Module 4
Session 9

Investing

Lesson summary

At a time when our money needs to work harder to achieve our financial goals, this session introduces the world of investing and explores common types of investment and how to minimise the risk of investing.

Learning Objectives

To be able to talk about common types of investments and assets

To be able to understand the difference between Advised and non-advised investing

To be able to take steps to understand and manage the risk of your investments

Lesson preparation

1. HSBC UK PowerPoint slides to facilitate lesson: Module 4 Session 9 Investing
2. HSBC UK worksheet M4W8 to carry on activity
3. HSBC UK Stretch Challenge M4SC9 to further embed learning as homework or a class project
4. Refer to HSBC UK additional resources to build up subject knowledge
5. Refer to HSBC UK additional resources for guidance on lesson disclaimer

Essex Year of NUMBERS | HSBC UK

Slide 2: Important information – 2 mins

Financial Information Disclosure: Please read this to the young people to help them understand the limits of the questions they can ask during this session.

As investments are regulated financial products, we can only talk factually about the benefits and features of the different investing methods not specific products.

Set the expectation and maintain it through out the lesson. This is to protect you from difficult questions and the young people from any financial losses. Please refer to supporting resources for further guidance on this.

Slide 3: Investing money – 2 mins

Ask the group: What do we mean by investing?

CLICK to reveal answers:

- Investing is putting your money into something you believe will go up in value over time
- You could invest in assets to sell later for a profit or invest into stocks and shares to earn interest
- Ideally you should aim to invest for at least 5 years

Ask the group: What is the difference between saving and investing?

CLICK to reveal answers:

- For short term goals, saving makes more sense as you will receive the advertised AER and not have to worry about the risk of the investment losing value
- For longer term goals, investments could earn you a greater return as the value of cash savings may be eroded by inflation

Slide 4: Investing for long-term goals – 5 mins

Group work: Ask young people to refer to the M4W8 worksheet from the previous session and to discuss in groups what they identified as long-term savings goals then feedback to class.

Anything can be a long-term savings goal if that is the time you need to achieve your goals.

Ask the group: What are some long term goals that we might invest for?

CLICK to reveal some examples:

- Starting a business/dream trip: Build a lump sum to pay a large cost you may not be able to afford normally
- Support for children/grandchildren/care arrangements: Ongoing costs for private schools, health care, care homes can be met by saving in advance
- Extra income or to pay off your mortgage earlier: Use the yearly/monthly interest generated from investments to top up your income. You could end up spending more or choose to pay off debts quicker
- Retire earlier or more comfortably: By using compound interest and employers pension schemes you could find yourself able to retire early or keep working to ensure an even more comfortable retirement

---

Slide 5: Investing myths – 8 mins

Group work: Look at these statements and discuss in groups. Which ones are myths? If one is a myth what do you think the correct answer should be? Then feedback to class

ONLY OLD PEOPLE: CLICK to reveal >>> Anyone 18+ can invest.

YOU HAVE TO BE RICH: CLICK to reveal >>> This might have been true in the past but now we have online platforms and online investment advice services which are more mainstream. You can start investing with a minimum of £50.

TOO RISKY: CLICK to reveal >>> Of course there are risks involved with investing. That's why it always comes with the warning: 'you may not get back what you invest'. The key is to understand the risks involved and how can they change over time. That way you can make an educated decision.

LOCKS YOUR MONEY AWAY: CLICK to reveal >>> You can absolutely access your money at any time. However, investment should be seen as long-term commitment and you should aim to hold it for at least 5 years. The longer you hold an investment, the more chance you have of seeing returns.

TOO COMPLICATED: CLICK to reveal >>> It is always important to do your own research and your bank will have specialist teams of investment professionals who will carefully select the investment in the funds on offer, and others who actively manage them on your behalf.

QUICK WAY TO GET RICH: CLICK to reveal >>> Social media influencers might suggest it's easy to make money on high-risk investments. But don't be fooled. Markets tend to reward long-term investors.

Slide 6: Common investment methods – 4 mins

Ask the group: What do you think is in a financial plan? Why do people use them?

