Lesson 5.4: Creating Investment Portfolios

Lesson Author

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Standards and Benchmarks

See page 4.

Lesson Description

This lesson is designed as a capstone activity to an investment unit. Students take on the role of financial advisors and create investment portfolios for three clients with differing financial situations, investment goals, and risk profiles.

Concepts

Investment
Risk

Objectives

Students will be able to:

- create investment portfolios for hypothetical clients based on their financial situations, investment goals, and risk profiles.

Compelling Question

How do financial situations, investment goals, and risk tolerance influence investment decisions?

Time Required

60-90 minutes

Materials

- Visual 5.4.1: Example Investment Profile, one copy for teacher to display
- Handout 5.4.1: Investment Profiles, one copy for each student
- Handout 5.4.2: Rubric, one copy for each student and three copies per student for teacher use in grading

Procedure

1. Ask students:

    a. What are different investment options? (*Answers will vary. Students may suggest stocks, bonds, mutual funds, real estate, commodities, and cryptocurrency, among others*.)

    b. What influences which investment option you choose? (*Answers will vary. Students should suggest rate of return, risk, liquidity, and time horizon*.)

2. Tell students that they will be acting as financial advisors for hypothetical clients. In this role, they will be creating investment portfolios for their clients based on their financial situations, investment goals, and risk profiles.

3. Display Visual 5.4.1: Example Investment Profile. Tell students that this is an example of what they will be receiving to create portfolios on their own. Show students that the profile includes information about each client's financial situation, investment goals, and risk profiles.

4. Ask students:

    a. How much money does Jordan have in savings? (*$12,000*)

    b. How much money does Jordan currently have in a retirement account (*$8,500*)

    c. Does Jordan have any outstanding debts? (*Yes. Student loans and credit card debt*.)

    d. What are Jordan's investment goals? (*Jordan would like to build wealth, increase their emergency fund, and save money for career advancement*.)

    e. How do Jordan's financial situation and investment goals affect potential investment recommendations? (*Recommendations might include temporarily decreasing retirement savings to increase savings and paying down student loan debt. However, with any money that is currently being invested, the recommendations should include a diverse mix of relatively risky and relatively safe investments*.)

    f. How does Jordan's risk profile affect potential investment recommendations? (*Because Jordan has both short-term and long-term goals, the investment recommendations should include both relatively safe [certificates of deposit] and relatively risky options [stocks]. Jordan is willing to accept the risks of an aggressive portfolio, but recommendations should also include less risky options to mitigate major losses*.)

g. What recommendations would you make for Jordan's portfolio? (*Answers will vary. Students might suggest the majority of investment funds going towards mutual funds or stocks to allow for potential aggressive growth with some money being dedicated to safer options, such as bonds. Students should be able to support their recommendation using prior knowledge of investments and the investment profiles.*)

5. Distribute Handout 5.4.1: Investment Profiles and Handout 5.4.2: Rubric. Explain to students they will select three clients to advise. For each client, they will write a paragraph explaining their investment recommendations.

6. If time permits, have students compare their investment recommendations with each other.

Standards and Benchmarks

National Standards for Personal Financial Education

Standard 4: Investing

People can choose to invest some of their money in financial assets to achieve long-term financial goals, such as buying a house, funding future education, or securing retirement income. Investors receive a return on their investment in the form of income and/or growth in value of their investment over time. People can more easily achieve their financial goals by investing steadily over many years, reinvesting dividends, and capital gains to compound their returns. Investors have many choices of investments that differ in expected rates of return and risk. Riskier investments tend to earn higher long-run rates of return than lower-risk investments. Investors select investments that are consistent with their risk tolerance, and they diversify across a number of different investment choices to reduce investment risk.

Benchmarks: Grade 12

6. When making diversification and asset allocation decisions, investors consider their risk tolerance, goals, and investing time horizon..

Visual 5.4.1: Example Investment Profile

Personal Information	**Name:** Jordan Lee **Age:** 26 **Occupation:** Digital Marketing Specialist **Annual Income:** $58,000 **Location:** Atlanta, Georgia **Marital Status:** Single, in a relationship (not living together)
Financial Situation	**Current Savings:** $12,000 (high-yield savings account earning 4.5%) **Emergency Fund:** $7,000 (about 4 months of expenses, still building) **Retirement Accounts:** $8,500 in 401(k), contributing 6% with 4% employer match **Debt:** $28,000 student loans (4.2% interest rate), $3,200 credit card balance (0% promotional rate for 8 more months) **Monthly Rent:** $1,150 (splitting with roommate) **Monthly Surplus:** $650-800 after all expenses and minimum debt payments **Side Income:** $200-400/month from freelance social media consulting
Investment Goals	**Primary:** Build wealth and achieve financial independence **Secondary:** Increase emergency fund to 6 months **Short-term:** Save $10,000 for potential career investment (graduate certificate or relocation for better opportunity)
Risk Profile	**Risk Tolerance:** Moderate to Aggressive (young with long time horizon, but cautious about major losses) **Time Horizon:** 40+ years for retirement, 3-5 years for career investment **Concerns:** Fear of missing out on investment trends (crypto, NFTs, hot stocks), conflicting advice on social media, student loan vs. investing dilemma, missing out on compound growth by waiting

Handout 5.4.1: Investment Profiles (page 1 of 4)

Directions: You are a financial advisor. Choose three of the following profiles and create an investment portfolio for each of the clients. Write a paragraph for each explaining the types of investments you would recommend given your clients' financial situations, investment goals, and risk profiles. Also, provide a summary of how those types of investments were allocated within the portfolio.

