

Western Australia Outcomes and Standards Framework

Module 9 Personal investment



Financial Literacy
Curriculum Resource
2008 Revised Edition

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Introduction

The Commonwealth Bank has been supporting education for more than 70 years, since the introduction of school banking in 1931. In 2003, we strengthened our commitment to education through the establishment of the Commonwealth Bank Foundation.

The Foundation seeks to encourage developments in education, particularly the financial literacy skills of young Australians, and aims to create awareness, skill and understanding of the benefits of a more financially literate community.

By helping our young people understand money management, we will empower them to take effective decisions to achieve their financial goals.

With this in mind, we are pleased to announce the availability of a national financial literacy curriculum resource which has been developed to support the teaching of financial literacy in the classroom.

Developed by a National Steering Committee comprising representatives across a broad range of state and territory education departments, sectors and professional teachers' associations, the curriculum materials have been designed to support the teaching of financial literacy in Years 7 to 10.

This practical and relevant curriculum resource has been designed to be easily incorporated into a number of subject areas and has been mapped to the curriculum in each state and territory.

There are twelve modules covering:

- Earning an income
- Spending and saving
- Consumer decisions
- Consumer protection
- Buying a car
- Financial services
- Managing finances
- Consumer awareness
- Personal investment
- Planning and running a business
- Impact of technology
- Economics of everyday finance

The resource materials can be easily downloaded via the Commonwealth Bank Foundation's website www.commbank.com.au/foundation

We hope you find this resource a valuable tool to use in your classroom.

The Commonwealth Bank Foundation Team



Module 9: Personal investment

Background scenario

The case studies are developed around two families: the Drivers and their relatives the Fullbricks; as well as their friends and workmates. The Drivers, Ilse and Laurie, have two teenagers: Elizabeth, aged 15, and Nathan, aged 17. Both work part-time. Ilse has ongoing medical problems and Laurie works for a small trucking company. Grandmother Josefina lives with the family. The second family is the Fullbrick family, to whom they are related through Uncle Frank, Ilse's wealthy brother. Frank Fullbrick runs a construction company, and his partner Sella is a marketing manager. Mark is their teenage son.

Royce lives next door to the Drivers and is good friends with Nathan and Elizabeth.

Teacher notes

This topic will examine the following:

- different types of investment;
- financial and lifestyle decisions individuals make when choosing investments;
- financial skills involved in investing;
- investment scams; and
- ethical investment.

Stimulus material provided:

- H.9.1 Investment issues.
- H.9.2 Stock market game rules.
- H.9.3 Stock market game worksheet.
- H.9.4 Investment fundamentals.
- H.9.5 Bank investment.
- H.9.6 What are investment scams?
- H.9.7 Ethical or unethical investing?

There are also general teacher notes available at the beginning of each unit.

Key terms and definitions

Asset	Something owned by or owed to a business.
Brokerage	Fee paid to a stockbroking firm or individual for the buying or selling of shares in an investor's name.
Capital gain	A financial gain made when you sell a capital investment (e.g. bonds, property) for more than you paid for it.
Ethical investment	Where an individual's investments are in line with their beliefs and values.
Inflation	A decrease in the real purchasing power of money.
Investment	An asset acquired for the purpose of producing or generating an income or capital gains to its owner.

Investment assets	Usually provide the owner with immediate cash flow. Such assets include shares, managed investments, investment property. These assets are expected to increase in value.
Investment income	Consists of dividends from companies, distributions from trusts, rent from properties.
Socially responsible investment (SRI)	Socially responsible investment is the integration of personal values with profitable investment decisions by investing in companies that uphold these values.

Task 1: What is investment?

Teacher notes

In this unit, investment occurs when a person buys an asset that is expected to increase in value and provide a cash flow to the owner. Businesses invest when they buy goods to produce other goods.

Scenario

Elizabeth has just learned in class about investment. Nathan has seen a new TV program on investment, and both now know that investing for their future is very important. However they do not really understand enough yet about financial investment. When Uncle Frank, Sella and their friend Bert come over for a BBQ they discuss the topic further.

