



School
Sharemarket
Game

Money and risk management

Supplementary lesson 2

Includes: Student lessons
Teachers notes and answers

ASX Schools Sharemarket Game

Supplementary Teacher Notes: MONEY & RISK MANAGEMENT

Money and risk management

Introduction:

The purpose of this unit is to help students be more aware of managing risk when investing in the sharemarket. Students are given a number of strategies they can use to help protect their portfolio – these include diversification, position size and deciding whether to be aggressive or defensive.

Lesson Design:

Offline lesson

Expected Learning Outcomes:

Students will:

- 1) Gain a better understanding of the level of risk in the sharemarket
- 2) Understand sharemarket volatility
- 3) Learn the importance of diversification for their trading portfolios
- 4) Learn about choosing between defensive and aggressive stocks

Overview of Student Lesson:

- 1) Read the introduction '**Money & risk management**' (pg S.1 – S.2) and discuss the movement shown in graphs and perceptions of the market.
- 2) Ask students what their strategy might be if they have money invested in the Sharemarket Game and the market starts becoming more volatile (moving up and down a lot (as in graph 3). What could they do to protect their portfolio?
- 3) Students to work through the '**first 2 levels of defence**' (pg S.3 – S.4) and answer questions.
- 4) Listen to audio: **Aggressive vs. defensive** (pg S.4) and answer questions. This will help students to decide whether they will be aggressive or defensive in their approach to the Game.
- 5) Discuss answers.
- 6) Additional Activity: **Student debates**

This topic lends itself to student debates: these could be used to end the lesson.

Topics might include:

- The sharemarket is / is not risky.
- It is better to be defensive rather than aggressive.
- It is better to invest long-term rather than short-term.

ADDITIONAL RESOURCES

See **Teacher Resources page** – www.asx.com.au/teacherresources

Aggressive vs. defensive audio: this link is also available in the Student worksheet – pg S.4.
(Recorded 2009)

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ANSWERS TO AUDIO: 'AGGRESSIVE VS. DEFENSIVE'

1) What does it mean to be aggressive?

Answer: Confident, forceful, looking to attack.

2) What does it mean to be defensive?

Answer: Trying to keep safe, protect yourself from bad things happening.

3) What are defensive stocks – give an example of a type of business that is defensive?

Answer: Those businesses that we use everyday and don't have much choice whether we use them. These are essential services, for example supermarkets, toll roads, healthcare and electricity.

4) What are aggressive stocks – can you give an example of a business?

Answer: (Aggressive stocks are also called cyclical stocks because their fortunes tend to be cyclical.)

Aggressive stocks are those companies where the economy (local or global) might have an impact on profitability or business, for example BHP, where overseas economic growth can lead to an increase in demand for their products pushing up the price they receive for their products.

Other companies that do well when the economy is strong and not so well in downturns would be companies in the tourism industry, advertising agencies or a retailer specialising in luxury goods.

Companies in the Game that are more aggressive stocks include FLT – Flight Centre; WTF – Wotif.com; SEK – Seek Limited.

5) Is a bull an investor who is aggressive or defensive? Why?

Answer: A bull thinks the market is going up – aggressive

6) Is a bear an investor who is aggressive or defensive?

Answer: A bear thinks the market will go down – defensive

7) If you think the market is going to go up, what type of stocks would you buy?

Answer: Aggressive

8) If you think the market is going to go down, what type of stocks would you buy?

Answer: Defensive

9) What things do you need to think about before setting up a strategy?

Answer: You have to make a decision as to where you think the market is going to go in the short term. Are you going to be a bull or a bear? This will influence your decision on the type of stocks you will buy.

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Student Lesson: MONEY & RISK MANAGEMENT

Money and risk management

You're in the middle of a basketball game and the opposing team is continually breaking through your defence and shooting goals.

What will you have to do if you want to win...shoot more goals?

Well, maybe, but perhaps the better strategy would be to defend, stop them from shooting goals and then get the ball down your end. Defence needs to come first and then you can shoot the baskets.

So what's this got to do with investing? Well, one of the things you need to think about is how you will protect your investment. Yes you want to make money, but if you don't protect it in the first place you may not get very far.

Your goal first and foremost is to preserve your capital – your \$50,000.

In doing this you want to be able to cut your losses (defend) and let your profits run (attack).