Personal Information	**Name:** Sarah Mitchell **Age:** 34 **Occupation:** Marketing Manager **Annual Income:** $95,000 **Location:** Denver, Colorado **Marital Status:** Married, one child (age 3)	**Name:** Marcus Chen **Age:** 24 **Occupation:** Software Developer **Annual Income:** $78,000 **Location:** Austin, Texas **Marital Status:** Single
Financial Situation	**Current Savings:** $45,000 (high-yield savings account) **Emergency Fund:** $20,000 (fully funded, 6 months expenses) **Retirement Accounts:** $85,000 in 401(k), contributing 8% with 4% employer match **Debt:** $15,000 remaining on student loans (3.5% interest rate) **Monthly Surplus:** Approximately $1,500 after expenses	**Current Savings:** $8,000 (savings account) **Emergency Fund:** $5,000 (building toward 6 months) **Retirement Accounts:** $2,500 in new 401(k), contributing 6% with 3% employer match **Debt:** $42,000 student loans (4.8% average interest rate) **Monthly Surplus:** $1,200 after minimum debt payments and expenses
Investment Goals	**Primary:** Build wealth for long-term financial security **Secondary:** Save for child's college education (15 years timeline) **Mid-term:** Down payment assistance for larger home (5–7-year timeline)	**Primary:** Pay down student debt strategically **Secondary:** Build emergency fund to full 6 months **Long-term:** Start investing for retirement and financial independence
Risk Profile	**Risk Tolerance:** Moderate **Time Horizon:** 30+ years for retirement, 15 years for education savings **Concerns:** Market volatility, inflation, making uninformed decisions	**Risk Tolerance:** Moderate to Aggressive **Time Horizon:** 40+ years for retirement **Concerns:** Balancing debt payoff with investing, fear of missing out on market gains

Handout 5.4.1: Investment Profiles (page 2 of 4)

Personal Information	**Name:** Carlos and Maya Hernandez **Age:** 31 and 29 **Occupation:** High School Teacher (Carlos) and Registered Nurse (Maya) **Combined Annual Income:** $115,000 **Location:** Phoenix, Arizona **Marital Status:** Married, two young children (ages 1 and 3)	**Name:** Emily Watson **Age:** 29 **Occupation:** Non-profit Program Director **Annual Income:** $52,000 **Location:** Boston, Massachusetts **Marital Status:** Single
Financial Situation	**Current Savings:** $28,000 (savings account) **Emergency Fund:** $18,000 (6 months expenses) **Retirement Accounts:** $65,000 combined in 403(b) and 401(k), contributing 10% combined **Debt:** $225,000 mortgage, $18,000 car loan, $12,000 student loans **Monthly Surplus:** $900 after expenses and daycare costs	**Current Savings:** $15,000 (savings account) **Emergency Fund:** $12,000 (4 months expenses in HCOL area) **Retirement Accounts:** $18,000 in 403(b), contributing 5% with 3% employer match **Recent Inheritance:** $275,000 (received 6 months ago, currently in savings) **Debt:** $8,000 credit card debt, $180/month car payment (2 years remaining) **Monthly Surplus:** $400 before inheritance
Investment Goals	**Primary:** Balance retirement savings with children's future education **Secondary:** Build wealth for future home upgrade (outgrowing current home) **Tertiary:** Create financial stability and generational wealth	**Primary:** Invest inheritance wisely without squandering it **Secondary:** Honor late parents' wishes for money to improve her life **Tertiary:** Build long-term wealth and financial security
Risk Profile	**Risk Tolerance:** Moderate (want growth but can't afford major losses) **Time Horizon:** 30+ years retirement, 15-17 years before kids' college **Concerns:** Balancing multiple goals, childcare costs limiting savings, inflation	**Risk Tolerance:** Moderate (anxious about losing inheritance) **Time Horizon:** 35+ years for retirement, wants to use some funds sooner **Concerns:** Making mistakes with inheritance, being targeted by bad advisors, lifestyle creep

Handout 5.4.1: Investment Profiles (page 3 of 4)

