

Portfolio Management

SUBMITTED BY: Michael Moore, University of Pennsylvania

SUBJECT(S): Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

In this lesson, students will build on their knowledge of investments and risk by thinking about portfolio management. In particular, students will think about the relationship between risk and portfolio diversity. The lesson also introduces students to the concept of an investment lifecycle. During the lesson, students will think about how different people might be more or less attracted to different investment portfolios.

≡ NBEA STANDARD(S):

- Personal Finance, I. Personal Decision Making
- Personal Finance, III. Managing Finances and Budgeting
- Personal Finance, IV. Saving and Investing
- Personal Finance, VIII. Protecting Against Risk

≡ RELATED ARTICLES:

- [“Why Investors Diversify: Spreading Your Wealth Across Assets, Industries and Countries”](#)
- [“The Investor Lifecycle: Changing Priorities, Changing Portfolios”](#)
- [“Strengths, Weaknesses, Opportunities, Threats: The SWOT Analysis”](#)
- [“Portfolio Managers: The Challenge Is Picking More than One Winning Stock”](#)
- [“Portfolio Management: Making Decisions about Your Investments”](#)

- “Jeremy Siegel: Why Investors Shouldn’t Panic Over Stock Market Volatility”
- “Investing with Purpose”
- “Financial Ratios: Evaluating a Company’s Health and Worth”

Common Core Standard(s): S-IC, S-MD

Objectives/Purposes: The purpose of this lesson is to get students thinking about portfolio management. Up until this point, lessons have focused on discrete investment choices. Today students will think about portfolio diversity and contemplate how different combinations of investments might appeal to different groups. Students will also learn about the investment lifecycle, considering how to tailor portfolios to clients at different periods in their work life.

Related Articles: [Portfolio Management: Making Decisions about Your Investments](#); [The Investor Lifecycle: Changing Priorities, Changing Portfolios](#); [Portfolio Managers: The Challenge Is Making More than One Winning Stock Pick](#)

Tying It All Together:

The lesson is divided into four parts: (1) Introduction, (2) Portfolio Management, (3) Life Cycles, and finally (4) Closing

1. Introduction (3-5 mins)

As usual, begin the lesson by briefly reminding students of the previous concepts. Ask students to define investment (present sacrifice for future return) and risk (potential for loss). Have students provide examples of different investments, and then rank those investments from most risk to least risk.

Finally, remind students about the token game from the previous lesson. Is a risky investment necessarily a bad one? What is the relationship between risk and reward? (Encourage students to recognize that higher risk must be offset by higher reward—if the two are not balanced, the investment does not make sense).

2. Portfolio Management (15-20 mins)

Next, we are going to introduce the concept of a portfolio. In order to do this, it will be helpful to have concrete examples. If possible, put the different investment choices from our game back on the chalkboard/dry-erase board.

Investment 1

You will win one token each time the total of the dice adds up to an even number. You will lose one token if the dice add up to an odd number.

Investment 2

You will win 10 tokens each time the dice land on two of the same number. You will lose a token if the dice do not both land on the same number.

Investment 3

You will win 2 tokens each time both die land on the number 1. You will lose a token if the dice land in any other combination.

Investment 4

You will win 30 tokens each time the dice lands on double sixes. You will lose a token if the dice land in any other combination.

Ask students to break into groups of 3-4. Just as before, the group gets 10 tickets. However, this time, instead of spending 1 ticket per turn, the students spend all 10 tickets at once. With these tickets, ask the groups to create an investment portfolio. Define a portfolio as a “group” of investments. The team gets to choose which investments to put in the group, and in what amounts. For example, a portfolio might be 3 tickets on Investment 1 and 7 tickets in Investment 3, etc. It is up to the group to decide how to invest.

After 5-10 minutes, ask the groups to explain their portfolios. Have each group write their portfolio up on the board. Spend time comparing each group’s portfolio. Do most groups have similar or dissimilar portfolios? Why? Ask each group to carefully explain their rationale behind their choice.

Use this activity to get students thinking about portfolio management. Define “diversity” as investing in multiple, different investments. Did the students create diverse portfolios? If so, ask the students why? If not, ask the students why? Did anyone spend all of their tickets on a single investment? Is this a risky strategy?

The goal is to get students thinking about the relationship between individual risk and portfolio diversity. Through discussion (and the concrete examples), encourage students to realize that a

diverse portfolio mitigates the risk.

3. Lifecycles (15-20 mins)

This part of the lesson takes students down a slightly different path. Setting aside issues of risk and portfolio management, we want students to start thinking about an investor's lifecycle. Have students break into small groups. Give each group a different period in a person's life. For example: Young adult (16-24), Young professional (25-40), Mid-to-Late Career (40-60), Late Career and Retirement (65+).

Each group should spend 10 minutes making a list of all the financial decisions that concern someone in their specific place in life. For example, the Young Professional group can talk about salary, starting a family, saving for retirement, etc. Encourage students to create one list for "daily decision" and another list for "long-term decisions." After time is up, have each group share their lists (use chalkboard, chart paper, etc.)

Once all the groups have finished, you should have a nice timeline on the board, starting with Young Adult and ending with Late Career and Retirement. Using this time line, ask the students to think about investment portfolios. What kind of portfolio would you create for each group? It will be easiest to start this conversation by looking at risk. Who is more willing to take risks? The young adult or the late-career/retiree? Why? If a retired person loses a risky investment, does he or she have a way to earn more income to offset the loss?

Using the timeline already created, introduce students to the investment lifecycle. This includes four stages: *accumulation*, *consolidation*, *spending*, *gifting*. The *accumulation* phase happens early in life as someone begins accumulating their investments and building a portfolio. During the *consolidation* phase people have usually paid down some of their debt and begin thinking about retirement. In the *spending* phase, the investor no longer has a steady income, but instead spends his or her life savings (e.g. in retirement). Finally, in the *gifting* phase, if one ever reaches this point, the investor can afford to give their assets to others. In general, as the lifecycle progresses, investors become more and more risk-averse.

4. Conclusion (5 mins)

With the remaining time, encourage students to go over the main vocabulary of this unit: *investment*, *risk*, *return*, *portfolio*, *diversity*. Although students often think of investment as "buying stocks," teachers should encourage students to think of investment as a broad activity. When people put all of their money in a single investment, they are opening themselves to high amounts of risk. By spreading their money across investments (diversifying), they can help

mitigate that risk. However, risk often comes with a high return. It is important to think about the investment lifecycle in order to understand why different investors are more or less risk-averse.

Practice Outside of the Classroom:

Outside of the classroom, students should think about their own personal relationship to risk. Are you a risk taker? Do you prefer to spend money or save money? Do you often try new things or do you stick with your favorites?

For fun, have students do this [Simple Crossword Puzzle](#).

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