Consumer choice
Bite-size activity

moneysmart.gov.au

Why investing can be risky (Year 7–10)

30-45 mins

Planning to get rich quick by investing one day? Before you jump in, understand some of the risks involved with different types of investments. This resource has been developed with ABC education.

Outcomes

Students:

- Understand the purpose and different types of investing.
- Use technology to compare and analyse investment options.

Curriculum links

Mathematics (Year 7-10)

- Understanding that financial decisions can be assisted by mathematical calculations. (ACMNA211).

Economics and Business

- Investigating alternative sources of income such as through owning a business, being a shareholder, providing a rental service (ACHEK020).
- Factors that influence major consumer and financial decisions and the short- and long-term consequences of these decisions (ACHEK053).

Required resources

- ABC Video: My five cents: Why investing can be risky (2:08) – video transcript available on page 2.
- Moneysmart Savings goals calculator

Discovery (15 mins)

Investment concepts

Reflect on the following:

- The purpose of investing (wealth preservation vs get rich quickly).
- Goals you want to achieve in the next 5, 10, 20 years. List some ideas on how you plan, budget and save to achieve your goals.

Watch ABC video: My five cents: Why investing can be risky (2:08)

- List the terms that stand out to you as you watch the video eg: invest, shares, returns, risk, reward, profit, wages, high interest, long-term growth, calculated risk, bankrupt.
- Search definitions of these words using the search function on moneysmart.gov.au

Get practical (30 mins)

Real-life examples

Use the Moneysmart Savings goals calculator to complete the following:

Exercise 1: Using the ‘I want to save as much as possible’ button, investigate the following investment options.

Option A – Saving account with a bank	Option B - Shares
How much money will Lilia have if she starts with $1,000 and earns 3% interest per year for 10 years? She has no regular savings.	How much money will Lilia have if she invests $1,000 in shares for 10 years and earns 6.5% per year? She has no regular savings.

Exercise 2: Calculate how long it will take to double the money saved for each investment option in Exercise 1. (Hint: if you take 72 and divide it by the interest rate you can earn, you'll get an estimate of the number of years it takes to double your money.)

Exercise 3: Decide which investment option is better by discussing the risks involved with each option.

Exercise 4: Read the scenario below:

‘Gold Diggers’ is a mining company in Western Australia. Their share price has increased by 30% in the past 5 years. Recently, they purchased a new gold mine but had to spend $100 million in fixes and upgrades. Due to the upgrades, the gold mining will only begin after 2 years. The managers decided not to pay earnings to shareholders (dividends). After this announcement, their share prices fall by 10%.

Discuss the advantages and disadvantages of buying shares in ‘Gold Diggers’. In your response, consider short and long-term advantages and disadvantages. To research more about shares, go to: moneysmart.gov.au/shares

Video transcript - My five cents: Why investing can be risky

[music plays]

Gen Fricker: Who wants to be a Gazillionaire, (ah, ah, so much money). Yes, please!

People often tell you that to get rich, you should invest. Investing is putting your money in something that you think will go up in value so you get a profit that's called a return. But investments also come with the risk you won't get a return or you might even lose money.

When and how you invest depends on your goals. Lilia wants to backpack around Europe after uni, so she's working part time and saving. If she puts her wages in a high interest savings account, at the end of her degree, she will have what she has earned plus a little bit of interest. It's low risk, but not a big return.

Lilia's brother suggested she buy some shares with her savings. Shares are tiny pieces of a company's value that a traded for money on the Stock Exchange. Shares can go up and down in value very quickly and that's very risky. If the value of her shares is down when she graduates, she may have less money than if she had put it in the bank.

So why would you ever take risks with your money? Well, people mostly expect higher returns when they take more risk. Let's say, Lilia's goal was to get enough money to start her dream lipstick business by the time she's 30. She decides to invest in shares that have shown long term growth. She makes a calculated risk. She knows she can ride out the ups and downs in the share market. Because of this, she might get a much higher return over time.

Thank goodness she didn't invest in her mate Jeff's dating app for pets, which promised quick high returns, but went bankrupt!

My 5 cents is, this investment stuff can be risky business, but anyone can do it if they have a clear plan in place.