Student activities

Task 1A. Assets

- Use *H.9.1 Investment issues* to explain how an investment asset is different to a consumer asset, or a business asset.
- Complete the table below, classifying assets into business, consumer, security and investments assets.

Asset	Classification
Car	
Leather lounge	
Gardening equipment	
Family home	
Shares	
Bank deposit	
Investment property	
Family business	
Mobile phone	
Oven for dog biscuits	
Superannuation	
Laurie's Elvis Presley collection	

- As a class, discuss your answers. Some variations might be explained by the assumptions made about how the asset was being used.

Task 1B. Investment comparisons

- Laurie Driver recently made the following statement: "I bought our family home for \$90,000 15 years ago and now it's worth \$500,000. I made a good investment." Discuss with your class whether you think this statement is accurate. Include capital gain, inflation and the cost of an equivalent home today in your discussion.
- After Elizabeth heard her father talk about how much the value of the house had increased she decided she could

Outcomes

Society and Environment

Investigation, communication and participation

Planning - students plan ways to organise and gather information.

Conducting - students conduct investigations by collecting and organising information while sources of information have been located and evaluated.

Processing and Translating - students process and translate information to make findings / judgements.

Applying and communicating findings - students reflect on, apply and communicate findings according to purpose / audience.

Resources

Use of resources - students understand that as people strive to satisfy needs and wants, there is increasing pressure on limited resources.

Management and enterprise - students understand that innovative management and enterprise practices make for efficient use of limited resources.

sell some old things she didn't use any more. She tried to sell her old portable computer games on eBay, but the bids were all for much less than the original price. Why do you think some items increase and some decrease in value over time?

3. Elizabeth is given lots of different investment advice. Discuss the following advice. Explain what you think is meant by each. Rate the advice out of 10. Write a couple of sentences justifying your rating.
- "Don't gamble with your money, don't chop and change all the time, let time work for you, diversify your investments, and invest in what you know."
 - "Invest small amounts regularly, spread your money across different types of investment choices, and be realistic about returns."
 - "The higher the return the greater the risk, a fair strategy if you can spare the money."
 - "A bargain that remains a bargain is a bad investment and so is a quality stock that you paid too much for."
 - "Start by working out your personal objective/s, representing personal aims that money may help achieve, the personal objectives that will bring you happiness and satisfaction. Once you have worked this out you will be able to bypass those 'investments' that prey on fear and greed."
4. Using newspapers, magazines or the Internet, find two examples of investments (these might be presented as advertisements, e-mails, news reports, etc.); one that you think is a good investment and one that you think is a bad investment. Write a paragraph explaining why you think it is a good or bad investment. You could cover rate of return, risk and short- and long-term prospects.

Technology and Enterprise Information

The nature of information - students understand the form, structure, quality and purpose of information products and processes.

Mathematics

Number

Understand numbers

Students read, write and understand the meaning, order and relative magnitudes of numbers, moving flexibly between equivalent forms.

Task 2: Developing investment skills

Teacher notes

This task asks students to participate in the Australian Stock Exchange (ASX) share market game, located at <http://www.asx.com.au/investor/education/games/index.htm> However, if Internet access is difficult you might want to operate a short-term game in class using share price lists from daily newspapers. You can collect these lists over time and then distribute in class in order of date.

It will be a good idea to remind students that while they may know a number of stories of the people who have achieved rapid growth in wealth through the lottery and sudden stardom, the reality is, developing wealth generally requires hard work, discipline, commitment and patience. This activity will allow students to delve into a number of ways of developing wealth.

Scenario

After the recent barbecue Elizabeth is really enthusiastic about investment, and wants to know more about it. Uncle Frank thinks he knows a lot about investing. Uncle Frank likes to brag about making money and invites Elizabeth and Nathan to his home to talk about his investments.

