Next Generation Investors

Sharing real funds with students and mentoring their business and investment acumen has literally paid dividends, in the $100,000s.

In 2007, we were discussing how we might better engage students who expressed interest in investment and finance, and a lightbulb went off. What if we created a student investment committee and gave them the opportunity to not only hear and learn about investments but to actually invest real money in stocks?

This casual conversation planted the seeds for what has become a very successful program, wherein high school students have the chance to invest $10,000 of real money from the school each year, similar to how you would invest your retirement funds or the school’s endowment funds. Almost 14 years later, the committee’s portfolio has grown to 39 stocks and eight bonds valued at $241,000. The portfolio consistently outperforms the S&P 500 and has outpaced the school’s overall investment portfolio seven of the past 12 years.

POLICIES AND PROTOCOLS

The student investment policies are based on the University School Board of Trustees’ investment policies with slight adjustments, such as not allowing alternative investments like real estate. The stipulations regarding equity and fixed income security are the same, and the policy of benchmarking against the S&P is fairly prescribed. We also created by-laws that include guidelines that designate quorums and voting protocol. We don’t hold voting rights, but do have veto power, something we’ve never needed to use.

Nine students serve on the committee. Each spring, we accept three freshmen as the seniors prepare to cycle off. No knowledge of the stock market is needed to apply, but a passion for business is essential. These students serve on the committee throughout the duration of their high school tenures, acting as mentors to younger students when they become upperclassmen. We let the students keep themselves on task but execute the transactions from the business office. We serve as “backseat drivers” to the committee, meaning we may ask general questions for discussion, but we do not give stock market advice. By the time they are seniors, the students are knowledgeable about the stock market — they may know more about investing than most adults.

In its early years, the committee focused primarily on building its portfolio. Today, the students still have an opportunity to build with new money infused annually, but they also manage the portfolio by revisiting stocks purchased three or more years ago. This is important because it allows students to make decisions about investments for which they will not be around to see the results and encourages them to think long-term, a lesson that is especially important in this world of instant gratification.

The students take investing much more seriously because they are working with real money. They can look back at the decisions made by members in 2011, for instance, and better understand how the investment decisions they make today may impact their community years down the line. The students develop analytical skills because they have to research companies, propose stock purchases, defend their recommendations, and improve their presentation and speaking skills.

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Navigating Disruption

Overall, the committee has had great success, but it has had its share of ups and downs. In 2014, for example, a Chinese sneaker manufacturer’s stock went from $1.82 to a zero value, with a resulting investment loss of $910. The students next invested in a self-defense weaponry manufacturer that turned out to be a “tenbagger” — with return 10 times its original price.

More recently, we made adjustments to the fund’s investment policy after the board of trustees pointed out that the portfolio contained too many (60) stocks with values below $3,000.
How the Program Works

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This occurred because the students split their votes among all the proposed stocks in order to avoid voting against a peer’s proposal. We set new criteria that disallowed investments below $3,000. Forcing the students to choose has ultimately led to better engagement and rich discussion, and the committee is now in the middle of a three-year process to sell stocks under that threshold.

That experience helped prepare us for the disruptions caused by the COVID-19 pandemic, which has impacted the committee in more ways than one. The committee has not only had to adjust their proposal presentations for a virtual setting, but also take the pandemic into consideration when conducting their analyses of companies.

For example, in early 2020, students proposed buying stock in Boeing. Understanding how the pandemic impacted the aviation industry inspired a lively debate about the future of the industry and how the committee might invest its funds. They had similar discussions about the pandemic’s impact on banking, oil and gas businesses. At the end of proposal week, the students voted to buy Bank of America Corp. stock — the safe, conservative choice. Teenagers aren’t always about risk-taking.

One memorable and humorous story occurred a couple of years ago when the students were presented to our Investment Committee of the Board. Near the end of the meeting, one Trustee said he had one final question for the two of us. His question was “Why are you giving the students only $10,000 a year?”

From a pedagogical perspective, the committee not only vastly increases the students’ understanding of the world economy but also their discipline to think long-term when making financial decisions. These are lessons that will serve them well throughout their lives.

Greg Malkin and David Wright meet with University School’s student investment committee members over Zoom.

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