dies within a specified period of time. Premiums for term insurance rise as a person grows older, but the cost is far less than cash value life insurance.

Cash value life insurance has a savings/investing element that term insurance does not have. It is initially priced from three to eight times higher than term insurance.

Many financial advisors suggest that young families who need insurance protection purchase term life insurance rather than cash value insurance. Because it provides more protection for the money and it has no savings value, you can invest the difference in the premium costs for retirement or other major goals.

Property and liability insurance. Property insurance provides protection against losses resulting from the damage to property, while liability insurance provides protection against losses suffered by others for which the insured person is responsible. Auto insurance combines property and liability insurance into a single package policy.

Landlords do not carry insurance on the personal property of tenants, so even renters need insurance to cover their personal possessions.

Sometimes it is better to use your emergency fund money for relatively small, unexpected expenses rather than to purchase full insurance coverage. For example, a deductible insurance policy on your car will be significantly less expensive than full coverage. The deductible is the amount you pay before the insurance policy begins to cover repairs for damages caused in an accident.

Government Safety Nets

While social insurance programs may be available to people in times of financial emergency, most have very strict requirements before a person can qualify. These programs are supported by taxpayers or employers and provide limited assistance for those who meet eligibility requirements.

Worker's compensation provides for lost income and pays medical bills if an injury or medical condition is work related.

Unemployment compensation provides some income to make up for lost wages for anywhere from 26 weeks to two years, depending upon the state and general economic conditions.

Social Security disability provides some income for workers who are totally disabled.

These programs do not fully replace lost income, but when they are combined with personal savings, they can provide an important safety net for people who are experiencing serious financial hardship.

Post-Test Exercise

Reconsider the paragraph you wrote at the beginning of the unit.

Your uncle just gave you $1,000 to spend as you wish. What will you do with this money and why?

Have your feelings about the use of money changed?

Administer Unit Test and Discuss Answers

UNIT TEST

Worksheet 1-30

SUMMARY

This unit has highlighted basic financial planning principles to be considered prior to investing. After establishing a personal financial plan as a foundation, one can continue to build wealth through savings and investments.

Key to Test

Matching	Multiple Choice	True or False
1. G	1. B	1. False
2. K	2. C	2. False
3. A	3. A	3. False
4. J	4. A	4. True
5. E	5. D	5. False
6. B		6. True
7. D		7. False

Software

The Budgeting Game. Software. Analyze budgets of five real life people. 1994. C.W. Publications, Box 744, Sterling, IL. 61081. 1-800-554-5537. School license $149.00.

Credit Crunch. Software. A credit math challenge. School license $159.00. 1998.

Ernst & Young's Total Financial Planner (CD-Rom). Garner, Robert J. (Editor), Robert B. Copeland, Barbara J. Raasch. John Wiley & Sons, 1996.

Everyone's Money Book. Software. Goodman, Jordan E. Dearborn Trade, 1996.

Personal Finance Trivia Challenge. Software. Teaches terminology and concepts. C.W. Publications, Box 744, Sterling, IL 61081. 1-800-554-5537. School license $159.00. 1998

Teaching Guides/Videos

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http://www.state.in.us/sos

Web Sites

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http://www.cnbc.com

Credit Counselors Corporation
http://web.creditcounselors.com

Debt Counselors of America
http://www.dca.org

Financial Literacy 2001
http://www.fl2001.org

Jump$tart Coalition for Personal Finance Literacy
http://www.jumpstartcoalition.org

National Association of Insurance Commissioners
http://www.naic.org

National Institute for Consumer Education
http://www.emich.edu/public/coe/nice

Stock Market Game 2000
http://www.smg2000.org

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Name ______________________ Date ______________________

A Money Management Checklist

Discuss these money management practices with your family and think of areas that could be improved.

	OK	Need to Improve
We have a filing system to keep track of household bills, payments and financial records.	______	______
We have a written list of financial goals with an estimated cost of each goal.	______	______
We regularly set aside money to achieve specific goals.	______	______
We have an emergency fund available to use if necessary for minor catastrophes that are not covered by insurance.	______	______
We have a written plan to allocate income to meet expenses and to save for future goals.	______	______
We review and revise the family financial plan periodically to meet changing financial goals and needs.	______	______
We compare costs and services of bank checking accounts, knowing that charges and services can vary widely.	______	______
We move money from bank savings into higher return investments when the account balance exceeds current needs.	______	______
We avoid impulse buying because unplanned spending could sabotage financial plans.	______	______
We avoid overspending for holidays and special events by setting gift spending limits that are in line with family goals.	______	______
When we have a cash flow problem, we cut back on spending until expenses are in line with income.	______	______
We use credit carefully and avoid interest charges when possible by paying off credit card debt monthly.	______	______
We save for major purchases when possible rather than use credit cards and pay 14 to 21 percent interest on borrowed money.	______	______

	OK	Need to Improve
We know what insurance protection our employer(s) provides and supplement that insurance where necessary.	______	______
We compare insurance coverages and costs, and purchase only the needed insurance.	______	______
We have our employer(s) withhold the right amount in taxes in order to avoid lost interest income on large tax refunds.	______	______
We check out charities before making contributions from phone or door solicitations, knowing that many are frauds.	______	______
We just say no to telemarketing investment deals, knowing that if it sounds too good to be true, it is usually fraudulent.	______	______
We carefully consider the tax-advantaged saving and investment opportunities provided by our employer(s).	______	______
We compare the health insurance options available through our employer(s) and choose the best option for our needs.	______	______
We read current personal finance articles and work to improve our knowledge of personal money management.	______	______

Name ______________________________ Date ________________________

Financial Case Study — Mary Ortega

Single Young Adult Living Away from Parent's Home in a City Near Home

Mary Ortega is 22 years old. She earns $_________ annual salary as a (position) _________ in (city, state) ____________________.

What Mary Owns

Mary owns a used Ford Escort valued at $6,000. She has $300 cash in her purse and $900 in a bank checking account. She owns jewelry valued at $400, a CD sound system valued at $300, and a laptop computer valued at $1,200.

Miscellaneous personal items such as clothes, books, luggage, a bicycle, furniture and dishes valued at $1,100. Mary did not purchase the optional term life insurance policy available through her employer because she has no dependents.

Mary owns a stock mutual fund with a current value of $800. She does not contribute to the 403-B Retirement Savings Program through her employer.

What Mary Owes

Mary owes $4,000 on her used car, and $6,000 on college debts. Her VISA credit card balance due is $850. The credit card purchases were largely for furniture for her new apartment and clothes for work.

Mary's Financial Goals

Mary wants to join her friends for a trip to __________ next year, and she estimates the cost will be $______. Mary would like to pay off her college loan, reduce her credit card debt, and increase her savings program so she can complete decorating her apartment, and add to her collection of clothes and accessories for work and play. Marriage is not in the picture for Mary this year, but her dream for three years from now is to have a formal wedding with perhaps 150 guests.

Mary's Income

In addition to her salary, Mary will receive an annual cash gift of $1,000 from her grandparents. Mary reinvests her earnings from savings and investments. She expects no other income next year.

Mary's Expenses

Housing.
Mary pays a monthly rent of $________, and her electric bill is $______. Monthly telephone costs are $______, and the gas bill is $______.

Food and Clothing
Mary's food at home averages $______ per month. Her food away from home, for school lunches and out-to-dinners, averages $______ monthly. She averages about $______ a month on clothing and $______ on laundry and cleaning.

Car
Mary considers her car to be an expensive convenience since public transportation is good in the city, and she is within walking distance of shopping and entertainment. Gas and oil for the car averages $______ per month. Maintenance costs average $______. Parking at her apartment is $_____ per month, and the license costs $____ per year.

Loans
Mary's car payment is $______ per month and her college loan payment is $______ per month. She pays $50 a month on her VISA credit card balance.

Insurance
Mary's auto insurance policy costs $______ per year. She does not own life or renter's insurance. Her medical, dental and disability insurance are covered by her employer. Her insurance covers regular medical exams. She takes no medications.

Entertainment and Recreation
Mary spends $_____ per month on magazine subscriptions and health club dues and $______ on cable TV and movies, and she takes one vacation per year at an estimated cost of $_____.

Set Asides — Savings and Investments
Mary's only "emergency fund" is the $900 in her checking account. She would like to increase savings to an amount equal to three months' living expenses. She knows she could sell her mutual fund shares in case of emergencies, so she authorized her bank to automatically deposit $50 each month from her checking account into her mutual fund account.

Other
Mary spends about $_____ a month on haircuts and personal care. She contributes $_____ a month to her religious organization. She estimates that she spends $600 a year on holiday and birthday gifts for family and special friends.

Financial Tasks of Young Adults

- Select and train for a career
- Maintain a good credit record
- Develop a personal financial plan
- Consider insurance protection
- Start savings and investment programs

Name ______________________ Date ______________

Setting Goals

Will you spend it all today or save part of your money for future goals? It is more fun to save when you have specific goals in mind. This worksheet will help you identify your goals and decide how much to save each month in order to reach your goal by a specific date.

1. List several important short-term and long-term goals.
2. Estimate the cost of each goal and when you expect to reach the goal.
3. Record the amount of money already saved to meet this goal.
4. Figure how much money to save each month in order to reach the goal.

SHORT-TERM GOALS	COST	WHEN	ALREADY SAVED	MONTHLY SAVINGS	WHERE SAVED
1. ____________	______	______	______	______	______
____________	______	______	______	______	______
2. ____________	______	______	______	______	______
____________	______	______	______	______	______
3. ____________	______	______	______	______	______
____________	______	______	______	______	______

LONG-TERM GOALS					
1. ____________	______	______	______	______	______
____________	______	______	______	______	______
2. ____________	______	______	______	______	______
____________	______	______	______	______	______
3. ____________	______	______	______	______	______
____________	______	______	______	______	______

Name ______________________ Date ______________________

Estimate Your Income

	MONTH 1	MONTH 2	MONTH 3
WAGES (after deductions)			
• Wage Earner 1	______	______	______
• Wage earner 2	______	______	______
Gifts/allowance	______	______	______
Interest on savings	______	______	______
Other	______	______	______
	______	______	______
MONTHLY TOTALS	______	______	______

Name ____________________ Date ____________________

Net Worth Statement

PERSONAL BALANCE SHEET

Assets — What You Own

Cash on hand ________

Checking account ________

Savings (CDs, U.S. Savings Bonds, etc.) ________

Cash value of life insurance ________

Personal property (market value of car, jewelry, ________
bicycle, home, etc.) ________

Money owed you ________

Investments (market value of stocks, bonds, mutual ________
funds, retirement accounts, etc.)

Other ________ ________

Total Assets

Liabilities — What You Owe ________

____

Credit card balances ________

Installment loan (auto, furniture, bank loan) balances ________

Personal loan balances ________

Mortgage balance ________

Educational loan balances

Other ________ ________

Total Liabilities ________

Net Worth (Total Assets minus Total Liabilities)

Name ______________________ Date ______________________

Record Your Expenses

3 MONTH WORKSHEET

	Month 1	Month 2	Month 3
HOUSING			
Rent or mortgage	____	____	____
Electricity	____	____	____
Gas/oil	____	____	____
Telephone	____	____	____
Water/sewer	____	____	____
Property tax	____	____	____
Furnishings/equipment	____	____	____
FOOD/CLOTHING			
Food at home			
Food away from home	____	____	____
Clothing	____	____	____
Laundry/cleaning	____	____	____
TRANSPORTATION			
Bus, train, taxi	____	____	____
Gasoline and oil	____	____	____
Auto maintenance	____	____	____
Parking/tolls	____	____	____
License	____	____	____
LOANS			
Auto loans	____	____	____
Student loans	____	____	____
Other loans	____	____	____
INSURANCE			
Life	____	____	____
Medical/dental	____	____	____
Auto	____	____	____
Disability	____	____	____
Homeowners/renters	____	____	____

	Month 1	Month 2	Month 3
EDUCATION AND PLAY			
Tuition and books	____	____	____
Subscriptions/dues	____	____	____
Recreation/cable TV	____	____	____
Vacations	____	____	____
HEALTH CARE			
Doctors	____	____	____
Dentist	____	____	____
Medicines	____	____	____
SET-ASIDES			
Emergency fund	____	____	____
Savings for goals	____	____	____
OTHER			
Personal care	____	____	____
Child care	____	____	____
Pet food and care	____	____	____
Allowances	____	____	____
Gifts	____	____	____
Contributions	____	____	____
MONTHLY TOTALS	____	____	____

Name ______________________ Date ______________________

Match Income and Expenses

	MONTH 1	MONTH 2	MONTH 3
Income	________	________	________
Expenses	________	________	________
Surplus or deficit	________	________	________

If Expenses Exceed Income

- Where are you overspending?
- Where can you cut back?
- Which expenditures can be postponed?
- How can you increase income?
  - — A better job
  - — A second job

If Income Exceeds Expenses

- Increase savings for future goals.
- Satisfy more immediate wants.
- Increase giving.

Name ______________________ Date ______________________

Gift Expenditure Chart

Gifts are among those extra expenses that, when added together, can throw a budget way out of line. People tend to buy gifts on impulse and fail to comparison shop.

1. Place a total dollar amount by each category of gift spending last year.
2. Analyze last year's gift spending and estimate how much you will spend this year.
3. Decide whether you will spend more or less on gifts this year than last year.

	SPENT ON GIFTS LAST YEAR	PLAN TO SPEND THIS YEAR
Birthdays	______	______
Anniversaries	______	______
Weddings	______	______
Births	______	______
Deaths	______	______
Valentine's Day	______	______
Easter	______	______
Mother's Day	______	______
Father's Day	______	______
Graduation	______	______
Christmas & Hanukkah	______	______
Other	______	______
Total	______	______

Will you spend more or less on gifts this year than last year? Why?

____

____

Your Credit Report

What is a credit report?

— your credit history and debt repayment record

Who can get a copy?

— employers, insurance agencies, landlords, credit grantors

— any subscriber of the credit reporting agency

With your permission

Keys to Credit Success

- **Reduce credit card debt**
- **Pay off card balance monthly**
- **Avoid excessive spending**
  - — Do I really need it?
  - — Why do I want it?
  - — What are the tradeoffs?

Consumer Expenditure Survey

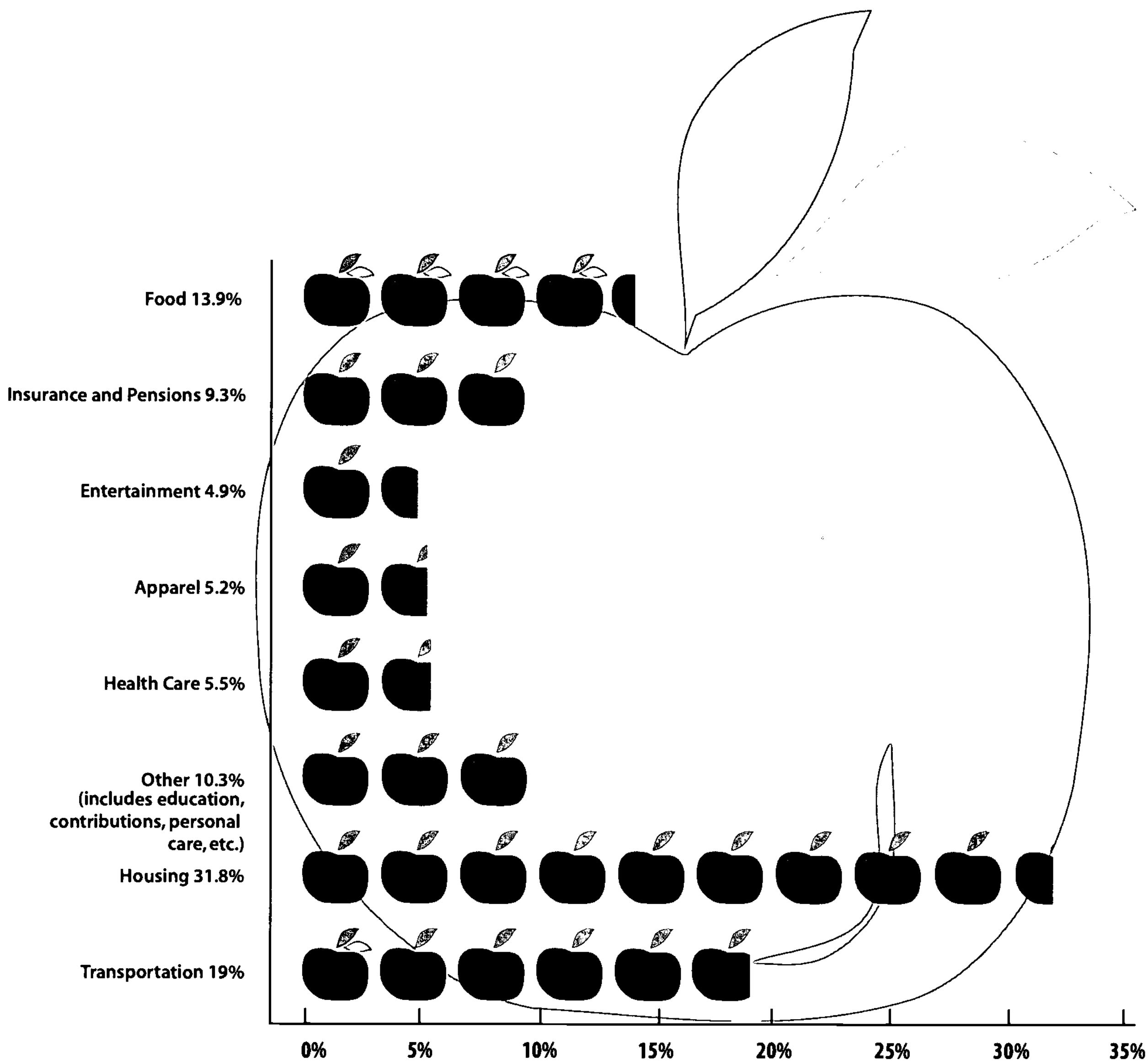
1992-1994

	1992	1993	1994	Percent Change 1992-93	Percent Change 1993-94
Income before taxes	$33,854	$33,868	$36,838	—	—
Average annual expenditures	29,846	30,692	31,751	2.8	3.5
Food	4,273	4,399	4,411	2.9	0.3
At home	2,643	2,735	2,712	3.5	-0.8
Away from home	1,631	1,664	1,698	2.0	2.0
Housing	9,477	9,636	10,106	1.7	4.9
Apparel and services	1,710	1,676	1,644	-2.0	-1.9
Transportation	5,228	5,453	6,044	4.3	10.8
Health care	1,634	1,776	1,755	8.7	-1.2
Entertainment	1,500	1,626	1,567	8.4	-3.6
Insurance and pensions	2,750	2,908	2,957	5.7	1.7
Life/personal insurance	353	399	398	13.0	-0.3
Pensions/Social Security	2,397	2,509	2,559	4.7	2.0
Miscellaneous*	2,973	2,950	2,990	-0.8	1.4

** Includes alcoholic beverages, tobacco, personal care products and services, reading, education, cash contributions and miscellaneous.*

Source: U.S. Department of Labor, Bureau of Labor Statistics, Report 902, February 1996.

Average Household Spending



Source: U.S. Department of Labor, Bureau of Labor Statistics, Report 902, February 1996.

Name ______________________ Date ______________________

UNIT 1

Readings on Personal Finance

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article

____

Source ____

Date______________________

Author (if given) ____

2. Write a brief summary of the main ideas of the article or pamphlet.

____

____

____

____

____

____

____

____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

____

____

____

Attach a copy of the article or pamphlet to this page.

Name ______________________ Date ______________________

UNIT 1 TEST

Financial Decisions

Matching

Match each of the terms listed below with the numbered definition. Write the letter in the space provided.

A. value
B. goal
C. decision making
D. pay yourself first
E. net worth
F. living expenses
G. emergency fund
H. insurance
I. budget
J. financial plan
K. college education
L. investments

1. _____ money that is readily available for unexpected expenses
2. _____ example of a typical long-term goal
3. _____ something that a person considers to be important
4. _____ an organized process of allocating income to achieve financial goals
5. _____ what you own minus what you owe
6. _____ a specific statement about a desired future condition
7. _____ the idea that one should regularly set aside money for savings

Multiple Choice

Circle the letter that best completes the sentence.

1. Financial net worth is

A. liquid assets minus long-term investments
B. total assets minus total liabilities
C. total investments minus total debt
D. original securities price minus market value
E. the worth of all personal assets

2. "Pay yourself first" suggests that a person should

A. avoid creditors and purchase non-essentials
B. establish a business and work as president
C. set aside money for regular savings
D. pay back a loan you borrowed from yourself
E. cut back on spending for essentials

3. Before investing, a person should have all of the following except

   A. a savings account equal to two year's income

   B. sufficient income to exceed current needs

   C. savings to cover typical emergencies

   D. adequate auto and property insurance

   E. adequate life and health insurance

Tom and Netta Worth have applied for a loan. In order to process their application, the bank needs to have the Worth's balance sheet, or net worth statement. Following is a list of their financial details:

- $500 in checking
- $850 in unpaid bills
- $2,500 in car loans
- $18,000 house mortgage
- two cars worth a total of $6,500
- stocks and bonds worth $12,000
- house valued at $58,000
- personal property valued at $10,000

4. What is the amount of the Worth's total assets?

   A. $87,000 C. $37,000

   B. $83,000 D. $33,000

5. What is Tom and Netta's net worth?

   A. $15,650 C. $61,650

   B. $11,650 D. $65,650

True or False

Read each statement carefully and mark in the blank a T for True or F for False.

_____ 1. People who have low incomes have little need to develop a personal financial plan.

_____ 2. Personal money management is easy; people rarely need to spend time and effort learning how to manage money.

_____ 3. People have a given set of financial values that remain with them for life.

_____ 4. A financial plan can help eliminate uncertainty and conflict about financial matters.

_____ 5. Investing should be the first priority in any financial plan.

_____ 6. Your educational level is an important indicator of your expected lifetime earnings.

_____ 7. It is against the law for employers to contribute to employee savings/investment programs.

UNIT TWO HOW FINANCIAL MARKETS WORK

TOPIC OUTLINE

FINANCIAL LITERACY
two thousand and one

UNIT TWO HOW FINANCIAL MARKETS WORK

Unit Objectives

- Describe types and purposes of financial markets.
- Explain how securities are bought and sold.
- List agencies that regulate financial markets.
- Discuss factors that affect the price of investments.

Introduction: Case Study

Have students read the case study ***Recent Graduate Buys Company Stock*** and answer the questions on the student worksheet.

RECENT GRADUATE BUYS COMPANY STOCK

Handout 2.8

Worksheet 2.11

This case study can stimulate student interest and give a frame of reference for further study of how financial markets work.

A **financial market** is a place where firms and individuals enter into contracts to sell or buy a specific product such as a stock, bond or futures contract. Buyers seek to buy at the lowest available price and sellers seek to sell at the highest available price. (Markets provide a meeting place for buyers and sellers where prices are determined.)

Personal benefit, sometimes called economic self-interest, motivates many Hoosiers to invest in stocks and bonds. In the 1990s, about two of every five persons in the United States owns stock in corporations. People invest because they believe that it is possible to gain more from investments than from a basic bank savings program.

TYPES OF FINANCIAL MARKETS

Securities markets deal primarily with stocks and bonds. The purpose of a securities market is primarily for business to acquire investment capital. Examples of securities markets include the New York Stock Exchange (NYSE) and the Nasdaq Stock Market (Nasdaq).

Not all stock markets are the same. They vary by company listing requirements (to begin trading) and maintenance standards (to continue trading), as well as by their rules and regulations governing trading, reporting and settlement. Stock markets also vary according to market structure.

The Nasdaq Stock Market is computer-based versus the NYSE, which is floor-based. A screen-based market like the Nasdaq enables participants to trade stocks with each other through a telecommunications network: they access the market on their desktop terminals anywhere they happen to be while a mainframe computer processes the trade. A traditional floor-based market, like the NYSE, operates in a specific building where brokers representing investors must be present to trade stocks. In 1997, 163.9 billion shares were traded on Nasdaq and 133.3 billion on the NYSE.

Futures markets trade on the future price of commodities and financial products. The purpose of a futures market is to provide businesses with a way to manage price risk. Examples of futures markets are the Chicago and the New York Mercantile Exchanges and the Chicago Board of Trade.

Video and Discussion

View and discuss ***Investor Protection Through Market Integrity*** from the National Futures Association. See Selected Resources 2.6.

Have students prepare a brief report on futures markets. Report topics could include:

- Definition of futures contract
- Why farmers sell futures contracts
- Who buys futures contracts and why
- Who regulates futures markets
- Why futures contracts are considered high-risk investments

Securities Markets Raise Financial Capital

Businesses need to raise money (capital) to purchase machines, equipment and buildings. In order to raise capital, business can borrow money or acquire new owners.

Business can borrow. Businesses can raise money by borrowing from financial institutions such as banks. This debt must be repaid and interest must be paid on the debt.

Another way companies borrow money is to offer bonds for sale. Bonds are printed obligations to repay a specific amount on a given date and to pay a certain amount of interest. Corporations issue millions of dollars' worth of bonds to raise the capital to expand. Holders of bonds are not owners of the company but they are its creditors. Bonds are usually issued in large denominations of $1,000 each.

Business can acquire new owners. Business partnerships can add new partners who buy into the firm and increase the amount of money available to produce goods and services.

Corporations can issue stock, each share representing ownership in the corporation. This does not create a debt, but the owners share in the profits of the company and its debts depending on the amount a shareholder invests. The corporate owners participate in running the company by voting at annual meetings. For example:

A small, hometown pizza store decides to enlarge its business and establish stores in neighboring towns. It needs money (capital) in order to expand. The owners decide to increase the number of owners and raise capital by selling stock in the company.

Futures Markets and Price Risk

Futures markets provide a way for business to manage price risks. Buyers can obtain protection against rising prices and sellers can obtain protection against declining prices through futures contracts.

