Investment Decisions

**CE.PFL.1.5 Analyze how fiscally responsible individuals save and invest to meet financial goals**

**CE.PFL.1.6 Compare various investing strategies and tax implications for their potential to build wealth**

Investment decisions are some of the most important decisions that you will make with your money. Here are the three most popular areas of investment. Define what these investment options are, the advantages and disadvantages of using them, and why someone might want to use this type of investment.

**Define Return on Investment:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Explain what this is** | **What are the advantages/disadvantages of this type of investment?** | **Who would use this type of investment?** |
| **Stocks** |  |  |  |
| **Government Bonds** |  |  |  |
| **Mutual Funds** |  |  |  |

Rank these from most risky to least risky and explain why you ranked these investment decisions as you did.

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Investments Reading

**CE.PFL.1.5 Analyze how fiscally responsible individuals save and invest to meet financial goals**

**CE.PFL.1.6 Compare various investing strategies and tax implications for their potential to build wealth**

 Returns on investment (profit earned by investor) on savings accounts and certificates of deposit are very low, making it difficult to grow your wealth or money. Most people also invest money in stocks and bonds to yield a higher return over the years.

 **Stocks:** When you buy shares of a stock, you are buying partial ownership in a company. If the company does well, the value of your share will probably go up. If the company does not do well, your share will likely be worth less than you paid for it. You can sell it at any time, hopefully for more than you made, and the difference is your profit. Some companies also pay shareholders a portion of company earnings based on the number of shares people hold. This payment, called a dividend, can substantially increase your profit. Stocks generally earn you more money than other investments, but they carry a greater risk. There is no guarantee (unlike the FDIC insured savings accounts) that you will make money on your stock investment. If the company goes out of business, you will lose any money you invested in it.

 **Government bonds:** Buying a bond is lending money to the government. Unlike buying stock, buying a bond does not make the bondholder part owner of the government that issued the bond. Governments borrow money to pay for their expenses (public goods like roads, schools, and law enforcement). US Government bonds are considered among the safest of all investments because they are backed by the financial strength of the US government. The government pays interest on bonds, but the yield is generally much lower than what you could earn by investing in stocks. A person buying a bond pays half the face value of the bond (a $100 bond costs $50). The bond increases in value every six months until its full value is reached. The Rule of 72 tells you how the number of years it takes for the bond to mature (divide the number of 72 by the interest rate).

 **Mutual funds:** Mutual funds are pools of money from many people who are invested in a few stocks and bonds chosen by financial experts. Your return is based on the experts’ choices of investments. Mutual funds are less risky than individual stocks, but more risky than government bonds. Mutual funds usually own several hundreds of different stocks and bonds. Spreading your investment among many limits the loss if one stock performs poorly.

Risk Scale

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No Risk Low Risk Some Risk High Risk Extreme Risk

**Directions:** Using the scale above, plot what you think would be acceptable risk to take in the following times in your life by writing the number of the scenario at the appropriate place on the scale. Remember at each time your responsibilities change and so might your goals. On the line before the scenario, explain why you chose that risk level. (If not enough space, use the back of this sheet.)

1. You are 21 years old, not married, recent college graduate with an entry-level job with a very well known company and a bright future. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. You are 35 years old, married with a son that is ten years old and a daughter six. You anticipate that both of them will be going to college. You have been with your company for nine years and are in middle management. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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3. You are 55 years old. Your children are out of the house in “good” jobs. You are thinking of retirement, wanting to continue your present life style and enjoy your life after work. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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4. You are 67 years old and in excellent health. You have retired and are looking at a very long and happy life of traveling and good works. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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