InvestWrite Question for Middle School Students

Background: Many adults like to give advice—lots of advice! They often say things like, "A penny saved is penny earned," or "Time is money." Another piece of advice is "Don't put all of your eggs in one basket"—and they are not talking about breakfast! Investing all of your money in one stock is like having just one basket of eggs, if the basket drops, all of your eggs will break. **Topic:** Write a letter of advice to an adult (real or pretend) and explain how The Stock Market Game has taught you to choose different kinds of investments. Explain to them why putting all of their savings in one investment is similar to putting all of their eggs in one basket. Convince your reader that it is a bad idea to invest in just one stock, bond or mutual fund, or in one kind of company. Give your adult advice on how you think they can have a "safer basket" of investments. Be sure to use specific examples of stocks, bonds or mutual funds. *Please note: The InvestWrite rules prohibit the student from including their name in the essay. Since the question asks the student to "write a letter" they can leave the letter unsigned or choose a "made up" name.*

First Place Essay, 2010 InvestWrite Competition, Middle School Division

Dear Mrs. Risk,

Do you want to earn more money? Planning today for your future needs is important. You may be planning a budget for college tuition, a home, vacations, or retirement. Maybe you would like to be able to give more money to charitable organizations. You can earn more money by investing in bonds, stocks, and mutual funds.

I recently participated in The Stock Market Game with my class at school and would like to share with you what I learned about choosing different kinds of investments.

First, as you choose where to invest your money, be careful not to put all your eggs in one basket. Investing money can be very risky. If you invest all your savings in one stock, bond or mutual fund, it is like putting all your eggs in one basket. Just like when the basket drops your eggs break, when all your savings is in one stock, company or sector and it is unsuccessful you could lose all your money. Time is lost as well. You decide how much money you want to put into each "basket". Consider how much time you have to earn money and how much risk you can afford to take.

When you buy stock you are purchasing a part of a publicly-owned corporation. The ownership of the corporation is divided into shares of common stock. Each share is a fraction of the total ownership. Buying stocks offers the best opportunity for making the most money if the company is successful. You are also taking the greatest risk of losing your money if the company is not successful. Research the company carefully to find out what type of goods or services they provide and how successful they have been in the past before investing in them. You may choose to buy stock in the Walt Disney Company for example, it is a large entertainment company and the value of their stock has increased this year.

When you buy bonds you are loaning your money to a company or entity with the promise of getting it back, with interest, after a set period of time. Investing in bonds takes more time to earn money but it has the least amount of risk. You may consider buying a ten year US Treasury Bond which supports our government. If you purchase a $25.00 bond it will be worth $50.00 in ten years.

When you invest in a mutual fund you are investing in a collection of stocks and bonds put together for a specific goal, such as growth or income. RiverSource Partners Aggressive Growth Fund is an example of a mutual fund that will invest your money in many companies like Novell and BE Aerospace. It takes less time than bonds but the risk is greater. However, because your money is spread out the risk is not as great as investing in one stock alone. Even if some companies in your mutual fund are unsuccessful, hopefully the other companies will be successful and you will earn a profit.

Second, diversify your investment by researching and investing in different sectors and industries within the sector. A sector is like a big basket that holds many industries and within the industry are many companies. For example, the Technology Sector contains the Internet Software & Services Industry and Microsoft and Apple are two companies in that industry. Sometimes the economy or other events may positively or negatively affect an industry or a whole sector. For example, people are living longer now and the need for health care is increasing. Within the Healthcare Sector are several industries such as Biotechnology, Home Health Care, and Long-term Care Facilities. Since the need for health care for older people is increasing, you may want to invest in a good company within the Home Health Care Industry or Long-term Care Facilities Industry.

Finally, you will have a much “safer basket” of investments with diversification. It lowers your risk of losing your investment. Even if one investment fails, another has an opportunity to prosper. Consider the risk, time, and your goals and choose your combination of investments carefully.

Sincerely,

C. A. Profit