In the spring, Farmer Jones planted 100 acres of soybeans and he anticipates that in September he will harvest 5,000 bushels. He is concerned what the price of soybeans will be in September. If the price declines, he could lose money.

To avoid this risk, Farmer Jones has his futures broker sell a September contract for 5,000 bushels at the current price. In this way the farmer "locks in" his September selling price. If the market price in September is higher, the farmer will not realize as much gain, but if the price is lower, he will come out ahead.

The farmer exchanges the chance of earning extra income for the peace of mind that comes from knowing the selling price of his soybeans. This process of obtaining price protection is known as hedging.

Futures contracts are not for beginning investors. Trading in futures carries substantial risk. To realize a profit, it is necessary to be right about both the direction and the timing of a price change. Investing in a futures contract is not appropriate for beginning investors. Even experienced investors rarely invest more than a small portion of a total investment portfolio in futures contracts.

HOW SECURITIES ARE BOUGHT AND SOLD

New issues of stock must be registered with the U.S. Securities and Exchange Commission (SEC) and, in some cases, the Indiana Securities Division. A **prospectus**, giving details about a company's operation and the stock to be issued, is printed and distributed to interested parties. Investment bankers or brokerage houses buy large quantities of the stock from the company, then resell the stocks to individual and institutional investors. This is how the company receives the money it seeks.

Stock certificates are issued in the name of the purchaser of the stock. Corporations have many different stockholders and must keep a record of their names and addresses. The stock certificate of ownership of a publicly held corporation may be transferred from one owner to another since a stock certificate is a negotiable instrument. Certificates may be held by brokerage houses in street name (broker firm's name) on behalf of the investor.

The potential buyer places an order with a broker for the stock he or she wishes to purchase. A **broker** is a licensed professional who is employed by a brokerage firm and who specializes in buying and selling securities. The broker puts in the buy order to the appropriate exchange. When someone who owns the desired stock is willing to sell at the price the buyer is willing to pay, the transaction takes place. Computer technology and telephones are used to execute the sale.

Ownership of bonds can also be transferred from one owner to another. As with stocks, buyers go through brokers. When the buyer and seller agree on a price, a transaction takes place. With the sale of both stocks and bonds, the broker is paid a commission or fee for handling the sale.

Futures contracts are sold through a futures commission merchant in the same way stocks and bonds are sold, only the orders are executed on the Boards of Trade.

Stocks, bonds and futures contracts can also be sold through mutual funds or commodity pools that involve professional managers making decisions about what to buy and sell. Managers are paid a fee and/or a percentage of profits.

Report and Discussion

Have students prepare brief reports on the functions of:

- Indiana Securities Division
- Securities and Exchange Commission
- National Association of Securities Dealers
- Commodity Futures Trading Commission
- National Futures Association

REGULATION OF FINANCIAL MARKETS

The purpose of regulation is to assure that those who conduct business with the public do so in a professional and ethical manner in compliance with industry rules. Regulators do not have the responsibility of determining whether the investment is likely to succeed.

National securities exchanges are subject to rules and regulations of the Securities and Exchange Commission (http://www.sec.gov). The Indiana Securities Division of the Office of Secretary of State is the agency responsible for monitoring investment offerings and protecting investors in Indiana. (http://www.state.in.us/sos)

The National Association of Securities Dealers, Inc. (NASD), is the largest securities industry self-regulatory organization in the United States (http://www.nasd.com). It operates and regulates the Nasdaq Stock Market. The NASD, through its subsidiary NASD Regulation, Inc., also oversees the activities of the U.S. broker-dealer profession (http://www.nasdr.com).

Futures exchanges are subject to the rules and regulations of the U.S. Commodity Futures Trading Commission (CFTC). The National Futures Association, authorized by Congress in 1982, is an industrywide self-regulatory organization whose rules are approved by the CFTC.

Further information on investor rights, responsibilities and protection under the law will be discussed in Unit Five.

Worksheet 2-12

WATCH THE MARKET

Have students watch the Dow or Nasdaq Composite for 20 days and suggest reasons why prices went up or down. Reasons may include:

- Actions of investors
- Business conditions
- Government action
- Economic indicators
- International events and conditions

FACTORS THAT AFFECT PRICE

Few investors can consistently predict the ups and downs of the market or even of an individual investment. Yet investors who are aware of the factors that affect market price are more likely to make sound investment decisions than are less-informed investors.

Actions of investors. Individual investors, institutional investors and mutual fund managers all affect the price by their actions in buying or selling. For example, when large numbers of individual investors believe that the nation is heading into a recession, their actions can influence the health of the market.

Business conditions. Profits earned, an increase in volume of sales and expansion of plants of the corporation all affect investor interest and, consequently, price. Health of the economy, business conditions in general and the business cycle also affect the price.

Government actions. Government decisions regarding issues such as interest rates, taxes, trade policy and budget deficits have an impact on prices.

Economic indicators. Published figures on personal income levels, employment, consumer spending patterns, business inventories and interest rates all affect one industry or another and subsequently stock, bond and futures prices.

International events and conditions. Events around the world, such as changes in the currency exchange rates, trade barriers and restrictions, or wars, natural disasters and civil strife affect both securities and futures market prices.

Because investment markets have international linkages, investments can be purchased around the clock. When the market opens in New York, the Tokyo market has just closed for the day and the London market is halfway through its trading day. When prices go down in Japan, there often is a ripple effect that sends British and U.S. markets down.

Administer Unit Test and Discuss Answers

UNIT TEST

Test 2.14

SUMMARY

Key to Test

True or False

1. False
2. False
3. False
4. False
5. True
6. True
7. True

Multiple Choice

1. C
2. B

Short Answer

1. Two ways in which a business can raise capital
   - issue stock
   - issue bonds

2.

Stock	Bond
• you own part of the company	• the company owes you money
• you are entitled to part of the profits	• you are paid a fixed interest rate

3. Factors that affect the price of securities include
   - Corporate earnings, sales, growth potential, etc.
   - General business conditions — health of the economy
   - Investor confidence in economy and in individual business firm
   - Government actions, such as tax policy, trade policy
   - Economic indicators, such as consumer spending, interest rates
   - International events and conditions such as war, currency exchange rates

SELECTED RESOURCES

Teaching Guides

Commodity Challenge. Video and student workbook. Chicago Board of Trade, 141 W. Jackson, Suite 2250, Chicago, IL, 60604. 312-435-7206.

Focus: High School Economics. National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. 1-800-338-1192. 1996. $29.95

Forbes Stock Market Course. Forbes, Inc., New York. Annually updated. Looseleaf notebook format. $79.50

Learning from the Market: Integrating the Stock Market Game Across the Curriculum. National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. 1997. $10.50 plus shipping.

The Wall Street Journal Classroom Edition Program. Monthly newspaper, teaching guide and video. The Wall Street Journal, Post Office Box 300, Princeton, NJ 08543-0300. 1-800-544-0522. $99.00 per semester

Your Guide to Understanding Investing — for Educators. Securities Industry Foundation for Economic Education, 120 Broadway, 35th Floor, New York, NY 10271. 1996. $10.00

Video

Investor Protection Through Market Integrity. Video. National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1-800-676-4NFA. The story of self-regulation of the futures market. Describes how the National Futures Association helps assure high standards of responsibility and performance of persons who work in futures markets.

Indiana Securities Division
http://www.state.in.us/sos

Web Sites

Financial Literacy 2001
http://www.fl2001.org

NASD Regulation, Inc.
http://www.nasdr.com

The Nasdaq Stock Market
http://www.nasdaq.com

National Association of Securities Dealers
http://www.nasd.com

National Futures Association
http://www.nfa.futures.org

The New York Stock Exchange
http://www.nyse.com

North American Securities Administrators Association
http://www.nasaa.org

Stock Market Game 2000
http://www.smg2000.org

U.S. Commodity Futures Trading Commission
http://www.cftc.gov

U.S. Department of Treasury
http://www.pub/icdebt.treas.gov/sav/savinvst

U.S. Securities and Exchange Commission
http://www.sec.gov

Recent Graduate Buys Company Stock

BY ROBERT RISTAU, GAZETTE FEATURE WRITER

(Editor's Note: John Sylvester, a recent graduate of Wayne High School in Fort Wayne, Indiana, works at the local Checkerboard Pizzeria while he attends college. This newspaper article is about how John buys stock, becomes part-owner in the place where he works, and learns about investments in the process.)

John earns and spends. John bought a video-cassette of his favorite movie and paid for it with earnings from his part-time job at the Checker-board Pizzeria. The pizzeria paid John out of money from the sales of pizzas that they prepared in their building and baked in their ovens. But where did the money come from to buy the building, ovens and other equipment that the pizzeria uses?

Corporation issues stock. The pizzeria is a corporation with many owners; everyone who owns even one share of stock in the company is an owner. All of the owners share in the profits or loss and growth of the business according to the proportion of stock they own.

A few years after John's employer incorporated and issued stock, John wanted to purchase 100 shares, called a "round lot." The pizzeria has 100,000 shares of stock outstanding, so John owns 1/1,000th of the business.

When John's boss decided that his business should become a corporation, he had to apply to the state for a charter. His charter gave the company legal status, and the company had to have officers. John's boss became the president and chairman of the board of the corporation.

To raise the amount of money needed to buy the building and equipment, the corporation received approval from the Securities and Exchange Commission to issue the stock.

Lawyers and accountants wrote a detailed report about the company, its business record, its management and financial history, and the risks associated with purchasing the stock. People who are interested in buying this stock read the report, called a prospectus, to find information about the company and the stock issue.

The corporation sold the 100,000 shares of stock to an investment bank on the primary market for $300,000— or $3 per share. The investment banker then put the stock on the regular stock market, where John and others could buy smaller amounts of stock, at $3.25 per share. After being on the market for awhile, the stock was selling for over $6 a share. John liked the business and believed it would grow and earn good profits, so he decided to take $600 of his savings and buy 100 shares.

John buys stock. John went to a brokerage firm, a business that employs brokers who specialize in selling and buying stock. He had a friend from college who now was a broker and he wanted to do business with her.

The broker used her computer terminal to look up information on the stock John was interested in buying. She also found out the current selling price. It was selling at that time on that day for $5.75 per share, so John had the broker place a buy order for 100 shares in his name.

He was impressed with how fast the deal was made. Less than a minute later he was informed that he now owned 100 shares of Checkerboard Pizzeria, Inc. He commented about how fast the sale was completed. He also learned that he had to pay a sales charge, called a commission, for the sale.

This was John's first stock purchase. He asked his broker friend some questions about what had taken place. She explained that the stock John bought was listed on the Nasdaq market because the business was small and was just establishing itself. She had telephoned the order to a broker who represented Checkerboard Pizzeria, Inc. securities and announced that someone wanted to buy 100 shares. An offer was made to sell 100 shares at $5.75 and so the transaction was made. If no one had been willing to sell 100 shares, or if the price had been too high, no sale would have been made. She explained to John that it is like being at an auction — the people who want to sell have their price in mind, and the buyers have a price they want to pay. It is a matter of the two parties getting together on a mutually agreeable price, and they do that through their brokers.

Stock prices. John wondered why the stock was selling for less than $6 per share; he had heard that it was up to $6 last week. The broker explained to John that prices of stocks change for a variety of reasons. That particular day the entire market, that is, the total of all shares being bought and sold, was down in price. She called it a market movement or adjustment. She also explained, however, that some stocks will sell for a higher price even when overall market prices are down; and some will sell for lower prices even when general market prices are up. She said that in reality we have a market of individual stocks and not just one stock market. Another factor that affects the price of an individual stock is how well or poorly the business is doing. She told John about the financial reports that businesses issue. John, as one of the owners of Checkerboard Pizzeria, Inc., will receive an annual financial report from the firm.

Newspapers list stock prices. Because John worked in one of the pizzerias that the company operated, he knew something about the business. But how could he keep up with how the stock was actually doing? His broker friend showed him how stock prices are reported in the business section of newspapers every day. The listings show how many shares of stock were traded, what prices were paid, and other information that John had not noticed before.

John learned that once the company sells its stock on the primary market, it does not benefit directly from increases in the price of its shares. But individuals, such as John, do benefit. Indirectly the business would benefit, though, because if later it needed more capital and wanted to issue another block of stock, people would be more willing to buy it if the previous issue did well. John learned that people's confidence in a company made a big difference in the price of its stock.

John's account. The broker established an account in John's name so that he could easily buy and sell stock in the future. John had heard about stock certificates that indicate how much stock a person owns. He would not receive one, but he knew that he owned the stock because the brokerage house sent him a statement each month showing how much stock he owned and what it was worth at the end of the month. The broker said that his stock was held in "street name," meaning that the brokerage house would hold the certificate and he would not have to worry about loss or theft. If John should decide to sell his stock, he would simply call his broker. The transaction could be completed without him having to come to the office or sign any papers.

John hoped that the stock would increase in value, and he planned to watch the newspaper listings to see if that happened. Also, if the company earned a profit and decided to share it with the owners of stock, he would get a dividend. The dividend would be added to the value of his account at the brokerage house.

John was fascinated with the investment process and the stock market. What a way for businesses to get money they need and let people have an opportunity to buy and sell that stock! He was really participating in the business world and the economy. He wants his money to grow over the years, and he feels that having some money invested in the stock market is appropriate for him. In addition to dividends he might receive, he hopes to sell the stock in the future for quite a bit more than he paid for it.

Insider trading. He had wondered, however, if officers of the company could take advantage of other investors and make trades of this stock with information they have but he and others did not have. His broker friend assured him that such would not be the case. Dealing in stocks with information that is not available to others is called "insider trading" and is illegal. In fact, insider trading is a serious crime.

Regulation and investor protection. John remembered that his broker friend had mentioned that a federal government agency, the Securities and Exchange Commission, required prospectuses to be accurate. The securities markets are highly regulated. The U.S. Congress and Securities and Exchange Commission are responsible for laws and regulations that affect the integrity of the market.

John's broker also mentioned the Indiana Securities Division, the agency charged with enforcing state investment laws and protecting Indiana residents against fraudulent investments and abuse by investment professionals and others.

What affects stock prices. John learned about stocks, brokers and the stock market, but there is much more to know. Stock prices are affected by the general health of the economy and by business cycles, and some stocks are affected more than others. Some investors look for cyclical stocks, such as housing and automobiles, while others avoid them. Personal income levels, consumer spending patterns, business inventories and orders for goods, and interest rates all have an affect on the price of stocks. John wondered what might happen to his company and to the value of his stock if people in the United States stopped eating out so much or if someone came up with a substitute for pizza. Even international developments, such as changes in foreign exchange rates, trade barriers and restrictions, and conflicts in foreign countries can affect stock prices.

John will invest again. John felt good about being an investor. Like John, many consumers are entering the investment arena. A survey reported in February of 1997 shows that the number of investors has doubled in the past seven years to stand at 43 percent of American adults. No longer is the market dominated by affluent white males holding management jobs; a majority of today's investors are under 50 years old, 47 percent are women and half did not graduate from college.

John also realized that the stock market is a money management tool for those who know how to use it. The money John invests in a corporation very likely will earn more than he would receive from a basic savings plan, although he will keep a savings plan at the bank, too. It makes good sense for John to invest part of his savings.

If John invests again, he may buy more shares of Checkerboard Pizzeria, Inc., or he may select other stocks. One way he can become involved with a number of other companies is to buy into a mutual fund. With a mutual fund, investors pool their money and a fund manager makes decisions on what stocks to buy and when to sell them. Those who own shares of the mutual fund can benefit from the work of an expert on stocks and investments. The diversification of stocks through a mutual fund also spreads risk. John thought he might invest in a mutual fund next time.

When John went to work the next day he thought, "I own part of this company," so somehow it seemed easier to be a productive employee, knowing that he would benefit from the success of the company.

Name ______________________________ Date ____________________

Recent Graduate Buys Company Stock

Read the article "Recent Graduate Buys Company Stock" and answer the following questions:

1. Why did John buy stock in Checkerboard Pizzeria, Inc.?

2. Why did Checkerboard Pizzeria, Inc. issue stock?

3. What kinds of information did the prospectus for Checkerboard Pizzeria, Inc.'s new stock issue include?

4. What state and federal government agencies approved the company's request to issue stock?

5. Describe the process John and his broker used to buy the stock.

6. What factors might affect the price of Checkerboard stock?

7. What is insider trading? Why is it illegal?

8. Why would John want to consider investing in a mutual fund in the future?

Name ________________________________ Date ____________________________

Watch the Market and Consider Why the Ups and Downs

Most people watch *stock averages* whether they own stock or not. The Dow Jones Average of Industrial Stocks is a price-weighted index of 30 major stocks. The Nasdaq Composite Index measures all Nasdaq domestic and non-U.S.-based common stocks listed on the Nasdaq Stock Market. The Index is market-value weighted. This means that each company's stock affects the Index in proportion to its market value.

The Dow and Nasdaq Composite serve as a kind of economic barometer. They move up and down as the value of their stocks fluctuate in response to business and other conditions in the nation and the world. Watch the Dow or the Nasdaq Composite for 20 days and complete the chart.

Day	Day's High	Day's Low	Closing Average	Changes From Previous Day's Close	News That May Have Affected Market Price
1	________	________	________	________	____________
2	________	________	________	________	____________
3	________	________	________	________	____________
4	________	________	________	________	____________
5	________	________	________	________	____________
6	________	________	________	________	____________
7	________	________	________	________	____________
8	________	________	________	________	____________
9	________	________	________	________	____________
10	________	________	________	________	____________
11	________	________	________	________	____________
12	________	________	________	________	____________
13	________	________	________	________	____________
14	________	________	________	________	____________
15	________	________	________	________	____________
16	________	________	________	________	____________
17	________	________	________	________	____________
18	________	________	________	________	____________
19	________	________	________	________	____________
20	________	________	________	________	____________

Name ______________________________ Date ___________________________

UNIT 2 TEST

How Financial Markets Work

True or False

Read each statement carefully and mark in the blank a T for True or F for False.

_____ 1. About five percent of all individuals in the United States own stock in corporations.

_____ 2. The typical investor in America today is a caucasian male in an upper-income management job.

_____ 3. When a company issues new stock, it creates additional debt.

_____ 4. The Securities and Exchange Commission is a self-regulatory body monitored by the New York Stock Exchange.

_____ 5. People who are employed in financial markets are prohibited by law from using investment information that is known only to them.

_____ 6. The Indiana Securities Division is responsible for regulating investment products and policing the people in Indiana who sell them.

_____ 7. Trading in futures markets is risky and inappropriate for beginning investors.

Multiple Choice

Circle the letter that best completes the phrase or answers the question correctly.

1. If a business firm wants to raise capital but not create debt, it would:
   A. borrow money from a commercial bank
   B. float a bond issue
   C. issue common stock
   D. borrow money from the government

2. Select the securities market that deals most extensively with low-priced stocks of small and new corporations.
   A. New York Stock Exchange
   B. Nasdaq
   C. Futures

Short Answer

1. Identify two ways in which a business can raise capital.

2. Explain the basic difference between owning a share of stock and owning a bond.

3. List five factors that affect the price of securities.

TOPIC OUTLINE

FINANCIAL LITERACY *two thousand and one*

UNIT THREE INVESTMENT CHOICES

Unit Objectives

- Discuss reasons to save and places to accumulate savings.
- Identify and describe common investment options.
- List factors to consider when select ing savings and investments.
- Describe the "time value of money" concept and demonstrate its usefulness for investors.

Most people have to work for their money. And once they have earned it, they have an important choice to make:

- spend it all, or
- set aside some money so it can work for them.

Whether your income is small or large, setting aside some of it for investments requires self-discipline. You decide to postpone buying certain things you'd like to have now in order to enjoy the longer-term benefits of having your money work for you through savings and investments.

The current savings rate of households in Indiana and the rest of the United States on average is less than 4 percent of income after taxes. Teenagers and adults who begin the savings habit early are more likely to have money available for things they want in the future.

Making your money work for you is what saving and investing is all about. You can measure your investment success by keeping track of how well you make your money work. Is your net worth increasing over time? Is inflation robbing you of the buying power of your savings dollars, or are your investment earnings staying ahead of the inflation rate?

Introduction: Videos

View and discuss the following video on saving and personal money management: ***Master Your Future.***

See Selected Resources 3-17.

Refer students to the Investor Protection Trust Web site: **http://www.investorprotection.org**

Alliance for Investor Education **http://www.investoreducation.org**

WHY PEOPLE SAVE AND INVEST

There are many reasons why people save and invest. One reason is financial security. A fund for emergencies helps people cope with unexpected events such as illness, unemployment and accidents.

Saving and investing is also used to reach financial goals such as a new car, a college education, a trip or a down payment on a house. Of course, one of the most important reasons for people to save and invest is to provide the funds for a comfortable, financially secure retirement.

Another reason why people save and invest is to earn more money. A sum of money can be saved and invested in long-term securities that produce higher yields. For example, some mutual funds and government securities require a minimum investment of $1,000 or more.

SAVING OPTIONS

Overhead 3-20

Discuss:

- Yield range
- Financial risk
- Inflation hedge
- Liquidity

Invite a local banker to explain factors to consider when selecting a regular savings account, CDs and money market funds.

TYPES OF SAVINGS AND INVESTMENTS

Places to Accumulate Savings

The rates of return and risk for savings are usually lower than other forms of investment. **Return** is the income from savings or an investment. **Risk** is the uncertainty that you will receive an expected return. Savings are also usually more liquid. That is, you may quickly and easily convert your investment to cash.

Interest-bearing checking and savings accounts are offered by banks, credit unions and savings and loan institutions. It pays to shop for the best rates, as interest rates, compounding frequencies and services vary widely among financial institutions.

If the financial institution where you have a checking or savings account is insured by a fund of the **Federal Deposit Insurance Corporation** (FDIC) or the **National Credit Union Administration** (NCUA), the account is insured up to $100,000 by the federal government.

Certificates of Deposit, often referred to as CDs, are purchased for specific amounts of money at a fixed rate of interest for a specified period of time. CDs may be purchased for as little as $500 but generally are priced at $1,000, $5,000, or $10,000.

You may buy a CD for as little time as seven days, or for as long as several years. The longer time usually carries a higher interest rate. If you cash in the CD before the maturity date, you will pay interest penalties. CDs are insured if the financial institution where you purchase the CD is a member of FDIC.

U.S. Savings Bonds come in two varieties: Series EE and Series HH. Available at most banks and through payroll deduction, EE bonds are purchased for 50 percent of their face value, which is the amount the bond is worth when it matures.

The minimum purchase is $25 for a $50 bond that matures in eight to 12 years. The interest rate is keyed to variable market interest rates. Bonds cashed before five years are penalized with an interest rate that is lower than the market rate.

HH bonds are purchased from a Federal Reserve Bank or through the Treasury at face value. You cannot buy HH bonds with cash. They can be acquired by trading a minimum of $500 worth of EE bonds or by reinvesting a Series HH Bond that has matured.

Series HH bonds mature in ten years with interest paid semi-annually via check or an electronic funds transfer to the bondholder's bank account.

Worksheet 3-21

COMPARING SAVINGS PLACES

Have students compare savings plans at one local financial institution and among two or more financial institutions. Consider:

- Annual interest rate
- Effective yield
- Safety
- Minimum initial deposit
- Date to maturity
- Penalty for early withdrawal
- Service charges, fees
- Convenience
- Courteous service

Overhead 3-22

INVESTMENT OPTIONS

Compare:

- Yield range
- Financial risk
- Inflation hedge
- Liquidity among investment options

Discuss reasons why a person might choose higher-risk investments over lower-risk savings options.

There are no sales charges for either the EE or HH bonds. Interest income earned from both is exempt from state and local taxes and can be deferred from federal income tax until the money is actually received. Some parents purchase EE bonds to save for their children's education. For taxpayers within certain income limits, EE bond income is exempt from federal taxation when used to meet college expenses.

Other Savings Instruments. U.S. Treasury Securities include Treasury bills, notes and bonds. These can be purchased through financial institutions for a fee or at a branch of the Federal Reserve Bank with no added cost. T-bills have face value of $10,000; Treasury bonds, $1,000.

Cash Value Life Insurance includes a forced savings element that adds to the cost of life insurance. The build-up of cash is tax deferred and can be borrowed against the policy. The primary purpose of insurance, however, is to replace the income that is lost when a breadwinner dies prematurely.

Insurance policies are often sold as savings vehicles, but many have high front-end commissions and low cash value in the early years, thereby diluting both the risk protection and the savings performance of the money in the cash value.

Higher-Risk Investments

Common types of higher-risk investments include some stocks and mutual funds, real estate, collectibles and futures contracts. The decision about which investment to choose is influenced by factors such as yield, risk and liquidity.

Investments may produce income while you own the investment through the payment of interest, dividends or rent payments. When you sell an investment for more than its purchase price, the profit is known as a capital gain, also called growth or capital appreciation.

Higher-risk investment choices for income include

- corporate and municipal bonds
- high-quality corporate stock with a history of steady earnings dividends
- telephone, gas or electrical utility stocks
- mutual funds that focus on current income

Higher-risk investment choices for capital gains include

- common stocks in growth-oriented companies
- new or small companies that have good future potential
- mutual funds that focus on capital growth
- real estate in growth areas

Stocks. When you own shares of stock, you become part-owner of a company. If the company does well, the value of

Overhead 3-23

PYRAMID OF INVESTMENT RISK

Discuss the components of a financial foundation.

As a general rule, investments located near the top of the pyramid have greater risk and greater potential return. Example questions:

1. Why are U.S. EE Savings Bonds less risky than junk bonds?
2. Why would anyone ever invest in high-risk investments?

your stock should go up over time. If the company does not do well, the value of your investment will decrease. Companies may distribute a portion of their profits to shareholders as dividends.

Companies issue two types of stock, common and preferred. **Common** stock is the basic form of ownership in a company. People who hold common stock have last claim on the assets of a firm after the Internal Revenue Service, creditors, bondholders and preferred stockholders. Common stockholders have what is known as "residual rights" to corporate assets upon dissolution, often as a result of bankruptcy.

