MONEY CONFIDENT Kids
Presented by T.RowePrice

TIME HORIZON LESSONS
Recommended for Grades 6–8

Asset Allocation

LESSON 7

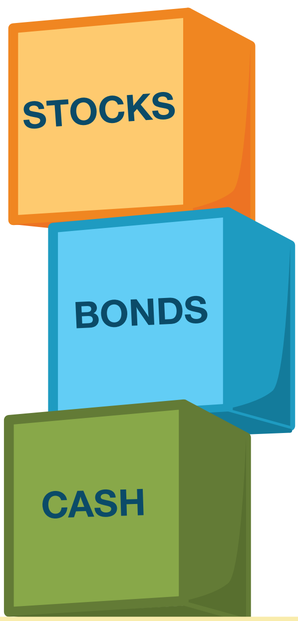
Having an Asset Allocation strategy based on your time horizon helps you save for long-term financial goals by using three major building blocks: Cash, Bonds, and Stocks.

Objective

To help kids evaluate how to use the right mix of investments to achieve short- and long-term financial goals.

1 **Introduce** the concept of “Asset Allocation” as an investment strategy to help achieve long-term financial goals and minimize risk. Set a course for achieving financial goals by having kids think about their time horizon and how using asset allocation will help them stay on track.

2 **Explain** that there are three basic building blocks to develop an asset allocation strategy: cash, bonds, and stocks. Each investment type or asset class has a risk (the danger of losing money) but also a reward (the chance to make money). Additionally, students will learn why they need to consider their financial time horizon when making investment choices.



Building Blocks for Asset Allocation

Cash is money kept in savings, checking, or other accounts at a financial institution, like a bank. These accounts have a low reward because they pay little or no interest, but they are also low risk because bank accounts are insured by the federal government.

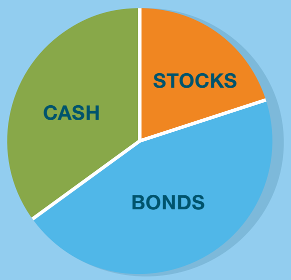
Bonds are like a loan to a company that promises to pay the loan back plus interest. Because interest rates on bonds are higher than rates given by cash accounts, the reward is higher. But there is also a risk of losing money if the company goes out of business.

Stocks give you part ownership of a company. The value of your share in the company can go up or down depending on changes in the stock market. Over time, stocks have given the highest financial rewards, but there is the risk of losing some or all of your investment if the company does poorly or goes out of business or if the stock market declines.

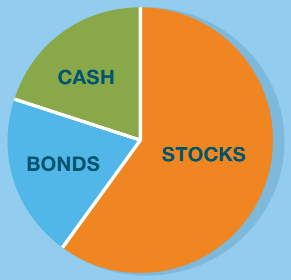
3 **Define** key learnings and vocabulary, such as:

a. **Asset Allocation:** how your money is divided among stocks, bonds, and cash according to your financial time horizon
b. **Bond:** a loan to a government or corporation to be repaid with interest
c. **Stock:** an investment that includes part ownership of a company
d. **Mutual Fund:** a type of investment that holds a number of stocks, bonds, or other assets that is managed by a financial company
e. **Asset Class:** a group of financial assets with similar features
f. **Investment Risk:** the chance of losing money on an investment
g. **401(k):** a type of retirement account

4 **Provide** guidance that having the right asset allocation of cash, bonds, and stocks is one key of successful investing to help reach long-term goals. Further explain that investment allocations can shift depending on your time horizon (the period of time needed to save for a financial goal). For example, the closer you get to your goal, you'll need to rebalance investments for less risk by increasing bonds and reducing stocks. In other words, reduce the risk of losing your money before you need it.



SHORT-TERM TIME HORIZON



LONG-TERM TIME HORIZON

Asset Allocation Mix

Short-Term Time Horizon: A short-term time horizon on your financial goals means that you'll need your money soon. Reduce risk by limiting the amount you have in stocks and investing more in cash and bond options, which are less risky.

Long-Term Time Horizon: A long-term time horizon on your financial goals means that you won't need your money right away and can accept more risk by investing more in stocks (stocks have the potential to earn more money but can also lose more money too). With a long-term time horizon, you have more time to recover any losses you may incur from stocks, which increases your risk tolerance.

5 **Discuss** mutual funds as an easy way to get started investing. Mutual funds are a collection of different stocks, bonds, and other investments. Since the mix of investments in mutual funds comes in different shapes and sizes, they meet the needs of different investment strategies. Some mutual funds have only bonds, some have only stocks, and some have a mix of each.

6 **Have** students complete the Your Financial Time Horizon activity sheet that helps them envision long-term financial goals as well as short-term financial goals.

All investments are subject to market risk, including the possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

ACTIVITY 7

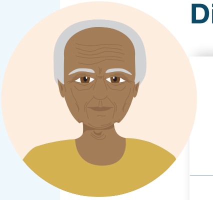
Name ____________________

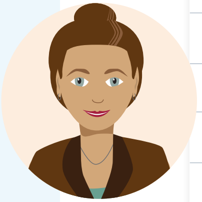
Can You Handle the Risk?

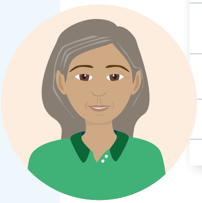
MONEY CONFIDENT Kids
Presented by T.RowePrice®

All investments have risks. For example, if you own stock in a company that goes out of business, that stock will lose value and you'll lose money. On the other hand, if you buy stock in a company that really takes off, your stock will go up in value and you'll make money.

Many young people, like Nikki, are willing to deal with higher-risk investments because even if they lose money, they know they have many years to make up for the loss. Someone like Nikki's mom, who is closer to retirement, will typically reallocate to lower-risk investments, since she will need to withdraw her money soon.







Directions: Match the person with the appropriate investments.

Person	Investments
1. Desmond, an 85-year-old retiree	a. 100% invested in a mutual fund investing in new high-tech companies
2. Carmen, a 30-year-old attorney	b. Mutual funds with 80% stocks, 20% bonds
3. Indira, a 55-year-old electrician who expects to retire in 10 years	c. Mutual funds with 50% stocks, 50% bonds
	d. Mutual funds with 30% stocks, 70% bonds

STOCKS
BONDS

Explain your thinking:

Desmond: ____________________

Carmen: ____________________

Indira: ____________________

1) d. Desmond needs the income and relative safety that a higher percentage of bond funds gives him because he doesn't have income from a job anymore. He keeps a smaller percentage of stocks to guard against the effects of inflation. 2) b. Carmen can afford to accept the higher risks but higher potential reward of stocks because she has a high-paying job and has many years until retirement to weather the ups and downs of the stock market. 3) c. Even if the stock market declines over the next 10 years, Indira still has a good-size investment in bonds that will give her a secure income as she enters retirement.

CCON0065385
202012-1435737