MONEY | LESSON 3 OF 3

BECOMING A MONEY NINJA!

From stocks and crypto to real estate and beyond, this lesson will guide you through the ins and outs of investing.

this week's LESSON

You will...

1. Be introduced to different ways of investing.
2. Gain an understanding of the stock market and its jargons.
3. Learn about different scamming methods and how to avoid them.

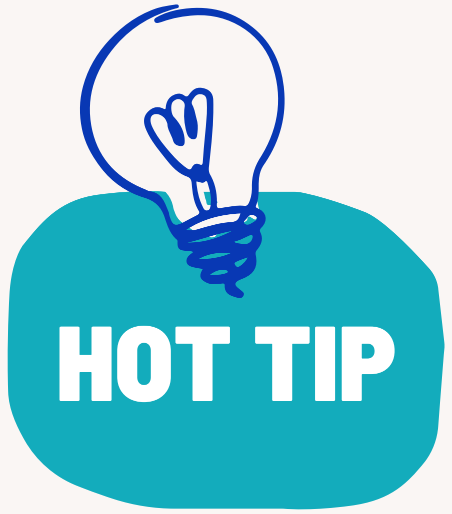
learning LANDMARKS

Look out for these symbols throughout the lesson and use it as your trusty learning guide. It will ensure you have enough time to learn, discuss, practice, and reflect on your newfound knowledge.

A guide on how long the activity may take.

Time to pause and have a discussion with the class.

Challenge yourself with these questions.



Tips and tricks to help you understand the lesson better.

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LET'S DISCUSS

get in THE GAME

Let's chat about how we can turn pennies into profit through investing.

What Is Investing?

Money can be saved, spent, or invested. When saved, it simply remains in your account, preserving its value. When invested, it has the potential to earn a return over time, which is known as a capital gain. However, investments can also result in losses. There are lots of things you can invest your money in: companies, property, and your education!

When you put money into these assets they become your investments. People generally invest money with a specific goal in mind, for example, a house, retirement, university fees, it's important to know why you're investing!

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5 concepts to help MULTIPLE YOUR MONEY

Concept 1	Get started early
Concept 2	Inflation
Concept 3	Asset classes
Concept 4	Risk and reward
Concept 5	Diversification

concept 1

Get started early! (compounding)

Compound returns mean that your money not only grows on the original amount you invested but also on the money it has already earned. So, as time goes on, your money starts to grow faster and faster because it's earning money on top of money, like a snowball rolling down a hill and getting bigger as it goes. The longer you leave your money to compound, the more it can grow over time.

Jess invests £100 per year
and earns 10% interest

£100 x 10% = £110 (+£10)
£110 x 10% = £121 (+£11)
£121 x 10% = £133 (+£12)

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According to Einstein

“Compound interest is the eighth wonder of the world. (S)he who understands it, earns it. (S)he who doesn't, pays it.”

