



JA FINANCIAL LITERACY®

Student Guide

UNIT 4: PLANNING FOR THE FUTURE & FINANCIAL INDEPENDENCE

Topic 2: Investing Basics & Asset Growth

NAME: _____

DATE: _____

PRE-QUIZ

Investing Basics & Asset Growth

What + Why: A quick, ungraded check on what you already know—your answers help shape the learning ahead. It's okay not to know—just give it your best shot.

Instructions:

1. Answer each question as best you can.
2. Circle the best answer for each question.
3. Submit it when you're done.

1. How does having a longer investment time horizon typically affect an investor's asset allocation?
 - ☐ a. Having a longer investment time horizon requires keeping all funds in low-risk cash accounts.
 - ☐ b. Having a longer investment time horizon may allow the investor to take on more risk in pursuit of higher long-term growth potential.
 - ☐ c. Having a longer investment time horizon guarantees protection from market losses.
 - ☐ d. Having a longer investment time horizon guarantees higher returns.
2. Why does diversification help manage investment risk?
 - ☐ a. Diversification guarantees that all investments will earn positive returns.
 - ☐ b. Diversification prevents losses during market downturns.
 - ☐ c. Diversification spreads investments across different assets so losses in one area may be offset by gains in another.
 - ☐ d. Diversification concentrates investments in a single asset class to maximize gains.

3. What distinguishes a real return from a nominal return?
- ☐ a. A real return accounts for inflation, while a nominal return does not.
 - ☐ b. A nominal return adjusts for inflation, while a real return shows the original rate of return.
 - ☐ c. A real return reflects the original investment amount, while a nominal return reflects growth.
 - ☐ d. A nominal return always shows a higher profit than a real return.
4. What is a primary goal of active investing?
- ☐ a. to outperform a market benchmark by selecting investments expected to perform better
 - ☐ b. to match the performance of a market benchmark as closely as possible
 - ☐ c. to reduce costs by minimizing buying and selling
 - ☐ d. to eliminate market risk through diversification

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CASE STUDY

Amara at 23

What + Why: Read Amara's situation and think about which advice stands out to you and what gives you pause.

Supporting Materials:

Topic 2: Introduction (Case Study)

**Instructions:**

1. Read the **Topic 2: Introduction**.
2. As you read, pay close attention to the three pieces of advice Amara receives.
3. After reading, discuss with a partner:
 - Which piece of advice sounds most convincing to you right now?
 - Why?

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REFLECTION

What Should Drive Investment Decisions?

What + Why: Reflect on what factors should guide investment decisions and explain why those factors matter.

Investment decisions don't all lead to the same outcome. As you respond, think about what separates one choice from another.

Reflect

What three things should someone consider before choosing an investment strategy, and why does each matter?



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ACTIVITY

Match the Investor

What + Why: Match different investors to their strategies to figure out how people make investment decisions based on how they think and what they want.

Instructions:

1. Read each investor profile card.
2. Match each investor to a strategy by selecting it on the card:
 - **Conservative:** generally lower growth potential with lower volatility
 - **Aggressive:** higher growth potential with higher risk and volatility
 - **Diversified:** investments spread across different types
3. Explain the reasoning for your choice.

Investor 1—Malik



- 🔄 Age: 22
- 🎯 Goal: Saving for retirement in approximately 40–45 years
- 📍 Situation: Just started working full time
- 😊 Personality: Comfortable with ups and downs if it may lead to greater long-term growth

What is the best strategy for this investor?

☐ Conservative

☐ Aggressive

☐ Diversified

Why did you choose this strategy for Malik?

Investor 2—Elena



-  Age: 35
-  Goal: Saving for a child's college in 5 years
-  Situation: Has been saving consistently
-  Personality: Wants growth but is worried about losing money close to the deadline

What is the best strategy for this investor?

☐ Conservative ☐ Aggressive ☐ Diversified

Why did you choose this strategy for Elena?

