Middle School Course
6.4 Diversification
Student Activity Packet
Spanish version

Name:	Date:

INTRO

TALK WITH A PARTNER

1. You're helping your mom clean up the house and have been tasked with moving some of the glass plates and cups to the basement. You decide to put everything in one big box and carry it downstairs. Your mom sees you packing and says, "Don't put all your eggs in one basket." What does she mean by this?

LEARN IT

VIDEO: Diversification

Like our exercise with the glass items above, you don't want to put *all* of your money into *one* investment (like a single stock or bond), because you don't know how it's going to perform in the long run. To lower the risk, it's important to use the strategy of diversification. Watch this video to learn more about diversification and then answer the questions.

1. What risks are Tony and Angela taking in their individual bets?

2. How does diversification lower the risk you take when investing?

ARTICLE: Here's Why You Shouldn't Be Picking Individual Stocks

As you've seen, diversifying your investments is important because it lowers your risk. You might be tempted to start manually picking different stocks, bonds, and other types of investments to diversify, but this can quickly become overwhelming! Read this short article to find out why you should NOT pick individual stocks and what you can do instead!

Here's Why You Shouldn't Be Picking Individual Stocks

Talk to some of the world's best investors and you're likely to hear one common piece of advice: **Do NOT pick and invest in individual stocks!**

Why not?
You can't predict the future. In other words, you don't know how an individual stock is going to perform. Whether it goes up or down depends on *many* variables, ranging from how investors think a new CEO is going to lead an organization all the way to how the media covers the latest news about a company.

So, what should I do instead?
Say hello to…the **index fund**! Index funds are a group of stocks that you can buy together as a bundle. By purchasing an index fund, you automatically own a whole group of stocks! Some index funds have only a few stocks while other index funds can have hundreds! Investing in an index fund has several benefits including:

- It's so much easier! You don't have to spend all that time researching, picking, and managing individual stocks to invest in. If you purchase an index fund, a bunch of stocks are already grouped together for you.
- You decrease your risk by diversifying. Some stocks in the index fund will likely go down while others will likely go up. The hope is that more stocks will go up in price so you make more money overall!
- You'll pay lower fees. Most index funds do not have a human portfolio manager who is actively picking and managing the stocks, so the fees (also known as expense ratio) to manage the fund are *much* lower. This is great news because you get to keep more of the money you make from investing in that index fund!

Historically, the stock market as a whole has always gone UP over a long period of time. Therefore, if your investments reflect the broader stock market (meaning you've diversified a lot), the value of your investment portfolio will grow over time even if some stocks go down.

Source 1
Source 2

1. In your own words, explain what an index fund is.

2. Anu wants to start investing. She has $100 and is thinking of putting it all into a stock for her favorite fashion company, Ideal Cloze. What advice would you give her and why?

DO IT

COMPARE: Stocks vs. Index Funds

Let's see the power of diversification in action by looking at how real-life stocks and index funds have performed in the past few years. Follow the directions below to complete this activity and to compare the performance of these different investments.

Part I: Stocks

1. We're first going to take a look at individual stocks that are also in the popular index fund, the S&P 500. Circle or highlight 4 individual stocks you want to explore in more detail from the table below.

Amazon.com, Inc.	Ford Motor Company
Apple Inc.	General Electric Company
Monster Beverage Corporation	Xerox Holdings Corporation
Adobe Inc.	Goodyear Tire & Rubber Company

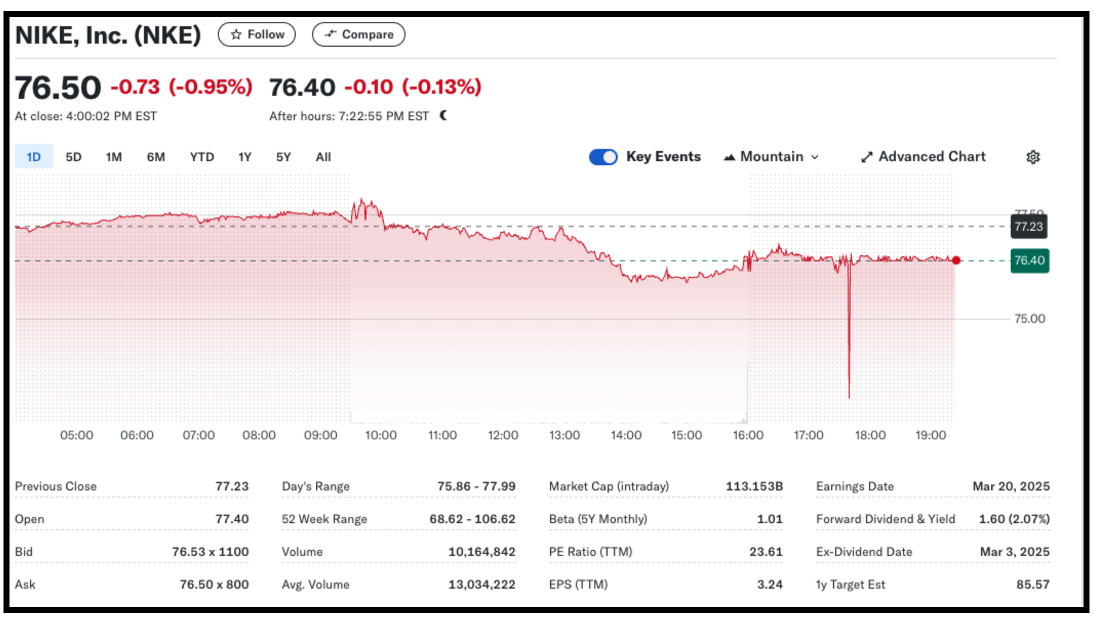
1. For each stock you circled above, follow the directions and fill out the table below.

Company	Today's Price	5-Year Price	Made or Lost Money?

a. Go to Yahoo Finance.

b. Use the search bar at the top of the page to look up your stock. Use the exact wording in the tables in question #1. Typically, the first search result is the one you want to choose. In the example below, we've used Nike.

c. Once you've selected the stock, you'll be on the stock's page where you'll see a lot of information. What is the stock's price today? (Hint: Take a look at the big, **bolded number** in the top left corner. For Nike, the stock price is $76.50 at the time this lesson was written/updated.) Fill in Column 2 of the table with this information.



d. Click on “5Y” at the top of the graph to see how this stock has performed over the past 5 years.

e. Hover your mouse over the first day in this 5-year timeline. At what price did this stock *close* on that day? Fill in Column 3 of the table below with this information.

f. If you invested in this stock 5 years ago, would you have made or lost money? Fill in Column 4 with this information.

Part II: Index Fund

2. Now that you’ve looked at how a few individual stocks have performed in the past 5 years, let’s take a look at how the S&P 500 index fund has performed in the same time period. The S&P 500 is a bundle of over 500 different stocks. Follow steps 2a - 2f above, entering “S&P 500” in the search bar. Fill out the chart below with your findings.

S&P 500 Index Fund	Today’s Price	5-Year Price	Made or Lost Money?

Part III: Compare

Take a moment to compare how your individual stocks performed with how the S&P 500 performed over the 5 year time period. Then, answer the following.

3. All four of the individual stocks you explored in Part I of this activity are included in the S&P 500. Using the data you collected in your tables, explain why investing in the S&P 500 is a better investment than putting all of your money into the four stocks you chose.

EXIT TICKET

1. Complete the following sentence: An index fund is a collection of ________________.

2. Explain how an index fund is a diversified investment.
