

Mutual Funds & Exchange Traded Funds as Investment Tools

SUBJECT(S): Personal Finance

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

≡ NBEA STANDARD(S):

- Personal Finance, IV. Saving and Investing

≡ RELATED ARTICLES:

- “The Investor Lifecycle: Changing Priorities, Changing Portfolios”
- “Student Essay: Saving for Retirement: ‘Time Is on Our Side’”
- “Portfolio Managers: The Challenge Is Picking More than One Winning Stock”
- “Financial Ratios: Evaluating a Company’s Health and Worth”
- “Exploring the Business of Money with a Few ‘Girls Who Invest’”
- “Deconstructing the Investment Bank”

TOPIC/COMPETENCY: Investing: Mutual Funds and Exchange Traded Funds

CEE National Standard:

V Investing Standard 3 –(Grade 12)

Jump\$tart National Standard:

II Investing Standard 2-D: Evaluate investment alternatives

Common Core State Standard:

CCSS.ELA-LITERACY.RI.9-10.1

CCSS.ELA-LITERACY.W.9-10.4

LESSON TITLE: “Discovering the Power of Mutual Funds & Exchange Traded Funds as Investment Tools”

CONTENT STATEMENT: What are the key reasons why people would want to consider investing in Mutual Funds and Exchange Traded Funds (ETFs)

LEARNING OBJECTIVE: Describe the reasons why investors might want to invest in either Mutual Funds or Exchange Traded Funds; practice calculating the NAV (net asset value) of a Mutual Fund

ESTIMATED TIME: 50 minutes class time; 50+/- minute assessment at home

MATERIALS NEEDED: Internet access for instructor and [Mutual Funds Answer Sheet](#); Projector; access to calculators; printed copies (or access to digital versions) of the five recommended K@W articles about Mutual Funds and Exchange Traded Funds topics included in this lesson

KEY VOCABULARY/TERMS: Exchange Traded Fund, Net Asset Value (NAV), [Liability](#), Load Fund, [Mutual Fund](#), No Load Fund , [Public Company](#)

WHY THIS MATTERS TO YOU NOW: In your adult life, there is a good chance that in one way or another, you will have a vested stake in the U.S. stock markets. This may be due to your decision to fund your own retirement nest egg through personal investments, or your employer may encourage your contribution to retirement investment tools through employee-contribution accounts. Taking steps now to begin your education on investment tools that can help establish and build net worth is worth your “time investment” in this lesson!

Activities – 5 minutes

- Motivational hook / activity – Create interest in the material; Answer the question: “Why do I need or want to learn this material?”
 - Ask students “What do you think of when you hear the term “mutual”?”
 - Answers: sharing, common, two or more people, etc...
 - Ask students “What do you think of when you hear the term “fund”?”
 - Answers: money, a sum of cash, etc..

- Redirect — Since we've been talking about investments, we're going to look at some more investment choices that bring many investors together. This type of investment is called "Mutual Funds"

Comprehension – 25 minutes

- Show this video to help students understand how and why investors are attracted to buying Mutual Funds: <https://www.youtube.com/watch?v=ngfKXvfzC74>
- Students should take some notes and then you will debrief the class after viewing the video with these questions:
 - Where are Mutual Funds traded?
 - What are some of the main benefits of investing in Mutual Funds?
- What does a "Prospectus" document provide an investor?
- What type of risk is associated with Mutual Funds?
- Who makes the decisions about what types of stocks and how much (what percentage)?
- What is the goal of the Fund Manager?
- Is it possible for the Mutual Fund to perform poorly in the markets?
- Is the fund manager always paid?
- List ways investors make money from Mutual Funds.
- What type of Mutual Funds can someone invest in?
- Can Mutual Funds have certain objectives?
- Help students also learn this concept: What is an ETF – Exchange Traded Fund?
 - Show this 1:47 length video clip & ask students to take notes
<https://www.youtube.com/watch?v=GtlzSpoDags>
 - Debrief with general discussion
 - Ask students to point out differences between Mutual Funds and ETFs
- **Practicing – 10-minutes**
 - Remind students that the value of Mutual Funds and Exchange Traded Funds are only calculated once per day, at the end of the trading day.
 - Formula to calculate NAV is...

Value of the Fund's Portfolio – Liabilities divided by the Number of Shares Outstanding

- Practice figuring NAV with these problems:
 - Cassidy and Henry own 100 shares in the “American Landscape Mutual Fund”. The value of the fund’s portfolio is \$124 million. The liabilities of this fund total \$4 million. If this mutual fund has 6 million shares outstanding, what is the net asset value of each of the shares that Cassidy and Henry own? What is their total investment in this mutual fund worth?
 - Tennika has been investing in mutual funds for her retirement. She owns shares in a fund that has a portfolio value of \$220 million. This fund’s liabilities total \$6 million and it has 8 million shares outstanding. What is the net asset value of the shares in this fund that Tennika has been investing in?

- **Assessment** – (complete at home)

Students will demonstrate knowledge of the differences between Mutual Funds and Exchange Traded Funds by creating a graphic organizer that will serve as their assessment. They may choose from any of the following to create their design: Table, Spider Design, T-Chart, Poster, Brochure, Power Point, Haiku Deck

- **Apply/Going Further/Homework**
- Invite students to read these articles found on the Knowledge@Wharton archives and write a one page report on their selected reading
 - <https://globalyouth.wharton.upenn.edu/articles/portfolio-managers-the-challenge-is-making-more-than-one-winning-stock-pick/>
 - <http://knowledge.wharton.upenn.edu/article/exchange-traded-funds-whats-the-big-deal/>
 - <http://knowledge.wharton.upenn.edu/article/if-index-funds-perform-better-why-are-actively-managed-funds-more-popular/>
 - <http://knowledge.wharton.upenn.edu/article/why-youth-matters-in-actively-managed-funds/>
 - <http://knowledge.wharton.upenn.edu/article/passive-but-powerful-how-index-funds-exercise-their-clout/>
 - <http://knowledge.wharton.upenn.edu/article/scale-skill-hard-managed-funds-beat-indexers/>

