Participant Package

Holding Your Financial Future in Your Hands: The Basics of Investing

Continuing Education

(Glendon Campus)

Running Time: 1 hour 15 minutes

GLENDON | YORK UNIVERSITÉ UNIVERSITY

Introduction

Workshop Description

Holding Your Financial Future in Your Hands: The Basics of Investing

With the increasing prevalence of financial technology, there is an unprecedented ease of access to a wide variety of investment products. Though it can be an important part of long-term financial planning for those who do have some savings, investing carries both potential risks and benefits. Despite it being now easier than ever to start investing, most people remain relatively uninformed about the basic principles of investing. Understanding these principles is important for making sound financial decisions and avoiding certain financial pitfalls. As such, the objective of this workshop is to introduce participants to basic concepts in investing and equip them with the tools and information needed to evaluate the risks associated with various financial products. Through a series of interactive and engaging activities, participants will gain an understanding of the key concepts in investing, how interest works, the risks associated with investing and the importance of knowing one's own risk-tolerance level. Students will apply their math and research skills to several case studies.

NOTE: For individuals and dependents of families receiving social assistance or student aid and living on a very low income, saving to invest will be difficult and any investment gains may affect entitlements to income supports and related benefits.

Running Time: 1 hour 15 minutes

About the Authors of This Workshop

This workshop was created by Professor Brenda Spotton Visano, a distinguished Professor in Economics and Public Policy at York University's Faculty of Liberal Arts and Professional Studies (LAPS).

She is a member of the Graduate Programs in Economics, Interdisciplinary Studies, Public Policy Administration & Law, Social & Political Thought, and Sociology. Professor Brenda Spotton Visano routinely consults for agencies of the Canadian Federal Government, the not-for-profit sector, and labour organizations. She is a member of the national financial literacy research subcommittee of the Financial Consumer Agency of Canada, a Steering Committee Member of the Progressive Economics Forum, and former President of the Canadian Women Economists Network. Her research, teaching, and university service have been honoured with national, provincial and university level awards recognizing her contributions.

This workshop was adapted from Professor Brenda Spotton Visano's research project: the **York University Community Finance Project (YUCFP)**, a community-based research project that explores issues related to consumer financial services. This project was developed with a vision for the fair and equitable access to Canadian consumer financial services.

York's Experiential Education

This workshop was developed by Jian Hao Chiah, who is in his first year of a Master's in Economics and one of Professor Brenda Spotton Visano's students. Jian Hao is an international student from Malaysia.

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Overview

HOLDING YOUR FINANCIAL FUTURE IN YOUR HANDS
Workshop Objectives: • Define basic concepts in investing • Learn how simple and compound interest rates work • Identify strategies for reducing financial risk when investing • Determine one's risk tolerance level
Materials Required: • Participant package • Access to a computer or tablet with internet connection • Pen and paper
Running Time: 1 hour 15 minutes

Agenda

TIME	ACTIVITY
5 minutes	**Introduction and Presentations**
60 minutes	**Activities:**
	Stage 1 – Basic Concepts in Investing
	Stage 2 – Interest Rates
	Stage 3 – Portfolio Diversification
	Stage 4 – Risk Tolerance
10 minutes	**Additional Resources, Conclusion and Survey**
Running Time: 1 hour 15 minutes	

Workshop Outline

INTRODUCTION AND PRESENTATIONS: 5 minutes

The facilitator will present themselves, go over the day's learning objectives and agenda.

STAGE 1 – BASIC CONCEPTS IN INVESTING: 15 minutes

- **Objective:** Activate prior knowledge and define basic principles in investing.
- **Description:** The facilitator will ask you a series of questions about basic concepts in investing. You may discover you know more than you thought!

STAGE 2 – INTEREST RATES: 15 minutes

- **Objective:** Define simple interest and compound interest and differentiate between the two.
- **Description:** In this activity, you will calculate the amount of interest earned on investments that earn simple and compound interest.

STAGE 3 – PORTFOLIO DIVERSIFICATION: 15 minutes

- **Objective:** Identify strategies to reduce financial risk when investing.
- **Description:** In this section, you will act as financial advisor to the facilitator, by making investment recommendations that will maximize their returns while minimizing their risk level.

STAGE 4 – RISK TOLERANCE: 15 minutes

- **Objective:** Determine one's risk tolerance level.
- **Description:** Understanding how you respond to risk is an important part of making sound financial decisions. You will take a risk tolerance test to determine your level of risk tolerance.