Preferred stock is ownership in a company that has a claim on the assets and earnings of a firm before those of common stockholders but after bondholders. The safety of the principal of preferred stock is greater than that of common stock.

Selecting individual stocks requires time, effort and knowledge. The objective of buying stocks is to choose those that will increase in value over time. The friendly advice "buy low and sell high" is easier said than done. Selecting stocks is both an art and a science.

Bonds. When you own a bond you have loaned money to a company or a governmental unit. In return, the borrower promises to repay the amount borrowed plus interest. **Corporate** bonds are issued by publicly owned companies, while **municipal** bonds are issued by state or local governments.

The price of a bond will fluctuate as interest rates go up or down. When interest rates in the economy have gone up, prices of currently trading bonds tend to go down and vice versa. If you hold the bond to maturity, you will receive an amount stated on the bond known as the **face value**. For example, if you buy five corporate bonds at $1,000 each and the bonds mature in 20 years, even if the value of the bond changes over the period of time you hold it, the bonds will be worth a total of $5,000 at the time of maturity. In addition, the borrower may promise to pay you an interest payment twice a year for 20 years. The declared interest of the bond is called the **coupon rate**.

Municipal bonds are interest-bearing, long-term bonds issued by state and local governments. They are used to finance schools, roads, hospitals and libraries. Investors receive a lower rate of return in exchange for having the interest exempt from federal income tax. In addition to the federal tax exemption, some states exempt income from municipal bonds from state income tax if you are a resident of the state issuing the bond.

For more information specific to mutual funds, refer to the Investment Company Institute Web site.
http://www.ici.org

COMPARING MUTUAL FUNDS

Worksheet 3-24

Have students compare three or more mutual funds by

- Type of fund
- Objective of fund
- Current rate of return
- Yield range (three to five years)
- Fees
- Operating expenses
- Level of risk

This information can be found in the fund prospectus. Financial magazines such as ***Money, Kiplinger's Personal Finance Magazine*****,** ***Worth*** and ***SmartMoney*** routinely provide this sort of information.

Internet Exercise

The SEC's paperless filing system — EDGAR (Electronic Data Gathering, Analysis and Retrieval system) — of corporate reports can be accessed through the Internet:
http://www.sec.gov/edgarhp.htm

"**Junk bonds**" is a slang term for speculative, high-risk, high-interest rate corporate or municipal bonds. The default rate is much higher on junk bonds than on higher-quality bonds. Junk bonds may be issued by companies of little financial strength and are rated as below investment grade.

The risk in purchasing junk bonds is the higher chance than with stronger companies that the corporation may not be able to pay interest or return your principal at maturity.

Mutual Funds. A mutual fund invests the pooled money of its shareholders in various types of investments. The fund manager buys and sells securities for the fund's shareholders. Mutual funds are not risk free. Their values rise and fall along with the securities in the fund.

Benefits of mutual funds for the beginning investor include

- diversification
- professional management
- relatively low-cost shares
- liquidity and convenience (easy to buy and sell shares)

Each mutual fund has an objective that determines the types of securities it invests in. The fund objectives are stated clearly in the prospectus, which is the legal document describing the fund.

For example, the fund objective may be "growth and income." This growth and income fund might own common stock of emerging companies and common and preferred stocks and bonds of large, well-known "blue-chip" companies.

Fund Objective	Likely Investment Holdings
income	bonds and/or preferred stock
income and safety	government bonds or preferred stock
moderate growth	preferred and common stock
aggressive growth	stock in small, growth companies

More than 8,000 different mutual funds are available on the open market. The investor should learn the objective of the fund, what securities the fund owns, the level of risk, and its earnings record as compared with similar funds.

All mutual funds have annual management fees. Some funds have additional fees when shares are bought and sold.

- **No-load funds** are purchased directly from the fund and do not charge a purchase fee, but can charge up to 8.5 percent in charges or the "maximum load" allowed by the SEC.
- **Load funds** may be purchased through brokers or directly from the investment company. They have an up-front or back-end fee of two to 8.5 percent depending on the fund.

Most funds that charge a front-load sales charge do not charge a redemption fee (rear load).

A redemption fee may be charged when shares are sold. The fund prospectus must disclose all fees and costs related to the funds. The one, five and ten-year earnings record, after fees, must be revealed.

The shares in a mutual fund are priced by dividing the current market value of investments owned by the mutual fund by the number of mutual fund shares. As the value of the securities in the fund goes up or down, the value of the shares changes accordingly.

Many mutual funds are part of a family of funds. An investment company may offer a number of funds with different objectives, and the investor may switch from one fund to another within the same family at little or no expense. For example, if you own a bond fund and you believe stocks are going to do well, you could switch your investment dollars into the stock funds within the same family of funds.

Real Estate. Home ownership is an investment. Like other investments, homes can appreciate in value and serve as a hedge against inflation. Houses can also drop in value and fail to keep pace with inflation.

Direct ownership of rental units and commercial buildings takes considerable time, skill, knowledge and risk tolerance on the part of the individual owner. Purchasing a rental property, for example, without full knowledge and experience could cause losses far exceeding the original investment.

Another way to invest in real estate is through the purchase of limited partnerships. The partnership is composed of a general partner, who buys and manages the investments, and limited partners, who invest in the project and whose participation is limited to the profits or losses of the venture. Oil and gas lease partnerships are one of the major ways Texas' energy resources have been developed over time.

Collectibles. Antiques, stamps, precious metals or gems pay no interest or dividends and depend on an increase in value over time for a return on the investment. The rewards as well as the losses of owning collectibles can be great. Financial advisors caution against collectibles because there is no regulated marketplace, liquidity can be a problem, information regarding pricing is almost nonexistent, and fraud is rampant in markets for coins, gems, synthetic gems and precious metals.

Futures Contracts. A futures contract is a commitment to buy or sell a specific amount of a commodity at a specific future date and price. Futures contracts deal in products ranging from corn, soybeans, wheat and cattle to gold, crude oil, Japanese yen and U.S. Treasury bonds. This speculative investment is only for knowledgeable investors who are willing to take high risk. Futures should never be more than a small portion of a total investment portfolio.

SELECTING SAVINGS AND INVESTMENTS

Worksheet 3-25

READINGS ON INVESTMENTS

Have students read and report on current newspaper and magazine articles on investment market conditions. Topics could include:

- Interest rates
- Business failures
- Price of investments
- Political decisions and investment risk
- Investment fraud
- Diversification

Factors to consider when selecting savings and investments include liquidity, risk, return, inflation, diversification, taxes and stage in the life cycle.

Liquidity

How quickly will you need your money? Savings held in bank accounts and money market funds are appropriate for short term needs of a year or less because they are liquid. Investments such as stocks and bonds are suitable for longer term goals as they are less liquid. Keep in mind that liquidity is the speed and ease with which an asset can be converted into cash.

Savings vehicles such as certificates of deposit cannot be converted into cash prior to the maturity date without penalty. While stocks and bonds can be sold at any time, if an investor is forced to sell when the market is down, there can be a loss of the original money invested.

Risk

As a general rule, the greater the promised return the greater the risk. Risk tolerance is a person's ability to ride out the ups and downs of the market without panicking when the value of investments go down. Risk tolerances vary from person to person and at different stages in the life cycle. Young adults with growing income potential may take greater investment risks than people who are approaching retirement.

How much should a person expect to earn on an investment? Average investment return over time has been the inflation rate plus three percent. For example, if the current inflation rate is five percent, an investor might expect an average return on an investment of about eight percent. Some investments will yield less, others more.

If you are promised a return on an investment that is greater than three percent over the inflation rate, be alert to high risk and possible fraud. The return may be too good to be true. A scam artist may promise an unrealistically high return just to get your money.

People who don't sleep well at night when the principal value of their investment goes down should select savings and investments with less risk. On the other hand, investments that guarantee the safety of principal may not maintain purchasing power in times of high inflation.

Individuals who can ride out market ups and downs without panic can comfortably put their money in investments that pay above average returns. These investments may maintain purchasing power over time, but can fluctuate wildly in the short term. There are six major types of investment risk:

- **Interest rate risk** is the risk that the value of an investment will decrease due to a rise in interest rates. If you lock yourself into a long term, fixed-return investment and interest rates go up, you lose the advantage of higher returns. The value of a fixed-return investment decreases when interest rates increase and increases when interest rates decrease.
- **Business failure risk** is the risk that the business will fail and the investment will be worthless, or that the business will be less profitable than expected. How well will the business do in both good and bad economic times?
- **Market price risk** is the risk that the price on an investment will go down. Many factors influence whether the price of an investment will go up or down. Few investors can consistently predict the ups and downs of the market. Investors may experience a loss if they must sell when the market price is down.
- **Inflation risk** is the risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services. Investment returns must exceed the rate of inflation in order to increase purchasing power.
- **Political risk** is the risk that government actions such as trade restrictions or increased taxes will negatively affect business profits and investment returns.
- **Fraud risk** is the risk that the investment is designed to deceive and misrepresent facts. In every case of investment fraud, the seller wins while the investor loses.

Return

The basic idea of investing is to commit money today with the expectation of a financial return in the future. The return can come from earnings, growth or tax advantages.

Earnings on your investment can be in the form of interest, dividends or rent payments. You will recall that interest is the payment received in exchange for the loan of money. A dividend is payment to stockholders from the earnings of a corporation. Rent is payment received in return for the use of property.

Growth comes from price appreciation on the investment that is sold for more than you paid for it. Appreciation, or capital gain, is income realized when you sell property or securities for more than the purchase price. Of course you may have to sell for less than you paid, and have a capital loss.

For example, say you buy 100 shares of a no-load stock mutual fund at $20 a share for a total of $2,000. If during the year the fund pays dividends totaling 10 cents a share, your income from the investment would be $100. If you sold the shares at the end of the year for $22 a share, you would have a profit of $2 a share or $200. Your return of earnings plus appreciation would be $300. You had a very good year. This example ignored commissions and fees however, and you ran the risk of having to sell your shares for less than the $20 you paid.

Inflation

Inflation is an important factor for investors to consider because it reduces the purchasing power of money. The value of money is measured in the amount of goods and services it will purchase, and inflation is a general rise in the price of goods and services.

In inflationary times, financial returns on investments may not keep pace with the rate of inflation, and purchasing power is lost. For example, you have $1,000 in a bank savings account earning five percent interest, or $50 a year. Unfortunately, if the inflation rate this year was six percent, it will cost you $1,060 to buy the same products you could have purchased last year for $1,000. Subtract the $50 you earned from the $60 you lost to inflation and you lost $10 in purchasing power.

Historically, corporate stocks and real estate have been good investments in inflationary times, while bonds and other fixed return investments have lagged behind. People on fixed incomes such as retirees are hurt most by inflation. Social Security retirement payments are indexed to inflation to help these people cope with the rising cost of goods and services.

The desire to have investment returns keep up with inflation should be balanced against the potential loss of principal in high yield but risky investments. A suggested guideline is to seek investment returns of the inflation rate plus three percent. Promised returns above this amount usually carry high risk.

Diversification

The process of reducing risk by spreading money among various types of investments is diversification. Because certain investments perform better than others in certain economic conditions, an investor can spread the risk by following the advice, “Don’t put all your eggs in one basket.” An investor’s

YIELD OF TAXABLE AND TAX-EXEMPT INVESTMENTS

Overhead 3-26

1. If an investor in the 15% tax bracket invests in a tax-exempt bond paying 6%, what yield would be required on a taxable investment in order to earn the same income? **(7%)**

2. If the investor were in the 33% tax bracket, what yield would be required? **(9%)**

Examples of tax-deferred savings are U.S. Series EE savings bonds and Individual Retirement Accounts (IRAs).

TAX-DEFERRED SAVINGS GROW FASTER THAN TAXABLE SAVINGS

Overhead 3-27

"basket" of securities and investments, known as a portfolio, can consist of investment options with varied risk-return characteristics. When interest rates are high, for example, stock prices tend to go down and bond prices go up. When interest rates are low, stock prices tend to rise and bond prices go down. One industry can be down while other industries are doing well. The auto business can be down, for example, while the housing industry prospers.

You have $10,000 to invest. You decide to invest 25 percent in short-term certificates of deposit, 45 percent in a variety of common stocks, and 30 percent in bond mutual funds. As conditions change, these percentages are adjusted.

Putting money in a variety of investments lessens the risk of loss due to any one investment performing poorly. Investors who review and adjust their investment portfolio regularly are likely to earn more over time than those who do not.

Taxes

Money will grow faster in a tax-advantaged savings or investment plan because you earn money on the investment that would otherwise have been paid in taxes. Tax-exempt and tax-deferred investments are not necessarily safe investments. Some municipal bonds, for example, carry high risk and are not appropriate for all investors.

Tax-exempt investment earnings are not subject to income tax. As noted earlier, the interest on U.S. Series EE Savings Bonds is exempt from state and local taxes. If the bonds are used to pay college tuition, the interest is also exempt from federal taxes for taxpayers who meet certain income limits.

The most common way to get tax exempt income is to invest in municipal bonds. Exempt from federal tax, the interest on municipal bonds is sometimes exempt from state income tax as well.

Earnings on the sale of a house can also be exempt from income taxes. Current federal tax law allows households to exclude from their income the money earned on the sale of a home if they invest in a home of equal or greater value within 24 months. Under certain conditions individuals may exclude any capital gain from income on the sale of a main home, up to a limit of $250,000, or $500,000 if married and filing a joint return.

Tax-deferred investments are those that have earnings that will not be taxed until the money is taken out of the investment. Examples of tax-deferred investments are U.S. Series EE Savings Bonds, and retirement plans such as traditional Individual Retirement Accounts (IRAs) and employer savings plans known as 401-K plans. Other alternatives include Self-

Employed Plans (SEP), SEP-IRAs, Keoughs and teachers' pension plans.

For example, if you accumulate $15,000 in a tax-deferred savings plan at work and leave it there for 20 years earning ten percent interest, the $15,000 will be worth $100,912. If you place the money in a taxable savings plan, the same $15,000 would be worth only $60,254. The difference is over $40,000.

In a taxable savings account, you would have paid taxes on the earnings each year thus reducing the amount of money available to earn additional interest. Earnings from the tax-deferred savings plan will be taxed when the money is withdrawn from the account, but in the meantime it grows at a much more rapid rate.

Beginning in tax year 1998, Roth IRAs came into being. The Roth IRA, named after U.S. Senator William Roth from Delaware who created the legislation for this new IRA, provides no tax deduction for contributions you make, but instead provides a benefit that isn't available for other savings vehicles: if you meet certain requirements, the earnings are tax free when you withdraw them. In other words, you trade off tax deductibility on the front end to escape paying taxes on your investment earnings. Young people, who are in lower tax brackets can use the Roth IRA to get an early start on retirement savings.

It is important to participate in employee savings and investment plans sponsored by your employer. In some cases employers will match the amount of money put in by the employee. If employees do not contribute, their employers may not as well, which is like throwing money away.

Workers who are not covered by an employer-sponsored retirement plan, or whose income is below certain limits may invest up to $2,000 each year in a tax deferred IRA and deduct the $2,000 from current taxable income.

All working Americans, regardless of income may make annual contributions of up to $2,000 in an IRA. Even though some may not be eligible for the deduction from current taxable income, earnings will be tax deferred for all.

Dollar Cost Averaging

Dollar cost averaging is the technique of investing the same fixed dollar amount in an investment, such as a mutual fund, at regular intervals over a long period of time. The advantage of dollar cost averaging is that you purchase more shares at lower prices when the market goes down and fewer shares at higher prices when the market goes up. When you purchase shares of your employer's stock through regular payroll deduction you are dollar cost averaging.

Life-Stage Interviews

Suggest that students interview adults about good or bad investment experiences at various stages in the life cycle. Discuss the learning that can be gained from each experience.

Illustrate the advantage of beginning an investment plan early in life.

Internet Exercise

Financial Calculators:

Use the Internet to see how your class fares in personal finances.

http://www.cnbc.com

http//www.investor.nasd.com

Dollar cost averaging helps avoid the problem of buying high and selling low. You can make money if you sell the investment at a price higher than the average purchase price over the time that you invested. While the possibility of loss is not eliminated, the losses are limited during times of declining prices and profits are accelerated during times of rising prices.

Stages in the Life Cycle

As people move through the stages of the life cycle, their financial goals and investment strategies will change. Investments that are appropriate for a young couple with small children may be inappropriate for a single person approaching retirement.

The following suggestions illustrate possible investment choices for people at various life stages. Ultimately, each person must make decisions and take action in light of unique household situations and current economic conditions.

Life Stage: Young single adult
Goals: Emergency fund, car, travel

Deposit money each payday into an interest bearing savings account at the bank or credit union. To remove the temptation to spend it before you get to the bank, consider automatic payroll deduction.

Save money for relatively short term goals in a money market mutual fund or insured certificates of deposit, or a diversified mutual fund whose goal is safety as well as growth.

Invest some of your savings in aggressive long-term growth investments such as common stock in new companies with good potential. You have the luxury of time to let your money work for you.

Life Stage: Two-income household with baby
Goals: Better housing, money for future goals

After you have an emergency fund equal to three times monthly expenses in an insured savings account and adequate life insurance protection, put some of your savings into low and moderate risk investments to stay ahead of inflation.

Examples of low risk investments are money market mutual funds, balanced mutual funds that have both bonds and conservative stock investments, and insured certificates of deposit. Moderate-risk investments include common stock and corporate bonds.

Buying a home can be a good investment, depending on its location and the local housing market when you buy and sell.

Life Stage: Married couple, school-age children
Goals: Education fund, family travel

After you have an adequate emergency fund and conservative investments, put some of your savings into growth-oriented investments that pay little or no current income, but have a chance of keeping ahead of inflation. Examples are high-grade common stocks and growth-oriented mutual funds.

Aggressive growth funds should be used only if you are comfortable with higher risk. These funds invest in companies with high potential of both success and failure. Stocks in this category can yield large returns in the long run, but the risk of loss of principal is great.

Life Stage: Single parent with teenagers
Goals: Meet college bills, build future security

Draw upon previous savings and investments, if available, to meet increased educational expenses not covered by scholarships, student employment or loans.

When possible, continue to put money into company sponsored savings and retirement plans. These tax advantaged savings plans will not only save tax dollars but will help assure financial security in retirement.

Life Stage: Middle-aged couple with adult children
Goals: Savings for retirement

Fine tune your investment portfolio in keeping with your financial goals. Hold some of your money in conservative investments such as high quality bonds and certificates of deposit. Consider growth-oriented investments that will appreciate over time and stay ahead of inflation. Only the affluent can afford the gamble of high-risk securities as they approach retirement.

Consider tax advantaged investments such as municipal bonds. Down-sizing allows you to take advantage of the one-time capital gains tax exemption on your home after age 55.

Life Stage: Retired persons
Goals: Maximize income, preserve principal

Select income-oriented mutual funds, utility stocks, insured certificates of deposit, preferred stocks, conservative blue-chip common stock, government bonds, treasury bills and investment grade corporate bonds.

Monitor income needs and investment yields. To balance loss of purchasing power, consider investing a small percentage of funds in growth-oriented common stocks or stock mutual funds.

Handout 3-27

HOW TIME AFFECTS THE VALUE OF MONEY

Illustrate the advantage of beginning an investment plan early in life.

- Investors A and B are each 25 years old. Investor A invests $2,000 each year for 10 years beginning at age 25 (Total contribution $20,000).
- Investor B waits ten years, then invests $2,000 each year for 31 years. (Total contribution: $62,000)

  At retirement age 65, Investor A has earned $234,000 more than Investor B.

Worksheet 3-28

TIME VALUE OF MONEY

Answer Key:

1. $20,000

2. $33,846

3. $62,000

4. $545,844

5. $352,427

6. $525,344

7. $290,427

8. The time value of money is the growth of money over time as a result of investment earnings. As shown in this example, investments made early in life have a greater pay-off than those made later in life.

HOW LONG WILL IT TAKE TO DOUBLE YOUR MONEY?

The old saying that "time is money" certainly applies to everyday decisions people make about whether to spend or save money and how much to save to meet specific goals. Factors that affect the future value of money include:

- amount of money invested
- rate of return or yield
- length of time the money is invested
- rate of inflation

To explore the impact of time on the future value of an investment, consider two investors who are both age 25. Investor A regularly invests $2,000 a year for ten years. Interest on the account is allowed to remain in the account so that interest is earned on interest. Investor B waits ten years, until age 35, before starting an annual savings program of $2,000 per year. Despite the fact that Investor B saves for thirty-one years, Investor A has a much larger amount at retirement — nearly $200,000 more!

Financial charts, calculators and computers are tools used to find answers to typical personal finance problems such as how much money one must save in order to have a specific amount of money at a future date. The increase in an amount of money over time as a result of invested earnings is known as the time value of money.

Future Value of a Single Deposit

Using the *Future Value of $1,000 Single Deposit* chart, you can determine the future value of money invested.

- Jerry's grandfather in Gary gave him 200 shares in a stock mutual fund five years ago. The shares were worth $1,000 at that time. The shares averaged an annual rate of return of 15 percent over five years. How much is the investment worth today? ($2,011)
- Lynn's parents placed $1,000 in a bank savings account in Lynn's name 10 years ago. The account has earned 5 percent, compounded annually. No funds have ever been withdrawn from the account. How much is the account worth today? ($1,629) How much would Lynn have today if her parents had purchased certificates of deposit averaging 8 percent return over the past 10 years? ($2,159)

Future Value of Monthly Deposits

Using the *Future Value of $25 Deposited Monthly* chart, you can determine how much a fixed amount of savings per month will grow within a given time.

Use text examples to illustrate future values

Overhead 3-29

FUTURE VALUE OF $1,000 SINGLE DEPOSIT

Overhead 3-30

FUTURE VALUE OF $25 DEPOSITED MONTHLY

Overhead 3-31

FUTURE VALUE OF $100 DEPOSITED MONTHLY

Overhead 3-32

MONTHLY DEPOSIT FOR FUTURE GOALS

Worksheet 3-33

DOUBLING YOUR MONEY

Answer Key:

1. 11+ years
2. 9.6 years
3. 7.2 years
4. 12 years
5. 6 years

- If Rob saves $25 each month at 5 percent interest and leaves the interest in his account, how much will he have saved at the end of two years? ($632) How much will he have saved if he saves $25 a month in a mutual fund yielding 8 percent for two years? ($653)

Were you surprised at the small amount of difference in the amount earned between 5 percent and 8 percent? The rate of interest becomes more important for long-term investments due to the time value of money.

- If Rob invests $25 each month in a stock mutual fund that yields 15 percent per year, how much will the fund be worth in 10 years? ($6,966) If he puts $25 a month is a savings account earning 5 percent, how much will he have in 10 years? ($3,898) What is the difference in earnings over 10 years between the mutual fund earning 15 percent and the savings account earning 5 percent? ($6,966 - $3,898 = $3,068)
- Sue can save $25 each month. How long will it take her to accumulate $1,000 if her money earns 8 percent interest and she reinvests the interest? (three years).

  Using the Future Value of $100 Deposited Monthly chart, determine the growth of an employee tax-deferred savings plan over 10 years.
- Barbara and Stan are newly married. Stan's employer has a savings plan that allows money to grow tax-deferred. Stan's employer will contribute 50 cents for every dollar Stan saves in the plan. Combined with the employer's contribution, Barbara and Stan will save $100 a month.

How much would $100 saved per month be in 10 years if it earned 6 percent interest? ($16,470) At 8 percent? ($18,417)

Monthly Savings and Investments for Future Goals

Using the *Monthly Deposit For Future Goals* chart, determine how much money would have to be saved each month to reach the following goals:

- Rob wants to have $3,000 in three years for a down payment on a new car. How much must he save per month at 5 percent interest? At 8 percent? (At 5 percent he must save $77.09. At 8 percent he must save $73.52.)
- Cindy wants to have $1,000 in one year in order to take a trip with her friends. How much must she save each month at 5 percent? At 8 percent? (At 5 percent she must save $81.10. At 8 percent she must save $79.80.)

Rule of 72

A simple way to determine how long it will take for an investment to double in value is known as the **Rule of 72.**

To use the Rule of 72, divide the interest rate into 72. The answer is the number of years it will take for money to double in value. For example, if the stated interest rate is 6 percent it will take 12 years for the money to double. ($72 \div 6 = 12$). If the stated interest rate is 8 percent it will take 9 years for the money to double.

SUMMARY

Administer Unit Test and Discuss Answers

UNIT TEST

Test 3-35

Key to Test

Matching

1. H
2. G
3. K
4. D
5. C
6. A
7. E
8. F
9. J
10. I
11. L

True and False

1. True
2. True
3. False
4. True
5. False
6. False
7. True
8. False
9. False

Short Answer

1. Savings options with low risk include:
   - Interest bearing checking and savings accounts
   - Certificates of Deposit
   - U.S. Savings Bonds
   - U.S. Treasury Bonds
   - Cash value life insurance
2. The purpose of diversification is to spread the risk of investing over different investment vehicles and industries.
3. Benefits of mutual funds include:
   - Diversification
   - Professional management
   - Small amounts of money can be invested
   - Easy to buy and sell

4. The time value of money concept states that, over time, the amount of money saved and invested will increase more rapidly due to compounding of earnings. As earnings are reinvested, they produce more earnings which are added to the principal. Because young people have a longer time to invest, the concept works better for them than for older people.

Definitions

Interest — payment received for lending money

Dividend — payment received by stockholders from a corporation's earnings

Appreciation — an increase in the basic value of an investment

SELECTED RESOURCES

Publications

Publications available from the **Consumer Information Center** Web Site under Money category: http://www.pueblo.gsa.gov/money

An Introduction to Mutual Funds, U.S. Securities and Exchange Commision. 1994.

Annuities. U.S. Department of Agriculture. 1998.

Buying Treasury Securities. U.S. Department of Treasury, 1995.

Invest Wisely. U.S. Securities and Exchange Commission, 1994.

Making Sense of Savings. U.S. Federal Reserve Board, 1994.

U.S. **Savings Bonds Investor Information**, U.S. Department of Treasury, 1996.