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BRAIN BOOST

compounding

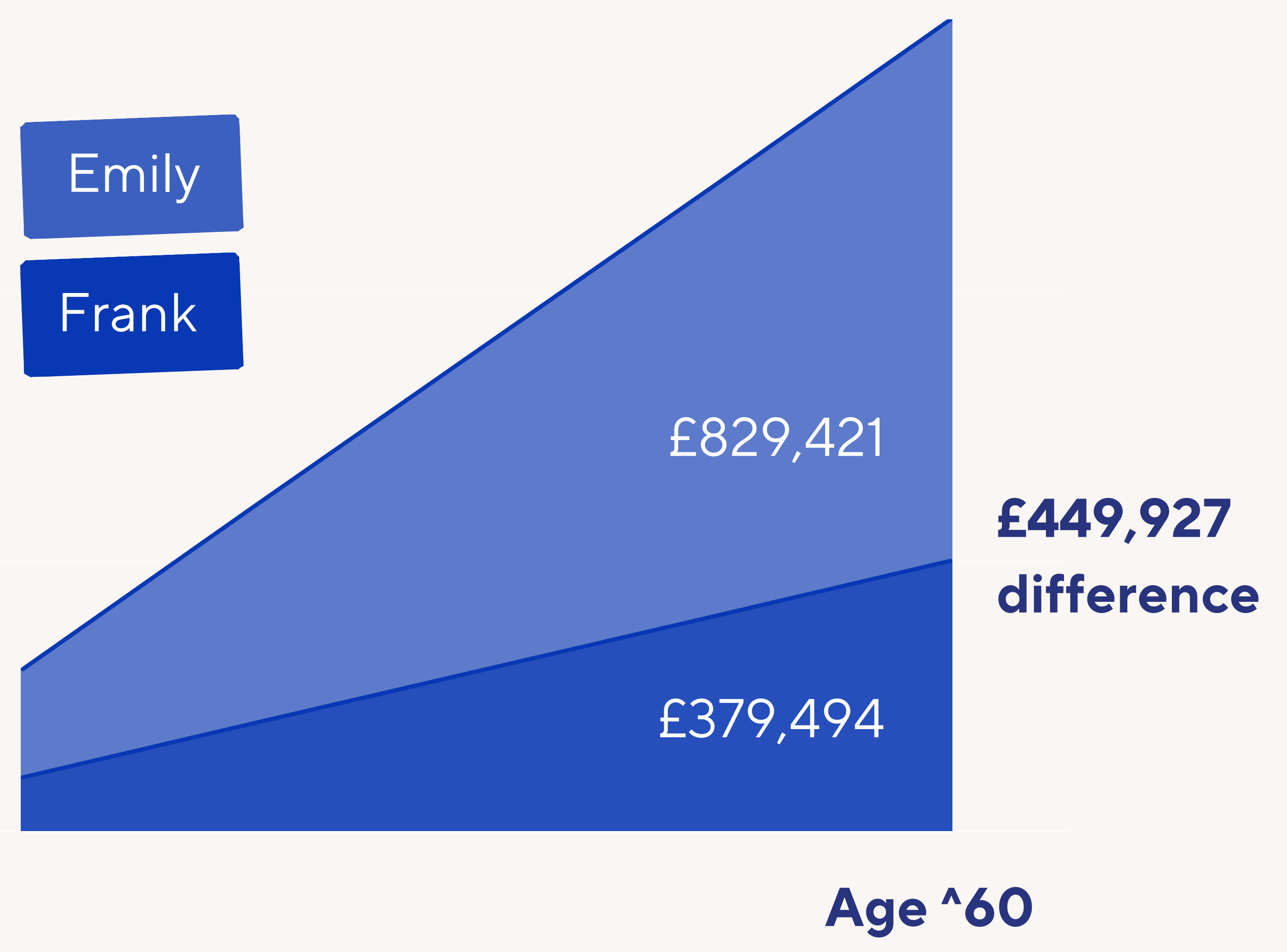
EXAMPLE

Emily is 25 years old. Frank is 35 years old.

They both put away £500 a month until they are 60 years old. Emily put away £210,000. Frank put away £150,000.

But when they are 60. Emily now has £829,421. And Frank has £379,494. That's huge! That's why we say investing is for the long term!

*Assuming a 7% annual interest rate not including taxes or fees



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Think you've got the hang of compounding?

UNDERSTANDING INTEREST

Have a play with **Money Smart's Compounding Calculator** to solve the questions below.

Becky and Bruce both decide to invest.

Becky starts investing at 20 years old and Bruce starts investing at 30 years old. They both invest £500 a month every year until they turn 55 years old.

At retirement, Becky has invested a total amount of £210,000 and Bruce has invested £150,000 – a £60,000 difference.

Thanks to compounding interest, Becky's total balance is over £1 million (£1,033,901) and Bruce's is just over £400,000 (£438,636). That's over £500,000 difference because Becky started investing 10 years ahead.

*Assuming a 8% annual interest rate.