Student activities	Outcomes
<p>Task 2A. The share market game</p> <ol style="list-style-type: none"> Conduct the share market game in class as outlined in <i>H.9.2 Stock market game rules</i> and <i>H.9.3 Stock market game worksheet</i>. Chart the share prices of the companies in your group's portfolio. The All Ordinaries Index should also be charted (actual figures should be included). These can be obtained from http://au.finance.yahoo.com You need to know the ASX code for each company. Using two sections of the ASX website (http://www.asx.com.au/research/indices/description.htm and http://www.asx.com.au/glossary/Glossary.shtm), explain the following stock market terms: <ul style="list-style-type: none"> all ordinaries index; bear market; bull market; dividend yield; float; franked dividend; rights issue; S&P/ASX 200 index; and underwriter. What brokerage would be charged on the purchase of \$4,000 worth of shares? Click on "Calculate" under "Tools" at http://www.infochoice.com.au/investment to use the "brokerage calculator". 	<p><u>Society and Environment</u> Investigation, communication and participation Planning - students plan ways to organise and gather information. Conducting - students conduct investigations by collecting and organising information while sources of information have been located and evaluated. Processing and Translating - students process and translate information to make findings / judgements. Applying and communicating findings - students reflect on, apply and communicate findings according to purpose / audience. Resources Use of resources - students understand that as people strive to satisfy needs and wants, there is increasing pressure on limited resources. Management and enterprise - students understand that innovative management and enterprise practices make for efficient use of limited resources.</p>

2. Look at the graph depicting the performance of the Australian All Ordinaries since 1900 available at http://www.asx.com.au/investor/pdf/share_price_movement_s.pdf. What trend does the graph show?
5. Discuss Uncle Frank's method of investing as seen in *H.9.1 Investment issues*. What would be the advantage of such a method?

Read the scenario on *H.9.4 Investment fundamentals* to answer the next two questions.

6. What are the tax advantages of investing in shares?
7. Why is it necessary to monitor share investments?

Task 2B. How do people develop wealth?

1. In groups of three or four, select one of the following "get rich" methods. Your teacher will ensure that each of the methods is covered by the class.
 - inheritance;
 - winnings;
 - marriage to a wealthy person;
 - invest successfully in the stock or property markets;
 - develop your talent or skills to the degree that they become highly sought after;
 - savings and careful investment over a long period; and
 - establish a successful business.
2. In your groups, record the plusses and minuses of your nominated "get rich" method on large sheets of paper and present your findings to the class. Consider values, ethics, sustainability, personal happiness and wellbeing.
3. Those who have created wealth by their own efforts generally possess at least some of the following characteristics:
 - They live below their means, and have made thriftiness a habit.
 - They budget meticulously, so they know where every cent is going.
 - They have very precise financial goals, rather than vague ones, and constantly keep them in mind.
 - They have savings and investment plans targeted to achieve those goals.

Discuss the characteristics of people who are able to build wealth and add any others that might be relevant. Include in your discussion the effect peer pressure, lifestyle choices and advertising have on people's ability to develop wealth. Consider also the opinion of those who do not believe that monetary wealth is important. Identify some personal characteristics you might need to develop that could lead to greater wealth.

Natural and social systems

Economic systems - students understand that structures for production, exchange and consumption determine the nature of economic systems.

Technology and Enterprise Information

The nature of information - students understand the form, structure, quality and purpose of information products and processes.

Mathematics

Number

Understand numbers

Students read, write and understand the meaning, order and relative magnitudes of numbers, moving flexibly between equivalent forms.

Calculate

Students choose and use a repertoire of mental, paper and calculator computational strategies for each operation, meeting needed degrees of accuracy and judging the reasonableness of results.

Chance and data

Interpret data

Students locate, interpret, analyse and draw conclusions from data, taking into account data collection techniques and chance processes involved.

Task 3: Let's look at investments

Scenario

Between the two of them, Elizabeth and Nathan have saved \$6,000. They start looking at putting their money into an investment. After checking information on the Internet and at their local bank branch, they narrow their investment choices down.

