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| **TEXAS CTE LESSON PLAN**[www.txcte.org](http://www.txcte.org) |
| **Lesson Identification and TEKS Addressed** |
| **Career Cluster** | Finance |
| **Course Name** | Securities & Investments |
| **Lesson/Unit Title** | Interpreting Financial Information |
| **TEKS Student Expectations** | **130.184(c) Knowledge and Skills**(3)The student describes investment analysis and selection processes. (B) The student is expected to consider the nature of investment risk(E) The student is expected to analyze information that can be obtained from financial statements and annual reports(F) The student is expected to examine a mutual fund prospectus(4) The student identifies investments. (A) The student is expected to interpret financial ratios significant to investors, including price earnings ratio |
| **Basic Direct Teach Lesson**(Includes Special Education Modifications/Accommodations and one English Language Proficiency Standards (ELPS) Strategy) |
| **Instructional Objectives** | **Performance Objective**Students will analyze various types of financial information that can aid in investment selection.**Specific Objective*** Identify and calculate financial ratios
* Interpret financial information to make investment decisions
* Understand fundamental and technical analysis used in selecting investments
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| **Rationale** | The main purposes of this lesson are to help students understand:* That there are many different financial methods investors can look at to make decisions on where to put their money
* That there are resources available that can provide information to aid investors
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| **Duration of Lesson** | 4-5 days |
| **Word Wall/Key Vocabulary***(ELPS c1a, c, f; c2b; c3a, b, d; c4c; c5b) PDAS II (5)* | * Financial statement‐a summary of all the transactions of a business for a certain time that represents the financial position of a company; the most common statements reviewed by an investor include the Balance Sheet and Income/Expense Statement
* Annual Report‐a report that corporations provide to shareholders which details their operations for the year
* Prospectus‐a document that contains information about an investment that is being offered for sale
* “Red herring”–a term for the first of two prospectuses about an investment offered for sale; it relates to the red letters on the front of the prospectus that says it is preliminary. The exact details of the investment such as the price and number of shares offered are stated in the final version of the prospectus.
* Compound interest‐also known as “interest on interest”; interest calculated on principal plus previously accrued interest
* Rule of 72‐a mathematical tool to calculate the number of years it will take to double your investment
* Income statement‐details a company’s revenues and expenses, determining if there is a net income or net loss
* Ratio‐a comparison of two numerical values that are obtained from financial statements and are used to assess a company’s financial condition
* Balance sheet‐summarizes a company’s assets, liabilities, and shareholder’s equity
* Liquidity‐how quickly an asset can be converted to cash
* Stockholder‐someone who purchases shares of stock in a company; stock ownership represents shares of ownership in a company
* Fundamental analysis–analyzes data from financial statements and other sources to make investment decisions
* Technical analysis–relies on historical stock performance and market trends to make investment decisions
* Mutual fund‐a type of investment that is professionally managed and is made up of a group of diversified securities
* Cash flow statement‐a financial statement that shows cash flow from operations, investments, and financing
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| **Materials/Specialized Equipment Needed** | **Instructional Aids*** Lesson Presentation
* Instructor Computer/Projection Unit
* Online Websites
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| **Anticipatory Set**(May include pre-assessment for prior knowledge) | **Ask** students if they have heard of financial statements such as a balance sheet, income statement, or a cashflow statement.**Ask** students if they think that work should be done by an investor to determine the most profitableinvestments possible or if the investor should let a professional take that responsibility. |
| **Direct Instruction \*** | OutlineThe Annual ReportLetter to shareholdersFinancial highlightsCharts and graphicsFinancial statementsAdditional notesCompany informationThe Balance SheetAssets (Property)‐current (cash) and long‐term (land, buildings)Liabilities (Loans)‐current (accounts payable) and long‐term (notes payable)Net worth or stockholder’s equityThe Income StatementRevenue‐income from salesExpenses‐operating expenses such as salaries, rent, and utilitiesNet income or net loss‐revenue minus expenses The Cash Flow StatementCash flow from operations‐ hopefully a positive numberInvestments‐a negative number means company is spending money on investments Financing section‐a negative number can mean that the company is paying dividends or buying shares from investors An Overall Look at Financial Statements * 1. Has balance sheet improved over the years?
	2. Is there a net income or net loss?
	3. Is cash flow positive or negative?
	4. Has cash flow from operations been increasing?
	5. Are there any risk factors or legal actions (in annual report)?
	6. Have gross margins been increasing?