QUESTIONS

1. How much would you have if you invested $100 every month for 30 years with a 5% interest rate?

____

2. What about if you had a 8% interest rate?

____

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concept 2

Inflation (not the pool toy)

Inflation is when the prices of things we buy, like toys, candy, food, or clothes, go up over time. It means that the same amount of money can buy fewer things in the future than it can buy today.

Imagine this

Imagine if you have £10 today and you can buy 5 chocolate bars with it. But next year, because of inflation, those chocolate bars might cost a little more. So, your $10 might only be enough to buy 3 chocolate bars instead of 5.

If you keep your money in a bank account without doing anything, it won't grow. But prices will keep going up, and your money won't be able to buy as much. That's why we need to think about what we can do with our money to make it grow.

Investing means putting our money in special places that have the potential to make it grow faster. It's like planting a money seed that can turn into a money tree over time.

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What's causing inflation?

Inflation can happen due to several factors:

- Increased production costs
  - a product (like chocolate) gets more expensive
  - the packaging costs more
  - the freight to get it to the super market increases
- Changes in demand and supply, or changes in the money supply.

Can someone stop it?

To make sure prices don't rise too quickly, central banks and governments keep an eye on inflation and take actions to manage it.

High inflation can make it harder for people to buy things. This can hurt the economy.

BRAIN BOOST

Can you find out what the inflation rate is in your country? What is the cash rate?

When the inflation rate is higher than the cash rate, it means:

- **A** Purchasing power decreases over time.
- **B** The central bank may raise interest rates.
- **C** The economy may experience higher price levels.
- **D** All of the above.

The correct answer is letter D

When the inflation rate is higher than the cash rate, it means:

A Purchasing power decreases over time.

B The central bank may raise interest rates.

C The economy may experience higher price levels.

D All of the above.

concept 3

Asset Classes 101

Types of investments
There are many different types of investments (we call these asset classes) including cash, property, bonds + stocks. Let's take a look.

Cash: money in your bank account

Return: Interest

Example: The bank pays you 3% interest on the savings in your bank account. This is considered low level risk.

Bonds: A loan (kind of like an IOU) with interest. They are often issued by governments. Interest rates normally exceed the interest rate of banks however you do assume more risk than a standard savings account.

Return: is also interest or yield

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asset CLASSES 101

Types of investments

There are many different types of investments (we call these asset classes) including cash, property, bonds + stocks.

Property: Investing in houses or commercial real estate like buildings, car parks or airports.

Return: Rental income and potential value increase (capital gain).

Shares: Often referred to as stocks, buying a share essentially means purchasing a piece of a company.

Return: Capital gains or dividends (more on this later)

You can also invest Commodities – includes things like oil, gold, silver, coffee etc.

It's important to note you can have capital gains but also capital losses.

Picture this...

You buy a house for £300,000. You sell it 10 years later for £600,000. You would have made a £300k capital gain.

If the value of the house went down £50k, you would have made a capital loss.

SAVING VS investing

This table shows that investing can often give you more money back than saving in a bank. Even with high interest rates, wise investments usually do better.

SAVING				
	Each month	£100	£200	£500
	30 years	£36,000	£72,000	£180,000

investing				
	Each month	£100	£200	£500
	30 years	£149,036	£298,072	£745,180

8% return does not include fees or tax etc.

Understanding shares (also called stocks)

1

When you buy a 'share' in a company, you're granted part ownership of a company. You can buy and sell shares on the stock market.

2

Shares might go up or down in value depending on how well the company is doing and how well other investors think the company is doing.

3

When you invest in shares, you can receive a share of the profits (dividends) as well as the increase in price (capital gain).

4

Shares can go up and down in price, but history shows the share market goes up over the long term.