Investor Education Resource Guide. North American Securities Administrators Association, Inc. One Massachusetts Avenue, NW, Suite 310, Washington, D.C. 20001. 1996.

A **Guide to Mutual Funds**. Investment Company Institute, 1401 H St., NW, Ste 1200, Washington, D.C. 40¢

Planning Financial Security. U.S. Department of Agriculture. 1997.

Understanding Opportunities and Risks in Futures Trading, National Futures Association, 200 West Madison Street, Chicago, IL 60606-3447.

Software

Bulls and Bears. Software. An investment math challenge. School license $159.00. 1998. C.W. Publications, Box 744, Sterling, IL 61081. 1-800-554-5537.

The Investment Game. Software. Trading stocks, bonds, commodities and mutual funds. Requires Microsoft Works and Claris Works. C.W. Publications, Box 744, 1075 37th Avenue, Sterling, IL 61081. (800) 544-5537. 1995. $59.00

Investment Math. Software. Students solve problems covering stocks, bonds and commodity investments. C.W. Publications, Box 744, 1075 37th Avenue, Sterling, IL 61081. (800) 554-5537. 1992. $59.00

Savings Game. Software. About different types of savings plans. School license $159.00. 1997.

Teaching Guides

Master Your Future. Teaching guide and video for high school students. MasterCard International. 1-800-624-9688. 1997. Free to educators.

Mutual Funds: Understand the Risks. Video and teaching materials. Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, Minneapolis, MN 55401-2171. 612-204-5000. 1994. Single copy free.

Web Sites

Alliance for Investor Education
http://www.investoreducation.org

Financial Literacy 2001
http://www.fl2001.org

National Association of Securities Dealers, Inc.
http://www.investor.nasd.com

National Futures Association
http://www.nfa.futures.org

National Institute for Consumer Education
http://www.emich.edu/public/coe/nice

Investor Protection Trust
http://www.investorprotection.org

Stock Market Game 2000
http://www.smg2000.org

Books

Barron's Guide to Making Investment Decisions, Englewood Cliffs, NJ: Prentice-Hall, 1994. $13.95

Farrell, Paul B. **Mutual Funds on the Net: Making Money Online.** John Wiley & Sons, 1997.

Kiplinger's Make Your Money Grow. Kiplinger Books, 1993. $14.95

Garman, Thomas, and Raymond Forgue. **Personal Finance,** 5th edition. Boston, MA: Houghton Mifflin Company, 1997.

Kapoor, Jack, Les Dlabay, and Robert Hughes. **Personal Finance,** 5th edition. McGraw-Hill, 1998.

Robinson, Marc. **Basics of Investing.** Time Life Books, 1996.

Venditto, Gus. The **America Online Money Guide.** Que Corp., 1996.

Saving Options

	YIELD RANGE IN RECENT YEARS	FINANCIAL RISK	INFLATION HEDGE	LIQUIDITY
CHECKING ACCOUNTS	0 - 5.5%	Low risk if insured	None	High
SAVINGS ACCOUNTS	2.8 - 6.0%	Low risk if insured	None	High
CERTIFICATES OF DEPOSIT	3.1 - 9.0%	Low risk if insured	None	1 week to 8 years (penalty for early withdrawal)
U.S. SAVINGS BONDS EE & HH	5.5 -7.0%	Low risk, backed by U.S. government	None	Redemption results in lower yield
U.S. TREASURY BILLS, NOTES AND BONDS	3.75 - 10.5%	Low risk, if held to maturity backed by U.S. government	None	Immediate to several years

Name ____________________ Date ____________________

Comparing Savings Places

Financial Institution Name ____________________

	CHECKING ACCOUNT	SAVINGS ACCOUNT	CERTIFICATE OF DEPOSIT
ANNUAL INTEREST RATE	______	______	______
EFFECTIVE YIELD	______	______	______
SAFETY *(Insured by FDIC, NCUA, other)*	______	______	______
MINIMUM INITIAL DEPOSIT	______	______	______
DATE TO MATURITY	______	______	______
PENALTY FOR EARLY WITHDRAWAL	______	______	______
SERVICE CHARGES, FEES	______	______	______

Comments on other factors such as convenience, friendly and courteous service, hours of service, local community involvement, etc.

____

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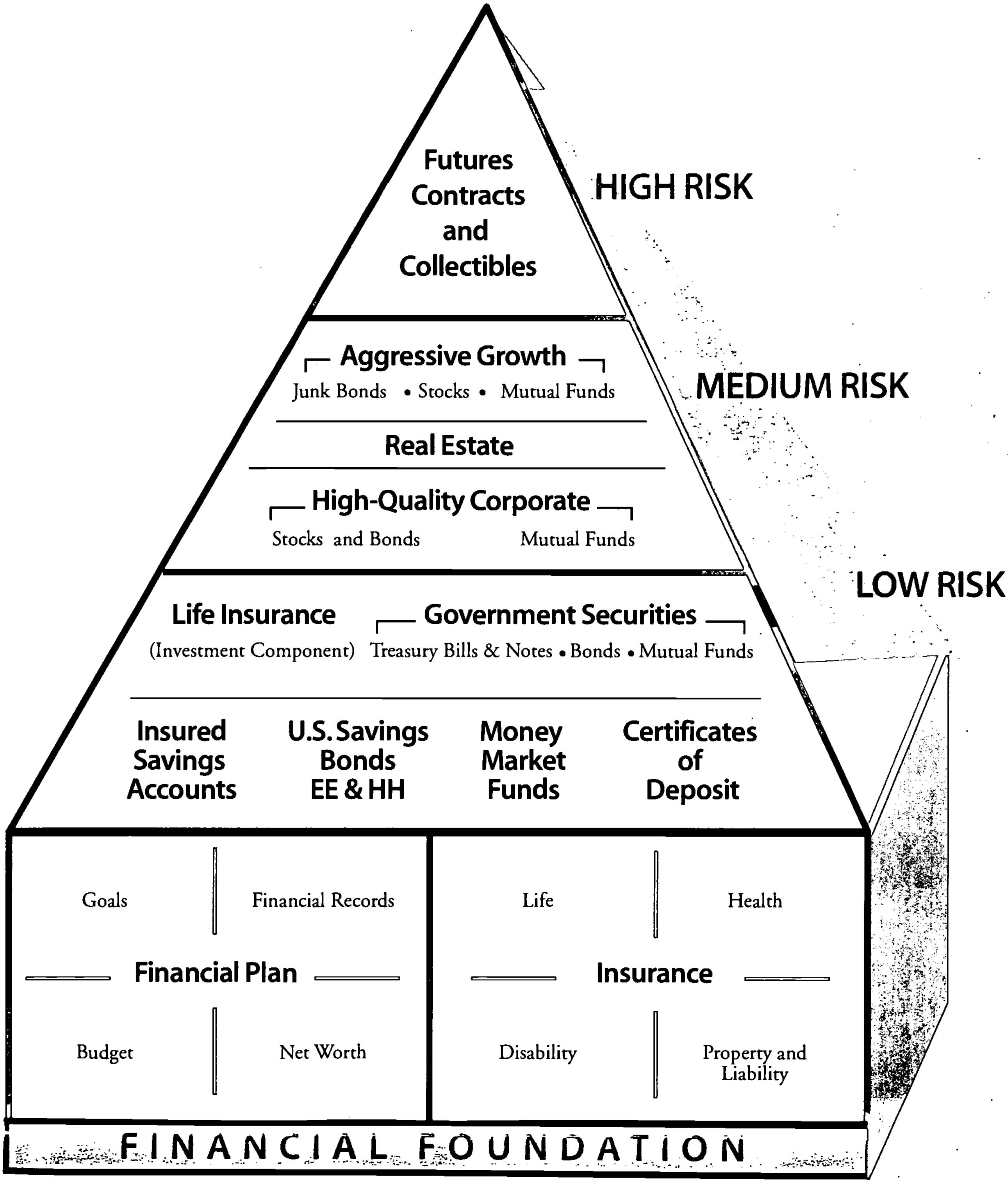
Investment Options

	YIELD RANGE IN RECENT YEARS	FINANCIAL RISK	INFLATION HEDGE	LIQUIDITY
STOCKS		Medium to high	Good	High
Common	0 - 20%			
Preferred	5-9%			
BONDS			None	Varies immediate to 30 years
Municipal	3-10%	Low to medium		
Corporate High Quality	6-11%	Low to medium		
Junk Bonds	8-14%	high		
MUTUAL FUNDS (Money market, stocks, bonds)	0-16%	Low to high Depends on skill of fund manager and fund objectives	Good	High
REAL ESTATE (Home, rental unit, commercial property)	0-20%	Medium to high	Good	Low
COLLECTIBLES (Art, antiques, precious metals, gems)	Few collections yield profits	high	Varies	Low to moderate

Pyramid of Investment Risk



Name ______________________________ Date ______________________________

Comparing Mutual Funds

Name of Mutual Fund	1. ________	2. ________	3. ________
Mutual Fund Type (Stock, bond, futures, money market, balanced, indexed, sector, etc.)	________	________	________
Mutual Fund Objective (Aggressive growth, moderate growth, income and safety, and income)	________	________	________
Current Rate of Return	________	________	________
Yield Range in Last Three to Five Years	________	________	________
Load Fees (Sales and redemption charges)	________	________	________
Total Operating Expenses (Management fees, advertising and marketing costs expressed as a percentage of average net assets)	________	________	________
Level of Risk (High, medium, low)	________	________	________

Name ______________________ Date ______________________

UNIT 3

Readings on Investments

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article ______________________

Source ______________________

Author (if given) ______________________

2. Write a brief summary of the main ideas of the article or pamphlet.

____

____

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____

____

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

____

____

____

Attach a copy of the article or pamphlet to this page.

Yield of Taxable and Tax-Exempt Investments

Tax-Exempt Investment Yield	Federal Tax Bracket 15%	Federal Tax Bracket 28%	Federal Tax Bracket 33%
	Taxable Investment Yield		
4%	4.7%	5.6%	6.0%
5%	5.8%	6.9%	7.5%
6%	7.0%	8.3%	9.0%
7%	8.2%	9.2%	10.4%

Example:

A person in a 28% tax bracket who invests money in a tax-exempt municipal bond fund paying 6% would have the same income as someone investing in a taxable fund paying 8.3%.

Tax-Deferred Savings Grow Faster than Taxable Savings

	Taxable Savings	Tax-Deferred Savings
$15,000 Invested Today	$15,000	$15,000
Value in 20 Years Invested at 10% Annual Interest	$60,254	$100,912

In a taxable savings account you pay taxes on the earnings each year. This reduces the amount of money available to earn interest.

How Time Affects the Value of Money

Investor A invests $2,000 a year for ten years, beginning at age 25. Investor B waits 10 years, then invests $2,000 a year for 31 years. Compare the total contributions and the total value at retirement of the two investments.

Investor A

Age	Years	Contributions	Year-End Value
25	1	$2,000	$ 2,188
26	2	2,000	4,580
27	3	2,000	7,198
28	4	2,000	10,061
29	5	2,000	13,192
30	6	2,000	16,617
31	7	2,000	20,363
32	8	2,000	24,461
33	9	2,000	28,944
34	10	2,000	33,846
35	11	0	37,021
40	16	0	57,963
45	21	0	90,752
50	26	0	142,089
55	31	0	222,466
60	36	0	348,311
65	41	0	545,344

Value at Retirement	$545,344
Less Total Contributions	($20,000)
Net Earnings	$525,344

Investor B

Age	Years	Contributions	Year-End Value
25	1	$ 0	$ 0
26	2	0	0
27	3	0	0
28	4	0	0
29	5	0	0
30	6	0	0
31	7	0	0
32	8	0	0
33	9	0	0
34	10	0	0
35	11	2,000	2,188
40	16	10,000	16,617
45	21	10,000	39,209
50	26	10,000	74,580
55	31	10,000	129,961
60	36	10,000	216,670
65	41	10,000	352,427

Value at Retirement	$352,427
Less Total Contributions	($62,000)
Net Earnings	$290,427

Note: Assumes a nine percent fixed rate of return, compounded monthly. All interest is left in the account to allow interest to be earned on interest.

Source: Franklin Distributors, Inc., San Mateo, CA 94404. Used with permission.

Name ______________________________ Date ______________________________

Time Value of Money

ADVANTAGE OF INVESTING EARLY IN LIFE

Using the handout, **How Time Affects the Value of Money**, answer the following questions.

1. At $2,000 a year, how much did Investor A invest in the ten years between ages 25 and 35?

2. What is the year-end value of Investor A's investment at the end of ten years?

3. At $2,000 a year, how much did Investor B invest over the 31 years?

4. What is the value at retirement of Investor A's investment? ______________________

5. What is the value at retirement of Investor B's investment? ______________________

6. What are Investor A's net earnings? ______________________

7. What are Investor B's net earnings? ______________________

8. Summarize in your own words what is meant by "the time value of money."

Future Value of $1,000 Single Deposit

Year	Annual Percentage Rate of Return 5%	8%	15%
1	$1,050	$1,180	$1,150
2	1,102	1,166	1,323
5	1,276	1,469	2,011
10	1,629	2,159	4,046
20	2,653	4,661	16,367

Future Value of $25 Deposited Monthly

Year	Interest Rate 5%	8%	15%
1	$308	$313	$325
2	632	653	703
3	973	1,020	1,142
5	1,707	1,849	2,242
10	3,898	4,604	6,966
20	10,319	14,824	37,899

Savings deposit made at beginning of each month with interest compounded monthly.

Future Value of $100 Deposited Monthly

	Interest Rate		
Year	5%	8%	15%
1	$1,233	$1,253	$1,302
2	2,529	2,611	2,814
3	3,891	4,081	4,568
5	6,829	7,397	8,968
10	15,593	18,417	27,866
20	41,275	59,295	151,596

Savings deposit made at beginning of each month with interest compounded monthly.

Monthly Deposit for Future Goals

5% Interest Rate

Goal	1 Year	3 Years	5 Years
$1,000	$81.10	$25.70	$14.64
2,000	162.20	51.39	29.29
3,000	243.31	77.09	43.93
5,000	405.51	128.49	73.72

8% Interest Rate

Goal	1 Year	3 Years	5 Years
$1,000	$79.80	$24.51	$13.52
2,000	159.58	49.01	27.04
3,000	239.37	73.52	40.56
5,000	398.95	122.53	67.60

Savings deposit made at beginning of each month with interest compounded monthly.

Name ______________________ Date ______________________

Doubling Your Money

The Rule of 72 is a useful tool for investors. With the Rule of 72, you can calculate how long it will take your money to double at a given interest rate, if you reinvest the earnings.

---

72 Divided by the Percentage Rate of Return
Equals
The Number of Years Needed to Double Your Money

For example, if you had $1,000 to invest, it would take nine years at 8% interest rate for the money to reach $2,000. (72 ÷ 8 = 9)

At 10%, it would take 7.2 years for the $1,000 to double. (72 ÷ 10 = 7.2)

How long will it take the following investments to double?

Investment	Rate of Return	Years to Double
1. CD	6.5%	______
2. U.S. Treasury Note	7.5%	______
3. Common Stock	10.0%	______
4. Money Market	6.0%	______

5. An investment club has a goal of picking stocks that grow 12% per year. How long would it take for such an investment to double in value?

____

Name ______________________________ Date ______________________________

UNIT 3 TEST

Investment Choices

Matching

Match each of the terms listed below with the numbered definition. Write the letter in the space provided.

A. diversification	D. stock	G. securities	J. appreciation
B. dividend	E. prospectus	H. tax-exempt	K. mutual fund
C. liquid	F. the return	I. bond	L. no-load

1. ______ free of tax considerations
2. ______ investment instruments such as stocks and bonds
3. ______ where individuals "pool" investment money
4. ______ ownership interest in a company
5. ______ can easily be converted into cash
6. ______ spreading investment money among different instruments and industries
7. ______ legal document describing an investment offered for sale
8. ______ amount gained or lost from an investment
9. ______ an increase in the basic value of an investment
10. ______ certificate representing a loan
11. ______ a mutual fund which has no up-front fee

True or False

Read each statement carefully and mark with a T for True or an F for False.

______ 1. A savings account can be a building block for future investing.

______ 2. Liquid investments can be easily converted into cash.

______ 3. Risk tolerance refers to the amount of money you place in your no-risk savings account.

______ 4. As a general rule, the greater the risk, the higher the potential rate of return.

______ 5. Timed certificates of deposit are the most liquid type of savings.

______ 6. Municipal bonds are issued by publicly held companies.

______ 7. Load and no-load mutual funds have annual management fees.

______ 8. With a five percent rate of return, it would take 20 years to double an investment.

______ 9. A limited partnership is a good investment vehicle for a beginning investor because it is limited.

Short Answer

1. List three savings options with low risk.
   1.
   2.
   3.
2. Explain the purpose of diversification in investments.

3. Name three benefits of mutual funds for a beginning investor.
   1.
   2.
   3.
4. Explain why the "time value of money" concept works better for young people than for those approaching retirement.

Definitions

Define the following investment terms:

Interest ____

Dividends ____

Appreciation ____

UNIT FOUR INVESTMENT INFORMATION

TOPIC OUTLINE

FINANCIAL LITERACY
two thousand and one

Unit Objectives

- Identify sources of financial information.
- Read newspaper price quotations of stocks, bonds and mutual funds.
- List factors to consider when selecting financial advisors.

Both before and after you make an investment you should gather and use information. You will want to know such things as earnings history, risk factors, quality of management and potential for future growth and income in order to select appropriate investments. After you buy, you will want to track the investment's market price and earnings compared with other investment options.

INFORMATION ABOUT MARKETS AND SECURITIES

Internet Exercise

One tool for helping students learn about stock prices and how to track them is the Stock Market Game 2000.

An online version of the Game is available for your use at: **http//:www.smg2000.org.**

This teaching guide has been designed to be compatible with the use of the Stock Market Game in your classroom.

Investments provide opportunities for movement both up (bull) and down (bear) in the markets. History has shown that many small investors do the exact opposite of what the market signals indicate. They buy high and sell low, and often lose both money and confidence.

Experienced investors realize that no one really knows where the market highs and lows will be. Yet many investors watch market trends, read corporate reports and follow leading economic indicators. They want to know whether the economy is in an up or down cycle and whether interest rates are climbing, holding or falling. These market signals can be used to forecast market prices in the next few months. Investors use this information as they make decisions about buying, selling or holding specific investments.

Worksheet 4-12

A MUTUAL FUND PROSPECTUS

Provide or have students collect a variety of prospectuses from local brokers. Have students work in small groups to complete the worksheet and report their findings to the class.

Prospectus

The prospectus, or offering circular, is a legal document describing an investment offered for sale. The prospectus usually contains a short statement of objectives of the company or mutual fund. It also contains a financial statement showing assets and liabilities, performance (profit or loss) over a period of years, and any fees the investor must pay.

In 1998, the SEC adopted a "plain English" rule designed to make prospectuses more user-friendly. The information buyers need to make informed decisions among various investments should now be simpler, clearer and easier to understand.

Investors often make the mistake of investing in a stock or a mutual fund that is currently at the top of the earnings charts without evaluating whether it will do as well in the future. Past performance does not guarantee future results.

Worksheet 4-13

READINGS ON INVESTMENTS

Have students read and report on current articles in financial publications found in the local library. Topics could include

- How to select a financial planner
- Economic indicators and investment decisions
- Comparing performance among groups of mutual funds

Worksheet 4-14

STOCK AND BOND FRACTIONS

Discuss how stock and bond fractions are quoted. Give examples. Have students complete worksheet.

Answer Key

Stock Quotes

250 shares @ $39^1/_4$	\$ 9,812.50
100 shares @ $19^1/_8$	\$ 1,912.50
425 shares @ $20^3/_4$	\$ 8,818.75
60 shares @ $41^1/_2$	\$ 2,490.00
600 shares @ $19^7/_8$	\$11,925.00*
600 shares @ $19^3/_4$	\$11,850.00*
* Difference in price	\$75.00

Bond Quotes

Dollar price of bond quoted \$978.75

Financial News

Information and advice on how to invest your money is available in many forms. Newspapers, periodicals, books, radio talk-shows, television news broadcasts, video tapes and computer software are examples that illustrate the diversity in delivery techniques. The old saying "don't believe everything you read in the newspapers" is true and can apply to other media forms as well.

Investors gathering information must carefully examine the credibility of the investment source. A warning signal should sound when a particular company's products or services are being promoted. Some investment advisors are able to offer you "free" guidance because they earn a commission on what you and others buy such as insurance, investments, books and tapes. Television infomercials, which are paid half-hour or hour broadcasts, and financial seminars frequently fit into this category.

Local library business reference sections have many valuable and reputable publications:

- **Barron's** is a weekly paper that presents at least one study of a selected industry.
- **Better Investing** is a publication devoted exclusively to investment education.
- **Business Week** covers general business activity, with departments focusing on economics, finance, marketing and new products.
- **Forbes** combines appraisal of management performance with investment advice by different security analysts.
- **Fortune** reports on business from a business point of view. Its list of the 500 largest businesses is widely known.
- **Kiplinger's Personal Finance Magazine** and **Money** cover all aspects of money for the individual, including investments.
- **The Wall Street Journal** reports daily news developments and their significance to business and investors. Dow Jones also publishes **SmartMoney** magazine.
- Another magazine for investors is **Worth**.
- **Investor's Business Daily** focuses on the investment aspects of stocks plus technical information about various financial vehicles.

Other popular printed sources of securities market data include **Moody's Handbook of Common Stocks, Value Line Investment Survey** and **Standard and Poor's Stock Reports**. These sources present basic facts and figures on widely held stocks.

As a homework assignment, have students study the following handouts on stock, bond and mutual fund quotations and complete the related worksheets. Discuss the answers in class.

STOCK QUOTATIONS

Overhead 4-15
Worksheet 4-16

Answer Key:

1. 16,669,800
2. Dell $0.00 yearly/share
   Intel $0.12 yearly/share
   Sears $2.00 yearly/share
3. Dell
4. 4
5. $\$88^1/_4$
6. 5.1% or $5.10 for every $100 invested
7. $14,137.50

BOND QUOTATIONS

Overhead 4-17
Worksheet 4-18

Answer Key

1. 150,000
2. US Air —1999
   CBS — 2008
3. US Air — 16.25% or $162.50 per $1,000
   IBM — 0% — zero coupon bond
   CBS — 9.8% or $98 per $1,000
4. IBM — $0
5. US Air — $1,118.75 — no change
   CBS — $1,075 ($1,095 - $20)

Investment Clubs

Another way to learn about investing is through investment clubs. An investment club consists of a group of people who pool funds and investment knowledge. A specific amount of money is invested each month. Some investment clubs handle large sums of money in extensive stock portfolios. Others invest small amounts with the primary objective of learning about the stock market. Information about investment clubs and their educational materials can be obtained from the National Association of Investors Corporation (NAIC): 248-583-6242; 711 West 13 Mile Road, Madison Heights, MI 48071. (http://www.better-investing.org)

Understanding Price Quotations

Investors can follow the changing prices of investments by reading price quotations in the financial pages of newspapers. Many newspapers print market prices daily, others list prices weekly.

An investor needs to know not only the current price of the investment, but also a history of the investment's prices. Investors can easily track prices by recording daily price changes from data in the newspaper.

Stock prices are quoted in fractions of sixteenths. By the year 2000, it is likely that the stock markets will be quoting stock prices in cents rather than fractions. Bond price quotations use eighths, but with a difference. Bonds are sold in $1,000 units but are quoted as 100s. To find the correct value of the bond, the decimal place in the quote must be moved one place to the right. Since stocks and bonds are purchased through a broker, there may be an additional fee or commission charged for execution of the order.

When a bond is first issued, it can be sold in one of three ways:

- **face value** is the value of the bond stated on the certificate
- **discount** is a price below face value
- **premium** is a price above face value

Zero coupon bonds are sold at a deep discount and there is no coupon rate. Interest is collected when the bond is redeemed at maturity.

Mutual funds quote a net asset value (NAV) per share. NAV is the market value of all the securities owned by the fund, less liabilities, divided by the number of shares. The price you pay to buy a share of a mutual fund (offer price) is the NAV plus any sales charges from the mutual fund or a broker. The sales charge will include the broker's commission. An "NL" in the offer price column indicates the fund is no-load but you may still pay a management or redemption fee.

MUTUAL FUND QUOTATIONS

Overhead 4-19

Worksheet 4-20

Answer Key

1. $16.67
2. $3,335.00
3. Loss of 3¢
4. $2,460
   $540
   ($15 x 200 shares = $3,000
   $3,000 - 2460 = $540)

Discussion Questions

1. Do you think that most consumers believe that an effective consumer protection program is in place against investment fraud?
2. What questions should a consumer ask the financial planner prior to investing money?

Commodity, financial and currency futures contracts are also listed in newspapers. The broker who handles the sale will charge a fee or commission for executing the order.

Using Investment Ratings

In addition to the short-term yield information provided in newspaper price quotations, investors compare risk and long-term returns. Various independent advisory services publish ratings that allow these comparisons. For example, Moody's publishes ratings of the financial condition of corporations and municipalities issuing bonds. Consumer and finance magazines such as **Kiplinger's Personal Finance Magazine, Worth, SmartMoney** and **Money** provide comprehensive ratings of how specific mutual funds fare in bear and bull markets.

To compare the long-term return of a bond with the long-term return of another bond or another type of investment, check the bond's yield to maturity. Besides annual interest, the yield to maturity includes any profit or loss at redemption. This information is available from brokers and financial publications. Yields quoted in the newspaper do not take into consideration that the the investor may have paid more or less for a bond than face value. Capital gains for stocks and mutual funds must also be factored in with any investment comparisons.

SELECTING FINANCIAL PROFESSIONALS

The selection of financial professionals deserves careful thought. The first question to ask is whether you really need financial advice in the first place. Could you make appropriate financial decisions without the help of a specialist? Have you explored alternatives such as attending classes, self-study, reading financial pages in newspapers and periodicals, and using financial planning services provided by your employer?