Investor 3—Luis



-  Age: 45
-  Goal: Building a financial cushion with no set timeline; needs flexibility to access the money at any time
-  Situation: Self-employed with income that changes month to month
-  Personality: Prefers stability and flexibility

What is the best strategy for this investor?

☐ Conservative ☐ Aggressive ☐ Diversified

Why did you choose this strategy for Luis?

Investor 4—Tessa



-  Age: 28
-  Goal: Saving for a home down payment in the next 2–3 years
-  Situation: Has saved some money already
-  Personality: Very uncomfortable with losing money

What is the best strategy for this investor?

☐ Conservative ☐ Aggressive ☐ Diversified

Why did you choose this strategy for Tessa?

Investor 5—Darius



-  Age: 30
-  Goal: Building long-term wealth over the next 30–35 years
-  Situation: New to investing
-  Personality: Wants strong growth but gets nervous when values drop

What is the best strategy for this investor?

☐ Conservative ☐ Aggressive ☐ Diversified

Why did you choose this strategy for Darius?

NAME: _____

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ACTIVITY

Diversification Deep Dive

What + Why: Test how different ways of investing affect your results when the market changes.

Investors don't always know what's going to happen in the market. Prices can change quickly, and different types of investments react in different ways. In this activity, you'll test how spreading your money across different investments can influence your outcomes when the market rises or falls.

Instructions:

1. Complete three rounds of investing using \$1,000.
2. After each round, a market event will occur.
3. Calculate what your investment is worth after each round.
4. Be ready to explain what changed and why.

Round 1

The stock market is commonly divided into **sectors**: categories of companies that are in the same kind of business.

The one sector our group chooses for the \$1,000 Investment:

- ☐ Tech
- ☐ Health care
- ☐ Energy

Our Team's Roll: _____

Impact from Market Event: _____

Your Ending Value: \$ _____

Round 2

An **asset class** is a broad category of investments that behaves differently than other categories.

- **Stocks:** Represent public ownership in companies. Prices can grow a lot or drop a lot.
- **Bonds:** Loans you make to governments or companies. Bonds are often more stable than stocks and may sometimes hold steadier value during stock market declines.
- **International:** Stocks or bonds from companies and governments outside the U.S. The stocks and bonds are affected by different economies and events rather than U.S. markets, so the stocks and bonds will grow or drop differently.

Our team split the \$1,000 investment across the asset classes this way:

Stocks: \$ _____

Bonds: \$ _____

International: \$ _____

Our Team's Roll: _____

Impact from Market Event: _____

Your Ending Value: \$ _____

Round 3

Our team split the \$1,000 investment across the three sectors this way:

Tech: \$ _____

Health care: \$ _____

Energy: \$ _____

Our Team's Roll: _____

Impact from Market Event: _____

Your Ending Value: \$ _____

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VIDEO

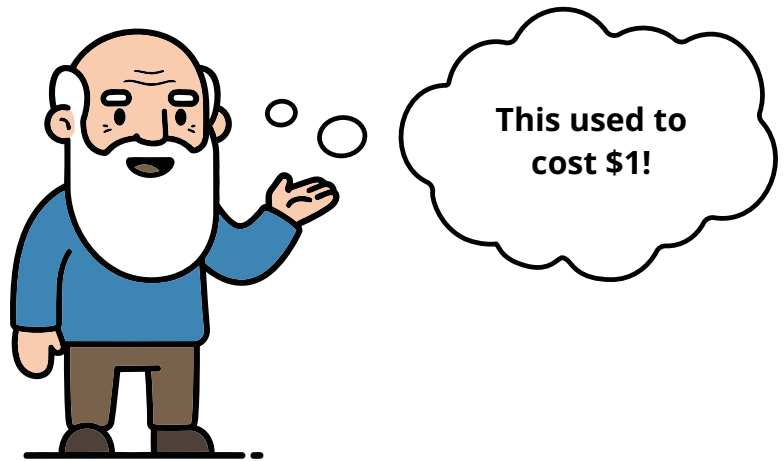
Inflation & Purchasing Power

What + Why: Understand how inflation affects what your money is actually worth so you can make more informed decisions about saving and investing over time.