Student activities	Outcomes
<p>Task 3A. Types of investment options</p> <ol style="list-style-type: none"> Write the names of the following investment options (and any others you can think of) one each, on the top of A3 sheets of paper. <ul style="list-style-type: none"> bank accounts; real estate; stock exchange; art and culture items, e.g. paintings by famous artists, antiques, jewellery; and collectables, e.g. stamps, coins, toys, sporting memorabilia, Pokémon cards, Tazos, soft toys (collectables may need to be covered separately as there can be great variation in the investment "worth" of collections). In small groups take one of the pieces of paper with an investment option. Write down any specific skills or information you would need for each group of investment. After a few minutes pass the pages around the room and repeat the exercise until all groups have had an opportunity to contribute to each of the options. Display the sheets at the front of the class and as a class discuss the information on each investment profile. <p>Task 3B. Let's look closely at an investment option</p> <ol style="list-style-type: none"> Review the information on <i>H.9.5 Bank investment</i>. Discuss the terminology used with your teacher. Include in your discussion some advantages and disadvantages you know of each account in the table. Consider - How do banks make their money? Decide which investment is most suitable for Elizabeth and for Nathan, give reasons for your choice. Research some other options that Elizabeth and Nathan could consider. Prepare a 'proposal' outlining the benefits, disadvantages and outline the risks associated with one of the investment options. Briefly present your 'proposal' to the class and as a class decide on the best option/s for Elizabeth and for Nathan. 	<p><u>Society and Environment</u> Investigation, communication and participation Planning - students plan ways to organise and gather information. Conducting - students conduct investigations by collecting and organising information while sources of information have been located and evaluated. Processing and Translating - students process and translate information to make findings / judgements. Applying and communicating findings - students reflect on, apply and communicate findings according to purpose / audience. Resources Use of resources - students understand that as people strive to satisfy needs and wants, there is increasing pressure on limited resources. Management and enterprise - students understand that innovative management and enterprise practices make for efficient use of limited resources. Natural and social systems Economic systems - students understand that structures for production, exchange and consumption determine the nature of economic systems.</p> <p><u>Mathematics</u> Number Calculate Students choose and use a repertoire of mental, paper and calculator computational strategies for each operation, meeting needed degrees of accuracy and judging the reasonableness of results.</p>

Task 4: Avoiding investment scams

Teacher notes

There is a wealth of information on the Internet about investment scams. A directed search of the ASIC website <http://www.asic.gov.au> or the Fido website (linked within ASIC) will provide plenty of starting points. The most outrageous scams are outlined. Students could create their own award system for the most outrageous scams they can find or have heard of.

Scenario

Royce is reading his sports magazine one morning when he sees a great advertisement. The young lady in the advertisement looks very professional and gets his attention. He's very impressed by her ideas on how to make money.

Elizabeth and Nathan tell him he should be wary. Friends of theirs have warned them that investment is fraught with danger due to so many investment scams being promoted. Elizabeth and Nathan have decided that property is the safest investment at this stage. They talk to their older cousins Elliana and Riley because they heard they had been looking at investing in property.

"I saw an advertisement in the newspaper," said Riley, "and showed it to my sister here. We liked the look of it so we went to a free seminar on how to invest in property for a guaranteed rental return and capital gain within five years. At the seminar there were teams of real estate agents, marketers, lawyers, financial planners and valuers. We saw presentations on a stack of properties outside of capital cities, in cheaper areas, which are growth areas. We reckon the Gold Coast area will be best because it will always be popular with tourists."

"So we decided we had better go up there and check it out," Elliana piped up. "We flew to the Gold Coast and stayed overnight in a hotel. The next day this agent showed us an apartment complex. She told us we would be guaranteed a rental return of \$400 per week for the first year. Because the apartment is in excellent condition and much bigger than our houses, we reckon it'll be pretty easy to rent out. We should have near continuous rental return."

"But if you two are interested in investing in property," continued Riley, "you probably ought to wait a few more years and save some more money. Elliana and I have saved \$15,000 and some people think even that's not enough! To make it worth your while you need a bit more to start with than \$6,000."