The individual investor who has basic money management skills can better judge the quality of suggestions made by financial professionals. Selecting an appropriate advisor is important because the advice the person gives will affect your future financial well-being. Among those who provide financial advice are attorneys, accountants, bank trust officers, brokers, credit counselors, insurance and real estate agents, employee benefits staff and financial planners.

While many functions could be accomplished without the help of a financial advisor, people lack confidence in managing their money and want advisors to help them make financial decisions. Some investors feel they do not have the time and know-how to organize and monitor their own financial affairs. These people may benefit from the advice of a competent financial advisor. Often they must be willing to pay for the service.

Brokers

Brokers represent investors in the purchase and sale of stocks and bonds. Some brokerage firms have satellite office locations in bank lobbies, office buildings and retail stores.

Securities brokers are licensed in the state where their clients reside and are registered with the National Association of Securities Dealers (NASD). Futures brokers are licensed by and registered with the National Futures Association (NFA). Brokers and financial planners doing business in Indiana are licensed by the Indiana Securities Division. You can get a background check on a broker in Indiana by calling 1-800-223-8791. Investors can also call the NASD Public Disclosure Hotline at 1-800-289-9999. The service is available weekdays from 8 AM to 6 PM EST.

There are two types of brokers:

- **Discount brokers** buy and sell stocks and bonds at lower rates than full-service brokers. These brokers are paid a salary or small commission.
- **Full-service brokers** give investment advice, as well as buy and sell securities. They are paid on a commission basis..

The broker's commission for buying or selling securities or commodities is based on the dollar amount of the transaction. Before you buy or sell, ask the broker what the transaction costs will be. All brokers have a minimum fee per transaction, but fees are negotiable. Full-service broker commissions are understandably higher than those of discount brokers.

QUESTIONS TO ASK BEFORE YOU HIRE A FINANCIAL PLANNER

Overhead 4-21

Financial Planners

Another type of financial advisor is the financial planner. Financial planning requires a working knowledge of budgeting, financial record keeping, saving and investing, insurance, taxes, and retirement and estate planning. The planner may work with a team of financial professionals including attorneys and accountants.

A financial planner may provide the following services:

- organize and analyze financial records such as insurance policies, tax returns, net worth statements, debt obligations
- establish timelines and actions to reach financial goals
- consult with appropriate specialists such as a lawyer for a will and estate plan, and a tax accountant if necessary

- develop a long-term financial plan as a guide for financial decision making, including insurance and investment strategies and estate planning
- monitor and revise the financial plan as circumstances and needs change

Since nearly anyone can call themselves a financial planner, it is important to choose a financial planner who is qualified through training and experience, and who puts the investor's financial well-being ahead of the desire for personal gain through commissions on the sale of financial products and services.

A recent **Wall Street Journal** article reported that comprehensive financial planning services from fee-only planners can range from $100 to $250 an hour or more. The minimum amount of time spent is usually 10 to 15 hours, so the total bill for planning services could range from $1,000 to nearly $4,000. Under certain conditions, however, just a couple of hours consultation with a competent financial planner could provide an answer to a sticky financial question and be well worth the cost.

Overhead 4-22

DESIGNATIONS OF FINANCIAL PLANNERS

Use overheads to support a mini-lecture on financial planner credentials, services, designations and costs.

The typical computerized financial analysis program can range from $200 to $2,000 or more. The individual investor may want to consider the cost of planning as a percentage of the total amount to be invested.

Unless investors have discretionary income of $20,000 or more, they probably do not need the services of a financial planner. However, some people are willing to pay for financial planning services when they have a major financial decision to make, such as how to invest an inheritance or a retirement fund payout. Others use a planner when they feel that they will earn more money with the planner's assistance than without it.

Computer Exercises

Use the Internet as a source to learn more about financial planner organizations and the professionals they represent:

NAPFA: National Association of Personal Financial Advisors
http://www.napfa.org

ICFP: Institute of Certified Financial Planners
http://www.icfp.org

IAFP: International Association of Financial Planners
http://www.iafp.org

Before signing a contract with a financial planner, you have the right and responsibility to investigate the planner's background as well as the costs of the services to be provided. Questions to ask before hiring a financial planner include

- What are your credentials?
- What services will you provide?
- How much will it cost?
- How are you paid?

How does the financial planner keep up-to-date on new financial developments and tax laws? Is the planner a member of professional associations such as the Institute of Certified Financial Planners (ICFP) and the National Association of Personal Financial Advisors (NAPFA)?

Credentials of the Financial Planner. What is the financial

Two new free publications are available from the Certified Financial Planners Board of Standards:

Questions to Ask When Choosing A Financial Planner and *What You Should Know About Financial Planning*

planner's educational background and experience in financial services? How long has the person been working with clients? Where did he or she work before? For how long?

Designations that can be earned by professional financial planners include Certified Financial Planner (CFP) and Chartered Financial Consultant (ChFC).

- "Fee-Only" identifies a financial planner who is paid strictly on the basis of his or her advice, receiving no commission income for selling the products, such as mutual funds or bonds, that are part of one's financial plan.
- The CFP mark identifies an individual who has completed the educational examination and other professional requirements of the Certified Financial Planners' Board of Standards and has agreed to adhere to its Code of Ethics. The program of study includes a broad range of financial topics.
- The ChFC mark (Chartered Financial Consultant) identifies an individual who has completed the requirements for certification from the American College in Bryn Mawr, Pennsylvania. It is generally earned by insurance professionals who provide financial planning services.

Other designations exist that are related to investment activity but are not specific to financial planning. While they provide evidence that a person has met certain professional requirements, they do not assure that a person has special training to be a financial planner.

The CPA mark (Certified Public Accountant) identifies an individual who has completed the requirements for certification of the American Institute of Certified Public Accountants. The RIA mark (Registered Investment Advisor) identifies an individual who charges for investment advice and is registered with the state securities agency or with the Securities and Exchange Commission. The REG REP mark (Registered Representative) identifies an individual who is registered with the National Association of Securities Dealers. The CPA, RIA and REG REP marks do not assure that the person has had special training to be a financial planner.

Services Provided by Financial Planners. Will the planner provide a written contract in advance of work, listing services to be provided? Ask to see an example of a financial plan that the planner has prepared for a person with needs similar to yours. Will the planner provide names of clients whom you can call?

Are you comfortable with the personality and communication skills of the financial planner? Because the planner will have detailed knowledge of your personal financial affairs, it is

NAIC: National Association of Insurance Commissioners
http://www.naic.org

essential that there be a positive working relationship. After carefully reviewing the planner's credentials, decide whether this person is someone you can trust. Even then, learn as much as you can about each investment and do not invest in an area you do not understand.

How Financial Planners Are Paid. Does the planner charge a fee or commission? A financial planner's income can be obtained in one of three ways:

1. A "fee-only" planner charges on an hourly or flat rate basis. The planner provides advice but does not sell products.
2. A fee-and-commission planner provides advice for a fee and earns a commission on the financial products sold to the client.
3. A commission-only planner earns money from the financial products sold and does not charge a fee for advice.

Because about 85 percent of financial planners earn part or all of their income from commissions, the issue of conflict of interest can be a problem. Will the planner be more interested in selling insurance policies, mutual funds or limited partnerships than in providing the best investment plan for the client?

Costs of Financial Planning Services. The investments recommended by a financial planner can carry sales fees of three percent to ten percent of the money invested. For example, if a person has $10,000 to invest, an eight percent sales commission on a mutual fund would cost $800.

Insurance Agents

Although the traditional role of insurance agents is to sell insurance products, that role has expanded in recent years to include other financial products and services. As with all types of financial advisors who sell products, the consumer should be aware of possible bias. Be skeptical. Ask questions. Compare costs and expected yields.

Individual investors stand to gain or lose significantly from decisions made about managing their money. They cannot afford to sit back and let the financial future take care of itself or let someone else make their financial decisions for them. Successful money management is a lifelong process that requires regular monitoring and periodic adjustments to meet changing circumstances and needs. Relationships with financial professionals work best when individual investors are informed about financial matters and are actively involved in financial decisions.

UNIT
TEST

Test 4-23

SUMMARY

Key to Test

Matching	True or False	Multiple Choice
1. H	1. False	1. C
2. F	2. False	2. D
3. G	3. False	
4. D	4. False	
5. A	5. False	
6. B	6. False	
7. E	7. False	
8. J	8. True	

Short Answer

1. With a family of funds, the investor can
   - meet different investment needs with just one institution
   - move money from one fund to another as needs change, sometimes without additional transaction fees
2. Stock: $37\frac{3}{4}$ = \$ 37.75 $5\frac{1}{8}$ = \$5.125 $80\frac{5}{8}$ = \$80.625

   Bond: $102\frac{1}{2}$ = \$1,025.00 $99\frac{3}{8}$ = \$993.75 $75\frac{7}{8}$ = \$758.75
3. 1997, 2000, 2026
4. 9.2% or \$9.20 per \$100 invested
5. Apache
6. Ames \$1,025.00 Amoco \$996.25
7. \$1,018.75 (\$1,025.00 - \$6.25)
8. \$9.20
9. Net Asset Value
10. \$11.35
11. Two methods by which financial planners are paid:
    - fees
    - commission

Publications

Ask Questions. U.S. Securities and Exchange Commission. http://www.sec.gov/consumer/askqinv.htm

How to Check Out a Broker. National Council of Individual Investors, 1900 L Street, NW, Suite 610, Washington, DC 20036. 1996. Free

Kiplinger's Personal Finance Magazine. 1729 H Street, NW, Washington, DC 20006.

Money. Time, Inc., 541 N. Fairbanks Court, Chicago, IL 60611.

SmartMoney, The Wall Street Journal Magazine of Personal Business. 250 West 55th Street, New York, NY 10019.

Tips on Financial Planners. Council of Better Business Bureaus, Inc., 4200 Wilson Boulevard, Arlington, VA 22203-1804. 1994. Free

Understanding Financial Statements. New York Stock Exchange, Eleven Wall Street, New York, NY 10005. 1994. 50¢

Understanding Stocks and Bonds. New York Stock Exchange, Eleven Wall Street, New York, NY 10005. 1994. 50¢

The Wall Street Journal. 200 Burnett Road, Post Office Box 900, Chicopee, MA 01221-0900.

Worth. Capitol Publishing Company, Inc., 82 Devonshire Street-R25A, Boston, MA 02109. 1-800-727-9098.

Web Sites

Certified Financial Planners Board of Standards
http://www.CFP-Board.org

Financial Literacy 2001
http://www.fl2001.org

Institute of Certified Financial Planners (ICFP)
http://www.icfp.org

International Association of Financial Planners (IAFP)
http://www.iafp.org

Investor Protection Trust (IPT)
http://www.investorprotection.org/checkout.html

National Association of Insurance Commissioners (NAIC)
http://www.naic.org

Indiana Securities Division
Office of Secretary of State
http://www.state.in.us/sos

National Association of Investors Corporation (NAIC)
http://www.better-investing.org

National Association of Personal Financial Advisors (NAPFA)
http://www.napfa.org

National Association of Securities Dealers (NASD)
http://www.nasd.com
http://www.nasdr.com (Regulations)

National Futures Association (NFA)
http://www.nfa.futures.org

Stock Market Game 2000
http://www.smg2000.org

U.S. Securities & Exchange Commission (SEC)
http://www.sec.gov

Books

Bailard, Thomas E., David L. Biehl and Ronald Kaiser. **Personal Money Management**, 6th edition. DeSoto, TX. MacMillan, 1992.

Barnes, John. **What Investing Is All About.** Adult and Continuing Education Series, 4th edition. Cincinnati, OH. Southwestern Publishing Co., 1990.

Barron's Guide to Making Investment Decisions. Englewood Cliffs, NJ. Prentice-Hall, 1994.

Engel, Louis. **How to Buy Stocks**, 8th edition. New York. Bantam, 1994.

Garman, Thomas, and Raymond Forgue. **Personal Finance**, 5th ed. Boston, MA. Houghton Mifflin Company, 1997.

Gitman, Lawrence, J. **Personal Financial Planning.** Book and Worksheets, 7th ed. Chicago, IL. Dryden Press, 1995.

Name ______________________ Date ______________________

A Mutual Fund Prospectus

Using a mutual fund prospectus, answer the following questions.

1. What is the name of the fund?

2. What is the primary goal of the fund?

3. Does the fund offer any special features? If so, list.

4. What are the investment strategies used by the fund?

5. Does the prospectus give information regarding the manager of the fund? If so, what?

6. What fees are required by this fund?

7. What warning signals does this prospectus contain?

8. Would you recommend this fund to a beginning investor? Why or why not?

Name ____________________ Date ____________________

UNIT 4

Readings on Investments

Read an article or pamphlet on an assigned investment topic and complete the following worksheet. Attach a copy of the article or pamphlet to this page.

1. Title of Article ____________________

Source ____________________ Date ____________________

Author (if given) ____________________

2. Write a brief summary of the main ideas of the article or pamphlet.

3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

Name ______________________________ Date ______________________________

Stock and Bond Fractions

Stock Quotes

Stock prices are quoted in fractions of eighths for amounts less than a dollar. This practice may have evolved from a time when the Spanish "Piece of Eight" coin was widely used in the civilized world. The fractions save space in newpaper quotes. The stock markets are expected to change from quoting stock in fractions to quoting in cents by the year 2000.

To convert eighths of a dollar into cents, use the following equivalents:

$\frac{1}{8}$ = 12$\frac{1}{2}$ cents ($0.125)	$\frac{5}{8}$ = 62$\frac{1}{2}$ cents ($0.625)
$\frac{1}{4}$ = 25 cents ($0.25)	$\frac{3}{4}$ = 75 cents ($0.75)
$\frac{3}{8}$ = 37$\frac{1}{2}$ cents ($0.375)	$\frac{7}{8}$ = 87$\frac{1}{2}$ cents ($0.875)

Find the cost of the following stock purchases, ignoring sales commissions.

250 shares @ 39$\frac{1}{4}$ __________	60 shares @ 41$\frac{1}{2}$ __________
100 shares @ 19$\frac{1}{8}$ __________	600 shares @ 19$\frac{7}{8}$ __________
425 shares @ 20$\frac{3}{4}$ __________	600 shares @ 19$\frac{3}{4}$ __________

The movement of the price of a stock by one eighth is sometimes a significant dollar amount. What is the difference in the price of the two 600-share lots above? ________________

Bond Quotes

Bond price quotations use eighths also, but with a difference. Bonds are sold in units of $1,000 but are quoted as 100s. To find the correct dollar value, move the decimal one place to the right.

For example, a bond quoted at 98$\frac{1}{4}$ is equivalent to 98.25. Move the decimal one place the right to find the dollar price of the bond, which is $982.50. This bond is selling for less than $1,000, so it is selling at a **discount**, probably because of a low rate of interest.

A bond quoted at 102$\frac{3}{8}$ (102.375) equals $1,023.75. This bond is selling at a **premium**, probably because of a high interest rate or yield.

What is the dollar price of a bond quoted at 97$\frac{7}{8}$? ________________________

Stock Quotations

1	2	3	4	5	6	7	8	9	10	11
High 52 Week	Low	Stock	Div	Yld	P-E %	Volume Ratio	High 100s	Low	Close	Net Change
$167\frac{1}{2}$	$22\frac{5}{8}$	DellCptr			48	95803	$166\frac{7}{8}$	$162\frac{3}{16}$	164	+4
95	33	Intel	.12	0.1	23	166698	$90\frac{3}{4}$	88	$89\frac{1}{4}$	$+1\frac{1}{4}$
$38\frac{5}{8}$	22	Sears	2.00	5.1	15	17969	$39\frac{7}{8}$	$37\frac{1}{8}$	$39\frac{1}{8}$	$+2\frac{1}{8}$

What It Says

Columns 1, 2 and 3
High, Low, Stock

During the last 52 weeks, the highest price paid for a share of Sears common stock was $\$38^5/_8$ and the lowest was \$22.

Column 4

Sears stock pays \$2.00 yearly in dividends.

Column 5
Yield

At today's price, the investor receives a return of 5.1% or \$5.10 for every \$100 invested. The yield is obtained by dividing the annual dividend by the closing price.

Column 6
P-E Ratio

At today's price, the ratio of price to earnings is 15. This is one way to compare stocks of firms in the same industry. In general, low P-E stocks tend to have higher divident yields and less risk. The P-E ratio is obtained by dividing the stock's price by the company's latest 12-month earnings per share.

Column 7
Volume in 100s

On this day, 1,796,900 shares of Sears stock changed hands.

Columns 8 - 11
High, Low, Close, Net Change

During the trading day, the price was as high as $\$39.87^1/_2$ per share and as low as as $\$37.12^1/_2$. The final price was for \$39.50, which was $\$2.12^1/_2$. more than the final price on the previous day.

Name ____________________ Date ____________________

Stock Quotations Worksheet

1	2	3	4	5	6	7	8	9	10	11
High 52 Week	Low 52 Week	Stock	Div	Yld	P-E %	Volume Ratio	High 100s	Low	Close	Net Change
$167\frac{1}{2}$	$22\frac{5}{8}$	DellCptr			48	95803	$166\frac{7}{8}$	$162\frac{3}{16}$	164	+4
95	33	Intel	.12	0.1	23	166698	$90\frac{3}{4}$	88	$89\frac{1}{4}$	$+1\frac{1}{4}$
$38\frac{5}{8}$	22	Sears	2.00	5.1	15	17969	$39\frac{7}{8}$	$37\frac{1}{8}$	$39\frac{1}{8}$	$+2\frac{1}{8}$

Test Your Knowledge

1. How many transactions of Intel common stock were made? ____________________

2. What is the common stock dividend of each of these companies' stocks?
   - Dell Computer ____________
   - Intel ____________
   - Sears ____________

3. Which stock is trading closest to its high of the year? ____________________

4. What was the increase today in the dollar value of Dell stock? ____________________

5. What was Intel's closing price on the previous day? ____________________

6. Sears has a dividend yield of ____________________

7. If you bought 100 shares of Dell at its low for the year and sold it at this day's closing price, what would be your capital gain? ____________________

Bond Quotations

1	2	3	4	5
Bonds	**Cur Yld**	**Vol**	**Close**	**Net Change**
Chiquita $10\frac{1}{2}$ 04	10.7	144	$98\frac{1}{4}$	$+\frac{3}{8}$
K Mart 6.2s97	cv	50	91	$+\frac{1}{4}$
Disney zr05	...	414	$45\frac{3}{4}$	$+\frac{3}{4}$

What It Says

Column 1
Bond, Coupon Rate, Date of Maturity

A bond issued by Chiquita, which matures in 2004, has a coupon rate of $10\frac{1}{2}$. This stated interest rate represents the 10.5 percent paid on the bond's $1,000 face value. The holder of this bond will receive $105 annually.

The "s" in the K Mart quotation separates the 6.2 percent rate from the 1997 maturity date. Note that this bond is listed in fractions of tenths instead of eighths.

The Disney bonds are zero coupon bonds as indicated by the "zr." They do not pay annual interest.

Column 2
Current Yield

At this day's price, the holder of a Chiquita bond annually will receive 10.7 percent or $10.70 for every $100 invested. The current yield is calculated by dividing the annual interest by the closing price.

The "cv" indicates that the K Mart bond is convertible and can be exchanged for K Mart stock.

Column 3
Volume

On this day, 500,000 K Mart bonds were sold. The number 50 has been multiplied by 10,000.

Columns 4 and 5
Close, Net Change

The final price for Chiquita bonds was $982.50, which was $3.75 more than the final price on the day before.

Name ____________________ Date ____________________

Bond Quotations Worksheet

1	2	3	4	5
Bonds	**Cur Yld**	**Vol**	**Close**	**Net Change**
USAir $16\frac{1}{4}$ 99	14.5	15	$111\frac{7}{8}$	...
IBM zr01	...	20	$42\frac{1}{8}$	$-\frac{3}{4}$
CBS 9.8s08	cv	32	$109\frac{1}{2}$	+2

Test Your Knowledge

1. How many transactions of USAir bonds were made? ____________________

2. What year are each of these bonds due?

   USAir____________________

   CBS____________________

3. What is the stated coupon interest paid to the bondholder for each of these bonds?

   USAir ____________________

   IBM ____________________

   CBS ____________________

4. If you bought the following bonds at these prices, what would your real annual return from interest be?

   USAir ____________________

   IBM ____________________

5. What was the closing price for these bonds on the previous day?

   USAir ____________________

   CBS ____________________

Mutual Fund Quotations

(Wall Street Journal)

1	2	3	4
FIDELITY INVEST	**NAV**	**Net Chg**	**YTD % Ret**
MAGLN	83.35	-0.21	+5.8
OVRSE	32.15	+0.03	+4.2
VANGUARD GROUP			
SELVALU	11.07	-0.03	+1.5
STAR	16.67	-0.03	+5.1

What It Says

Column 1
Fund Family

Magellan and Overseas are names of mutual funds within the Fidelity Investment family. Select Value and STAR are mutual funds within the Vanguard Group of funds.

Column 2
NAV

The "NAV" stands for the net asset value per share of the fund at the close of the previous business day. A fund's NAV is calculated by adding up the value of all stocks or other securities owned by the fund, subtracting the liabilities and then dividing by the number of fund shares available. However, sales commissions are not subtracted from the NAV.

Column 3
Net Change

The net change column shows the change in the NAV from the preceding day's quote. In this example, there was a 21-cent loss in net asset value of the Fidelity Magellan Mutual Fund as compared with the previous day. Both of the listed Vanguard funds lost three cents a share.

Column 4
Year to Date
Percentage Return

"YTD % Ret" refers to the year-to-date percentage change in the value of the fund. That includes reinvestment of all distributions, subtracting annual expenses charged to investors.

Note: Readers of Wall Street Journal *stock tables will sometimes find one-letter "codes" by certain funds. To interpret these codes, look for the "explanatory notes."*

Name ______________________ Date ______________________

Mututal Funds Quotation Worksheet

1	2	3	4
FIDELITY INVEST	NAV	Net Chg	YTD % Ret
MAGLN	83.35	-0.21	+5.8
OVRSE	32.15	+0.03	+4.2
VANGUARD GROUP			
SELVALU	11.07	-0.03	+1.5
STAR	16.67	-0.03	+5.1

Test Your Knowledge

1. What is the net asset value of one share of the Vanguard STAR mutual fund?

____

2. If you bought 100 shares of Magellan at a price of $50.00/share, what is your gross profit as of this date?

____

3. How much did Vanguard STAR gain or lose in NAV on this day as compared with the previous day?

____

4. Mary Mendez purchased 200 shares of Vanguard STAR at $12.30/share. How much did she pay for the 200 shares?

____

If the NAV per share is $15 in five years, when Mary sells the shares, how much capital gain will Mary have on the original 200 shares?

____

Source: Franklin Distributors, Inc., San Mateo, CA 94404. Used with permission.

Questions to Ask Before You Hire a Financial Planner

- What are your credentials?
- What services will you provide?
- How much will it cost?
- How are you paid?

Designations of Financial Planners

CFP — **Certified Financial Planner**
Certified Financial Planners Board of Standards

ChFC — **Chartered Financial Consultant**
American College, Bryn Mawr, Pennsylvania
(Insurance Professionals)

CPA — **Certified Public Accountant**
American Institute of Certified Public Accountants

FO — **"Fee-Only" Financial Planners**
National Association of Personal Financial Advisors

Name ______________________________ Date ______________________________

UNIT 4 TEST
Investment Information

Matching

Match each of the terms listed below with the numbered definition. Write the letter in the space provided.

A. offering price	G. investment club
B. market price	H. P-E ratio
C. no-load	I. value line
D. bull market	J. bear market
E. discount	K. buy/sell statements
F. prospectus	L. premium

1. _____ a figure used to evaluate the value of the stock
2. _____ legal document describing a stock fund for sale
3. _____ a group of people who pool their funds and information
4. _____ when securities prices are going up
5. _____ the price you would pay to purchase a mutual fund share
6. _____ the price the seller will accept and the buyer will pay
7. _____ sale of a bond at less than face value
8. _____ when securities prices are going down

True or False

Read each statement carefully and mark in the blank a T for True or F for False.

_____ 1. Stock price quotations are published once a week in **The Wall Street Journal.**

_____ 2. When you invest in a mutual fund, you have no way of knowing what type of securities the fund will buy.

_____ 3. **Barron's** is a magazine that specializes in the investments of royalty.

_____ 4. A stock's annual dividend per share is private information known only to the corporation, its shareholders and the Internal Revenue Service.

_____ 5. Only people who have been designated Certified Financial Planners can promote themselves as financial planners.

_____ 6. An "NL" in the price quotations for a stock indicates that there are no management and transaction fees.

_____ 7. The "change" column in newspaper stock quotations indicates whether the volume of stocks sold has increased or decreased.

_____ 8. The net asset value of a mutual fund is the market value of securities with a fund, minus liabilities, divided by the number of shares.

Multiple Choice

1. Which of the following is NOT a good reason to seek out a financial planner?

   A. saving time

   B. earning more money

   C. having someone else make decisions

   D. gathering more information

2. When comparing bonds with stocks, which of the following is the most accurate measure of the long-term return on a bond?