You've probably heard someone say, "Back in my day, this only cost a dollar." And honestly . . . they're not wrong.

Over time, prices increase. This is called **inflation**.

Think about your favorite fast food spot. You might see a value menu where the cheapest item costs a few dollars. But that used to be the dollar menu, where everything was one dollar. That change happened because of inflation.



Dollar Menu

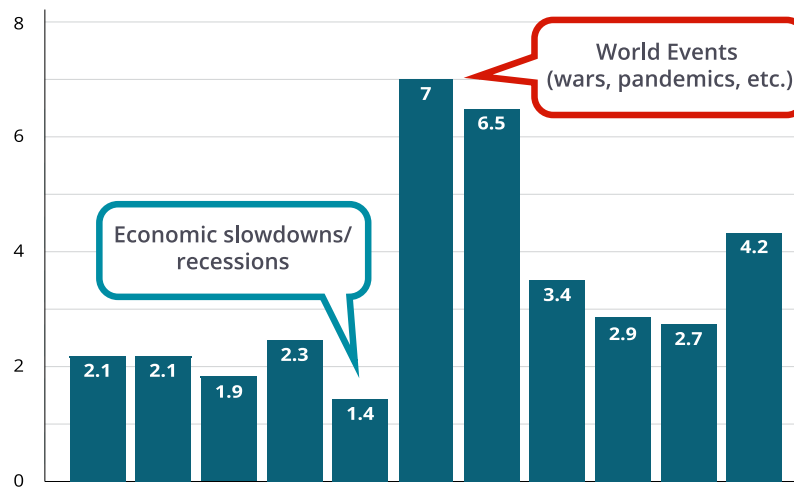


Value Menu



Inflation doesn't move at the same rate all the time. It can rise faster in some periods and slow down in others. Sometimes world events—like wars, pandemics, or supply chain disruptions—can push prices up more quickly. During economic slowdowns or recessions, inflation may ease or even stay very low for a period. But whether inflation is rising faster or slower, even small increases in prices can add up over time and make a big difference in your finances.

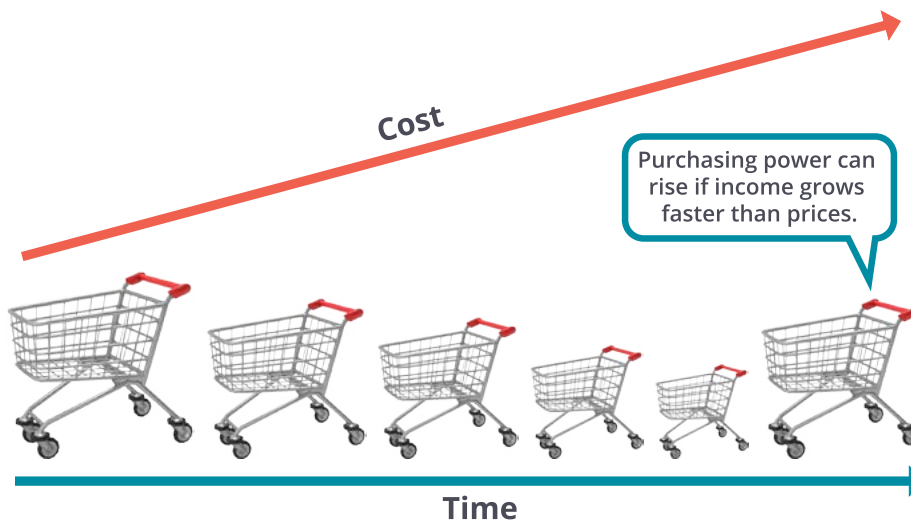
United States Annual Inflation Rates



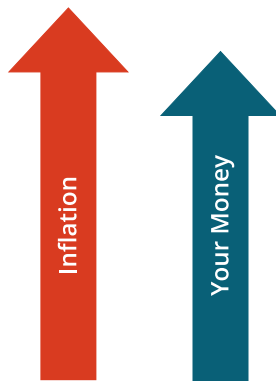
Even lower inflation rates add up over time

Purchasing power is what your money can actually buy. As prices rise due to inflation, your purchasing power goes down. The money itself doesn't change, what it can buy does. Your purchasing power can also rise if your income grows faster than the price of goods and services.