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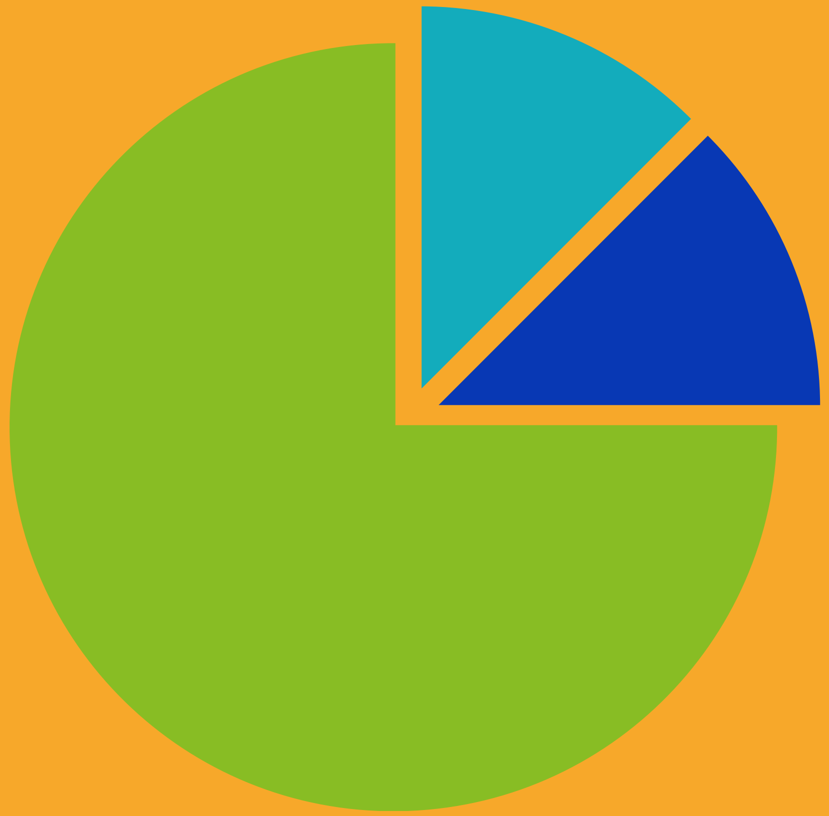

Buying a share means that you're investing in a portion of that company, just like buying a slice of a pie. That's why you get called a Shareholder.

If you bought shares in a tech company, it would result in you becoming a very small shareholder—think of it as receiving a very thin slice of a pie.

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What is the stock market?

It's a place where companies like Nike and Coke sell little bits of themselves to raise money, so they can continue to grow! And people like you and me can buy a share of that company (it might be a tiny share but you're still a part owner)! When a company makes money everyone who owns a bit of that company makes money to.

Zoom out for the big picture

The stock market has ups and downs like a yo-yo! But if you zoom out and look at the stock market over the last 100 years – you'll see that it slowly but surely goes up over time (even with pandemics, and a global financial crisis).

Speak fluent finance

Some shorthand terms commonly used in the industry:

- **S+P500** - measures the performance of 500 large publicly traded companies in the United States.
- **All Ordinaries** - 500 largest ASX listed companies
- **Dow Jones** - stock market index of 30 prominent companies listed on US stock exchanges
- **FTSE** - Stock market index of the 100 largest companies on the London stock exchange
- **NASDAQ 100** - Index that represents the performance of the 100 largest non financial companies

Can you name some companies on the ASX200 and S+P500?

