



## UNIT 8

## Growing and Protecting Your Finances

## Topic

# Building a Diversified Portfolio

## LEARNING OBJECTIVE(S)

Students will:

- **research** information about familiar companies.
- **develop** a diversified portfolio of stocks representing various sectors of the economy.

## Title

Build Your Own Portfolio

## Overview

*How can you limit your risk when investing?* After brainstorming a list of brands and companies with which students are familiar, they work in small groups to categorize companies by sector. Students discuss the need to have a diversified portfolio and then work individually to create a portfolio with at least ten companies from three or more sectors.

## Financial Literacy Theme

Growing and Protecting Your Finances

## 21st Century Skill(s)

Collaboration, Critical Thinking

## Key Terms

Privately held companies, public companies, initial public offering (IPO), shareholders, stocks, diversification, portfolio, risk

## Materials

- **By the Sector Student Handout**—one copy per student
- **My Diversified Portfolio Student Handout**—one copy per student
- **Internet access**—at least one device with Internet access per pair of students
- **Timer**

## Pathway to Financial Success

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### Connect

#### How does this connect to the student?

Conventional wisdom suggests that people “buy what they know” in the stock market. Students can put this wisdom to use by considering the connections they already have with various brands and companies. Wise investors understand both the product or service being sold and the market for it.

#### How does this connect to careers?

**Investment Analyst:** Firms hire investment analysts to collect information, perform research, and analyze assets, such as stocks, bonds, currencies and commodities. Many analysts specialize in a certain sector, geographic region, or investment class.

#### How does this connect to the world?

A growing number of investors consider more than just a company’s performance and economic conditions when selecting a stock. “Socially responsible” investing involves considering factors such as a company’s impact on the environment, diversity of their leadership, working conditions of employees, and more. Other investors avoid companies that sell items they object to such as tobacco or unhealthy foods.

### Prepare

**Background:** Building a diversified portfolio with stocks and other assets that represent different sectors and/or regions is key to reducing risk when investing. Imagine an investor buys stock in just one company and counts on it to provide financial security later in life. That investor has considerably more risk than one who buys a variety of stocks (and ideally other assets such as mutual funds and bonds). Diversification helps investors reduce risk because companies from different industry sectors or geographic areas can be impacted in different ways by changes in the economy. When introducing students to investing, it can help to focus on companies and brands they already know and then consider how to diversify amongst those.

### Engage

- Invite students to form small groups. Challenge groups to develop a list of as many brands or companies that they can think of in three minutes. When time is up, ask each group how many it was able to list.
- Give each group a turn to share five to ten brands or companies from its list, without repeating. Point out that brand names and their related company names may not be the same. For example, Sprite is made by the Coca-Cola Company, and YouTube is owned by Google.
- Ask students who owns the companies they identified. For example, does Mark Zuckerberg own Facebook? Who owns Starbucks, Nike, and other familiar companies? Can students be owners of a company?
- Discuss the difference between **privately held companies** (those that are owned by the company’s founders, management, or a group of private investors) and **public companies** (those that have sold all or a portion of themselves to the public via an **initial public offering** (IPO)).
- Ask students if they would like to own a portion of a company by purchasing **stock** (an ownership share in a company that they can sell later—potentially for a profit). If so, what criteria would they use? Would familiarity of the company or brand be important? Share with students that, when investing, many people believe you should “buy what you know.”

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Ask students what they think that means (purchasing stock in companies you know and understand). The brands and companies they listed might be a good start when considering stocks to purchase. However, there is more to investing than just picking ones they know.

### Teach

1. Direct groups to return to their lists. Which companies or brands are similar? For example, they might have listed several food and beverage companies. Which are different? Are there any that don't fit well with any others? The more variety in their lists, the more *diversified* it is.
2. Distribute a copy of the **By the Sector Student Handout** to each student. Explain that the ten sectors described on the handout illustrate a common way to divide companies into categories. Challenge students to do their best to sort the companies on their lists into the categories provided. They likely will end up with some blank categories. Encourage groups to add company names to the handout until they have at least twenty companies in five or more different sectors. It is very likely that students may struggle to identify companies for some of the listed sectors. Discuss why that might happen (students are not familiar with those types of companies). If possible, help students identify companies in these other sectors.
3. Ask students if they would build a stock *portfolio* (collection of stocks or other assets owned by an individual) with stocks from just one or two sectors or a variety of them. How does buying stocks in just one sector increase a person's *risks* (chance of gain or loss) when investing? Point to specific examples of when many stocks in an industry have struggled at once (e.g., financial sector during the depression).
4. Demonstrate how students can locate a company's stock symbol and current pricing data using a website such as [Google](#) (search "stock symbol for XYZ" where XYZ is the company name), [Yahoo Finance](#), [Wall Street Journal](#), or [MarketWatch](#) (for the last three, enter the company name in the search bar). Ask students to suggest several companies to investigate and locate the symbol and price for each.
5. Distribute a copy of **My Diversified Portfolio Student Handout** to each student. Challenge students to work independently to develop a diversified portfolio with at least ten stocks from three or more. They may use stocks identified by their groups or select their own. In addition to listing the company name and sector, students will need to look up the company's stock symbol and the most recent trading price.
6. Allow ample time for students to research their stocks and create their portfolios. Invite students to share their results. What stocks did they select and why? What was the highest price stock they selected? Lowest? Which sectors did they choose and why? Do they consider any of their stocks more risky than others (e.g., a newer company might be more risky)? If desired, challenge students to consider how they would spend a hypothetical \$10,000 on stocks from their proposed portfolios. Which stocks would they buy and how many shares of each?

### Extend

- **Action:** Invite students to set up mock stock portfolios online and track their performances over a set period of time. There are organized competitions designed specifically for students such as [The Stock Market Game](#) along with a variety of online stock simulators. Developing a spreadsheet is another alternative.
- **Family:** Encourage students to discuss investing with the family and trusted adults. How do they choose investments? From whom do they get advice?
- **Research:** Introduce students to the concept of socially responsible investing. Challenge students to investigate ways in which people select investments based on personal passions. What mutual funds or exchange-traded funds can they find that focus on socially-responsible investing?

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### Standards Correlation

[National Standards for Financial Literacy](#) from the [Council for Economic Education](#)

5. Diversification by investing in different types of financial assets can lower investment risk.
5. The rate of return earned from investments will vary according to the amount of risk. In general, a tradeoff exists between the security of an investment and its expected rate of return.

# By the Sector

**Directions:** Use the descriptions of each sector to complete the chart with companies from your list. Fill in as many as you can. Aim to have at least **twenty** companies listed in at least **five** different sectors.

<p><b>Consumer Discretionary</b> Retail, automobile, media, apparel, and leisure product companies</p>	<p><b>Consumer Staples</b> Food, beverage, household product, and tobacco companies</p>
<p><b>Energy</b> Oil and gas exploration and production companies, as well as integrated power firms, refineries and other operations</p>	<p><b>Financials</b> Banks, investment funds, insurance companies, and real estate firms</p>
<p><b>Health Care</b> Biotechnology companies, hospitals, and pharmaceuticals</p>	<p><b>Industrials</b> Aerospace, defense, machinery, construction, fabrication and manufacturing companies</p>
<p><b>Materials</b> Mining, refining, chemical, forestry, and related companies focused on discovering and developing raw materials</p>	<p><b>Technology</b> Electronics manufacturers, software developers, and information technology firms</p>
<p><b>Telecommunications</b> Wireless providers, cable companies, internet service providers, and satellite companies</p>	<p><b>Utilities</b> Electric, gas, and water companies</p>

