

CAMS Inventors Inc. Successful Investor Project

Successful Investor Project Curriculum Guide

I. Investment Questions

Before you get started, you will need to become acquainted with some areas that involve investment decisions. Use various research materials (the Internet, magazines, periodicals, books, investment-management firms, and so on) to answer the following basic questions. Create graphs to accompany each investment area. Make sure that you define the italicized vocabulary along the way. Good luck!

1. What is the relationship between the growth and fluctuations in the financial markets and the economy's *business cycle*?
2. What are your investment objectives?
 - a. What is my investment horizon?
 - b. What do I want from my investment?
3. What is a *portfolio*, and how does it fit in with your objectives and *risk tolerance*?
4. What is a *mutual fund*?
 - a. How do mutual funds work?
 - b. How do I make money from my mutual fund investment (*capital appreciation, capital gains, dividend income*)?
 - c. Why should I invest in mutual funds (*professional money management, diversification, variety of investment choices, low minimum investment, liquidity*)?
5. What are some time-tested strategies for mutual fund investors?
 - a. Pay yourself first.
 - b. Diversify to help reduce risk.
 - c. Reinvest your earnings.
 - d. Keep a long-term perspective.
6. What does it mean for your money to *compound*?
 - a. What is the rule of 72?
7. What is an *annuity*?
 - a. *Fixed* versus *variable*
8. When is a good time to invest?
 - a. What are the benefits of starting early?
 - b. What are the costs of waiting?
9. What are *stocks*?
10. Why should I invest in stocks?
11. How do I make money from stocks?
12. What are ways for me to track my stocks?
 - a. Dow Jones Industrial Average
 - b. Standard and Poor's 500 index
 - c. Nasdaq Composite

13. Why should I invest in stocks?
 - a. Is there an opportunity to beat inflation?
 - b. Historically, what is stock ownership's long-term performance?
14. What are the risks of investing?
 - a. *Financial risk or company risk*
 - b. *Market risk*
 - c. *Economic risk*
15. Can investing in stocks through mutual funds help reduce risk? Explain.
16. What are my stock mutual fund choices?
 - a. *Balanced funds*
 - b. *Growth and income funds*
 - c. *Growth funds*
 - d. *Aggressive growth funds*
 - e. *Sector funds*
17. What is the relationship between risk and reward?
18. What are *bonds*?
19. How do bonds work?
20. Why should I invest in bonds?
 - a. *Safety of principal*
 - b. *Diversification*
 - c. *Long-term-appreciation potential*
21. What are the different types of bonds?
 - a. Money market instruments
 - b. U.S. government securities
 - i. U.S. Treasury bonds
 - ii. U.S. Treasury notes
 - iii. U.S. Treasury bills
 - iv. U.S. government-agency bonds
 - c. Corporate bonds
 - d. Municipal bonds
22. How are bonds rated?
23. What are junk bonds?
24. What is the relationship between interest rates and bond prices?
25. What does *duration* have to do with a bond fund's *volatility*?
26. What types of bond mutual fund choices do I have?
 - a. *Money market funds*
 - b. *U.S. government-income funds*
 - c. *Tax-free-income funds*
 - d. *Corporate-bond funds*
 - e. *Strategic-income funds*
 - f. *High-yield-bond funds*
27. What is the difference between investing internationally and investing globally?
28. What is the benefit of investing in foreign markets?

29. What are my international and global mutual fund choices?

- a. *International funds*
- b. *Global funds*
- c. *Emerging-markets funds*
- d. *Regional funds*

II. Time to Invest

You have already decided by now what your product will be. In order to get an insight into what the market for your product looks like, I want you to select four or five stocks that will represent the stocks of your competitors. If there is no direct connection with your product and other companies, choose companies that produce related or similar products to yours. You will be given the grand sum of \$100,000 to use for equities investment, with the stipulation that you invest at least \$99,500 of the total in the stock market. You may purchase any stock you deem to be of quality, and the goal is to make your investment grow quickly in a short period of time. The specific instructions for the activity are listed below.

1. You can pick any four to five corporations that are listed on Nasdaq, the NYSE, or the American Stock Exchange to invest in.
2. Your maximum dollar investment is between \$99,500 and \$100,000, including a 1 percent commission to the stockbroker trading for you.
3. You are to keep track of your investment on a weekly basis, listing the worth per share and the total value of your holdings each week on the chart provided.
4. You are to do this for a ten-week period. At the end of the ten-week period, the supreme moneyman will double your gains. If you have lost money, you will have gained a valuable lesson, but nothing more.
5. As part of your task, you are to research each of the corporations in which you have invested, getting information about how each is run and by whom, and what each produces. Also, you will need to find out how the corporation has fared over the last year and its prospects for the future.
6. Last, you will need to produce a graph (using Microsoft Excel) that shows how your investments have progressed during the ten-week period. You will also turn this in to the executor for examination.

