



TIME HORIZON LESSONS
Recommended for Grades 6–8

**MONEY
CONFIDENT Kids**

Presented by **T.Rowe Price**

Diversification

LESSON 9

When it's time to invest your hard-earned money and help it grow for the future, you don't want to make your financial future dependent on a single investment.

Objective

To help kids evaluate how the concept of diversification can reduce investment risk when economic or other events hurt a particular industry or company

1 Introduce the concept of “Diversification” with the question: “Ever heard the old saying, ‘Don’t put all your eggs in one basket?’” That’s the idea behind diversification, which is really just another way of saying you should be putting your money in different types of investments to help reduce the risk of losing your money and help to achieve your long-term financial goals.

2 Define key learnings and vocabulary such as:

- Diversification:** a strategy that reduces risk by distributing funds among different types of investments
- Stock:** an investment that includes part ownership of a company
- International Stocks:** companies generally located outside the U.S.
- Portfolio:** the total of a person’s financial assets
- Investment Risk:** the chance of losing money on an investment

3 Explain the concept of “risk tolerance.” How much risk you are willing to accept for the possibility of your investments losing money is your risk tolerance. Several factors, such as age, income, and your financial goals, can affect your tolerance level. Note that your risk tolerance can change over time based on economic and/or personal life events.

4 Discuss what types of investments can help create a diversified portfolio. When investing in stocks, consider having a mix of stocks from different industries, from different parts of the world, and from different-sized companies.

- **Stocks from different industries**
Sometimes events happen that help or hurt almost all the companies in a specific sector.
- **Stocks from different parts of the world**
Consider a mix of companies based in the U.S. and other countries.
- **Stocks from different-sized companies**
It’s good to have a mix of funds with the stocks of small, medium-sized, and large companies.

5 Provide guidance that students need to monitor and rebalance their investment mix to ensure that their portfolio still fits their financial goals, time horizon, and risk tolerance. Not adjusting may lead to increased risk and exposure to investment losses.

6 Help them understand to stay focused on long-term goals, that it’s important to maintain a long-term approach with a well-diversified portfolio. This will help your investments grow over time by reducing the overall risk of your investments.

7 Have students complete the Spread It Around activity sheet, where students review the performance of different types of companies under different economic conditions. Review and point out how a diversified portfolio can help an investor guard against a disastrous decline in one industry.



- ENTERTAINMENT
- MANUFACTURING
- MEDICAL

Name _____

Economic Scenarios

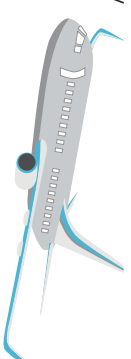
The prices of stocks go up and down for many different reasons. If a company introduces an exciting new product or has good earnings results, the stock of that company usually increases. The opposite happens with bad news for that company.

Sometimes, news affects an entire industry. If more people are buying products online, the stocks of companies that sell their products through retail stores might decline. Political unrest or a natural disaster in one country might cause many stocks located in that country to decline. Then there are events that cause most stocks to increase or decrease. Prospects for good economic times usually lift most stocks, while fear of hard times depresses the price of most stocks.

Spread It Around!

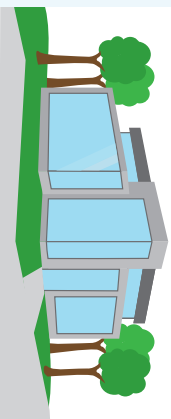
Because it's impossible to know what the future holds, it is important to diversify so that bad times for some companies don't sink your whole portfolio.

This chart shows how mutual fund **returns** can change from year to year depending on factors such as economic conditions.



PERFORMANCE CHART

Type of Fund	Year 1	Year 2	Year 3	Year 4	Year 5
Small Biotechnology Companies	+ 17%	- 37%	+ 22%	+ 10%	+ 32%
Medium-Sized Airline Companies	+ 19%	- 28%	+ 22%	+ 5%	+ 11%
Large Companies From Many Industries	+ 11%	- 6%	+ 20%	+ 7%	+ 8%
International—Large Consumer Products Companies	+ 6%	- 2%	+ 17%	- 5%	+ 6%



Review the chart above, then read through the five scenarios on the next page.

Name _____

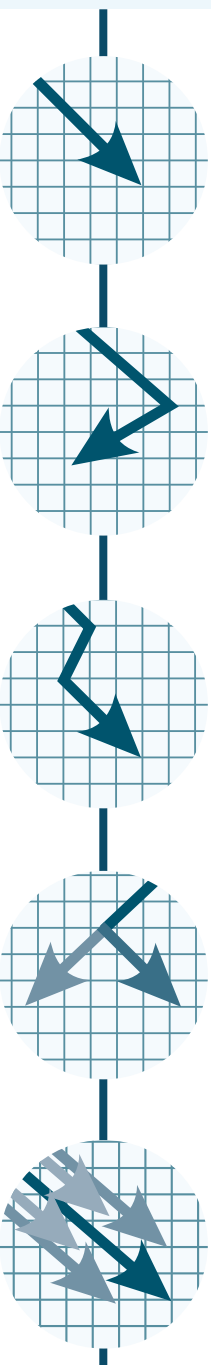
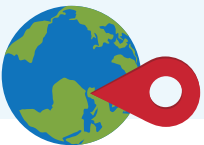
Spread It Around!

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Economic Scenarios

(Continued)

Read the five scenarios for each year, and match them to the mutual fund Performance Chart on the previous page. Notice how the economic scenarios impact whether the returns are positive or negative.



Year 1: All four funds had positive returns in a fairly stable market environment.

Year 2: The world entered a major economic recession, which caused a broad decline in global markets.

Year 3: Markets everywhere had significant gains, thanks to a broad-based global economic recovery.

Year 4: The U.S. experienced moderate economic growth, but other economies around the world declined.

Year 5: While all five funds had positive returns, the biotechnology fund soared, thanks to the introduction of exciting new biotechnology products.

Considering the industry fluctuations from year to year, explain why it is important to have a diversified portfolio.



Answer Key: Answers will vary but should explain that the stocks of different types of companies perform differently depending on economic conditions. With a diversified portfolio, losses in some areas can be offset by gains in others.