CONCLUSION: 10 minutes

The facilitator will share some additional resources with you, which you can use to continue learning. You will also have a chance to share your thoughts on the workshop, ask any final questions, and complete a participation survey.

APPENDIX 1: Basic Concepts in Investing

Below are some questions that help you determine how well you understand the basic concepts of investing. Discuss with others in your group, take notes and then select one person to share your answers with the larger group.

1. What is investing?

2. What are examples of types of investments?

3. How do investments make money for the investor?

4. What are the risks of investing?

APPENDIX 2: Interest Rates

Read the case in each box carefully. Then, answer all questions.

Part A: Simple Interest Calculation

i. Jennifer invests $2,000 in an investment product at 4% interest for 1 year.

Questions:

1. Check the definition for the word "Principal" in the Glossary section of this package. What is the principal amount?

$_____

2. What will be the size of Jennifer's investment after 1 year?

$_____

Part B: Simple Interest vs Compounding Interest

ii. Ali has $3,000 to invest for 2 years at 2 %.

He has two investment options:

Option A

Ali invests $3000 for 2 years at 2% simple interest calculated at the end of each year. Ali receives this interest in the form of a cheque and deposits the money into his personal savings account.

Questions:

1. How much interest does Ali earn in Year 1?

$_____

2. How much interest does Ali earn in Year 2?

$_____

3. How much is the total interest earned?

$_____

Option B

Ali invests $3000 for 2 years at 2% compound interest* calculated annually. The interest earned in Year 1 is reinvested at the beginning of Year 2.

**The definition of compound interest is available in the glossary section of this guide.*

Questions:

1. What is the interest earned at the end of Year 1?

$_____

2. What is the interest earned at the end of Year 2?

$_____

3. What is the total interest?

$_____

Next, discuss:

i. What explains the higher interest earned in **Option B**?

ii. Other than comparing the interest earned between **Option A** and **B**, what else might Ali take into consideration when deciding between these two options?

APPENDIX 3: Portfolio Diversification

Part A: Managing Uncertainty in Investing

You have been assigned as the financial advisor to the facilitator. The facilitator is a new investor with $5,000 who knows absolutely nothing about investing.

You can choose between four different investments for the facilitator to invest in: A) Apple, B) Nintendo, C) Moderna Pharmaceuticals, or D) Air Canada. These investments represent a small portion of each company and will allow the facilitator to share in the company's profits or losses. You want to recommend a company that you think will perform well in the future and you know the following about each company:

- **Apple:** has had huge success with the iPhone in the past and will be releasing a new model this year.
- **Nintendo:** the pandemic encouraged a lot of people to start playing video games, which has increased the number of people interested in their products.
- **Moderna:** the company's profits soared after the release of their vaccine against Coronavirus, which uses new mRNA technology. They intend to produce other vaccines using the same technology.
- **Air Canada:** although profits dropped during the pandemic, people are itching to start travelling again. The company announced that they anticipate a massive surge in the number of travellers in the coming year.

1. The facilitator needs to choose only one investment. Choose ONE of the following investments that you think will go up in price, to recommend to the facilitator.

Investments' Value Change in Percentages:

☐ Investment 1 – Apple: Earning / Loss:_____ %	☐ Investment 2 – Nintendo: Earning / Loss:_____ %
☐ Investment 3 – Moderna: Earning / Loss:_____ %	☐ Investment 4 – Air Canada: Earning / Loss:_____ %

Now, assume that 1 month has passed since the facilitator invested all their $5,000 into the investment you recommended.

2. Based on the "1-month percentage change in prices for each investment" displayed on the PowerPoint, calculate:

a. How much money did the facilitator lose?
$_____

b. What percentage of the facilitator's $5000 investment did they earn or lose?
_____ %

Part B: Risk Management with Portfolio Diversification

Consider the following scenario:

Instead of investing your $5000 into a single investment, imagine that you chose to diversify by dividing the $5000 equally among all four companies (i.e., 25% in each investment from **Part A**).

Assume that: this time around, you leave your money for 1 month. None of the investments change in value EXCEPT for Investment 4 (Air Canada), the value of which has dropped by exactly 20%.