Your stock-tracking chart, graphs, and corporate information will be due on _____.

III. Entrepreneurship Time

Now it's time to move into developing your own firm. You will form groups of seven or eight. As a group, you will decide on the product—which can be sold in a particular market—you want to create, develop a business plan (see below), and present your idea or prototype at a convention using professional marketing and advertising skills.

Companies are constantly writing up business plans. Financial backers, venture capitalists, and other private investors seek out these business plans before making investment decisions. Even commercial bankers are requesting them before making credit decisions. Additionally, organizations and individuals considering long-term relationships with companies—joint-venture partners, large customers, suppliers, distributors, and executive candidates—are now inclined to seek written plans.

Your group needs to prepare such a business plan, a document that conveys your company's exciting prospects and growth potential. The goal is to make your business attractive to potential backers.

A. Business Plan

1. Describe the business you operate or propose to start.
 - a. What product or service will you offer?
 - b. Who will be the customers for it (size, location, demographics)?
 - c. What features or benefits will you offer that are now available to those customers?
 - d. Describe in detail the business and its goals.
2. Define the market.
 - a. What is the estimated size of the market in dollar sales per year? What is the basis for this estimate?
 - b. Describe your product or services.
 - c. Identify the customer demand for your product or services.
 - d. How is this market currently served? Name your potential competitors.
 - e. What are the names and locations of the major customers for your product?
 - f. Explain how you will advertise and market your product or service.
 - g. Explain your pricing strategy.
 - h. Explain your planned selling strategy—that is, your sales force, distributors, agents, advertising.
3. How will you operate?
 - a. Will you purchase and sell the entire product, purchase parts and assemble it, or manufacture it? Explain your choice.
 - b. Buildings and equipment
 - i. Space needed, type, build or lease, location, cost, availability
 - ii. Equipment needed: list items, cost new, cost used, availability
 - b. Manning table: List employees needed for each of the first three years by job, number, and annual salary. Include the management team. In other words, list all the people needed to make this project go.
 - c. Discuss insurance, lease, or rent agreements and issues pertinent to your business.
 - d. Development cost: Is the product ready to go, or do you expect more developmental and learning costs? Explain in detail.
 - e. Account for production and delivery of products and services.

4. Management
 - a. How will you organize the venture? Will it be a sole proprietorship, a partnership, a corporation?
 - b. Identify the advantages you and your business have over your competitors.
 - c. Provide résumés of the principal and active owners, detailing relevant experience, skills, and qualifications.
 - d. Has the management team worked together before? For how long? Was the team successful?
 - e. What are your plans for legal and accounting services?
 - f. What are your plans for employee benefits, and what are the estimated costs?
 - g. What are your service and warranty policies?
5. Financial projections
 - a. Capital requirements at start-up: Create a detailed list of the funds needed to buy equipment; lease or build buildings; purchase supplies and raw materials; meet payrolls for a reasonable time; pay such operating costs as insurance, travel, taxes, power (variable and fixed costs; production schedule) for a reasonable time; carry accounts receivables for the normal trade time; and other working-capital needs. Bear in mind that many businesses fail due to lack of working capital, so examine this issue carefully.
 - b. Sources of capital: Create a list of the planned sources of funds. It should detail the owner's investment (cash), net book value of assets transferred to the business, existing debt, and the additional capital needed.
 - c. Sales projections for three years, shown by product, net sales value, and gross margin. (Gross margin equals net sales value minus raw material cost.)
 - d. Pro-forma profit and loss for three years. Show for each year, on a balance sheet, the total net sales, gross margin, salaries, and wages from manning table, fringe benefit costs, other operating expenses, selling and administrative costs, and gross profit (BT) and net profit (AT) available to repay debt.
 - e. Develop an expected return on investment (ROI) and monthly cash flow for the first year.
 - f. Discuss your break-even point.
 - g. Explain your personal balance sheet and method of compensation.
 - h. Discuss who will maintain your accounting records and how they will keep them.
 - i. Provide what-if statements that address alternative approaches to any problems that may develop.

B. Legal Requirements

1. Registration and accounting requirements
You may need a

- a. work certificate or a license from the state.
- b. business name registered with the state (depending on state regulations).
- c. sales tax number.
- d. separate business bank account.

If your business has employees, you are responsible for

- e. withholding income and Social Security taxes.
- f. complying with laws covering employee health and safety and the minimum wage.