Purchasing Power = What Your Money Can Buy



Your savings and investment accounts might grow over time, but that doesn't always mean you're gaining real value. For example, if your savings earns 2% interest, but prices rise 3% in a year, your money is growing, but your purchasing power is shrinking. That means you're effectively losing about 1% in real value, even though your balance went up. That may seem small, but over time those losses can add up. If your money grows slower than inflation, it's losing purchasing power.

Losing purchasing power**More Money ≠ More Value**

It adds up!

$$2\% \text{ Return} - 3\% \text{ Inflation} = -1\% \text{ Real Return}$$

When you invest, your money can grow over time. The return you see—how much your investment increases—is called the **nominal return**. But what really matters is the real return. **Real return** is how much your money grows after inflation is taken into account. That shows what your investment can actually buy in the future.



When you invest, it's not enough for your money to grow. It has to grow faster than inflation. Otherwise, your real return isn't increasing, even if your nominal return is.

Question 1

Because prices increase over time, what happens to your purchasing power if income and investments don't keep pace with inflation?

- ☐ a. It increases.
- ☐ b. It stays the same.
- ☐ c. It decreases.

Answer: c. When prices go up, also known as inflation, your money buys less, so purchasing power decreases.

Question 2

If your investment has a positive nominal return, but inflation is higher, what happens to your real return?

- ☐ a. It increases.
- ☐ b. It stays the same.
- ☐ c. It decreases.

Answer: c. If inflation is higher than your nominal return, your real return decreases.

Key Terms

- **inflation:** a general increase in prices of goods and services over time, which results in a decrease in the purchasing power of money
- **purchasing power:** the amount of goods and services a given amount of money can buy

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INSTRUCTION

\$100 Today vs. \$100 Tomorrow

What + Why: Figure out how inflation changes what money can buy and whether money is actually growing in real value.

Example Pathway A

In Pathway A, Amara has been investing \$300 per month at 5.2% nominally for 7 years:

- Stated balance = \$35,775.
- Her real balance = \$28,241.
- Amount lost to inflation = \$7,534 ($\$35,775 - \$28,241 = \$7,534$).
 - Amara lost 21% of her stated balance because of inflation ($(\$7,534 \div \$35,775) \times 100 = 21.1\%$).
- Her real return = 2.2% ($5.2\% - 3\% = 2.2\%$).

Now you try!

Pathway B	Pathway C
• Stated balance is \$42,272. • Real balance is \$33,370.	• Stated balance is \$36,873. • Real balance is \$29,108.

1. How much purchasing power did inflation take away in Pathways B and C?

$$\text{Stated Balance} - \text{Real Balance} = \text{Value Lost}$$

2. What percent of each stated balance was lost to inflation?

$$(\text{Value Lost} \div \text{Stated Balance}) \times 100 = \% \text{ Lost}$$

3. Pathway B grows at 9.0% nominally. What is Amara's real return?

$$\text{Nominal Return} - \text{Inflation Rate} \approx \text{Real Return}$$

4. Pathway C grows at 5.9% nominally. What is Amara's real return?

$$\text{Nominal Return} - \text{Inflation Rate} \approx \text{Real Return}$$

In pairs, discuss:

Which pathway has the biggest gap between nominal and real returns? Does that change which pathway looks most attractive?

5. CDs (Certificates of Deposit) earn a fixed nominal interest rate rather than an investment return. If a bank currently offers a 1-year CD at 4.5% and inflation is running at 3%, what would the real value of that interest rate be?

Key Terms

- **inflation rate:** the percentage rate of change in the price level over time
- **nominal interest rate:** the interest rate before taking inflation into account
- **real interest rate:** the interest rate adjusted for inflation
- **time horizon:** the length of time an investor expects to hold an investment before needing the money, guiding risk tolerance and asset choices

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READING

Who's Driving?