Student activities	Outcomes
<p>Task 4A. What are investment scams?</p> <ol style="list-style-type: none"> 1. Read <i>H.9.6 What are investment scams?</i> In groups, discuss why you think people are taken in by this scam. 2. List all the reasons you would classify the advertisement as a scam. <p>Task 4B. There is a sucker born every minute</p> <ol style="list-style-type: none"> 1. Use the search function at the FIDO website, http://www.fido.gov.au to read about more scams. 2. Create a list of ten essential characteristics of scams. For example, only a little money is required to get into the 	<p>Society and Environment Investigation, communication and participation</p> <p>Planning - students plan ways to organise and gather information.</p> <p>Conducting - students conduct investigations by collecting and organising information while sources of information have been located and evaluated.</p> <p>Processing and Translating - students process and translate information to make findings / judgements.</p>

deal, but a huge return is “guaranteed”.

How vulnerable are you to fraud? Try the vulnerability meter quiz. Go to

http://www.investored.ca/Quizzes/Fraud/quiz_fraud.htm

Task 4C. Bogus or bountiful?

1. You are a friend of Elizabeth and Nathan. They ask you for your opinion on the deal they heard about from their cousins: buying a place on the Gold Coast. They are wondering whether this is a good investment. What would you say to them? In your answer consider these questions:
 - a. Is this a scam? What are the signs that show this could be a rip-off?
 - b. What questions should they ask:
 - the real estate agent;
 - a lawyer;
 - financial planners;
 - marketers?

Hint: Two-tier marketing involves selling properties to distant investors at inflated prices. The name is the key. These scams have created two-tier markets: one for locals who know true prices and the other for interstate and overseas buyers who are charged inflated prices.

2. What are the responsibilities of the lawyers and marketers? Should they disclose their involvements? Write down your answers and compare them with others in the class.

Applying and communicating findings - students reflect on, apply and communicate findings according to purpose / audience.

Resources

Use of resources - students understand that as people strive to satisfy needs and wants, there is increasing pressure on limited resources.

Natural and social systems

Economic systems - students understand that structures for production, exchange and consumption determine the nature of economic systems.

Technology and Enterprise Information

The nature of information - students understand the form, structure, quality and purpose of information products and processes.

Task 5: Ethics and investment

Teacher notes

Computer access will be required for this task as it is based primarily on Internet research.

Scenario

In their quest to be financially literate, Elizabeth and Nathan have heard about socially responsible (or ethical) investing. They are unsure what this means, but are interested in finding out more because of their passion for personal, ethical and environmental issues.

Student activities	Outcomes
<p>Task 5A. Deciding what is socially responsible</p> <p>Using <i>H.9.7 Ethical or unethical investing?</i></p> <ol style="list-style-type: none"> 1. Identify the activities you consider to be socially responsible (ethical) or not socially responsible (unethical). 2. Select two issues you consider to be unethical. Explain why you consider them to be unethical. 3. Select two issues you consider to be ethical. Explain why you consider them to be ethical. 4. Suggest why some people consider that it is important to invest their money in firms that are considered to be ethical. <p>Task 5B. Analysing socially responsible funds</p> <p>Visit the website http://www.austethical.com.au and use the site index for navigation for this task.</p> <ol style="list-style-type: none"> 1. Click on “Australian Ethical Charter”. According to <i>The Australian Ethical Charter</i>, what types of investments does the firm avoid? Why do you think they do this? 2. According to <i>The Australian Ethical Charter</i>, what types of investments does the firm seek to invest in? Explain. 3. Under “Portfolios” in the site index, look at the “Australian Ethical Equities Trust”. What type of investments does the firm actually make? Identify different areas covered by investments from the <i>Australian Ethical Equities Trust</i>. Identify five investments that cover different areas. 4. In the site index, click on “Trusts”. From the five investments you listed above, and using these profiles, identify why <i>Australian Ethical Investment</i> has chosen these particular firms to invest in. 	<p>Society and Environment</p> <p>Investigation, communication and participation</p> <p>Planning - students plan ways to organise and gather information.</p> <p>Conducting - students conduct investigations by collecting and organising information while sources of information have been located and evaluated.</p> <p>Processing and Translating - students process and translate information to make findings / judgements.</p> <p>Applying and communicating findings - students reflect on, apply and communicate findings according to purpose / audience.</p> <p>Resources</p> <p>Management and enterprise - students understand that innovative management and enterprise practices make for efficient use of limited resources.</p> <p>Natural and social systems</p> <p>Economic systems - students understand that structures for production, exchange and consumption determine the nature of economic systems.</p> <p>Technology and Enterprise Information</p> <p>The nature of information - students understand the form, structure, quality and purpose of information products and</p>