   A. annual interest rate

   B. coupon rate

   C. dividend rate

   D. yield to maturity

Short Answer

1. In what way is a family of funds useful to the investor?

2. Translate these prices into dollars and cents.

Stock	$37\frac{3}{4}$ _______	$5\frac{1}{8}$ _______	$80\frac{5}{8}$ _______
Bond	$102\frac{1}{2}$ _______	$99\frac{3}{8}$ _______	$75\frac{7}{8}$ _______

Corporate Bonds

Volume $41,580,000

	Cur Yld	Vol	Close		Net Chg
ATT 5½ 97	6.2	2	89	-	1
ATT 6s00	7.0	60	86		...
ATT 8⅝26	89.8	105	97⅞	-	⅛
Ames 9.20s05	9.0	25	102½		⅝
Amoco 8⅝99	8.7	42	99⅝	-	¼
Apache zr2000	...	4	45	-	½

3. AT&T has issued bonds that will come due in what years? ________________

4. What is the coupon rate on the bonds issued by Ames? ________________

5. Which bond has no annual interest payment? ________________

6. How much will it cost to purchase these bonds:

   Ames ________________

   Amoco ________________

7. What was the price of the Ames bond the day before these quotes? ________________

Mutual Funds

	NAV	Net Chg	YTD % Ret
Pioneer Fund			
Bond	9.20	+ .01	+2.4
CapGr	11.11	- .24	+4.2
CasRes	9.83	+.05	+5.1

8. What is the net asset value of a Pioneer Bond mutual fund share?

9. What does NAV represent in mutual fund listings:

10. What was the price of a Pioneer Capital Growth mutual fund share the day before these quotes? ________________

11. List the two methods by which financial planners are paid. ________________

____

____

TOPIC OUTLINE

SCAMS, SCHEMES AND SWINDLES

Americans lose billions of dollars every year to fraudulent investment schemes that promise a no-risk way to increase their money in a hurry. Rip-off artists appeal to greed.

Swindlers also exploit fear, the concern about whether or not you will have enough money to meet future living expenses and medical needs. Fear is a particularly powerful motivator for con artists during times of economic downturn in America.

The North American Securities Administrators Association, an association of state investment watchdogs, estimates that unwary investors lose $10 billion a year, about $1 million every hour, to investment fraud promoted over the telephone. Precious metals, such as gold and silver, and energy deals, such as oil and gas partnerships, are examples of scams promoted by phone.

It can be difficult to check out investments. There are no tires to kick and you can't take an investment on a test drive. Further, the terms of the investment deal may be difficult to understand. Key facts may be left out and false statements are often part of the sales presentation. To make matters worse, con artists rush investors into giving up their money before they have time to think about whether or not the deal makes sense.

Those who sell fraudulent products or services are not easy to identify. They frequently move from city to city and may assume different names. Many swindlers are expert at what they do, with a real talent for talking people into parting with their money. They are called con artists because what they do is an art, at least to the extent that it can be difficult to master.

A successful con artist will sound and look like a reputable business person. The swindler's promotional materials may be very slick and professional. This very slickness is what makes people become victims of fraud.

Does the average person stand a chance with a swindler? Yes, but only if she or he allows critical thinking to guide the decision-making process. When greed or fear are the deciding factors, financial disaster is likely to follow.

The weapon of choice for most con artists is the telephone. A phone scammer can use the telephone to contact 100 or more potential victims in a single day. These swindlers use the phone as a weapon in much the same way that a mugger uses a handgun. Computers are used to generate special lists of people who may be more likely than others to fall into the trap of a particular investment scam.

Unit Objectives

- Discuss ways to distinguish a legitimate telemarketing call from that of a swindler.
- Examine various types of investment fraud.
- Analyze fraudulent sales techniques and appropriate consumer actions.
- Suggest ways to protect yourself from investment fraud.

Introduction

Have students read and report on current articles on investment fraud.

Worksheet 5-21

READINGS ON INVESTMENTS

Do you know a victim?

Have students ask adults whether they know anyone who has been a victim of investment fraud. If so, describe it. Was the fraud reported? How could it have been prevented?

FRAUDULENT SALES CALLERS HAVE ONE THING IN COMMON

Overhead 5-22

Swindlers Are Calling
This publication is recommended as required reading for students.

See Selected Resources 5-19 to order free copies.

Using *Swindlers Are Calling*, have students develop skits on "Eight Things You Should Know About Telemarketing Fraud."

Remind students to save *Swindlers Are Calling* for later use in this unit.

HOW TELEMARKETING FRAUD WORKS

How can you tell a legitimate telemarketing call from the seductive sales pitch of a swindler? The following facts about phone fraud are drawn from **Swindlers Are Calling**, a publication prepared and distributed by National Futures Association, the industry-wide self-regulatory organization for the futures industry.

1. **Most telephone sales calls are made by honest businesses offering legitimate products or services.**

   But phone fraud is a multibillion dollar "growth industry" that involves selling bogus investments. Everyone who has a phone is a prospect; whether you become a victim is largely up to you.

2. **There is no way to determine whether a sales call is honest simply by talking with someone on the phone.**

   No matter what questions you ask or how many you ask, skilled swindlers have ready answers. That's why sales calls from persons whom you don't know should always be checked out before you actually invest.

3. **Phone swindlers are likely to know more about you than you know about them.**

   They may know your age and income, health and hobbies, occupation and marital status, education, the home you live in, what magazines you read, and whether you've bought by phone in the past. They assume that you want more income, that you're receptive to a bargain, and that you are reluctant to be discourteous to someone on the phone.

4. **Fraudulent sales callers have one thing in common: They are skilled liars and experts at deceit.**

   Their success depends on it. Many are coached to say whatever it takes to get the victim's money. The callers make hundreds of repetitious calls, hour after hour.

5. **Phone swindlers are extremely good at sounding as though they represent legitimate businesses.**

   They offer investments, describe employment opportunities and the list goes on. Never assume you'll know a phone scam when you hear one. Innovative swindlers constantly devise new schemes.

6. **The motto of phone swindlers is "just give us a few good mooches."**

   "Mooch" is the term telemarketing scammers use to describe the victim. Most victims are otherwise intelligent and prudent people. Sadly, some families lose savings they worked years to accumulate through a 15-minute phone conversation.

7. **The person who initiates the phone call may be you.**

   It's common for phone crooks to use direct mailings and advertise in reputable publications to encourage prospects to make the initial contact. Just because you phoned for additional information about an investment doesn't mean you should be less cautious about buying by phone from someone you don't know.

8. **Victims of phone fraud seldom get their money back.**

   Despite efforts of law enforcement and regulatory agencies to provide what help they can to victims, swindlers generally take the money and run. Your best protection is to hang up on strangers who offer something that sounds too good to be true.

INSIDE BOILER ROOMS

Overhead S-23

BOILER
ROOM
FRAUD

View and discuss the video, **Investment Scams: What Con Artisits Don't Want You To Know** from the Investor Protection Trust.

http://www.investorprotection.org

See Selected Resources, page S.19.

What is a "boiler room?" These are the rooms that contain the furnaces that building operators use to turn up the heat. The term "boiler room" also is used to describe the rented office space in which con artists work to turn up the heat on their potential victims. Characteristics of investment scam boiler rooms are

- **Call people in other cities and states.** This tactic can hinder local and state and prosecution, which often requires victims to be in the immediate area.
- **Identify potential investors through mooch lists.** These lists are compiled on the basis of such things as magazine subscriptions and mail-order purchases and being another con artist's victim earlier. Con artists trade among themselves the lists of particularly hot prospects. (Once a victim, more likely to be a victim again.)
- **Train salespeople to counter every possible objection.** They are taught to say and do whatever it takes to get the mooch's money.
- **Offer sales pitches with slick talk about little or no risk, secret tips, and a high rate of return.** The rate is usually much greater than that from more traditional investment opportunities.
- **Demand immediate action.** The last thing a phone swindler wants is for a potential victim to have time to reflect upon the phony investment or, even worse, seek the advice of a knowledgeable third-party, such as an accountant, broker or banker. Swindlers often push victims to send money immediately or offer to pick it up by courier or delivery service.

- **Refuse to disclose the street address of the boiler room operation.** Instead, con artists frequently will provide the address of a mail drop. This decreases the chances of being caught by local law enforcement officials.
- **Avoid the U.S. mails.** Many con artists fear that federal mail fraud statutes will be invoked against them as a result of their schemes. They commonly resort to alternate delivery methods, including overnight delivery services and couriers sent to the home of the investor to pick up the money.
- **Stall suspicious investors who suspect that they have been defrauded.** This process may involve lull letters, in which the promoter of the scam blames the temporary delay in the promised high returns on various factors, including weather, union problems, delayed equipment delivery, labor problems, government red tape and so on. Such excuses may provide the con artist with valuable additional weeks or months in which to swindle hundreds of additional victims.
- **Pull a disappearing act.** When the heat is on, telephone con artists move on to the next city. Very often, this will also involve a switch in scams, so someone who is a precious metals salesperson today may be selling $99 round trips to Hawaii next week.

TYPES OF INVESTMENT SCAMS

Investment con artists are clever and creative. They base their scams on the latest political and scientific developments in the news. For example, a popular investment scam sells stock in a company that is just about to announce a cure for AIDS.

Some swindles focus on specific groups, such as church groups, African Americans, Hispanics, doctors, the elderly, and offer pitches tailor-made to the needs and concerns of these audiences. Still other scams take advantage of economic downturns and employment uncertainty with glowing reports on the earnings of those who buy a franchise or business opportunity.

Among the types of investment scams consumers are likely to encounter are

- pyramid schemes
- precious metals frauds
- international investing
- franchise and business opportunities
- Ponzi schemes
- stock swindles
- affinity fraud

It's a Super Rabbit — Hop on the Deal

Con artists come up with hare-brained schemes to rip off consumers. Take the case of Rex Rabbit, in which investors were promised tax benefits and income for betting their savings on a new breed of super bunnies. First, investors were to get tax breaks for investing in the research to develop the new breed of rabbits. Second, the pelts of the new rabbits were said to be more luxurious than mink and would be sold for top dollar at New York City department stores. Third, the meat of Rex Rabbit was to be an exotic gourmet delicacy. It was rumored that the super rabbit meat would sell for more than $14 an ounce to South Korean mercenaries guarding Saudi Arabian oil fields. This scam took in over $1 million from investors in the Phoenix area, including a group of airline pilots who convinced each other to hop on the deal.

Overhead 5-24

PYRAMID SCHEMES ARE A FRAUD

Pyramid Schemes

Pyramid schemes operate on the principle that each member of a group will receive a profit or a cut for recruiting others to join the scheme. One popular pyramid scheme is the "airplane game" in which new recruits buy in as passengers for $100 and are then told that if they bring in new investors they will be able to move up to flight crew, co-pilot and finally pilot. At that point, they will receive $1,000 or more. In another variation on the pyramid scheme, investors buy one gold coin for $50 and are told that, when they reach the top of the pyramid, they will get five gold coins valued at $250.

Pyramid investment scams should not be confused with legitimate sales organizations that recruit to expand their sales staff. A characteristic of legitimate sales services is that the emphasis is on the sales of tangible, usable products rather than simply on recruiting new salespeople. The hallmark of an illegal pyramid scheme is that participants receive payment for recruiting new members of the sales force rather than for selling products.

Overhead 5-25

PYRAMID SCHEMES ARE ILLEGAL

The problem with pyramid sales schemes is mathematical. There simply are not enough potential participants in the whole world to keep pyramids growing steadily for even a few months. Danger signs of pyramid scams include:

- promise of sky-high profits for a small amount of effort
- payment of a membership fee to participate in the scheme
- products have a high price compared with similar products
- unrealistic claims about product quality or performance
- sellers and buyers are expected to recruit new sellers and buyers to keep the pyramid growing

Welcome to "Crud Farms"

It may not sound like much of a greeting, but 10,000 investors in Texas and the Midwest were swindled by it. These consumers lost tens of millions of dollars to promoters who charged $40 for packages of milk culture under the name of Culture Farms. The promoters said they planned to produce

Cleopatra's Secret, a major new perfume that used the milk product as an ingredient. Investors were told to grow the milk culture in kitchen refrigerators and then present the containers for repurchase by Culture Farms at a guaranteed price. The perfume never materialized and before investors figured out that something smelled wrong, more than $100 million in hard-earned savings were gone.

Ponzi Schemes

Ponzi schemes are a type of pyramid scheme named for Charles Ponzi, who duped thousands of New England residents into investing in a postage stamp speculation scheme. Ponzi determined that it was possible to take advantage of differences between U.S. and foreign currencies used to buy and sell international mail coupons.

Ponzi told investors that he could provide a 40 percent return in just 90 days — compared with a measly five percent for bank savings accounts. Ponzi was deluged with funds from investors, taking in $1 million during a single three-hour period. Though a few early investors were paid off in order to make the scheme look legitimate, an investigation found that Ponzi had only purchased about $30 worth of the international mail coupons.

Ponzi worked in the 1920s, but to this day, the Ponzi scheme continues to work on the rob-Peter-to-pay-Paul principle, as money from new investors is used to pay off earlier investors until the whole scheme collapses. In one case, a con artist now serving 12 years in prison told investors that he could buy Mexican pesos for a fraction of their face value and then convert them at full value back into U.S. dollars. Victims in this scheme included members of Kansas churches and Texas motorcycle gang members. The swindler behind the pesos scam took in $27 million, promising investors phenomenal returns of 12 percent weekly — more than 600 percent a year!

Ponzi schemes often have the following characteristics:

- The promoter promises very large returns on an investment, such as "double your money in 60 to 90 days."
- A "can't lose" scheme for making money that others have overlooked.
- Payments are made to a few early investors to prove that the investment isn't crooked. These fortunate few are known as songbirds, since they sing the praises of the scam to others, bringing in new victims eager to make the same kind of generous returns.
- The Ponzi scheme collapses when the number of previous investors seeking a return exceeds the number of new investors bringing in additional money.

PRECIOUS METALS AND DIRT PILE SCAMS

Overhead 5-26

The Ponzi of Rock and Roll. Charles Ponzi's investment scam may seem like ancient history, but it is kept fresh by new generations of swindlers, including the Ponzi of the rock and roll generation.

One Ohio teenager realized that he could use other people's money to buy rock concert tickets and then turn around and "scalp" them for a 40-50 percent profit or even more. So, the Ohio youngster rounded up his friends to stand in line and buy rock tickets and then scalp them. At first, he ran his business out of the back of a van, but as the word spread, the Ohio youth soon raked in millions of dollars!

When the bubble of this modern-day Ponzi scam burst, the youth would have had to buy every rock concert ticket in Ohio and all surrounding states in order to keep paying out the promised returns to investors. This guy's friends, and their friends, lost money on this scheme.

Precious Metals Frauds

Precious metals always have attracted investors. Such tangibles as gold and silver seem particularly appealing to investors during uncertain times. Con artists urge jittery investors to put their savings into something they can hold on to, as opposed to paper investments such as stocks and bonds.

Examples of precious metals schemes include:

Coin swindles. Swindlers may sell consumers coins that are said to be graded at a higher quality than is actually the case. Often, these coins are delivered in poor condition or are never sent at all.

Gold mining schemes. How does gold, silver or platinum at dirt-cheap prices sound? That is the promise of swindlers who claim to be able to sell precious metals directly from mines. Claims are made that a new technology will be used to recover microscopic gold that other firms have not been able to retrieve. Regulators sometimes refer to these schemes as "dirt pile" swindles involving promises of "no-see-'em" gold, since investors never see the promised precious metals. All they get for their money is dirt.

Bullion deals. How can swindlers avoid delivering when they promise gold bars? One popular stalling tactic: con artists will offer bullion storage services, where a consumer supposedly buys precious metals in bullion form and then has them stored in a vault. This is an open invitation to fraud. In one major scam, con artists simply pocketed millions of dollars of investor funds and never bothered to buy the gold.

Another popular bullion scheme is bank-financed precious metals or leveraged precious metals. A consumer pays 20 percent of the total cost of gold and then finances the rest, including a heavy dose of interest, storage fees and loan brokering charges. Con artists lie about having connections with major, reputable banks for loan and storage purposes. They simply pocket the money of investors and never buy or store the gold, silver or platinum.

All That Glitters

The two brothers had a fancy office building and offered a seemingly sound and straightforward way for investors to make money: Instead of buying gold outright and holding it for appreciation, investors could make a small investment that the firm would use to secure financing for much larger quantities of gold, which would be bought and held in the investor's account. That way, when the price of gold rose — as was "sure to happen"— investors would realize highly leveraged profits.

The company provided storage vaults where investors could view the wall-to-wall stacks of glittering bullion. By the time authorities caught up with the brothers, the only gold was the color of paint on the cardboard used to construct look-alike bars of bullion.

The vault filled with phony gold proved easier to find than the millions of dollars of investors' money. Most of that is still missing.

Stock Swindles

Stock swindles pose a major threat to consumers. In the late 1980s, small investors lost $2 billion in scams involving penny stock, so-named because the shares sell for less than $3. A stock swindler may claim that a company has developed a cure for AIDS or is about to announce a huge business deal that will cause its stock to double or triple in value.

A penny stock example: con artists convinced investors to put millions of dollars into a company that claimed to have developed a breakthrough technology — a self-chilling beverage can that would eliminate the need to store soda and other liquids in a refrigerator. When this deal failed, small investors saw their money go down the drain!

INSIDER TRADING

Overhead 5-27

Insiders Only

Beware of a broker who tells you that he or she has a secret to share that will make it impossible for you to lose money. If this is such a hot tip, why would a complete stranger call you? Trading on the basis of inside information is against the law. From an ethical standpoint, insider trading jeopardizes the free market where prices move up and down based on information available to all parties.

Con artists know that everyone is concerned about losing money to a swindler. How do they address this issue? One way is to impress a potential victim with their connections and access to special information that makes success inevitable. One such scheme told investors they were chosen from a select group of active investors and financial experts to be a part of the world's most exclusive investment organization. Investors were lured with promises of a constant flow of secret financial information that would create wealth and financial security.

Sound good? Even if it were true, it would be illegal, since trading on the basis of such inside information violates federal law.

International Investing

International investing is a fast-growing area of interest for U.S. investors, and con artists are not far behind. With the rapid pace of political and economic changes overseas and the strong performance of many foreign stock markets, many American consumers are investing some of their funds abroad. Con artists have responded by offering scams with an international flair. In one recent case, a Washington State con artist fleeced 400 investors out of $7 million by promising 30-40 percent returns on CDs and other investments through a bank in the Marshall Islands. After the swindler fled the United States, investigators found that the bank existed only on paper and that its sole officer was a Marshall Islands gasoline station attendant who was instructed to go to the post office, pick up investors' checks and then re-mail them to the con artist back in Washington State.

Even when U.S. investors deal with legitimate investment opportunities overseas, they remain vulnerable to such factors as loose or nonexistent investor protection regulation, currency fluctuations, limited opportunities to pursue grievances, and political instability in some nations. Savvy investors will exercise extreme caution before putting money into any foreign investment situation.

Affinity Fraud

Affinity fraud is the term used to describe investment schemes that prey upon members of identifiable groups, including religious communities, the elderly, African Americans, Hispanics and professionals, such as lawyers, doctors and even teachers. (Affinity is a word used to describe things that are attracted to one another, are similar to one another, or belong together.) Con artists promote affinity scams that exploit the sense of truth and friendship that exists in groups of people who have something in common. For example, 1,000 immigrants from El Salvador recently saw $6 million of their savings wiped out in a phony investment bank that promoted itself exclusively to Hispanics in the Washington, DC area.

Con artists recognize that the tight-knit structure of many groups makes it less likely that a scam will be detected by regulators and law enforcement officials, and that victims will be more likely to forgive one of their own. Affinity fraud also poses a danger since it undercuts the usual warnings about investment schemes promoted by strangers. In these cases, the fraud may come to a consumer's attention as a result of a contact from a friend, colleague or someone who inspires a bond of trust.

BUSINESS OPPORTUNITY SCHEMES

Overhead 5-28

A warning: Swindlers who promote affinity fraud schemes will enlist respected leaders within a community or group to spread the word about an investment deal. So the key to avoid being a victim in an affinity scheme is to check out everything — no matter how trustworthy the person who brings the investment opportunity to your attention may seem to be.

Franchise and Business Opportunities

Franchises and business opportunities address the dream of many Americans to be their own boss. In fact, legitimate franchise operations may soon account for a majority of all retail sales made in the U.S. Unfortunately, con artists realize that the desire of many Americans to own their own businesses may make these investors less cautious when it comes to evaluating franchises and business opportunity deals. Such investments may be promoted on the basis of the fear of losing a job or general uneasiness about the economic situation.

Ads for fraudulent business opportunity schemes may appear on otherwise reputable television programs, in newspapers and magazines. Investors incorrectly assume that since the media outlet is reputable, the advertisers are as well, not realizing that the media may not screen its advertisers. Ads for frauds often offer high income to the person who will invest enough to cover individual start-up costs, ranging from $50 to several thousand dollars. The only people who make money are the swindlers who receive the start-up investment money. Fraudulent business opportunity ads frequently appeal to people who have few job skills and are desperate for money. Examples include work-at-home and animal-raising schemes.

FRAUDULENT SALES TECHNIQUES

The con artists who push investment scams use a wide variety of tricks to get victims to part with their money. Some of the most commonly used tactics are listed below, along with suggested consumer actions.

HIGH-
PRESSURE
SALES
TACTICS

Overhead 5-29

IMMEDIATE
DECISION

Overhead 5-30

SOUNDS
TOO GOOD
TO BE
TRUE

Overhead 5-31

1. **High-pressure sales tactics.**

   Consumer Action: Hang up. Fraudulent telephone sales people do not respect your privacy or your right to say no. They may first try to flatter you and appeal to your interests or concerns. Then, if you do not invest, they may try to make you feel dumb for not recognizing a good opportunity when you see one. You may be accused of being stupid or unconcerned about the future of your family.

2. **"Decide now before the opportunity is gone."** The sales person puts pressure on to buy now. Tomorrow will be too late. The deal is only good for today. This opportunity will not last.

   Consumer Action: Hang up. Refuse to be pressured. Do not make impulse decisions. Life's real opportunities rarely appear or disappear in a day. Remember that a con artist tries to get your money before you have time to stop and think — or ask the advice of a third party.

3. **Promises that sound too good to be true.** The caller mixes plausible statements with plenty of false promises, hoping you will fall for the swindle.

   Consumer Action: Hang up. If it sounds too good to be true, it probably is. Keep in mind that a con artist will tell you whatever he or she thinks it will take to close the sale. Ask to have all claims on paper. Wait to inspect and check out these documents before making a decision. Get the advice of experts, such as a lawyer or accountant, before proceeding.

4. **"The investment is risk-free."**

   Consumer Action: Hang up. All investments have risk. Only savings in insured financial institutions and government securities are insured. Any claim to the contrary by an investment promoter is a "red flag" warning of a scam.

5. **"There is no time to provide written information and references."**

   Consumer Action: Tell the caller that you must have printed information in order to ask your attorney or financial advisor for an opinion. This is usually enough to stop the swindler. But even if you get material in the mail or by an overnight delivery service, keep in mind that slick brochures and glowing testimonials can be filled with falsehoods and distortion.

6. **"We need your credit card or checking account number."**

RISK-FREE INVESTMENT

Overhead 5-32

NO WRITTEN INFORMATION

Overhead 5-33

WE NEED YOUR CREDIT CARD OR CHECKING ACCOUNT NUMBER

Overhead 5-34

WE PICK UP THE MONEY AT YOUR HOME

Overhead 5-35

YOU HAVE WON A FREE GIFT

Overhead 5-36

TRUST ME. THIS IS A GREAT OPPORTUNITY!

Overhead 5-37

Swindlers Are Calling

Using the pamphlet ***Swindlers Are Calling,*** have students develop skits on "Nine Tip-offs that a Caller Could be a Crook" and "Ten Ways to Avoid Becoming a Victim."

The caller may claim to need your credit card or checking account number in order to verify that you are a reputable consumer, or to show your good faith in this special deal.

Consumer Action: Hang up. The swindlers want your credit card number so they can make fraudulent purchases with your card information. Refuse to give financial information, or credit card or checking account numbers, over the telephone unless you initiated the call. Never give personal financial information over the telephone to strangers.

7. "**We will pick up the money** at **your home.**" The caller wants to get your money before you change your mind. By picking up your money the swindler can avoid prosecution under postal fraud laws.

   Consumer Action: Hang up. The swindler is trying to force you to act without having time to consider your decision. Get the promotional information in writing, check it out and then make up your mind.

8. "**You have won** a **free gift or trip.**" When signing an acceptance form for the "gift," you may actually be purchasing other items.

   Consumer Action: Hang up. Scam artists know that most people enjoy receiving something for free. The free gift or trip is a sales gimmick often used in real estate investment scams. Remember that "there is no free lunch," particularly when it comes to investing.

HOW TO VICTIM-PROOF YOURSELF

Most people find it hard to believe that they could end up as a victim of investment fraud. "I would spot a scam immediately," they say, or "I am too smart to be cheated out of my hard-earned savings." But never underestimate the ingenuity of people who make their living by fast-talking other people out of their money. Career investment swindlers are very good at their work and know just how to snare even the most reluctant mooch. Con artists take great delight in pulling the wool over the eyes of an investor who is 100 percent confident that he or she could not possibly be hoodwinked. The savvy consumer stays alert to the possibility of fraud and recognizes his or her susceptibility to appeals to the emotions of fear and greed.

Anyone who has the emotions of fear and greed — and that is nearly everyone — can be the victim of an investment swindle. Victims of fraud come from all walks of life. They can be rich or poor, young or old. Professional people can be swindled

Computer Exercise

Students can learn more about protecting themselves against investment fraud through the internet. The Investor Protection Trust (IPT) is an excellent source; **http://www.investorprotection.org**

Worksheet 5-38

INVESTMENT FRAUD SIMULATION

Worksheet 5-44

A SUMMER JOB — AN ETHICAL DILEMMA

along with those who are less educated. People who are especially vulnerable are those who are known to have money to invest and are on fraudulent operators' mooch lists. Older people living alone are likely victims, since they are likely to own their home outright or have substantial equity in it. Many people are at risk simply because they lack information about investment choices and are unaware of how to spot and avoid common investment scams.