Explore some of the common investing methods available once you turn 18:

Share dealing

- **Equities, stocks, and shares are all words used to describe owning a stake in a company.** When you buy shares, you're effectively buying a small stake in a company. If the company performs well - or is expected to perform well - demand for its shares will generally increase, pushing the share price up. If the company does - or is expected to do - badly, the share price will generally drop.
- **You can buy shares from trusted websites.** There may be some startup/yearly fees to register and maintain that account. These are considered liquid assets as they are easy to transfer back into cash in comparison to selling a possession or property etc.

- **However, share dealing can be a time-consuming practice** as you would need to check in with the performance of your individual stocks regularly. You might also find that you are out of the loop in comparison to professionals who are making decisions on what to buy or sell every day.
- **There is a high level of risk** only investing in one type of company or industry and we may make emotional decisions on our purchases and sales of stocks instead of financial ones.

Funds

- **Funds are a ready-made basket of investments.** When you invest in funds, you're buying into a mix of assets, which may include shares, property, government bonds and cash.
- **Funds save you from trying to pick individual investments that you think will perform best.** This is managed by a professional on your behalf. Your money goes into a range of investments. This is known as diversification.
- **Financial institutions will have different funds available depending on the level of risk** you are happy to take.
- **However, by investing in funds you can lose some control over decisions on where your money is invested** - in certain industries or companies.
- **You would also pay a higher yearly fee** in comparison to share dealing as you need to pay for the management of the fund.

Stocks and Shares ISAs

- **Also known as an investment ISA** – is a tax efficient investment account.
- **A stocks & shares ISA allows you to invest in a wide range of shares, funds, investment trusts and bonds.**
- **A stocks & shares ISA allows £20,000 in tax-free deposits during the 2023/24 tax year** (this amount may change year on year), meaning you don't pay any tax on the money you earn.
- **You can use a S+S ISA for your share dealing or to pay into a fund.** This means you would gain the pros and cons from those investment types as well.
- **However, you need to remember the maximum deposit of £20,000 per year** and that the government can change the rules and procedures for ISAs each year during the spring and autumn budgets so this could affect your long term plans.

Slide 7: How to invest – 5 mins

Ask the group: How do you think we can set up an investment?

CLICK to reveal answer:

Do-It-Yourself, also known as Non-Advised

- You choose what to invest in by yourself without the use of professional advice
- You choose the individual stocks you want to invest in
- You choose the funds you want your money to be invested in
- No advice fee to be paid

Ask the group: What could be the risk of Non-Advised investing?

- We may not know enough to make the decisions on where to invest
- We may not have considered all the risks
- We may be acting on impulse and trying to find a quick win
- We would be competing with people who do this professionally

CLICK to reveal information about Financial Advice:

Advice from a financial advisor

- Professional investment advice from a financial advisor
- There may be minimum criteria you need to meet to qualify for the advice
- A holistic review would include investments, pensions, protection policies etc. They may also advise you to prioritise debts, building emergency funds etc before investing
- You would need to pay a fee for this service (usually 1-2% of the amount you are looking to invest)

Ask the group: You will need to consider if the advisor is independent or restricted? What's the difference?

- **Independent** – Can look at the whole market to find suitable investments and protection polices for their customer
- **Restricted** – Only work with select providers to recommend products however they may have greater specialisation in those areas

CLICK to reveal information about Robo Advice:

Robo-Advice

- Robo-advice is online investment advice
- Usually you will complete a series of questions online to get advice generated by the robot
- They gather information about you and your risk profile to make suitable recommendations
- Often robo-advice has lower advice fees to get investment advice in comparison with face-to-face providers

However, before you decide to invest you should also check if the company is regulated by the FCA. What does FCA stand for?

Financial Conduct authority: Every legitimate financial institution is registered with them, and they regulate the behaviours and policies in the UK financial industry. If the company doesn't appear on their list, this is a red flag that could be fraudsters.

Slide 8: Importance of compounding interest – 3 mins

Ask the group: Who can remind me what compound interest is from our previous lesson?