Questions:

1. How much did the facilitator lose as a percentage of their $5000 investment?

_____%

2. If the facilitator had placed all their money into Investment 4, what percentage of their initial $5000 investment would they have lost?

_____%

3. Which investing strategy can lead to a lower investing risk?

- ☐ Investing all money in a single investment
- ☐ Investing in a diversified portfolio

APPENDIX 4: Risk Tolerance

Visit the **7.1.7 Risk tolerance — it's about you** webpage and take the risk-tolerance self-assessment test, then click "Score".

Scroll down to the bottom of the webpage and record your risk tolerance self-test results into the space provided below.

Score: _____

Describe your risk tolerance:

Suggested example of portfolio:

- Speculative (High Risk): _____%
- Moderate risk: _____%
- Low Risk: _____%
- Cash and cash equivalents: _____%

Do you agree with the test result?

☐ Yes ☐ No

Explain why or why not below.

Additional Resources & Information

FCAC – Money and finances: Financial information from the Financial Consumer Agency of Canada (FCAC). There's information about money management, debt, investing, planning for retirement and protecting oneself against consumer fraud.

- https://www.canada.ca/en/services/finance.html

FCAC – Module 7: Investing: An online module from the FCAC, which outlines the basics of investing so that learners can choose the approach to investing that suits their needs. It is part of a more comprehensive program ("Your Financial Toolkit") about managing one's finances.

- https://www.canada.ca/en/financial-consumer-agency/services/financial-toolkit/investing.html

FCAC – Risk tolerance — it's about you: A self-assessment test on risk tolerance.

- https://itools-ioutils.fcac-acfc.gc.ca/yft-vof/eng/invest-1-8.aspx

Government of Canada – The Basics of Investing: A webpage that introduces some basic investing concepts and contains a glossary of investment terminology.

- https://www.canada.ca/en/financial-consumer-agency/services/savings-investments/investing-basics.html

Government of Canada – Investment Calculator: An online investment calculator from the Bank of Canada that allows user to factor in the impact of inflation on the real value of their investment.

- https://www.bankofcanada.ca/rates/related/investment-calculator/

Bloomberg – Stocks: A webpage which displays up-to-date stock market data by Bloomberg.

- https://www.bloomberg.com/markets/stocks

Glossary

Bond: A certificate you receive for a loan you make to a company or government. In return, they promise to pay you interest at a set rate and to repay the loan on a set date.

Cryptocurrency: A type of digital currency created using computer algorithms. As opposed to the Canadian dollar and other official currencies, they do not exist in paper form and are not supported by any government or central authority. Currently, the most popular cryptocurrency is Bitcoin.

Compound interest: The interest earned is calculated on the principal amount plus accumulated interests of all past time periods. The result is that your investment grows at an increasing rate.

Diversification: Having a mix of investments in different asset classes. This can help you to reduce risk.

Interest: Money paid regularly at a particular rate for the use of money lent, or for delaying the repayment of a debt.

Interest rate: The interest percent that a bank or other financial company charges you when you borrow money, or the interest percent it pays you when you keep money in an account.

Investment: A financial product purchased that will increase (or decrease) in value over time. Though an investor most often hopes that their investment will grow over time, no investment is certain.

Mutual fund: A mutual fund is a type of investment in which the money of many investors is pooled together to buy a portfolio of different stocks. A professional manages the fund. They invest the money in stocks, bonds, options, money market instruments and/or other securities.

Portfolio: A collection of financial investments such as stocks, bonds, and more.

Portfolio diversification: An investment strategy that involves purchasing a mix of investments to reduce risk.

Principal: The original amount of money that is lent to a borrower or put into an investment, on which interest is paid.

Risk: The potential of losing your money when investing, or the level of uncertainty regarding what you will earn or lose on your investment.

Risk tolerance: How comfortable you are with risk and not knowing what you will earn or lose on your investment.

Share: A unit of ownership in a company.

Simple Interest: The simple interest earned is calculated on the principal amount only.

Stock: A stock is a unit of ownership in a company which is bought and sold on a stock exchange. Stocks are also called “shares” or “equities”.

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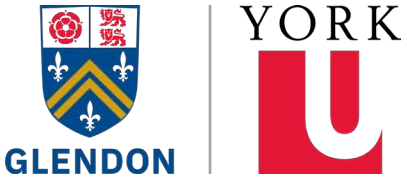

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www.glendon.yorku.ca/brainboosting

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