Steps to Take to Protect Yourself

- **Take a breather.** Never invest merely on the basis of a sales pitch. Get the written information and evaluate it.
- **Remember that the person on the other end of the phone is a salesperson**, even if he or she is a broker or financial counselor or has some other impressive title. The first priority of people who sell investments is not your financial future, but rather to make money for themselves and their employers. This does not mean that all people who promote investments are dishonest, just that their goals may not be the same as your own.
- **Know the deal.** Read the material. Seek the counsel of someone who knows more than you do about investing, such as a broker, accountant, banker or a friend who has enjoyed some success in investing.
- **Check out the salesperson and firm.** For securities investments, you can get this information from the Indiana Securities Division at 1-800-223-8791. For futures investing, call the National Futures Association's Disciplinary Information Access Line. This NFA public service may be accessed at no cost by calling 1-800-676-4NFA.
- **Stick with investments you understand** particularly when it comes to their potential risks or rewards. Do not get caught in the trap of trusting a salesperson who claims to understand it all and promises to take care of you.
- **Do not sign papers you have not read or do not understand.** Do not sign forms that have not been completely filled out. Have a lawyer or another knowledgeable person look at any agreement about which you have questions.
- **Be skeptical.** Ask questions about the nature of the investment. Where exactly is your money going? How much will the salesperson get in fees and/or commissions if you invest? What is the track record of the investment? Don't sit still for mumbo-jumbo or double-talk. When it comes to your life savings, the only dumb questions are the ones that you do not ask.

Ethics and Fraud. Ethical views reflect beliefs about right and wrong. These broad standards of behavior help shape the rules we use to live together in society. Fairness and freedom are two ethical views that are violated when investment fraud occurs.

Investment fraud deceives a person by misrepresenting truth. It is lying. It is unfair. It is theft. It restricts the freedom of fraud victims as it robs them of their money. Fraud operates in an environment of dishonesty, greed and laziness. When we allow fraud to exist, we live in a world that is less fair, less free than it would otherwise be.

PROTECTING THE INVESTOR

Considerable state, federal and self-regulatory agency resources are spent to combat investment fraud. State and federal regulators have authority to use court and administrative actions to stop scams. Industry self-regulators, such as the NASD and National Futures Association, oversee the conduct of their members and impose discipline in cases of abuse or fraud.

The Indiana "blue sky" laws refer to state investment regulations that govern how and by whom securities are marketed in Indiana. The laws promote full and fair disclosure, which helps to protect Hoosier investors. The term "blue sky" refers to the state's desire to prohibit schemes so insubstantial as to be worth no more than a patch of blue sky.

Federal securities regulation focuses on the broader issue of how the stock market works on a national and international basis. Two important federal securities laws were enacted in the early 1930s. A major impetus behind these two laws was the stock market crash of 1929 and the abusive practices that led to the crash.

The Securities Act of 1933 is known as the "truth in securities" law. It has two basic objectives:

- to require that investors be provided with information concerning securities offered for public sale and
- to prevent misrepresentation, deceit and other fraud in the sale of securities.

As a result of this law, securities must be registered with the Securities and Exchange Commission (SEC). Registration is intended to provide adequate and accurate disclosure of facts concerning the company and the securities it proposes to sell.

Investors who purchase securities and suffer losses have important recovery rights under the law if they can prove that there was incomplete or inaccurate disclosure of material facts in the registration statement or prospectus. Investors who think they might have a case under this law should contact their state securities regulator.

Registration of securities does not prevent the sale of stock in risky, poorly managed or unprofitable companies. Nor does the SEC approve or disapprove securities on their investment quality. While the Securities Act of 1933 offers some consumer protection, the burden of making sound investment choices remains with the investor.

Investor Protection Through Market Integrity

See Selected Resources 5-19.

Introducing the video:

The 14-minute film was produced by National Futures Association. It explains how futures markets work and how investors in futures markets are being protected.

Video Follow-Up Discussion:

Example questions are:

- How do futures markets differ from other markets?
- Do individuals participate in futures markets?
- Who regulates futures markets?
- If an investor in futures has been treated unfairly, what can he/she do?

The Securities Exchange Act of 1934 created the Securities and Exchange Commission and spells out the SEC's licensing and other regulatory duties. The power extends to the over-the-counter markets as well as the stock exchanges.

The 1934 law also prohibits insider trading, which is the misuse of confidential information that is not available to the general public. An example of such misuse is to buy or sell securities (or tell others to buy or sell) to make profits or avoid losses before such information is generally available to all shareholders.

The SEC has brought civil actions in federal court against persons who violate the insider trading prohibition. The Insider Trading Sanctions Act of 1984 allows fines up to three times the profit gained or loss avoided by fraudulent use of non-public information.

Security Investors Protection Act of 1970 established the Security Investors Protection Corporation (SIPC), which is similar in its operation to the Federal Deposit Insurance Corporation that insures deposits in financial institutions.

The SIPC statute provides reimbursement of customer losses in the event of financial failure of a brokerage firm that is an SIPC member. **It provides no protection for a decline in the value of securities as a result of economic conditions or fraud.** The limits of SIPC coverage are up to $400,000 in securities per customer and up to $100,000 in cash, for a total not to exceed $500,000 for any one customer with any single firm.

Commodity Futures Trading Commission (CFTC) is an agency of the federal government that is similar to the SEC. It regulates futures contracts and the trading of commodities on boards of trade, which are similar to stock exchanges.

Self-Regulatory Organizations (SROs)

The SEC delegates significant regulatory authority to a number of SROs. These SROs include the National Association of Securities Dealers (NASD), the New York Stock Exchange (NYSE), a number of the regional stock exchanges and five options exchanges. The SEC oversees the SROs using authority it has been granted by the U.S. Congress. All SRO rules and regulations must be approved by the SEC before they can take effect.

Self-regulatory organizations are bodies that provide a means for the equities and futures industries to assume part of the responsibility of policing themselves. The two main SROs are the National Association of Securities Dealers and National Futures Association, which are monitored by the SEC and the CFTC, respectively. Among the responsibilities of the SROs are to

- establish rules governing trading and other activities
- set qualifications for industry professionals
- oversee the conduct of their members
- impose discipline in instances of unethical or illegal behavior
- administer the licensing process, including background investigations and licensing examinations

Guest Speaker

Invite a law enforcement officer or state securities regulator to speak about types of investment fraud in your area and what is being done to protect investors from fraud.

The National Association of Securities Dealers regulates The Nasdaq Stock Market. The NASD has exclusive SRO regulatory jurisdiction not only over Nasdaq and equity markets, but also over members' activities in the areas of corporate debt, mutual funds, municipal securities, limited partnerships and variable annuities. For its more than 5,200 broker/dealer members, the NASD has authority to monitor sales practices, which it carries out through its field inspection programs. The NASD also has regulatory responsibilities in testing, registration and licensing of securities industry professionals.

In addition to regulators and the industry, there are other public and private organizations that may become involved in cases of investment fraud. The Better Business Bureau (BBB) system provides reliability reports on companies and also records consumer complaints. The complaint-handling effectiveness of the BBB increases when consumers complain immediately upon suspicion of fraud. The Bureau system is one source of information for consumers who want to check out a person who offers an investment deal.

Limited Consumer Protection

Crooks invent scams that fall between the various laws and remain out of the reach of regulators. There is the practical problem of gathering evidence about a scam that originates a long distance away from where the loss actually occurs. There are jurisdictional problems. Which agency should pursue the investigation? The victim's state? The swindler's state? The federal government? Some combination of these?

The quick and easy portability of a swindling operation severely limits the effectiveness of the law enforcement response. Often, by the time the rip-off is discovered, the crooks have closed up shop, moved down the road and reopened under a

Administer Unit Test and Discuss Answers

UNIT TEST

Test 5-45

new name. The problem is so massive that even vigorous, well-staffed, well-coordinated law enforcement efforts can only make a dent in the problem.

On the other hand, regulators can and do cooperate to stop some scams. In one recent fraud case, a swindler was caught and jailed by a cooperative posse of local and state securities regulators, members of the U.S. Office of the Attorney General, the U.S. Postal Service and the Internal Revenue Service.

Buyer Beware

Although many regulations and institutions have been established to protect consumers in their investment activities, the principle of *caveat emptor* — let the buyer beware — remains the investor's best protection. Legal protections are limited, fraudulent activities flourish, and once money is invested in a fraudulent scheme, the chances of getting it back are extremely small.

Awareness of the possibility of fraud is your first line of defense. Recognize that the emotions of fear and greed can be exploited so that you might be tempted to give your hard-earned savings to a swindler.

SUMMARY

Key to Test

True or False

1. **False**. People from all walks of life, young, old, rich and poor, have been taken by securities fraud. Many older people are more vulnerable, but people of all ages and backgrounds have been taken.
2. **False**. Unscrupulous companies selling fraudulent investments will put "audit statements" in their sales literature. In reality, no audit was done. This does not stop them from putting in the name of a large, well-known auditing firm. They take their chances that no one will check it out.
3. **False**. The prospectus and sales materials of scams are often as attractive, or even more elegant, than those of legitimate investments. Do not be fooled by slick advertising brochures done with glossy paper. They may not be worth the paper they are written on.
4. **True**. Sellers of legitimate investments will comply with state laws and be registered in the states where they are selling. Those selling scams and fraudulent investments often do not bother to register.

5. **False**. Investment fraud is definitely not new, but the methods to lure customers vary. A current innovation is telemarketing fraud. As long as investment products have been available to individual investors, a few unscrupulous salespersons have gladly separated trusting people from their money.
6. **True**. Many work-at-home schemes are fraudulent. Companies may require from $500 to $5,000 to start up a small home business. Home-based get-rich-quick schemes usually make the seller of the scheme rich, not the person who invests in the business. Individuals confined to the home, such as people with young children or invalids, are likely victims.

Multiple-Choice Questions

1. C is correct. A major sales pitch of the fraudulent investment deal is that the investor will make a high profit in a short period of time. The word "guarantee" is simply used to gain the confidence of the buyer but is worth nothing.
2. C is correct. Both federal and state laws govern securities. The federal statutes set certain disclosure requirements. These disclosures enable buyers to have important information before they make an investment. State laws require registration and enforce illegal operations that violate state laws.

Short Answer

Characteristics of sales offers that could be tip-offs that the investment is a scam:

1. High-pressure sales tactics
2. Need for immediate decision
3. Promises that sound too good to be true
4. Promise of risk-free investments
5. No written information or inaccurate information
6. Request for your credit card or checking account number
7. Offer to pick up your money at your house
8. Offer of a free gift or trip

SELECTED RESOURCES

Publications

Investment Fraud and Abuse in Cyberspace, Securities and Exchange Commission: http://www.sec.gov/consumer/cyberfr.htm

National Futures Association, 200 West Madison Street, Chicago, IL 60606.

- **Investment Swindles: How They Work and How to Avoid Them.** Free
- **Swindlers Are Calling.** Free

Schemes, Scams & Flim-Flams, available from MasterCard International. 1-800-999-5136.

Videos

Investment Scams: What Con Artists Don't Want You To Know. Investor Protection Trust, 1901 N. Ft. Myer Drive, Suite 1012-1014, Arlington, VA 22209. http://www.investorprotection.org

Investor Protection Through Market Integrity. Video. National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1-800-676-4NFA.

Web Sites

Indiana Securities Division
http://www.state.in.us/sos

Financial Literacy 2001
http://www.fl2001.org

Investor Protection Trust
http://www.investorprotection.org

National Association of Securities Dealers, Inc.
http://www.investor.nasd.com

NASD Regulation, Inc.
http://www.nasdr.com

National Fraud Information Center
http://www.fraud.org

National Futures Association
http://www.nfa.futures.org

National Institute for Consumer Education
http://www.emich.edu/public/coe/nice

North American Securities Administrators Association
http://www.nasaa.org

U.S. Securities and Exchange Commission
http://www.sec.gov/consumer/cyberfr.htm

Books

Facione, Peter, Donald Scherer, and Thomas Attig. **Ethics and Society**, 2nd ed. Englewood Cliffs, NJ: Prentice-Hall, 1991.

Garman, Thomas. **Ripoffs and Frauds.** Dame Publications, 7800 Bissonnet, Suite 415, Houston TX 77074. 1996. $13.95

Kidder, Rushworth M. **How Good People Make Tough Choices: Resolving the Dilemmas of Ethical Living.** New York: Fireside, 1996.

North American Securities Administrators Association and the Council of Better Business Bureaus. **How To Be An Informed Investor.** 1997.

Train, John. **Famous Financial Fiascoes.** New York, NY. Crown Publishers, Inc. 1995.

Vallance, Elizabeth. **Business Ethics At Work.** Cambridge University Press, 1995.

Velasquez, Manuel. **Business Ethics: Concepts and Cases**, 3rd edition. Englewood Cliffs, NJ: Prentice-Hall, 1992.

Name ______________________ Date ______________________

UNIT 5

Readings on Investments

Read an article or pamphlet on an assigned investment topic and complete the following worksheet.

1. Title of Article ______________________

Source ______________________ Date ______________________

Author (if given) ______________________

2. Write a brief summary of the main ideas of the article or pamphlet.

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3. Explain why you agree or disagree with the major ideas presented in the article or pamphlet.

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Attach a copy of the article or pamphlet to this page.

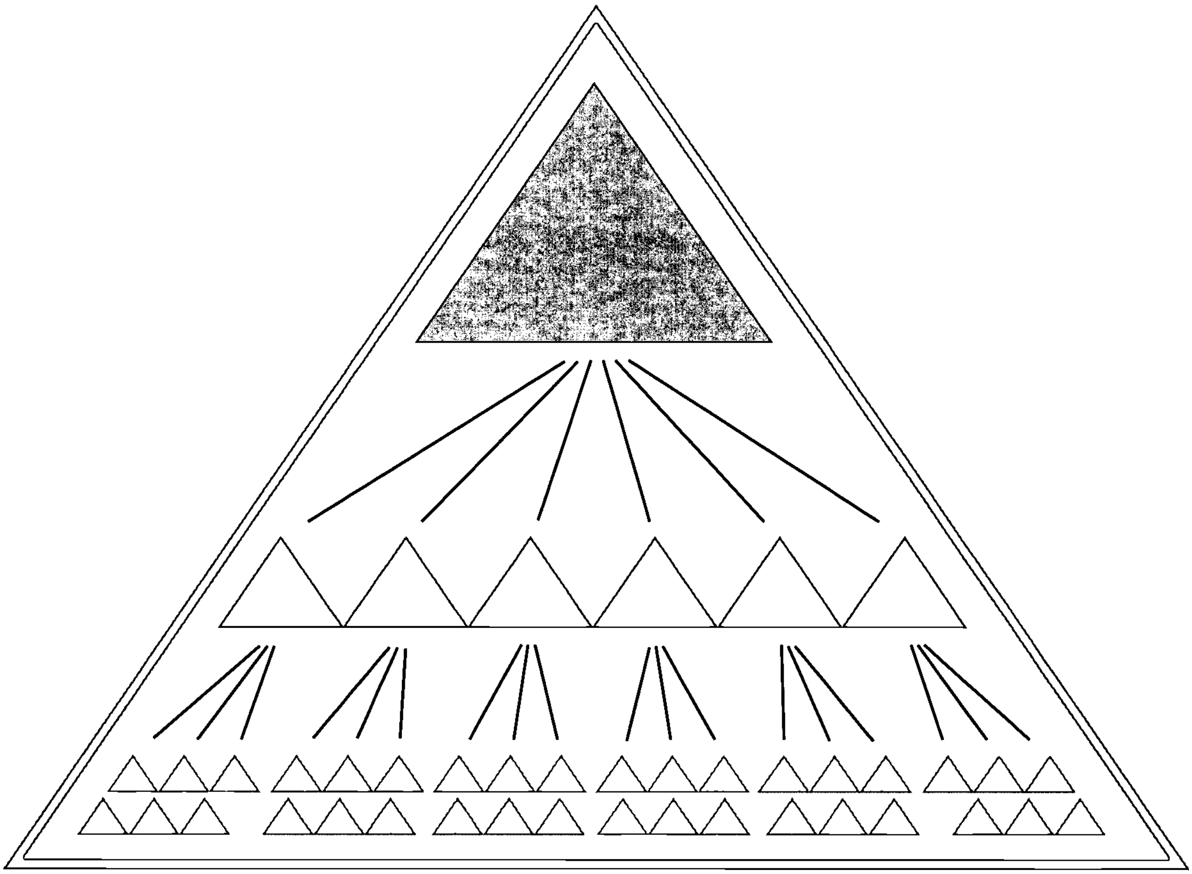
Fraudulent sales callers have one thing in common

They are skilled liars!

Boiler Room Fraud

- High-Pressure Sales by Phone
- Temporary Office Location
- Sales People Trained to Lie and Deceive
- High Pay-Offs Promised
- Con Artist Takes Money and Runs
- Investor Never Sees Money Again

Pyramid Schemes Are a Fraud



- One Person Recruits Six Friends
- Those Six Recruit Six More Friends
- A Nine-Level Pyramid Involves 10,000,000 Friends
- Almost Everybody Loses

Pyramid Schemes Are Illegal

Levels	Number of Participants	
1	6	
2	36	
3	216	
4	1,296	
5	7,776	
6	46,656	
7	279,936	
8	1,679,616	
9	10,077,696	
10	60,466,176	— U.S. Population
11	362,797,056	
12	2,176,782,336	— World Population
13	13,060,694,016	

Precious Metals And Dirt Pile Scams

- Promoters bamboozle investors with mumbo-jumbo about secret methods for refining precious metals
- Investors put money in non-existent or low-producing mines
- All they get for their money is dirt

Insider Trading

- Secret information to help you make a lot of money

Trading Based on Inside Information is Against the Law

Business Opportunity Schemes

- Appeal to Being Your Own Boss
- Promise High Income
- Requires High Start-Up Costs
- Only the Swindlers Make Money
- Unemployed People are Often Victims

High-Pressure Sales Tactics

- Sales person does not respect your right to say no
- Makes you feel stupid if you are not interested in the offer

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Consumer Action:

Hang up!

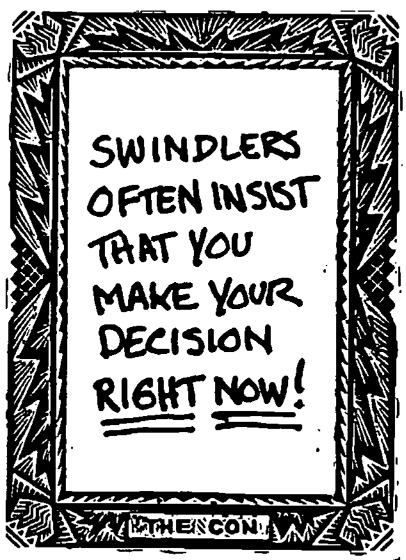
Immediate Decision

- Seller puts pressure on to buy now
- Tomorrow will be too late

Consumer Action:

Refuse to be pressured. Check it out.

Do not make impulse purchases.

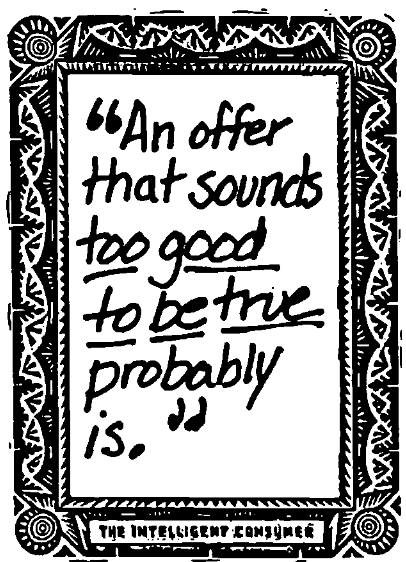


Sounds Too Good To Be True

- Caller mixes believable statements with false promises

Consumer Action:

Ask to have all claims on paper. Get the advice of experts.



Risk-Free Investment

- All investments have risk
- Only savings accounts in insured financial institutions and government securities are insured

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Consumer Action:

Hang up. The promise of risk-free investment is a red-flag warning of fraud.

No Written Information

- Seller says there isn't time, or printed material isn't available yet

---

Consumer Action:

Insist on written information. Check with experts. Even slick brochures can be filled with lies and distortion.

We Need Your Credit Card or Checking Account Number

- Caller needs your number as an "expression of good faith" or to verify that you are a reputable consumer

---

Consumer Action:

Hang up. Refuse to give credit card or checking account numbers over the phone other than to legitimate businesses whom you know and trust.

We Pick Up The Money At Your Home

- The caller wants your money before you change your mind
- Avoids prosecution under mail fraud laws

Consumer Action:

Hang up. Get promotional materials in writing and check it out.

You Have Won A Free Gift

- Everyone likes to get something free
- You have to send money before you get the free gift
- The gift is usually worthless

Consumer Action:

Hang up. Do not send money.

Trust me. This is a great opportunity.

- We would not cheat you
- We have your interests in mind
- Do not miss this chance to make money

Consumer Action:

Do not act on trust, greed or fear.

Investment Fraud

A SIMULATION

The script was abridged and adapted from an actual fraudulent telemarketing script used to entice individuals to invest in a non-operational mining company.

National Institute for Consumer Education
Eastern Michigan University
Room 559 Gary Owens Building
300 West Michigan Avenue
Ypsilanti, Michigan 48197

Investment Fraud

INSTRUCTIONS FOR TEACHERS

Grade Level

High school, college, adult education

Equipment

- Two telephones (real or imaginary)
- Two chairs at opposite ends of a table

Class Time

30 minutes, including debriefing discussion

Objectives

Participants will:

- Experience how it might feel to be the victim of a fraud,and to be the swindler.
- Recognize warning signals of investment fraud.
- Discuss ethical views of fairness, freedom, virtue and social good as reflected in investment fraud.

Summary

A telemarketing salesperson tries to sell fraudulent investment units in a non-existent gold and silver mine. The high-pressure salesperson guarantees the investor a 300 percent return on the investment within six months. The problem is that the salesperson is lying.

The simulation has two endings:

First Ending: A trusting consumer lost $10,000.

Second Ending: A savvy consumer did not invest, but rather reported the incident to the authorities.

Prepare for the Simulation

1. Review with the class the warning signals of fraudulent investment schemes as discussed in Unit 5.
2. Select three participants with drama skills.
   - narrator
   - swindler — Tim Thayer
   - mooch — Mrs. Johnson
3. Have the three participants read the script in advance. Encourage them to express the script in their own words.
4. Following the first ending, conduct a debriefing session with the entire class. Use Worksheet 5-44, Debriefing Session Discussion Questions and other questions generated by the group.
5. Describe how it might feel to be the victim and the swindler.
6. Have participants read the second ending. Discuss with the entire class the responsibility of consumers to have a healthy skepticism of deals that sound too good to be true.
7. Summarize the ethical views of fairness, freedom, virtueand social good related to this simulated investment fraud situation.

Investment Fraud Script

Introduction: (Narrator)
We are about to listen in on a telephone conversation between a boiler room scam artist and a potential investor.
The trouble is . . . the swindler is lying. The question is . . . will the mooch become a victim?

Swindler: Hello, Is this Mrs. Johnson? My name is Thayer, Tim Thayer. My friends call me Tim and that's what I want you to do. I'm calling today to offer you the opportunity of a lifetime. Do you have a minute to hear how you can make a lot a money in a few short months?

Mooch: Well . . . I guess so. What's up?

Swindler: I am with the International Mining Company, and for a limited time we are selling investment units in high-yield gold and silver mines in southern Texas.

We guarantee that for each $1,000 you invest you will receive a $3,000 return on your money in just six months, and there is no risk of loss whatsoever. Sound good?

Mooch: I don't know enough about gold and silver mining to invest.

Swindler: I understand, Mrs. Johnson, and I appreciate your concern. However, you probably don't know how to build a car . . . and neither do I . . . but that wouldn't keep us from investing in General Motors or Ford stock if we knew we would earn a lot of money.

Doesn't it make sense, Mrs. Johnson, to just look at the return on your investment and leave the mining to us?

Mooch: I just don't know. My money is doing just fine in CDs.

Swindler: The truth, Mrs. Johnson, is that CDs are for suckers. The same goes for savings deposits, T-bills, municipals and blue chip stocks. You keep your money there earning its pitiful six or eight percent a year and you can take it from me, Mrs. Johnson: The rich will stay rich and the poor — including you — will stay poor. What I am talking about is putting an end to that. This is your chance to break out of the pack, move up to the big time and take care of your future needs.

Probably the hardest thing to do, Mrs. Johnson, is to make a decision. But let's face it, only the doers achieve success — because they reach out and grasp the opportunity. If you don't do anything, nothing gets done! Right?

Mooch: I have to think this one over.

Swindler: Our information is very clear, or I haven't done my job. I have plenty of research information to help you make an intelligent decision. If you are a serious investor, you can check everything out.

Our company has business offices throughout the United States, Europe and the Pacific Rim. We enjoy an international reputation for good management. As a matter of fact, the Securities and Exchange Commission recently listed our company as the #1 investment company in safety and yield over the next ten years.

So, can you make a decision to invest today?

Mooch: I still need more information.

Swindler: Fine, Mrs. Johnson. I'll send all the information you need about our company and its highly trained mining engineers. This is no secret silver mine. We have mountains of research reports, if you care to read and study them.

Oh, by the way, Mrs. Johnson, you do have the cash available to take advantage of this investment opportunity, don't you?

Mooch: Yes, I have the money and it sounds like a good investment. I'd sure like to get that kind of return on my money, but it just sounds too good to be true. Will you put the guarantee in writing?

Swindler: This company is solid. You saw what happened to the savings and loan industry. And now the banks are in trouble. I wouldn't keep my money in any bank these days.

Be safe. Put your money with us. How many units are you prepared to buy today?

Mooch: Oh, I am not sure.

Investment Fraud Script

First Ending

Swindler: Let me help you make the decision, Mrs. Johnson. A $10,000 investment today will yield $30,000 in just six months. What do you say?

Mooch: Let me think about it for a couple of days.

Swindler: Look, Mrs. Johnson, the deal is for today only. The opportunity will be gone tomorrow. You are not a procrastinator, are you?

A courier will be at your house by 3 o'clock today. Just have your check or cash for $10,000 ready. You won't regret it.

Mooch: You sound honest, and the investment sounds good. I'll have my check ready today at 3 o'clock.

Conclusion

Narrator: The mooch gave the swindler $10,000 of hard-earned savings, and never heard from the con-artist or her money again.

Mrs. Johnson was too embarrassed to tell anyone for days. By the time she told the authorities, the swindler had moved on to take money from a new set of gullible people who trust too much. They let greed or fear distort their comon sense.