5. Go to <http://www.comsec.com.au> Click on “Search for funds” and then click on “Australian Ethical Equities Trust” under the “Fund Managers” list. Click “Search” and use the information to address the following.
- Identify the type of information provided about the Australian Ethical Equities Trust.
 - Explain how a person could invest in this fund.
 - What else might you want to know about this fund? Discuss these points in small groups.

Task 5C. Sustainable investment by Australian businesses

Visit <http://www.acfonline.org.au/> Prepare a brief PowerPoint presentation comparing one high scoring and one low scoring Australian company for their corporate social responsibility, identifying key differences. Include aspects of the responsibilities of ‘today’s’ generation to plan for ‘tomorrow’s’ generations, and how companies can add value to both the community and the environment for a sustainable future.

processes.

Mathematics

Chance and data

Interpret data

Students locate, interpret, analyse and draw conclusions from data, taking into account data collection techniques and chance processes involved.

H.9.1 Investment issues

- Elizabeth: Frank, you must have a lot invested with all the money you have spent on your smart suits, your three cars, the boat, your leather lounges, and all your sports memorabilia.
- Sella: Let me tell you Elizabeth, none of these things or my 160 pairs of shoes are much use as investments. Try selling them at a garage sale. Even the cars are only worth about 50 per cent of their original price and they cost a fortune to fix. Our dog has ruined the legs of the lounges. These are just consumer assets and aren't really investments at all. As for the smelly old boat - I think swimming would be faster.
- Bert: The house goes up in value, so it's an investment if it generates a capital gain later. The only trouble is you don't get the return until you sell later. Investment assets include shares, managed investments property or superannuation. Do you have any of these Elizabeth?
- Elizabeth: Not yet, although I'd love some shares for my 18th if anyone is buying me a present.
- Bert: You're asking for a big present there Elizabeth. There are minimum amounts you can invest in shares. Have a look on the Australian Stock Exchange website or a broker's website. You can trade online for very little charge today, but whoever is "spoiling you" will need to invest at least around \$500 and most recommend \$2,000.
- Frank: Well a family "whip around" might get you started. Don't forget your Uncle John in Fiji. He keeps saying he thinks you are a "smart girl". Is he coming to your party? He owns investment properties and has money in managed investments too.
- Nathan: I've already got some money invested in assets - my bank savings account is up to \$400, and I have \$500 invested in gardening equipment for those casual jobs I do.
- Bert: That's great Nathan, but your bank deposit isn't earning much. It's just providing security, and you'll need it to cover expenses you have when you have your first car accident. I've seen the way you rev that car in the garage. I'm impressed by the business assets though - you'll make a profit from that investment at least.
- Nathan: I don't "rev" the car anymore thank you! Everyone is on our case now and we have to drive more carefully.
- Frank: Well Elizabeth, you could always invest your money in managed investments or set up your own business part time instead of working for Foodworld. I thought those dog biscuits you made were great. You could sell them! You could set up the caravan out the back as a professional kitchen.
- Elizabeth: You didn't eat them yourself did you?

H.9.2 Stock market game rules

The stock market game involves breaking the class up into syndicates of 2-4 students.

Each syndicate selects a name for their group.

Each syndicate is given a list of share prices (use the S&P/ASX200 available daily in *The Australian Financial Review*).

An investment limit of \$100,000 is to apply to each syndicate.

At least 75 per cent of the investment cash must be invested in the stock market at all times.

