

3

What an Index Fund Actually Is

L3.5.3 · OWNING A SLICE OF EVERYTHING

I CAN**explain what you own when you buy an index fund**

An **index fund** buys a small piece of many companies at once, in the same proportions as a list — an index. You are not picking winners. You are buying the whole scoreboard.

Buying one company

What happens if it fails?

Buying an index fund

What happens if one company in it fails?

Why does simple usually win?

Most professional fund managers do not beat the index over 15 years. Why might that be?

Answers and talking points

What a good answer looks like, and one question to ask when the pencils go down.

Question	What a good answer says
Buying one company — what if it fails?	You can lose everything you put in. One company failing is your whole investment.
An index fund — what if one company in it fails?	You lose that slice only. The others carry on, so the fund dips rather than disappears.

6-8

Why simple usually wins — the part worth getting right

You do not need a statistic for this, and the arithmetic is better than one. **An index is the average of the market it tracks.** Everyone trading those companies collectively *is* the market, so before costs the average active investor earns the average — the index. Then they pay fees, trading costs and tax on the trades. **After costs, the average active investor must land below the index.** Not because they are bad at it, but because the arithmetic leaves nowhere else to go.

Ask: “Can everyone be above average?” That is the whole answer, and a thirteen-year-old gets there without help.

6-8

What not to let it become

The page is about **what you own**, not about telling anyone what to buy. “Buying the whole scoreboard” is the idea to land. Index funds also fall when the whole market falls, and a student who notices that has understood more, not less — diversification spreads risk, it does not remove it.

Ask: “Is an index fund safe?” Safer than one company. Not safe.

Want the rest of the unit?

This page is one activity, unchanged, from **Unit 3.5 — Saving and the Time Factor**, a Financial Foundations™ unit of 10 to 12 lessons with teacher scripts, family letters and a unit checkpoint. For a free five-day money game your students can play in a browser, try **The \$100 Week™**. Everything is at wealthwisekids.org.