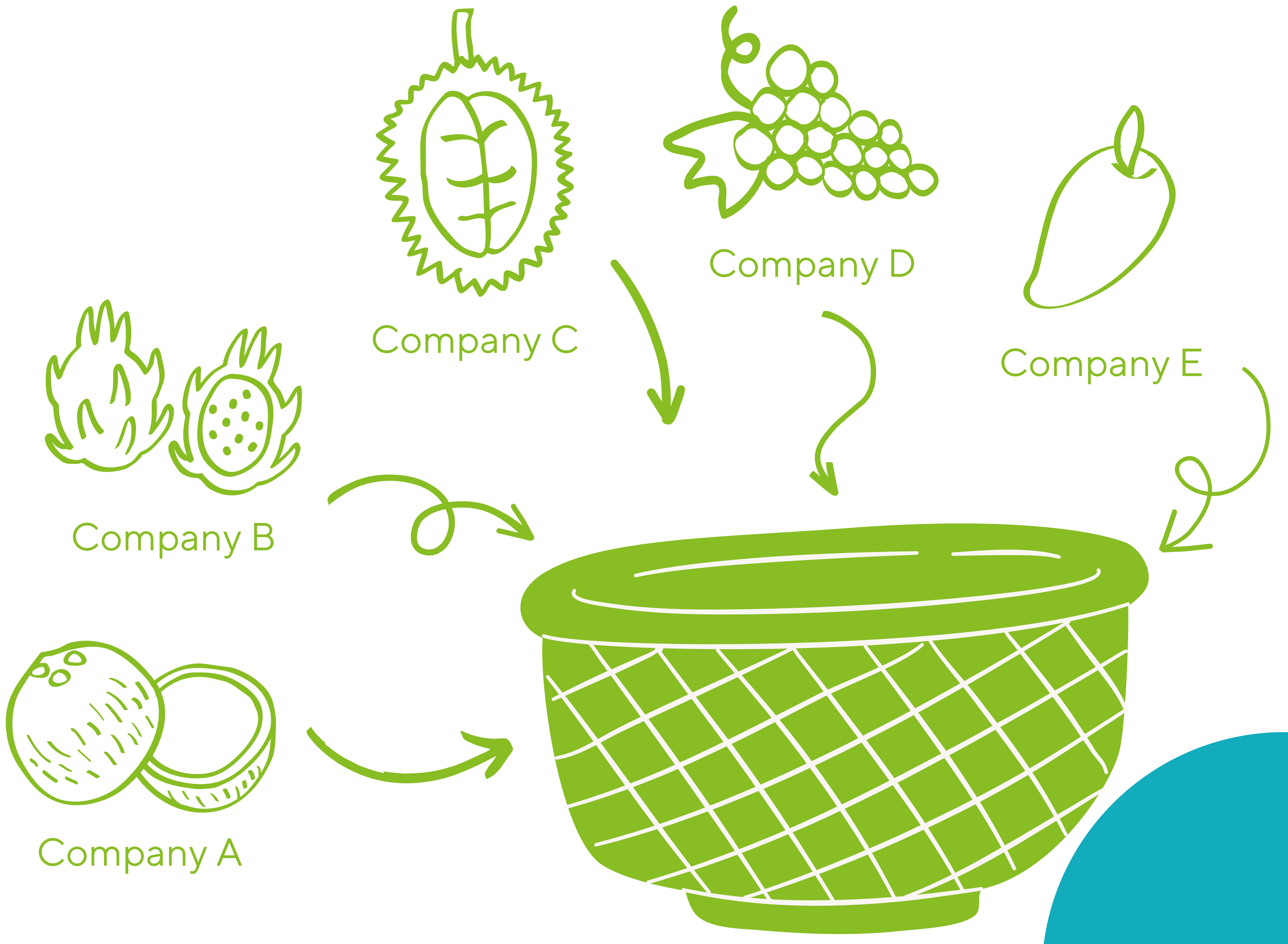
Index funds

You can choose to invest in individual companies, but it can be hard to know what company will do well without lots of research.

INDEX FUNDS SIMPLIFIED

Think of ETFs like a basket of fruit. You're not just getting a basket of apples, you're getting a basket of mixed fruit – cherries, blueberries, and more!

With ETFs and Index Funds, you're not just getting one company, you're getting a mix of companies already prepared for you.



LET'S DISCUSS

Q for U

If you could never sell the asset, would you still be happy to hold it?

With shares or a house, you would usually be happy – they give you a dividend income or a place to live or rent out.