Dividends are ignored to simplify the record keeping process and because it is only one per month.

Stock brokerage is 2 per cent on all purchases and sales.

The game is conducted over four weeks at the discretion of the teacher. No more than four share parcels to be purchased any week and no more than two share parcels to be sold each week.

The winner is the team with the highest value in shares at the end of the game, plus any cash not invested in shares.

H.9.3 Stock market game worksheet

Stock market game:

Week:

Syndicate name	
----------------	--

Shares bought

Date bought	Company	ASX Code	Price	Quantity bought	Brokerage 1% of price x quantity	Purchase cost (price x quantity) plus brokerage
					Total (a)	

Shares sold

Date bought	Company	ASX Code	Price	Quantity sold	Brokerage 1% of price x quantity	Proceeds (price x quantity) less brokerage
					Total (b)	

Portfolio value

Company	ASX Code	Price	Quantity	Value
			Subtotal	
Cash on hand = cash at beginning - (a) + (b)				
Total				

H.9.4 Investment fundamentals

- Elizabeth: Thanks Uncle Frank for inviting us over. I'm really excited about investment. I went on to the Australian Stock Exchange website and found information about stock brokers and the commission they charge. It sure is cheap to buy shares on the net.
- Frank: Tell me about it. When I was your age brokers charged huge fees and were slow to execute orders. Thank goodness times have changed.
- Nathan: Uncle Frank tell us which shares to buy. It's easy buying them but knowing which shares to buy is not so easy.
- Frank: Good question Nathan! Most people treat the stock market like the racetrack. Look for a quick gain. In most cases they lose money. I follow the advice of the world's greatest investor and the world's second richest person.
- Elizabeth: Bill Gates is the richest. Who is the second richest?
- Frank: Warren Buffett from Omaha in the United States. Warren is a legend ... to investors.
- Nathan: How did he do it?
- Frank: Warren invests in companies that supply every day items such as food, furniture, banking services ... things that we all need. He then sifts out the good investments from the ordinary by picking companies that have a long history of success and are priced reasonably.
- Elizabeth: What companies did Warren invest in?
- Frank: Coca-Cola, Gillette, American Express, World Book Encyclopaedia, Wells Fargo Bank, Washington Post ...
- Nathan: No wonder he's done so well. I'm one of Coke's best customers!
- Elizabeth: You're not one of Gillette's best customers.
- Nathan: I will be soon. You wait.
- Frank: I've got a few books on Warren Buffett. They're reasonably easy to read until it gets into the Accounting jargon. But it will give you some idea.
- Elizabeth: Uncle Frank. How do you know when to sell your shares?
- Frank: That's called monitoring your investment. If you've got a really good company you may have it for years and years. The profits just keep rolling in. However if you have a dog with fleas...
- Nathan: A dog with fleas?
- Frank: Yes, that's the name they give investments that don't deliver. I sell shares that have stopped or cut their dividend payment or if the management have run out of new ideas.
- Elizabeth: Should I check my shares everyday?
- Frank: No! You'll go crazy! The stock market is very volatile. Some days it's like a manic depressive about to commit suicide. Other days it's happy and optimistic. All you know is that the market will go up. It's impossible to anticipate. All you know is that it will go up. There may be years that it will go down but overall it will go up. It's economic growth. Look at history.
- Elizabeth: At my job at Foodworld I'm earning enough to pay tax. I used to get all my tax back but now I have to pay.
- Frank: Welcome to the real world Elizabeth. Somebody has to pay for the roads, the schools, the hospitals, the homeless, and the jobless.
- Elizabeth: Are there any tax advantages with shares? I want to pay as little tax as possible.
- Frank: If the shares are paying dividends they are usually franked.
- Nathan: That's your name Uncle Frank.
- Frank: OK! Franked just means that the tax the company paid to the government can be used to reduce your tax. The government believes that dividends should not be taxed twice. If you hold on to the shares for at least one year the tax on the capital gain is half the person's marginal tax rate.
- Nathan: Thanks. I'll have to read up on Warren Buffett and read my history!
- Elizabeth: I'll take your tax tips too. Shares really look like a good investment.