What + Why: Compare two different investing strategies to figure out how decisions, fees, and long-term performance can impact how much your money actually grows.

Instructions:

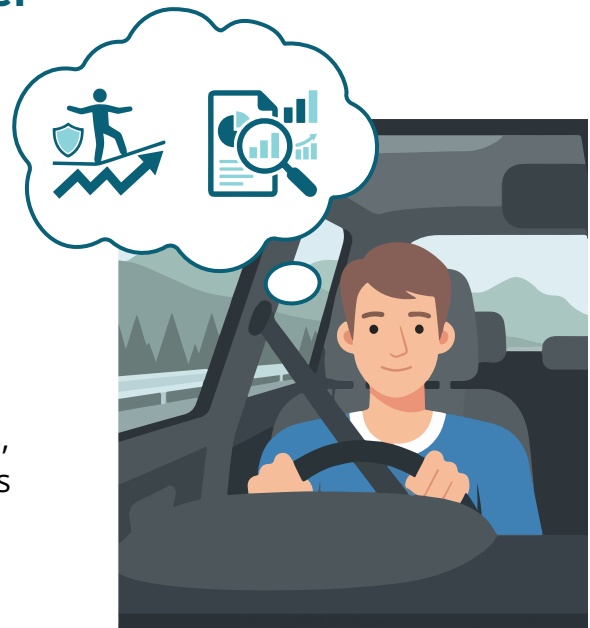
1. Read the provided text and be prepared to discuss with the class.
2. As you read, complete the Active vs. Passive Investing chart to organize your thinking.

Active vs. Passive Investing

When people invest, they bring different goals, values, and priorities to their decisions. For many, the goal is to grow money over time. But how they pursue that, and what they're willing to trade off to get there, can look very different. Some investors take a very hands-on approach, making deliberate choices about where their money goes. Others take a step back and let their money follow the broader market over time.

Active Investing: Taking the Wheel

Active investing is like trying to “drive” your investments to a better outcome. In this strategy, investors or professional fund managers make decisions about what to buy and sell. They use research, market trends, and predictions to try to beat the market, meaning they aim to earn higher returns than a benchmark like the overall stock market. A benchmark is a standard used to measure performance. Common examples include the S&P 500, which tracks 500 large U.S. companies, and the Dow Jones Industrial Average, which follows 30 major companies. When an active investor says they want to “beat the market,” they typically mean outperforming one of these benchmarks.

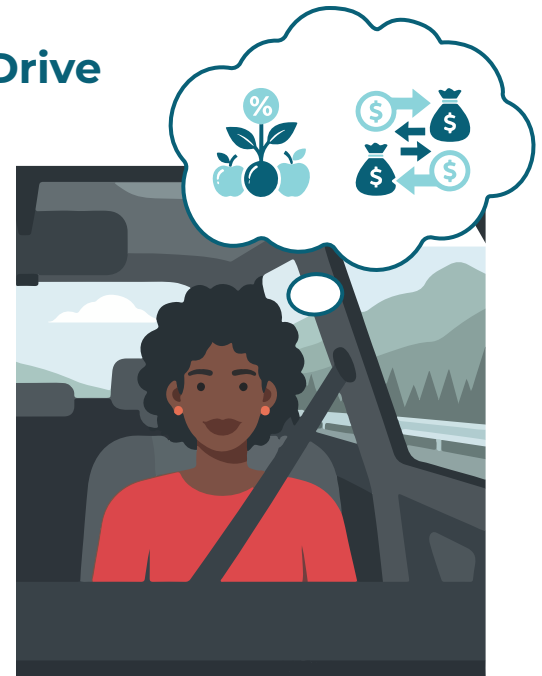


Because active investing involves frequent buying and selling along with ongoing decision making, it usually comes with higher fees. These fees pay for the time, research, and expertise required to manage the investments. One potential advantage of active management is that a fund manager can attempt to shift assets during a market downturn to limit losses, though this is not always effective and does not guarantee better outcomes than simply staying the course. However, even with all that effort, active investing does not guarantee better results. In fact, many active funds do not consistently outperform the market over long periods of time.