Calculate various ratios from data in annual reports. What is a Prospectus? * 1. Information provided by a corporation about an investment offering
	2. Look for:
		1. Management fees
		2. Past performance
		3. Risks
		4. Price per share
1. Fundamental Analysis
	1. Uses data from financial statements
	2. Uses credit rating of bond issuers
	3. Looks at interest rates and economic factors
	4. Type of analysis used by Warren Buffett
2. Technical Analysis
	1. Relies on historical performance of a stock to predict future success
	2. Relies on market trends
	3. Supply and demand are important factors
3. Financial Ratios‐Liquidity
	1. How quickly assets can be converted to cash
	2. Current Ratio
	3. Quick Ratio
4. Financial Ratios‐Profitability
	1. Shows how well a company’s assets and equity can generate profits
	2. Return on Assets
	3. Return on Equity
5. Financial Ratios‐Debt
	1. Shows how much a company owes to others
	2. Debt Ratio
	3. Debt‐to‐Equity Ratio
6. Financial Ratios‐Operating and Cash Flow
	1. Shows how well a company’s assets can generate sales or revenue
	2. Fixed Asset Turnover Rate
	3. Operating Cash Flow/Sales
7. Financial Ratios‐Value of Investment
	1. Depend on the type of stock investors are looking for
	2. Price/Earnings
	3. Dividend Yield
	4. Price/Book Value
 | Instructor NotesAnnual reports for any company can provide a great deal of information about the financial condition of the company. Search online for a finance web site to locate an annual report for a familiar company. Show them the different sections.As you arrive at the balance sheet, point out the items at the left (which are also in the presentation) so they can observe the different terms used. Show them the bottom line, or net worth amount.Do the same for the income statement and ask students to volunteer the different amounts so you can be sure they are finding the same numbers you are.Again, show the students the different items listed in this outline. Ask them what a negative cash flow can mean for a company, and as a result, what it can mean for an investor.Financial statements usually show a comparison of two or three-time periods. Consider whether there are patterns (e.g., certain amounts are increasing or decreasing over time).A prospectus provides information about mutual funds as annual reports provide information about individual companies. There are prospectuses for companies as well, but in this lesson, we are focusing on the mutual fund prospectus. Search online for a prospectus that you can show students. Use “mutual fund prospectuses” as the search criteria.Fundamental analysis is a term for using financial data to make investment decisions. Warren Buffett is a proponent of this analysis. You can have students conduct research on Warren Buffett’s style as well as some other well‐known investors.Technical analysis is not as popular as a technique. It mainly uses historical performance of primarily that particular stock.Return to an annual report of a company that the students suggest. Calculate some of the ratios at the left using the formulas found in the presentation slides and have students follow along, writing down the calculations as you go so they will be able to perform calculations on their own or in pairs. |
| **Guided Practice \*** | * Model for students how to search for and locate an annual report and numbers to use to calculate ratios and have them follow along with you.
* Have students in pairs decide upon a company for which they can go online and locate an annual report. Have them select a ratio that they will calculate for that company. Each pair will post flipchart paper around the room displaying their company, the name of the ratio they used, and the calculation. Also, they will include explanation on whether that calculation would result in a positive or negative recommendation to purchase stock in that company.
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| **Independent Practice/Laboratory Experience/Differentiated Activities \*** | * The teacher can print off some financial statements to be distributed to students. Students should individually circle or highlight accounts that are used in the common ratios found in the presentation to familiarize themselves with the places to look for information.
* Students can write down each ratio on index cards to keep handy for further practice.
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| **Lesson Closure** | **Review**The following questions can be asked formally, during class discussion, or when using exit tickets over several class periods.**Q1**: What is the part of an annual report that is most beneficial to investors?**A1**: The financial statement section.**Q2**: What are three financial statements?**A2**: The balance sheet, the income statement, and the cash flow statement.**Q3**: What can the balance sheet show?**A3**: It can show the amount of debt a company owes to suppliers or other creditors.**Q4**: What is important about the income statement?**A4**: It shows whether a company’s revenues are higher or lower than its expenses.**Q5**: Why are ratios important in investment analysis?**A5**: Ratios can indicate different areas of strengths or weaknesses in a company’s financial condition. |
| **Summative / End of Lesson Assessment \***  | * Informal Assessment
* Formal Assessment

**Accommodations for Learning Differences:** It is important that lessons accommodate the needs of every learner. These lessons may be modified to accommodate your students with learning differences by referring to the files found on the Special Populations page of this website.    |
| **References/Resources/****Teacher Preparation** | * Gilbertson*,* C. B., Lehman, M. W., & Ross, K. E. (2003). *Century 21 Accounting for Texas, General* *Journal.* Location, State:Independence, KY. Cengage South‐Western.
* University of Arizona, The. (2013). Family Economics and Financial Education. Retrieved from <http://fefe.arizona.edu>
* University of Pennsylvana, Wharton. (n.d.). Retrieved from [https://kwhs.wharton.upenn.edu/lesson\_plans/swot‐strengths‐weaknesses‐opportunities‐threats/](https://kwhs.wharton.upenn.edu/lesson_plans/swot-strengths-weaknesses-opportunities-threats/) ‐
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| **Additional Required Components** |
| **English Language Proficiency Standards (ELPS) Strategies** |  |
| **College and Career Readiness Connection[[1]](#footnote-1)** |  |
| **Recommended Strategies** |
| **Reading Strategies** |  |
| **Quotes** |  |
| **Multimedia/Visual Strategy****Presentation Slides + One Additional Technology Connection** |  |
| **Graphic Organizers/Handout** |  |
| **Writing Strategies****Journal Entries + 1 Additional Writing Strategy** |  |
| **Communication****90 Second Speech Topics** |  |
| **Other Essential Lesson Components** |
| **Enrichment Activity**(e.g., homework assignment) | **Extension**Interview two people from different generations regarding their personal investment strategies. Create a list of questions including topics of 1) whether they used an investment advisor, 2) where they put their money at different time periods in their lives, 3) how they felt about the risk of their investments, 4) whether they had a plan at all, and include any other questions they would like to ask. Either create a word processing document with the questions and answers for both individuals, or write a report comparing the individuals’ answers. |
| **Family/Community Connection** |  |
| **CTSO connection(s)** | FBLA, BPA |
| **Service Learning Projects** |  |
| **Lesson Notes** |  |

1. Visit the Texas College and Career Readiness Standards at <http://www.thecb.state.tx.us/collegereadiness/CRS.pdf>, Texas Higher Education Coordinating Board (THECB), 2009. [↑](#footnote-ref-1)