H.9.5 Bank investment

Some accounts allow investors to select different options, such as ways of paying interest; the table shows the options that Elizabeth and Nathan have selected. Interest details relate to an investment amount of \$6,000 for three years. Your teacher will supply you with current interest rates.

	Type of account	
	Savings account	Term deposit account
What is the interest rate?		
Is it fixed or variable interest?	Variable	Fixed
Is it simple or compound interest?	Compounding monthly	Simple
When is interest calculated and paid?	Calculated daily and paid quarterly	Calculated daily and paid monthly
What is the term of investment?	No restrictions	Nominated at time of deposit (e.g. 36 months)
Can I access my funds?	Yes	Yes, subject to interest adjustment and a prepayment fee
Can I make extra deposits?	Yes	Yes, on rollover

List some advantages and disadvantages of each of these accounts in this table.

	Direct investment account	Term deposit account
Advantages		
Disadvantages		

H.9.6 What are investment scams?

Golden investment opportunity

Discover how ordinary people can become expert investors

Use a proven mathematical formula to select companies on the stock market that are guaranteed to turn a profit. The mathematical formula predicts what shares will rise and those that will fail.

This is a sure thing. You cannot lose. I guarantee you will get your money back. All you have to do is pay \$55 by using your credit card and I will send you the formula and an email contact in case you need some help. Act now because I can only give this info to a few people.

I have made enough money so that I will never have to work again!

What is an investment scam?

There are hundreds and thousands of different scams. Very few look or sound the same. Basically a “scam” is a fraudulent trick or a swindle. Swindlers or con artists are smart, friendly, believable and forceful. A scam occurs when an individual puts forward a “get rich quick” idea to a naïve victim. Some of the scams seem so obvious but still some people get ripped off. You have probably heard about the “Nigerian e-mail” scams.

What is the Nigerian scam?

This scam follows a pattern: a person who has a lot of money (e.g. inherited, found, fortunate investor, sold diamonds) needs to get it out of a particular country (usually because they are in danger, either of death or losing the money) and you have been recommended as an honest caring person who could help. You will be paid a sizable fee. Just send your bank account details (sometimes you are asked to send money to “process” the transaction). This first became well-known through a particular scam where the country in question was Nigeria, but there are now many different versions involving many different countries and different ideas. But, of course, what they have in common is that once you provide your bank account details, it is cleared out a short time later.

Who would fall for that?

United Kingdom citizens lost £8.4 million in 2002 on the Nigerian scam alone. ASIC thinks about half a million Australians are ripped off each year. Some people have even lost money that wasn't theirs, e.g. their employer's money, or borrowed money to 'invest'.

H.9.7 Ethical or unethical investing?

Discuss the following issues, decide how ethical or unethical each issue is and show on a value continuum. Justify your position.

Ethical ←-----→Unethical

Issue
Hiring illegal immigrants as cleaners and paying them less than half the award rate per hour.
Producing products that are biodegradable using recycled PET bottles.
Owning hotels that sell alcohol, operate gaming machines and provide wagering facilities.
Setting aside a sum of money insufficient to pay off debts that are likely to occur from people who are dying from inhaling asbestos dust.
Building and operating power stations that generate electricity from hydro (water) powered generators.
Lending money at twice the legal rate of interest.
Recycling metals.
Cutting down a forest with the timber being used for wood chips. The forest was completely revegetated.
Mining uranium.
Lending money at the market rate of interest to community kindergartens.
Operating an aquarium with seals on display.
Paying 7.5 per cent of pre-tax profits to registered charities like the RSPCA.
Closing a mine that had caused a substantial amount of pollution to the environment. No effort was made to return the area to its former state.
Operating an airport.
Giving kids a company's fast food coupons for reading books
Manufacturing cigarettes.
Hiring people to replace workers who are lawfully on strike.
Not setting aside sufficient funds to cover workers' entitlements.

Add any additional issues that occur during class discussion.