2. The U.S. Business Advisor, a Web site found at business.gov, can help you identify and comply with federal regulations. It also provides links to the Internal Revenue Service, the Social Security Administration, the Occupational Safety and Health Administration, and numerous other federal agencies. You can obtain federal tax information by calling the IRS at (800) TAX-FORM.
3. Zoning: Be aware of the city's zoning regulations.
4. Restrictions on certain goods: Find out what the State of California outlaws in home production of fireworks, drugs, poisons, explosives, sanitary or medical products, and toys. Also see if the state prohibits home-based businesses from making food, drink, or clothing.
5. Patent/copyright laws: See if there are any existing protections of ownership that you could possibly violate in your business. If there aren't any, begin the process of acquiring a patent or copyright that applies to your product or service.
6. Other considerations
 - a. If you need a city business license, contact the city clerk's office.
 - b. There are permits for
 - i. health.
 - ii. environment.
 - iii. work.
 - iv. dumping.
 - a. Check out insurance documents.
 - b. You need a city business license for the following:
 - i. Disasters, accidents, deaths, and lawsuits
 - ii. Coverage of assets (the building and material goods of your business)
 - iii. Person insurance (provides money to run the business on death of the chief executive, sole proprietor, and so on; workers' compensation or unemployment insurance protects workers)
 - iv. Operations covered by business-interruption insurance
 - c. There are many taxes:
 - i. Taxes for infrastructure (roads, sewers, and police and fire department)
 - ii. Asset-based taxes
 - iii. Taxes on individuals (state disability insurance and payroll taxes for Medicare and FICA)
 - iv. Operational taxes (retail-sales taxes collected by cities; taxes on a corporation's income)

Here are a few addresses and Web sites to help you with your research:

- California Chamber of Commerce, PO Box 11736, Sacramento, CA 95812-1736; (800) 331-8877; calchamber.com/Pages/Default.aspx
- California Permit Assistance Centers (local office: San Fernando Valley, 4717 Van Nuys Blvd., Sherman Oaks, CA 91403; (818) 756-7572)
- Deloitte & Touche, dtonline.com
- Garage Technology Ventures (helps find deep capital for investors and entrepreneurs), garage.com
- Governor's Business Revitalization Center, 3650 W. Martin Luther King Blvd., No. 246, Baldwin Hills, CA 90008; (213) 290-7100
- Los Angeles Times Small Business (resources and training), latimes.com/smallbiz
- U.S. Small Business Administration, sba.gov
- USC Business Expansion Network, 3375 S. Hoover Blvd., Suite A, Los Angeles, CA 90007; (213) 743- 1726

IV. The Convention

On _____, 2009, your company will present the product it has developed. All firms will have two long tables and an outlet for electronics to display the completed business plan, product (idea or prototype), and any other advertising tools.

All investment companies will receive a rubric prior to the convention so that team members understand how the investors/judges will evaluate them and what they will be looking for. All team members should have a professional appearance and proper attire to enhance the presentation to the judges.

Be prepared to answer questions that potential investors will ask you as they gather information about your product and its accompanying business plan.

We will announce the stock market portfolio winners from each of the four economics classes at the convention. These teams will be expected to reveal their strategies upon notification of winning.

V. Wrapping Up the Project

There will be an informal gathering of all the students involved in the project. We ask that all students participate in the discussion and provide input in order to help us gain insights into the project. You might want to begin thinking about your responses and writing them down before we meet. Here are some example questions.

1. Investment Portfolio

- a. What are some of the insights you gained in researching different types of investments?
- b. What financial plans do you have for the future (short and long term)? Be specific.

- c. What are some of the key strategies for a financial-investment portfolio (stocks, bonds, mutual funds, annuities, and so on)?
2. Stock Market
- a. Which companies did you choose, and why?
 - b. What happened with each stock over time? Show line graphs.
 - c. What was each person thinking over time about the stocks that they bought?
 - d. What does the saying “Let the trends be your friends” mean?
 - e. What important insights did you gain from investing in the stock market?
3. Entrepreneurship Time
- a. What kinds of problems or disagreements, if any, did the group encounter? How did you solve these problems?
 - b. What were the group’s strengths and weaknesses?
 - c. In your opinion, what should your group have done differently? The same? Why?
 - d. Did you prepare enough for the convention? Explain.
 - e. What personal changes have resulted from learning about investments and entrepreneurship? Have there been any changes in your views on capitalism and the free-enterprise system?
 - f. What skills are necessary for creating a sound portfolio and for developing a business plan?
 - g. What did you like or dislike about the Successful Investor Project?