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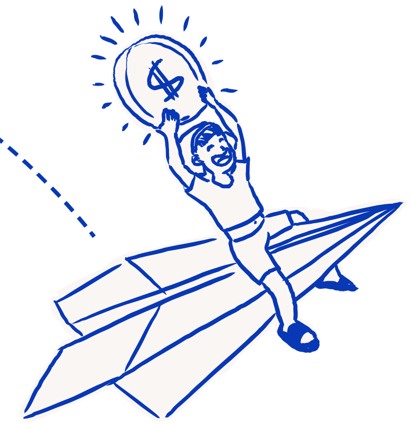
5
MINUTES TO TRY

let's crunch SOME NUMBERS

Challenge your money knowledge with this worksheet containing basic investing questions.



Help Julie figure out how much money she's made from investing.

MAKING MONEY FROM INVESTING

1. Julie bought £500 worth of shares in a technology company for £5 and then sold them 10 years later for £15. How much money would Julie have made in total?

2. If Julie had 100 shares and they paid her a dividend twice a year of £0.50 per share, how much would she have in dividend income after 1 year?

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Virtual Stock Market

Want to try your hand at investing in the stock market without any risk involved? Engage in virtual stock market games or apps instead! This will allow you to practice investing without using real money.

These games often provide a simulated trading environment where you can learn about the impact of market fluctuations on your investments. They also provide an introduction to the share market, including the concept of risk and return.

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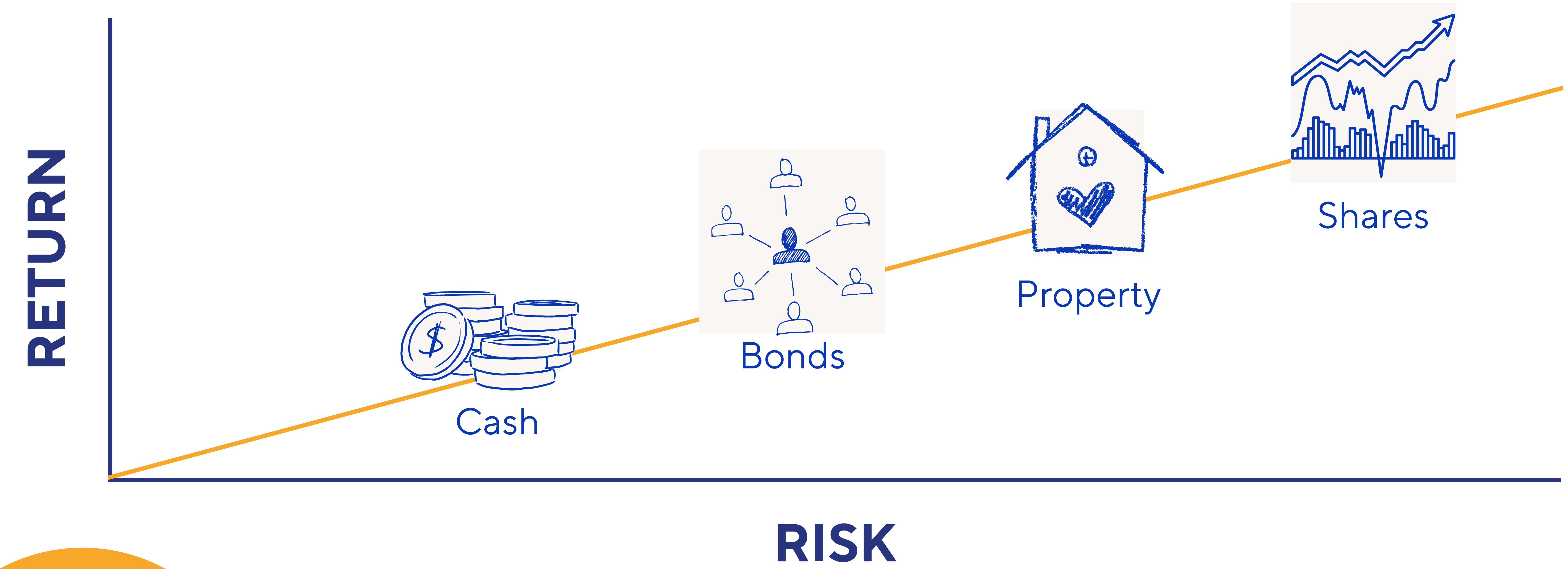
concept 4

Risk vs Reward

The higher the risk, the higher the return, but there's also the chance of losing money. Let's say there are friends, Jess and Dave. Jess is investing long term and is comfortable with a high risk. Dave needs money to buy a house in a few years, so doesn't want as much risk. Cash and bonds provide a steady, stable income with lower risk, but they usually have lower returns over longer terms.

