

OVERVIEW

When you invest, you are putting your money into something you believe will increase in value or earn more money for you. You put money into a bank savings account to earn interest, and you have peace of mind because the account is insured from loss. But not every type of investment is guaranteed to increase in value. In some instances, investments might decrease in value.

Any investment involves some degree of risk, but you might think the potential rewards are worth taking some degree of risk. In this lesson you will explore those risks and measure your willingness to accept investment risks.

LEARNING OUTCOMES

In this lesson you will explore the risks and rewards of several investment options. Along the way you will:

- Give examples of types of investments.
- Describe the risk-to-reward principle.
- Discuss how risk tolerance impacts investment decisions.
- Explain how diversification is used as an investment strategy.

Use what you learn to set up your personal rules for investing.

LEARNING TASKS

These tasks match pages 16-30 in Student Guide 4.

__ 1.	Review a case study about someone who started investing early. Do you think he made a good decision?
__ 2.	Read about Justin's business start-up opportunity. Would you be willing to invest in his business? Why or why not?
__ 3.	Explore ways to invest and the potential risks and rewards of investing. Share what you learn about a particular type of investment.
__ 4.	Assess your risk tolerance; complete Activity 4.7: My Risk Tolerance . Explore how your tolerance can impact your investing decisions.
__ 5.	Learn about a way you can lessen the risks of investing by diversifying your investment portfolio. Give examples of situations where it pays to diversify.
__ 6.	Create your own personal investment policy statement.

➔ TAKING IT HOME

Look around your room for examples of the ten most recent purchases you have made. How do you feel about the "return" on each purchase? Do you regret the original choice of any of these purchases because you feel that your money could have been better used for something else?

➔ TAKING IT HOME

Interview a family member or close adult about what criteria s/he uses when considering saving or investing decisions. Questions to ask: What is your risk tolerance when it comes to savings and investing? How do you diversify your investments?

➔ FURTHER STUDY

Savings accounts are insured by the FDIC for up to \$250,000, but investments are not insured. Research one of these investing scams:

- ZZZZ Best Inc., 1986
- Centennial Technologies Inc., 1996
- Bre-X Minerals, 1997
- Enron, 2001
- WorldCom, 2002
- Tyco International (NYSE: TYC), 2002
- Bernard Madoff, 2008

Write down four things you could do to protect yourself against investment fraud.

NAME:

DATE:

Student Directions

Explore ways you can invest your money. Compare the potential rewards of making money from investments with the potential risks of not meeting investing goals. There isn't just the risk of losing the money you invest—there are other costs to investing too.

Using at least two different resources, gather information about a particular type of investment.

- Record your findings in the FAQ chart. Specifically, gather data to answer these questions about your assigned topic:
 - ▶ How do I invest in __?
 - ▶ Why would someone want to invest in __? (List two or three benefits for your type of investment.)
 - ▶ What are the costs to invest in __? Are there any transaction or commission fees, minimum balance or deposit requirements, or penalty fees?
 - ▶ What is the typical return (range or current average) on this type of investment? Compared to other types of investments, are the returns considered low, average, or high?
 - ▶ Is this considered a low, moderate, or high investment risk? Why?
- From your findings, create a visual aid to display as you “teach” your classmates about what you learned about your assigned investment topic.
- As you learn about other types of investments from other group teaching presentations, add notes to your FAQs chart.

Investment Education Resources

- ▶ Student Guide, *Module 4: Investing*, pages 18-26
- ▶ Alliance for Educator Education, www.investoreducation.org
- ▶ American Association of Individual Investors, www.aaii.com
- ▶ BetterInvesting, www.better-investing.org
- ▶ Investing for Your Future, www.investing.rutgers.edu

Task: Investment FAQs



Investment FAQs Chart

Type of Investment	How To Invest	Benefits	Types of Investment Costs	Typical Return (Range or Average)	Return Potential (Low, Average, High)	Risk (Low, Moderate, High)
Bonds						
Mutual Funds						
Real Estate						
Collectibles						
Business						

Task: Investment FAQs



Type of Investment	How To Invest	Benefits	Types of Investment Costs	Typical Return (Range or Average)	Return Potential (Low, Average, High)	Risk (Low, Moderate, High)
Futures						
Index Funds						
Precious Metals						

Activity 4.7: My Risk Tolerance

NAME:

DATE:

Directions:

Rutgers University has developed a quiz to help you determine your comfort level with investing risk. Take the Investment Risk Tolerance Quiz (www.njaes.rutgers.edu/money/riskquiz), and rate your own investing risk tolerance.

A. How would you rate your investment risk tolerance?

Right now my investment risk tolerance is

Low

Medium

High

B. Explain how you determined your rating.

I gave myself this rating because