Compound interest is the addition of interest to the interest on the principal sum or in other words, interest on interest. It is the result of reinvesting interest, rather than paying it out, so that interest in the next period is then earned on the principal sum plus previously accumulated interest.

This is even more important when we consider our long-term saving and investing.

Here you can see an example:

Jill saves £5,000 per year from the age of 25 to 35, then stops contributing but remains invested. Total contribution £50,000 and cashes out in retirement with £450,000

Jack starts saving later at 35 but pays £5000 every year until retirement at 65. Total contribution £150,000 and cashes out in retirement with £400,000

Jack has paid x3 into his account compared to Jill but has ended up with a smaller final total because he couldn't overcome the ten-year head start of compound interest she had built up

This example assumes we received a return of 6% every year but remember the value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested

This graph was generated for information use only and does not constitute investment advice.

Slide 9: Risk questionnaire and priorities – 3 mins

When you are approaching an advisor or an institution for financial advice, they will often have requirements before putting those investments in place to help minimise the risk to you as a customer. You would need to review these yourself if you are looking to complete non advised investments:

Discover Your Goals: Your advisor will want to get to know what is important to you, where your money has come from and your timescales to make sure they are making the best recommendations for your circumstances.

Risk Questionaries: Help the advisor to understand your risk appetite for the different investment products. Risk attitude is subjective and is likely to be influenced by current events or recent experiences.

Fact Sheets: Funds or ISA's will have fact sheets. The fact sheet will only tell you about the historic performance of the fund and the breakdown of the fund's contents. You should ask for your advisor's help reading this if needed.

Diversification: Advisors will often tell you not to put all your eggs in one basket. This means diversifying your investments into different companies, industries and countries to minimise the risk of being invested in one place only.

Budgeting/Outgoings: Advisors will want to review your budget so they can understand your wider financial picture before giving you financial advice. If you've got unsecured interest-bearing debts, such as credit cards and loans, you should pay them off first before investing.

Emergency Fund: Before you invest you should ensure that you have an emergency savings fund worth 3 to 6 months of your living costs in place. This way, you'd have money available to cover unexpected costs, without needing to dip into your investments. It may not be the best time to sell those shares if you needed the money back fast.

Slide 10: Understanding risk – 10 mins

Group work: Say you are going to give every person in the room £1,000. Ask them to get into a line based on how much risk they are prepared to take with their £1,000 investment being clear which end of line is most risk and which is least risk.

Once all votes cast, click to reveal the asset classes.

When share dealing or looking into the contents of a fund It is important to know how much risk/reward impact the assets could have on our investments:

Cash

Ask the group: See who in the group were the most risk adverse – check if they are happy with the idea of having cash investments.

These are your everyday savings accounts. There is no risk as you will receive the advertised interest. However, this interest rate may be below the rate of inflation so your savings may not keep up with the cost of living.

Property

Ask the group: Check who was in this category and what they think of investing in property.

This could be housing, office space, land, shop fronts. Property investment requires large amounts of capital to invest directly in property so it may be cheaper to invest indirectly via a fund. The values can rise and fall slower than for other types of investment.

Governments Bonds

Ask the group: Speak to the members of the group who were in the central part of the line. How do they feel about investing in government projects?

Issued by the UK government to finance projects and spending. It can pay out interest across life of bond or at the end of the bond. Low risk of default as government backs the bond.

Shares/Equities

Ask the group: We are getting to the risk takers in the group now. Who from this group likes the idea of investing in individual companies. Does it feel risky?

Investing in individual companies: Investment is reliant on that company's good performance. Avoid putting all your investments into one company/industry as if this performs poorly it will dramatically affect your investment.

Emerging Markets

Ask the group: Speak to the biggest risk takers of the group. So they'll be investing in developing countries with less assurances than for shares and equities. How do they feel about this?

Investing in developing countries. Countries may not have same protections in place for customers. Could be subject to political and economic extremes but there could also be greater room for growth.

Group work: Now that we know more about the asset classes, would any of you like to change your investment risk by moving to a different place on the line?