Passive Investing: Letting the Market Drive

Passive investing takes a different approach. Instead of trying to beat a benchmark like the S&P 500, passive investing aims to match it. Investors using this strategy typically invest in index funds or ETFs, which are designed to mirror the performance of a benchmark rather than outperform it. These funds automatically include a wide range of investments, creating built-in diversification.

Because there is little buying and selling, passive investing has lower fees and requires less ongoing management. Over time, passive investing focuses on long-term market growth over time rather than on trying to outperform the market in the short term, and it is designed to closely follow the performance of the market.



Looking at the Big Picture

Both active and passive investing aim to grow money over time, but they take different approaches to doing it. Some investors focus on making decisions to try to outperform the market. Others focus on following the market over time with fewer changes.

Because these strategies work differently, investors often look closely at how each one behaves over time when deciding which approach to use. Many investors don't stick to one strategy. Instead, they combine both. The mix of active and passive investments an investor chooses, along with how they divide money across stocks, bonds, and other assets, is called their asset allocation. How money is spread across and within different asset types helps determine the level of diversification.

Active vs. Passive Investing Chart

	Active Investing	Passive Investing
Goal <i>(What is this strategy trying to achieve?)</i>		
Trading Frequency <i>(How often are investments bought and sold?)</i>		
Fees (expense ratio) <i>(What costs are involved? Are they higher or lower?)</i>		
Risk of Underperforming Benchmark <i>(How likely is it to do worse than the market?)</i>		
Best suited for . . . <i>(What type of investor or goal does this strategy fit best?)</i>		

Key Terms

- **active investment strategy:** an approach to investing in which a manager or investor makes frequent decisions about buying and selling investments in an effort to outperform a market benchmark
- **asset allocation:** the process of spreading money across different types of investments (such as stocks, bonds, and cash) to manage risk and help achieve financial goals
- **benchmark:** a standard used to measure how well an investment performs relative to a particular market (stock, bond, REIT, etc.)
- **diversification:** the practice of spreading one's money across a range of investments to reduce the impact of a loss in any particular investment
- **passive investment strategy:** an approach to investing that aims to match the performance of a specific market index or benchmark, rather than trying to outperform it

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CASE STUDY

Time Jump: Ages 23-30 Analysis

What + Why: Use real data from Amara's pathways to figure out how investment choices, diversification, and inflation impact long-term results.

Amara is 30 years old. Seven years have passed, and her three possible pathways have played out, once under normal conditions, and once when an unexpected event hit. Your job is to look closely at what happened, find the patterns, and explain what drove the differences. Use the data as your evidence.

Supplemental Materials:

Investing Pathways (Ages 23–30) (Case Study)

Who's Driving: Active vs. Passive Investing chart
(previously completed)

**Instructions:**

1. With your partner, review the case study chart.
2. Fill out the analysis table using evidence from the case study chart.
3. Complete the analysis questions.

Be ready to explain your thinking using specific data.

Analysis Table

	Pathway A Conservative Investor	Pathway B Aggressive Investor	Pathway C Diversified Investor
What type of financial goal or situation might make this pathway more appropriate, and why?			
What is the biggest risk or limitation of this pathway?			
What type of financial goal or time horizon would make this pathway a reasonable choice?			

Analysis Questions

- For Condition 1:
 - Which pathway has the highest stated balance?

- Does the same pathway have the highest real value? Why or why not?
-
2. Compare the age-30 balances across both conditions. What do you notice? What does the difference between the age-30 balances and the age-65 projections tell you about how time horizon affects the consequences of each investment choice?

 3. Based on how each pathway is structured and managed, which pathway most resembles an active investment strategy and which most resembles a passive strategy? What evidence from the chart supports that?