Personal Information	**Name:** Dr. Amanda Foster **Age:** 39 **Occupation:** Orthopedic Surgeon **Annual Income:** $485,000 **Location:** San Francisco, California **Marital Status:** Married to software engineer ($150,000 income)	**Name:** David Thompson **Age:** 52 **Occupation:** Recently started own consulting business (former corporate analyst) **Annual Income:** $65,000 (variable, first year of business) **Location:** Nashville, Tennessee **Marital Status:** Married, spouse earns $48,000, one child in college
Financial Situation	**Current Savings:** $180,000 (high-yield savings) **Emergency Fund:** $75,000 (fully funded) **Retirement Accounts:** $520,000 in 401(k)s, backdoor Roth IRAs **Debt:** $1.2M mortgage (recently purchased home), $85,000 student loans remaining **Monthly Surplus:** $8,500 after expenses and aggressive student loan payments	**Current Savings:** $55,000 (savings account) **Emergency Fund:** $35,000 (8 months given variable income) **Retirement Accounts:** $285,000 in old 401(k) and IRA **Debt:** $95,000 mortgage, $22,000 in parent PLUS loans for child's education **Monthly Surplus:** $800-1,500 (highly variable)
Investment Goals	**Primary:** Maximize tax-advantaged strategies and wealth building **Secondary:** Achieve financial independence by age 55 **Tertiary:** Diversify beyond traditional investments	**Primary:** Rebuild retirement savings momentum (lost during career transition) **Secondary:** Establish Solo 401(k) or SEP IRA for business **Tertiary:** Pay off parent loans and mortgage before retirement
Risk Profile	**Risk Tolerance:** Moderate to Aggressive (high income provides safety net) **Time Horizon:** 25+ years until desired retirement **Concerns:** Tax optimization, not utilizing income effectively, lifestyle inflation	**Risk Tolerance:** Moderate (cautious due to variable income) **Time Horizon:** 13-15 years until desired retirement **Concerns:** Variable income impacting investing, being behind on savings, business success

Handout 5.4.1: Investment Profiles (page 4 of 4)

Personal Information	**Name:** Jennifer Rodriguez **Age:** 47 **Occupation:** Hospital Administrator **Annual Income:** $135,000 **Location:** Chicago, Illinois **Marital Status:** Divorced, two children (ages 14 and 16)	**Name:** Robert and Linda Patterson **Age:** 62 and 60 **Occupation:** Civil Engineer (Robert) and High School Teacher (Linda) **Combined Annual Income:** $145,000 **Location:** Portland, Oregon **Marital Status:** Married, adult children independent
Financial Situation	**Current Savings:** $30,000 (savings account) **Emergency Fund:** $40,000 (fully funded) **Retirement Accounts:** $320,000 in 401(k) and IRA, contributing 12% **Debt:** $185,000 mortgage remaining, $8,000 car loan **Monthly Surplus:** $2,500 after all expenses including child support received	**Current Savings:** $95,000 (savings and CDs) **Emergency Fund:** $50,000 (fully funded) **Retirement Accounts:** $890,000 combined in 401(k)s, IRAs, and pension (Linda) **Debt:** Mortgage paid off, no other debt **Monthly Surplus:** $3,500 after expenses
Investment Goals	**Primary:** Catch up on retirement savings (feeling behind) **Urgent:** College funding for both children (4 and 2 years away) **Secondary:** Generate additional income streams	**Primary:** Transition portfolio for retirement in 3-5 years **Secondary:** Ensure income lasts through retirement (30+ years potentially) **Tertiary:** Leave inheritance for children and grandchildren
Risk Profile	**Risk Tolerance:** Moderate to Conservative (shorter timeline creating anxiety) **Time Horizon:** 18-20 years until retirement **Concerns:** Not having enough for retirement, college costs, market downturns	**Risk Tolerance:** Conservative to Moderate **Time Horizon:** 3-5 years until retirement, 25-30 years life expectancy **Concerns:** Sequence of returns risk, healthcare costs, inflation eroding purchasing power

Handout 5.4.2: Rubric

NOTE: This is a generic rubric. Feel free to alter to meet your grading needs.

	Exceeds Expectations	Meets Expectations	Satisfactory	Does Not Meet Expectations
Understanding of Investments	Demonstrates strong understanding of the risks and rewards of different types of investments.	Shows clear understanding of the risks and rewards of different types of investments.	Shows partial understanding but depth of knowledge is weak.	Shows little or no understanding of types of investments.
Appropriate Investment Recommendation(s)	Recommends several highly appropriate investments (e.g., stocks, mutual funds, bonds, real estate, cryptocurrency) that strongly align with the client's financial situation, investment goals, and risk profile.	Recommends appropriate investments that generally align with the client's financial situation, investment goals, and risk profile.	Recommends investments with limited alignment or unclear reasoning.	Recommendation is inappropriate, unrealistic, or missing.
Explanation & Reasoning	Provides a thorough, well-developed explanation clearly justifying why the investments suit the client; includes strong logical reasoning.	Provides a clear explanation with reasonable justification.	Explanation is basic or partially developed.	Explanation is unclear, minimal, or missing.
Clarity & Organization	Response is well-organized, clear, and easy to follow with complete sentences and minimal errors.	Response is organized and understandable with minor errors.	Response is somewhat unclear or has several errors that affect readability.	Response is disorganized, difficult to understand, or incomplete.