Question why or why not they made a change.

Slide 11: Diversification – 3 mins

Historical performance data tells us that the best performing assets aren't the same every year. It is important that we don't put all our eggs in one basket to minimise the risk of poor performance. Let's have a closer look at how this works.

Scenario 1:

For this we are going to imagine our investments are balanced on this table. It only has 1 leg as it is only invested in one place. If that leg is kicked out from our table, then we are going to lose our money.

CLICK to demonstrate this.

If all of our money is in one place then there is no spreading of risk and we are entirely dependent on one asset for our growth.

Scenario 2:

Now we are going to add two more legs to our table by diversifying into different industries. This time when the table is kicked, we have managed to save some of our money via the other legs.

CLICK to demonstrate this and run through example of different types of industry.

Real estate, healthcare, manufacturing, technology, utilities, consumer goods etc

Scenario 3:

Now we are going to add even more legs onto our table by diversifying by industry and country. This time when the table is kicked, we are only losing a small amount of our money.

CLICK to demonstrate this. By having our money invested in multiple industries across multiple countries we have fully diversified the risk of our investments. We can never eliminate it but can take steps to manage it.

Slide 12: Diversification in your life – 3 mins

Let's have a look at diversification in your everyday life.

Pick one outfit for all social events vs a wardrobe of outfits for all social event:

Ask the group: What would be the risk if you didn't have a diverse wardrobe?

Pick one revision topic vs a revision schedule with a mixture of topics.

Ask the group: What would be the risk if you didn't revise all the topics?

Pick one song to listen to forever vs a playlist for all occasions.

Ask the group: How would feel if you were dependent on that one song and you got tired of it?

Ask the group: What other examples can you think of?

In real life and in investing, we need to protect ourselves by ensuring we don't keep all of our eggs in our basket.

Slide 13: Stretch Challenge

This can be used as you see fit for a homework, group project or additional lesson during school hours. Stretch Challenge worksheet M4SC9 provided to record answers.

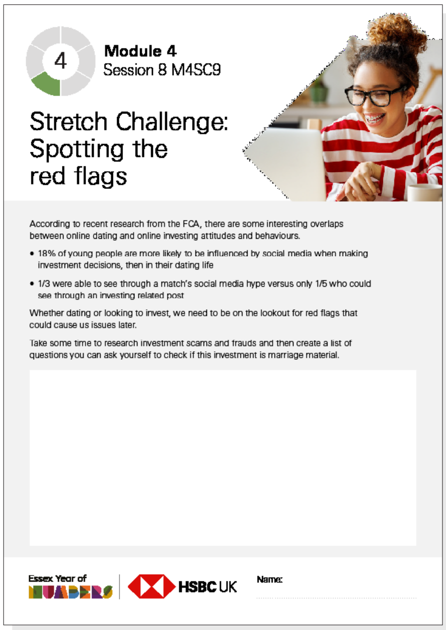
Stretch Worksheet M4SC9

According to recent research from the FCA, there are some interesting overlaps between online dating and online investing attitudes and behaviours.

- 18% of young people are more likely to be influenced by social media when making investment decisions, than in their dating life
- 1/3 were able to see through a match's social media hype versus only 1/5 who could see through an investing related post

Whether dating or looking to invest, we need to be on the look out for red flags that could cause us issues later.

Take some time to research investment scams and frauds and then create a list of questions you can ask yourself to check if this investment is marriage material.


4
Module 4
Session 8 M4SC9

Stretch Challenge: Spotting the red flags

According to recent research from the FCA, there are some interesting overlaps between online dating and online investing attitudes and behaviours.

- 18% of young people are more likely to be influenced by social media when making investment decisions, then in their dating life
- 1/3 were able to see through a match's social media hype versus only 1/5 who could see through an investing related post

Whether dating or looking to invest, we need to be on the lookout for red flags that could cause us issues later.

Take some time to research investment scams and frauds and then create a list of questions you can ask yourself to check if this investment is marriage material.

Essex Year of NUMBERS | HSBC UK

Name:

Important Information

Disclaimer