Property and shares are growth assets as they have the potential for higher investment returns over the longer term, but they also tend to have higher investment risk (they are more volatile) in the short term.

RISK VS reward



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concept 5

Diversification

Diversification is all about not putting all your eggs (investments) into one basket – AKA not putting all your money into one company. Instead, you spread it out among different types of investments, like stocks, bonds, property, and more.

Let's simplify!

Jack and Claire have £500 each to invest. Jack gets excited and invests all his money into company A. Company A goes down and he now has 3250.

Claire breaks her £500 into 5 x £100 and invests into companies, ABCDE. Company A goes down, but company B and C go up, which means she has £600.

If you have all your money in one or two companies and they don't go well, you might lose lots of money. If you spread your money across lots of different industries across different countries and asset classes, you can protect yourself from ups and downs.

What about Cryptocurrency?

Imagine cryptocurrency as digital money that exists only in the virtual world. It's like having special coins and bills that you can only use and keep online, and there's no physical version of them.

Here's a simple example:

Say you've got some "Crypto Coins". You buy these using real money, much like currency exchange when traveling. Once you own Crypto Coins, you can purchase goods online or send them worldwide. Instead of a bank or credit card, you use a digital wallet, a secure place to store your coins.

Now, let's talk about risk of crypto

Price Volatility: Cryptocurrency values can fluctuate greatly in a brief span. They can skyrocket, delighting you, but they can also plummet and are considered a very high risk investment.

Security Risks: Cryptocurrencies are digital, so there's a risk of hackers trying to steal them from you or from the platforms where you store them. Even popular platforms can collapse like FTX - where people lost billions of dollars in total.

Regulatory Risks: Cryptocurrencies are newer and less government-regulated than regular money. Any changes in rules or government intervention can impact their worth and use.

Lack of Understanding: Crypto's confusing for many, including its risks. Study up, only invest what you're okay losing, and remember it's a VERY risky game, be cautious. Diversify and seek advice before diving in.

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beware of SCAMMERS!

A money scam is when someone tricks you to get your money or personal details. Scammers might promise something great, like a prize, but it's not real. They just want to take your money or use your info for bad things.

It's important to be careful and not believe everything you see online or from strangers.

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There are different ways scammers target people:

- **Phishing:** Fraudulent emails or texts that trick people into revealing personal information.
- **Investment Scams:** Fake opportunities promising high returns to take people's money.
- **Lottery and Prize Scams:** False claims of winning a prize, asking for upfront fees.
- **Romance Scams:** Fake online relationships used to ask for money from victims.
- **Ponzi Schemes:** Promising high returns by using money from new investors.
- **Tech Support Scams:** Posing as tech support to get money or install malware.
- **Text Messaging Scams:** Fraudulent texts luring people into sharing personal data or making payments.

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IDENTIFYING POSSIBLE SCAMS

SCENARIO 1

You receive an email stating that you won a lottery you never entered, and it asks for your personal information and bank account details to process the winnings.

What are some warning signs that indicate the email about winning a lottery might be a scam?

SCENARIO 2

You come across an online advertisement promising high returns on investment in a new cryptocurrency, guaranteeing substantial profits in a short period.

What steps could you take to verify the legitimacy of the ad offering high returns on investment in a new cryptocurrency?

SCENARIO 1

You receive a phone call from someone claiming to be a representative of your bank. They inform you that there has been suspicious activity on your account and request your account number, and other personal details.

What are some questions you could ask the caller to see if they really are from your bank?

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See you next time!