It is important to remember that the sharemarket can be risky.

The sharemarket doesn't always go up!

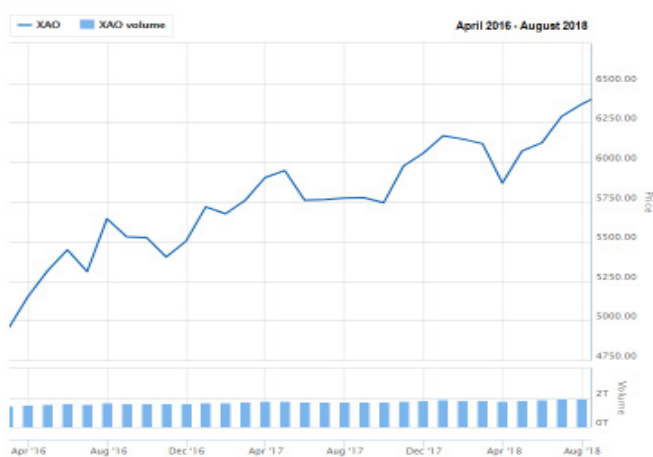


Chart 1

Take a look at this chart of the All Ordinaries Index from 2016 – 2018

In looking at this 2 year period, you may think that the market always goes up...however, take a look at the next chart.



Chart 2

The All Ordinaries Index: 2014 – 2018

You can now see that the market also goes down.

(Continued over)

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Chart 3

Now look at this 3 month period – of the All Ordinaries Index

Volatility means the market is moving up and down a lot.

In this chart there is a lot of volatility. Now if you were invested over a longer period of time, this type of movement may not bother you that much (because the market is moving more sideways rather than up or down). However, if you are investing over a shorter period (as in the Game) it highlights the need to manage your risk and to have a plan.

So when investing in the sharemarket it is vital that you manage your risk.

If you have money invested in the Sharemarket Game and the market starts to become more volatile (as in chart 3) what do you think you could do to protect your portfolio?



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Protecting your portfolio

Here are some ways you can protect your portfolio.

The first level of defence:

Don't put all your eggs in one basket

Invest in 2 to 3 different sectors.

If you put all your money into one sector and that sector falls, this is not going to help you preserve your capital. Also if you were able to put all your money into one company and their shares dropped, again you would potentially lose a significant amount of money.

In the Game you are not able to invest all of your dollars into one company; you have to invest in at least four.

So, already you have started to manage risk.

A good idea is to go back to the section on industry sectors and see how these sectors have performed over the past year. Look at the companies you have chosen. Which sectors do they fit into? Make sure that you are investing in at least 2 to 3 different sectors.



Ask yourself:

- Have you invested in more than one sector, if so which ones and why?

- If you have not yet invested, what sectors do you think you might invest in? (For more help on sectors see Quickstart guide 2: Company research)

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The second level of defence:

Your position size

How much will you invest in each company? Some students start off by investing \$1000 – \$2000 in a company. Be careful of this because every time you buy or sell you are paying brokerage and this can add up very quickly. Plus if some companies do really well you want to own enough of these shares to make some good profits.



The third level of defence:

Decide whether you will invest defensively or aggressively

In the sharemarket you will find that there are companies that are known as defensive companies and those that are known as aggressive companies. Aggressive companies are also referred to as cyclical stocks.

When choosing whether you will invest aggressively or defensively, you will also need to decide on what you think the market is going to do
e.g. keep going up, move sideways or fall.

Listen to the audio '**Aggressive vs. Defensive**' (recorded 2009) and answer the questions on the next page to work out whether you will be aggressive or defensive in the Game.

Link to audio:

https://game.asx.com.au/static/media/aggressive_vs_defensive.mp3



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Aggressive vs. Defensive

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2) What does it mean to be defensive?

3) What are defensive stocks – give an example of a type of business that is defensive?

4) What are aggressive stocks – can you give an example of a business?

5) Is a bull an investor who is aggressive or defensive? Why?

6) Is a bear an investor who is aggressive or defensive? Why?

7) If you think the market is going to go up, what type of stocks would you buy? Aggressive or Defensive?

8) If you think the market is going to go down, what type of stocks would you buy? Aggressive or Defensive?

9) What things do you need to think about before setting up a strategy?

What will you be?
Aggressive or Defensive