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CASE STUDY

Pathway Performance

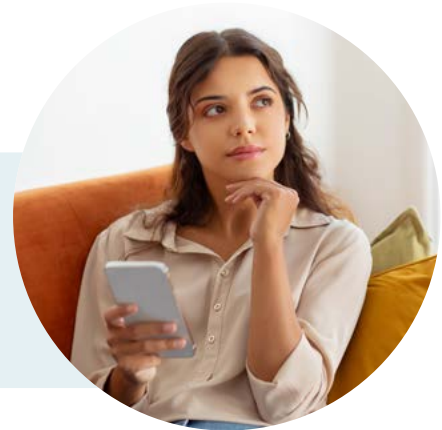
What + Why: Explain how inflation, diversification, and time horizon impact investment outcomes using specific evidence from Amara's pathways.

In real life, investment outcomes depend on risk, timing, and changing conditions. Use what you've learned to explain how each of Amara's pathways performs over time and why those differences matter.

Supporting Materials:

Investing Pathways (Ages 23-30) (Case Study)

Time Jump: Ages 23-30 Analysis (previously completed)

**Instructions:**

Using evidence from the case study chart and your previous work in the **Time Jump: Ages 23-30 Analysis**, write answers to the following questions (cite at least two specific data points from the case study chart to support your reasoning).

1. Explain the role of inflation in telling this financial story.

Pathway Performance Rubric

Criteria	4 – Strong	3 – Proficient	2 – Developing	1 – Beginning
Analysis of Inflation and Real Returns	Clearly explains how inflation affects purchasing power and investment outcomes, using specific evidence from the case study. Accurately distinguishes nominal and real value.	Explains inflation's impact and uses some case evidence accurately.	Shows partial understanding of inflation or uses limited evidence.	Shows minimal or inaccurate understanding of inflation and real returns.
Analysis of Diversification and Downturn Outcomes	Clearly explains how diversification affects each pathway's balance among growth, volatility, and resilience in Condition 2 and uses specific data to analyze short- and long-term outcomes.	Explains how diversification affected outcomes with some accurate evidence.	Shows partial understanding of diversification's impact or uses limited evidence.	Shows minimal or inaccurate understanding of diversification and downturn outcomes.
Analysis of Trade-Offs, Time Horizon, Investment Strategy, and Pathway Strengths	Thoroughly explains trade-offs across pathways, clearly connects time horizon and diversification to each pathway's strengths and limitations, and identifies which pathway most resembles active or passive characteristics, using evidence to explain what that means for long-term outcomes.	Explains major trade-offs and connects pathways to time horizon or diversification and makes a reasonable active vs. passive distinction for at least one pathway.	Identifies some trade-offs but explanation lacks depth, connections are partial, or the active vs. passive dimension is mentioned without being connected to outcomes.	Provides minimal or inaccurate explanation of trade-offs, pathway differences, or investment strategy approach.

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ACTIVITY

Financially Me: Personal Investment Pathway

What + Why: Plan how your investment strategy evolves over time so you can make decisions that balance growth, risk, inflation, and changing real-world conditions.

Your financial decisions change as your life changes. Use what you've learned to design how your investment strategy might evolve across different stages of your life.

Your **Personal Investment Pathway** will become the Financially Me component of your FinanceFolio for this topic.

Instructions:

For each stage (age 25, 35, 65), complete the following:

1. Choose an investment strategy (like conservative, aggressive, or diversified; active vs. passive).
2. Explain your risk tolerance and why it fits that stage.
3. Describe your diversification approach.
4. Explain how inflation would impact your decision.

Age 25

Strategy:	
Risk Tolerance:	
Diversification Approach:	
Inflation Impact:	

Age 35

Strategy:	
Risk Tolerance:	
Diversification Approach:	
Inflation Impact:	

Age 65

Strategy:	
Risk Tolerance:	
Diversification Approach:	
Inflation Impact:	

Submission:

Turn in your completed work as directed by your teacher.

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POST-QUIZ

Investing Basics & Asset Growth

What + Why: You made it to the end of the topic! This quick, ungraded quiz shows how your thinking has grown since the pre-quiz.

Instructions:

1. Answer each question as best you can.
 2. Circle the best answer for each question.
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-
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 - ☐ a. Having a longer investment time horizon requires keeping all funds in low-risk cash accounts.
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