Second Ending

Swindler: Look, I can tell that you're a person who likes to put your money to work. You obviously are a savvy investor. You recognize a good investment when you see one. You will not be sorry. I guarantee it.

Mooch: As soon as I get your printed information I will discuss it with my financial advisor and my family.

And, by the way Mr. Thayer, where did you say you are located? I need your address and the phone number of the headquarters office.

Swindler: You don't need to bother with all that information. Just trust me. Listen, Mrs. Johnson, this opportunity may be gone tomorrow. Units are selling fast. Shall I have a courier stop by your house today and pick up your check?

Mooch: Just send the information. I want to contact the nearest Better Business Bureau and the office of my state securities regulator. I like to check these things out, you know.

Swindler: Have a pencil handy? I can give you the number of the International Better Business Bureau. It's 1-800-999-9999. Check us out. I'll call you back in an hour.

Conclusion

Narrator: The 800 number turned out to be a fraud too. The person who answered the 800 number was hired by the National Mining Company to say nice things about the gold and silver mine investment.

Mrs. Johnson did not invest, but rather reported the fraudulent telephone call to the state securities regulator. Local newspapers, radio and TV newscasts picked up the story and warned others of the fraud.

The telemarketing scam moved on to the next victim. Mooches are plentiful and swindlers are difficult to catch. Caveat Emptor — Buyer Beware.

Name ____________________ Date ____________________

Investment Fraud Simulation

DEBRIEFING SESSION DISCUSSION QUESTIONS

1. What were the warning signals that this was a scam?

2. Why did this scam appeal to Mrs. Johnson?

3. How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?

4. What vices did the swindler exhibit in his conversation with Mrs. Johnson?

5. When the swindler is caught, what would be an appropriate punishment for the crime?

Investment Fraud Simulation

POSSIBLE RESPONSES TO DEBRIEFING SESSION DISCUSSION QUESTIONS

1. **What were the warning signals that this was a scam?**
   - High-pressure sales techniques
   - Promise of high return on money
     - No-risk investment, promise of safety
   - Promise of an opportunity of a lifetime
   - Lies and false promises
   - Limited time offer, opportunity gone tomorrow
   - Critical of common investments such as CDs and savings accounts
2. **Why did this scam appeal to Mrs. Johnson?**
   - Swindler was friendly
   - Mrs. Johnson wanted to get a good return on her investment
   - Swindler assured her that she did not have to know about gold and silver in order to invest
   - Swindler promised that this investment would help her take care of her future needs
   - Swindler promised that information would be sent to Mrs. Johnson
   - Mrs. Johnson believed that the swindler was honest and that the investment was good
3. **How will this experience affect Mrs. Johnson's trust of people who offer to help her in the future?**

   The experience will probably cause Mrs. Johnson to distrust people who offer to help. It could cause her to pass up reasonable opportunities out of fear of being cheated. Inthis way, fraud poisons the atmosphere of legitimate business transactions.
4. **What vices did the swindler exhibit in his conversation with Mrs. Johnson?**

   The swindler was:
   - Dishonest
   - Unfair
   - Lazy
   - Greedy
   - A liar
5. **When the swindler is caught, what would be an appropriate punishment for the crime?**

   Have students consider such factors as the severity of the offense, the impact on the victim, the damage that fraud does to legitimate marketplace transactions, and the costs of protecting people from fraud. Suggested punishments will probably range from a small fine to time in jail. The criminal record is also a form of punishment.

Name ______________________ Date ______________________

A Summer Job — An Ethical Dilemma

Suppose you were offered a summer job where you could earn $500 a week as an investment telemarketing sales person.

1. Would you accept the job without question? Yes ______ No ______

2. Would you accept the job only if the business can show that the operation is honest and fair? Yes ______ No ______

3. How could you find out whether the business is honest and fair?

4. What if your best friend works for this company and recommends you for the job? Would this change what you would do?

5. What if you learn that the firm encourages its employees to sell investment products even when these products are not in the best interests of the investor? Would you still accept a position with this firm? Why or why not?

6. What if you desperately need a summer job and you have no other job offers? Would this change what you would do? Why or why not?

7. What if you accept the job and work for three weeks, then you learn that the state securities regulator is investigating the firm. What would you do?

Name ______________________________ Date ______________________________

UNIT 5 TEST

Investment Fraud

True or False Questions

Mark each statement with a T for True or F for False.

_____ 1. Mainly middle class people get taken by securities fraud.

_____ 2. A statement in the sales literature by a well known auditing firm that says "We have reviewed the financial figures and find them to be in order" is good evidence that the investment is legitimate.

_____ 3. Informed consumers can easily recognize the differences between people who sell fraudulent investments and those who are legitimate business people.

_____ 4. Most states have laws requiring people who sell investments to register with a state agency.

_____ 5. Investment fraud was uncommon in the United States prior to the 1960s.

_____ 6. A work-at-home plan that requires start-up money from the investor is likely to make more money for the person who sells the plan than for the investor.

Multiple Choice

Circle the letter which answers the question correctly.

1. Which of the following statements is characteristic of securities fraud?
   A. salesperson provides accurate and complete information
   B. salesperson is usually a local person, known to the family
   C. salesperson guarantees that the investor will make high profits
   D. salesperson does not pressure for a quick decision
2. Securities sales are governed by:
   A. Indiana law
   B. federal law
   C. both state and federal law
   D. industry self-regulation only

Short Answer

List four characteristics of investment sales offers that could be tipoffs that the deal is a scam.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

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FREE AND INEXPENSIVE MATERIALS

Pamphlets, Publications and Web-Based Materials

A Guide to Mutual Funds. Investment Company Institute, 1401 H St., NW, Ste 1200, Washington, D.C. 40¢

Consumer Information Center
Pueblo, CO 81009
http://www.pueblo.gsa.gov

- **An Introduction to Mutual Funds.** 50¢
- **Annuities.** U.S. Department of Agriculture. 1998.
- **Consumer Information Catalog.** Free
- **Buying Treasury Securities.** Free
- **Investment Swindles: How They Work and How To Avoid Them.** Free
- **Investors' Bill of Rights.** Free
- **Invest Wisely.** U.S. Securities and Exchange Commission, 1994.
- **Making Sense of Savings.** U.S. Federal Reserve Board, 1994.
- **Swindlers are Calling.** 50¢
- **U.S. Savings Bonds Investors Information.** 50¢
- **Understanding Opportunities and Risks in Futures Trading.** 50¢

Federal Trade Commission
Public Reference Branch, Rm. 130
6th Street and Pennsylvania Avenue, N.W.
Washington, DC 20580
http://www.ftc.gov

- **Art Fraud.** Free
- **Credit and Your Consumer Rights.** Free
- **$cholarship $cams.** Free
- **Investing in Wireless Cable TV.** Free
- **Leveraged Investments of Precious Metals.** Free
- **Swindlers Are Calling.** Free
- **Telephone Investment Fraud.** Free
- **Wealth Building Scams.** Free
- **When Opportunity Knocks—See Who's There.** Free

Federal Reserve System Board of Governors
20th & C St., NW
Washington, D.C. 20551
http://www.bog.frb.fed.us

- **A Penny Saved.** FRB New York, Public Information, 33 Liberty Street, New York, NY. 1994. Free
- **Banking Basics.** FRB Boston, Public Affairs, P.O. Box 2076, Boston MA 02106. 1993. Free
- **Buying Treasury Securities at Federal Reserve Banks.** 1993. Free

Indiana Securities Division
Office of the Secretary of State
302 W. Washington Street, Room E-111
Indianapolis, Indiana 46204
1-800-223-8791
http://www.state.in.us/sos

Investor Education Materials from the Indiana Securities Division

- It's Your Money...Here Are 10 Tips That Can Help You Keep It That Way
- Your Guide to Understanding and Avoiding Investment Fraud
- Investor Bill of Rights
- What Every Investor Needs to Know (video)
- Investment Scams: What Con Artists Don't Want You to Know! (video)

- **Investing in Government Securities,** 1994. Free
  FRB Richmond, Public Affairs, P.O. Box 27622, Richmond, VA 23261.
- **Making Sense of Savings.** Board of Governors, Federal Reserve System, Publication Services (MS-127), Washington, DC 20551. 1994. Free

How to Check Out a Broker. National Council of Individual Investors, 1900 L Street, NW, Suite 610, Washington, DC 20036. 1996. Free

Investment Fraud and Abuse in Cyberspace,
Securities and Exchange Commission:
http://www.sec.gov/consumer/cyberfr.htm

Investor Education Resource Guide. North American Securities Administrators Association, Inc. One Massachusetts Avenue, NW, Suite 310, Washington, D.C. 20001. 1996.

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Money. Time, Inc., 541 N. Fairbanks Court, Chicago, IL 60611.

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http://www.CFP-Board.org

SmartMoney, The Wall Street Journal Magazine of Personal Business. 250 West 55th Street, New York, NY 10019.

Tips on Financial Planners. Council of Better Business Bureaus, Inc., 4200 Wilson Boulevard, Arlington, VA 22203-1804. 1994. Free

Understanding Financial Statements. New York Stock Exchange, Eleven Wall Street, New York, NY 10005. 1994. 50¢.

Understanding Opportunities and Risks in Futures Trading, National Futures Association, 200 West Madison Street, Chicago, IL 60606-3447.

National Futures Association
Public Affairs and Education
200 West Madison Street, Suite 1600
Chicago, IL 60606-3447
http://www.nfa.futures.org

- **Arbitration: A Way to Resolve Futures-Related Disputes.** Free
- **Buying Options on Futures Contracts: A Guide to Their Use and Risks.** Free
- **Glossary of Futures Terms.** Free
- **Investment Swindles: How They Work and How to Avoid Them.** Free
- **Investors' Bill of Rights.** Free
- **Swindlers Are Calling.** Free

- Understanding Opportunities and Risks in Futures Trading. Free

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10 G Street NE
Washington, DC 20002
http://www.nasaa.org/investoredu

Investor Alerts

- Blind Pool Investment Offerings. Free
- Bogus "IRA Approved" Investment Schemes. Free
- Bulletin for Older Investors. Free
- Commodity Investments. Free
- Cyberspace Fraud and Abuse. Free
- Get-Rich-Quick Self-Employment Scams. Free
- How Older Americans Can Avoid Investment Fraud and Abuse. Free
- How to Protect Your Money From Theft By Dishonest Investment Advisers. Free
- How to Spot and Avoid "Boiler Room" Scams. Free
- "Information Superhighway" Scams. Free
- International Investment Fraud. Free
- Phone Hucksters Target Investors In Stock. Free

The Informed Investor

- Questions for Informed Investors. Free
- Mutual Funds. Free
- Who's Who in the Financial Planner and Investment Adviser Field. Free
- How to Spot a Con Artist. Free

Planning Financial Security. U.S. Department of Agriculture. 1997.

Schemes, Scams & Flim-Flams, available from MasterCard International. 1-800-999-5136.

U.S. Securities and Exchange Commission
450 5th Street, N.W.
Washington, DC 20549
http://www.sec.gov

- Ask Questions. Free
- Investment Fraud and Abuse Travel to Cyberspace. Free
- Invest Wisely: An Introduction to Mutual Funds. Free
- The Work of the SEC. Free
- What Every Investor Should Know. Free

RESOURCES ON SAVING AND INVESTING

Software

The **Budgeting Game**. Software. Analyze budgets of five real life people. School license $149.00. 1994. C.W. Publications, Box 744, Sterling, IL. 61081. 1-800-554-5537.

Bulls and Bears. Software. An investment math challenge. School license $159.00. 1998. C.W. Publications, Box 744, Sterling, IL 61081. 1-800-554-5537.

Credit Crunch. Software. A credit math challenge. School license $159.00. 1998.

Ernst & Young's Total Financial Planner (CD-Rom). software. Garner, Robert J. (Editor), Robert B. Copeland, Barbara J. Raasch. John Wiley & Sons, 1996.

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The **Investment Game**. Trading stocks, bonds, commodities and mutual funds. Requires Microsoft Works and Claris Works. C.W. Publications, Box 744, 1075 37th Avenue, Sterling, IL 61081. (800) 544-5537. 1995. $59.00

Investment Math, software. Students solve problems covering stocks, bonds and commodity investments. C.W. Publications, Box 744, 1075 37th Avenue, Sterling, IL 61081. 1-800- 554-5537. 1992. $59.00

Personal Finance Trivia Challenge. Software. Teaches terminology and concepts. School license $159.00. 1998.

Savings Game. Software. About different types of savings plans. School license $159.00. 1997.

Teaching Guides/Videos

Choices and Decisions: Taking Charge of Your Life. Teaching guide and software. VISA U.S.A., Inc. 1-800-847-2511. 1994. Free to educators.

Commodity Challenge. Video and student workbook. Chicago Board of Trade, 141 W. Jackson, Suite 2250, Chicago, IL, 60604. 312-435-7206.

Focus: **High School Economics**. National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. 1-800-338-1192. 1996. $29.95

Forbes Stock Market Course. Forbes, Inc., New York. Annually updated. Looseleaf notebook format. $79.50

Investor Protection Through Market Integrity. Video. National Futures Association, 200 West Madison Street, Chicago, IL 60606. 1-800-676-4NFA. The story of self-regulation of the futures market. Describes how the National Futures Association helps assure high standards of responsibility and performance of persons who work in futures markets.

Investment Scams: What Con Artists Don't Want You To Know. Investor Protection Trust, 1901 N. Ft. Myer Drive, Suite 1012-1014, Arlington, VA 22209. http://www.investorprotection.org

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Master Your Future. Video and teaching guide. MasterCard International. 1-800-624-9688. 1997. Free to educators.

Money Management: Budgets Aren't for Pushovers. Video and teaching guide. Guidance Associates, Post Office Box 1000, Mount Kisco, NY 10549. 1-800-431-1242. 1994. $61.95

Mutual Funds: Understand the Risks. Video and teaching materials. Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, Minneapolis, MN 55401-2171. 612-204-5000. 1994. Single copy free.

Personal Finance Economics: Wallet Wisdom. National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. 1-800-338-1192. 1996. $24.95

Your Guide to Understanding Investing — for Educators. Securities Industry Foundation for Economic Education, 120 Broadway, 35th Floor, New York, NY 10271. 1996. $10.00

The Wall Street Journal Classroom Edition Program. Monthly newspaper, teaching guide and video. The Wall Street Journal, Post Office Box 300, Princeton, NJ 08543-0300. 1-800-544-0522. $99.00 per semester

Web Sites

Indiana Securities Division
http://www.state.in.us/sos

Alliance for Investor Education
http://www.investoreducation.org

CNBC
http://www.cnbc.com

Certified Financial Planners Board of Standards
http://www.CFP-Board.org

Credit Counselors Corporation
http://web.creditcounselors.com

Debt Counselors of America
http://www.dca.org

Financial Literacy 2001
http://www.fl2001.org

Institute of Certified Financial Planners (ICFP)
http://www.icfp.org

International Association of Financial Planners (IAFP)
http://www.iafp.org

Investor Protection Trust
http://www.investorprotection.org

Jump$tart Coalition for Personal Financial Literacy
http://www.jumpstartcoalition.org

National Association of Insurance Commissioners (NAIC)
http://www.naic.org

National Association of Investors Corporation (NAIC)
http://www.better-investing.org

National Association of Personal Financial Advisors (NAPFA)
http://www.napfa.org

National Association of Securities Dealers , Inc. (NASD)
http://www.nasd.com

National Fraud Information Center
http://www.fraud.org

NASD Regulation, Inc.
http://www.nasdr.com

National Futures Association (NFA)
http://www.nfa.futures.org

National Institute for Consumer Education (NICE)
http://www.emich.edu/public/coe/nice

Stock Market Game 2000
http://www.smg2000.org

The Nasdaq Stock Market
http://www.nasdaq.com

The New York Stock Exchange (NYSE)
http://www.nyse.com

U.S. Commodity Futures Trading Commission (CFTC)
http://www.cftc.gov

U.S. Department of Treasury
http://www.pub/icdebt.treas.gov/sav/savinvst

U.S. Securities and Exchange Commission (SEC)
http://www.sec.gov

Vermont Securities Division
http://www.state.vt.us/bis

Books

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Kapoor, Jack, Les Dlabay and Robert Hughes. **Personal Finance**, 5th edition. McGraw-Hill, 1998.

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Train, John. **Famous Financial Fiascoes.** New York, NY. Crown Publishers, Inc. 1995.

Venditto, Gus. **The America Online Money Guide.** Que Corp., 1996.

Indiana Securities Division
Office of the Secretary of State
302 W. Washington Street, Room E-111
Indianapolis, Indiana 46204
1-800-223-8791
http://www.state.in.us/sos

ORGANIZATIONS AND AGENCIES

American Association of Individual Investors
625 N. Michigan Ave., Suite 1900
Chicago, IL 60611
312-280-0170
http://www.aaii.org

Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581
202-418-5000
http://www.cftc.gov

Council of Better Business Bureaus
4200 Wilson Blvd., Suite 800
Arlington, VA 22203
703-276-0100
http://www.bbb.org

Federal Reserve System Board of Governors
10th and C Street, N.W.
Washington, DC 20551
202-452-3000
http://www.bog.frb.fed.us

Federal Trade Commission
6th & Pennsylvania, N.W., Room 130
Washington, DC 20580
202-326-3128
202-326-2222 (complaints)
http://www.ftc.gov

Investment Company Institute
1401 H Street, Suite 1200
Washington, DC 20005
202-293-7700
http://www.ici.org

Investor Protection Trust
1901 North Fort Myer Drive, Suite 1012-1014
Arlington, VA 22209
703-276-1116
http://www.investorprotection.org

National Association of Insurance Commissioners
120 West 12th Street, Suite 1100
Kansas City, Missouri 64105
816-842-3600
http://www.naic.org

National Association of Investors Corp.
P.O. Box 220
Royal Oak, MI 48068
248-583-NAIC
http://www.better-investing.org

National Association of Securities Dealers, Inc.
1735 K Street, N.W.
Washington, DC 20006
202-728-8000
http://www.nasd.com

National Fraud Information Center
P.O. Box 65868
Washington, D.C. 20035
800-876-7060
http://www.fraud.org

National Futures Association
200 W. Madison Street, Suite 1600
Chicago, IL 60606
312-781-1300
800-592-9400 (Illinois)
800-621-3570 (outside Illinois)
http://www.nfa.futures.org

National Institute for Consumer Education
559 Gary Owens Building
300 West Michigan Avenue
Ypsilanti, MI 48197
734-487-2292
http://www.emich.edu/public/coe/nice

North American Securities Administrators Association, Inc.
10 G Street NE
Washington, DC 20002
202-737-0900
http://www.nasaa.org

Securities Industry Association
120 Broadway
New York, NY 10271
212-608-1500
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GLOSSARY OF TERMS

appreciation — an increase in the basic value of an investment.

arbitration — a system for resolving disputes between two or more parties who submit their disagreement to an impartial panel. Decisions of the panel are binding.

bear market — a market characterized by generally falling prices over a period of several months or years.

blue chip — common stock of a company known nationally for the quality of its products and its profitability.

boiler rooms — fraudulent schemes operated by high-pressure salespersons working out of rooms equipped with many telephones, offering phoney investment opportunities.

bond — certificate representing a loan of money to a corporation or government for a specific period, in exchange for a promise to repay bondholder the amount borrowed plus interest.

broker — a representative who handles transactions related to investors' orders to buy and sell securities.

bull market — a market characterized by generally rising prices over a period of several months or years.

business failure risk — the risk that the business will fail and the investment will be worthless, or that a business will be less profitable than expected.

capital — the wealth of a business or an individual in terms of money or property.

capital gain — the gain realized when a security is sold for more than the purchase price.

capital loss — the loss when a security is sold for less than its purchase price.

capitalism — the economic system practiced in the United States which allows individual ownership of land, buildings and equipment.

caveat emptor — Latin phrase meaning "Let the buyer beware."

CFP — Certified Financial Planner, an individual who has completed the educational requirements of the International Board of Certified Financial Planners (IBCFP) which covers all facets of financial planning from taxes to investments.

ChFC — Chartered Financial Consultant, designation earned by individuals who successfully complete the financial training program offered by the American College in Pennsylvania.

Indiana Securities Division — agency within the Secretary of State's office that is responsible for regulating and monitoring the securities industry in Indiana.

CFTC — Commodity Futures Trading Commission, the federal regulatory agency which monitors the futures and options market.

commission — a broker's fee for buying or selling securities for an investor or earned by a real estate agent for selling property.

commodity — an article of commerce or a product that can be used in commerce, such as agricultural products, metals, petroleum, foreign currencies, financial instruments and indexes.

common stock — the most basic form of corporation ownership. Owners of common stock have a claim on the assets of a company after those of preferred stockholders and bondholders.

compound interest — interest earned on interest which is added to the principal.

convertible bond — a bond than an owner can exchange for stock before maturity.

coupon rate — fixed annual interest rate quoted when a bond is issued.

deep discount bond — see zero coupon bond.

discount — sale of a bond at a price less than face value.

diversification — spreading investment funds among different types of investments and industries.

dividend — payment received by stockholders from the earnings of a corporation.

dollar cost averaging — investing the same fixed dollar amount in the same investment at regular intervals over a long period of time.

ethical views — widely held opinions about what is right and wrong, good and bad.

exchanges — marketplaces for transactions such as the New York Stock Exchange, the American Stock Exchange, and the Chicago Board of Trade.

face value — the amount a bond is worth when it matures.

FDIC — Federal Deposit Insurance Corporation, an agency of the federal government created to guarantee bank deposits.

financial planner — a person who advises others about financial issues.

fraud — the art of deceiving or misrepresenting the truth.

fraud risk — the risk that an investment deceives or misrepresents facts.

full-service brokers — people who buy and sell securities or commodities to investors and offer information and advice.

futures contract — a legal commitment to buy or sell a commodity at a specific future date and price.

goal — a specific statement about a preferred future condition.

hedging — the process of protecting an investment against price increases.

inflation — a general rise in prices of goods and services. This reduces purchasing power of money.

inflation risk — the risk that the financial return on an investment will lose purchasing power due to a general rise in prices of goods and services.

infomercial — radio or television program with both an information and advertising component.

insider trading — the illegal use of investment information not generally known to the public.

interest — for the investor, interest is the payment received from a financial institution for lending money to it.

interest rate risk — the risk that the value of a long-term, fixed return investment will decrease due to a rise in interest rates.

IRA — Individual Retirement Account, a tax-deferred savings account.

junk bonds — high risk bonds issued by corporations of little financial strength. Interest rate is high, but default rate is also high.

life cycle — the pattern which identifes common tasks at various stages of life, such as the 18-24 age group.

limited partnership — an investment vehicle formed of a general partner and limited partners.

liquidity — the ease with which an investment can be converted into cash.

load fund — a mutual fund purchased directly by the public that charges a sales commission when bought.

market price — the price the seller will accept and the buyer will pay.

market risk — the risk that the price of stocks, real estate or other investments will go down due to business cycles or other causes.

mutual fund — a company that invests the pooled money of its shareholders in various types of investments.

NASD — National Association of Securities Dealers, the securities industry's self-regulatory agency. Enforces rules of fair practice in an attempt to prevent investment fraud.

NASDAQ — NASD Automated Quotations, a telecommunications system for relaying information about securities in the over-the-counter market.

NASAA — North American Securities Administrators Association, an oganization of securities administrators charged with enforcing securities laws and protecting investors from fraudulent investments.

NCUA — National Credit Union Administration, a federal government agency created to guarantee credit union deposits.

NFA — National Futures Association, a congressionally authorized self-regulatory organization for the futures industry.

NICE — National Institute for Consumer Education is an educational program with an emphasis on consumer, economic and personal finance education.

NYSE — New York Stock Exchange is a floor-based securities market located on Wall Street in New York City where stocks and bonds are traded by brokers who represent investors.

no-load fund — a mutual fund purchased directly by the public; does not have a charge for buying.

odd lot — a unit of less than 100 shares of stock.

offering circulars — disclosure documents provided to investors by the company seeking capital.

P/E ratio — price/earnings ratio, the price of a stock divided by per share earnings. A figure used to evaluate the value of a stock. Also referred to as the "multiple," that is the number of times by which the company's latest 12-month earning must be multiplied to obtain the current stock price. Obtained by dividing the current earnings into current market value.

penny stocks — high-risk stocks that generally sell for less than $5, and do not trade on any exchange. (Con-artists often deal in penny stock frauds.)

political risk — the risk that government actions such as trade restrictions will negatively affect the price of an investment.

Ponzi scheme — an illegal investment scam named for its inventor, Charles Ponzi.

portfolio — the total investments held by an individual.

preferred stock — ownership in a corporation which has a claim on assets and earnings of a company before those of common stockholders but after bondholders.

premium — sale of a bond at a price greater than face value.

prospectus — legal document describing an investment offered for sale.

pyramid scheme — fraudulent scheme where an investor buys the right to be a sales representative for a "product." Those in the scheme early may profit; those in late always lose.

rate of return — a combination of yield (dividends or interest) and appreciation (increase in basic value of the investment).

redemption fee — a charge levied by the mutual fund when shares are sold.

return — the total income from an investment; includes income plus capital gains or minus capital losses.

risk — in an investment, the uncertainty that you will get an expected return. In insurance, the uncertainty whether a loss will occur.

risk tolerance — a person's capacity to endure market price swings in an investment.

round lot — 100 shares of one stock.

Rule of 72 — a mathematical tool used to determine the length of time needed to double an investment at a given interest rate.

savings — money set aside to meet future needs with very little risk to principal or interest.

securities — a broad range of investment instruments, including stocks, bonds and mutual funds.

SEC — Securities and Exchange Commission, a federal agency established to license brokerage firms and regulate the securities industry. While the SEC helps curb investment fraud, the individual investor, not the SEC, must judge the worth of the security offered for sale.

SIPC — Security Investors Protection Corporation, a non-profit corporation created by Congress. Insures investors in SIPC insured firms from financial loss due to financial failure of the brokerage firm. Insures up to $500,000 per customer.

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