

Investing Money



Objective

In this lesson, you will

Introduction

Common types of investments:

Stocks	a portion of a _____
Mutual Funds	an investment company that _____ investors money to buy stocks and bonds
Bonds	a loan made to a government agency or a corporation

These investments are more less predictable (risky) than regular savings accounts.

The interest paid on savings accounts is usually _____ than the amount you might earn by investing.

The Importance of Investing

Common reasons for investing include:

- *to have money in the future*
-
- *to pay for future luxuries, such as a bigger house or a better car*
-

Risk and Return

There are certain risks involved in investing that can alter the outcome of an investment.

What Are Risk and Return?



→ _____ = uncertainty about the future benefits of an investment

→ _____ = the gain or loss received from an investment after a fixed period of time

In general, the higher lower the possible return on an investment is, the riskier the investment is.

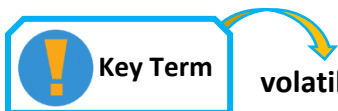
And, the higher lower the return, the lower the risk involved.

For example, an investment in a company that:

- ❖ makes bold moves and expands rapidly → higher lower returns; less very risky
- ❖ expands slowly and does well every year → higher lower returns; less very risky

Complete the table describing the return and risk levels associated with each of investment type.

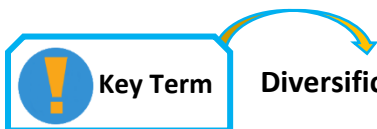
	Return	Risk
Stock		
	<i>A mix of low-return and high return investments, so the overall return is moderate.</i>	<i>Moderate because it is an investment in many companies. If one incurs a loss, it will likely be balanced by another that profits.</i>
		<i>Considered low risk because you almost never lose your original investment</i>



volatility = the variation between the expected _____ and the actual _____

The more the company's performance varies:

the _____ the volatility, unpredictability, and risk of your investment will be.



Diversification = a _____-management technique where you invest in a variety of options instead of putting all of your money in one investment.

Diversifying:

- increases decreases the risk of losing all your money if an investment fails,
- allows you to maintain a balance between low-risk and high-risk investments.

investment portfolio:
a collection of
all your financial investments

Return on Investment

Return on investment (ROI) measures the _____ of an investment

- ❖ ROI is calculated as a _____.
- ❖ A _____ value indicates a profitable investment.
- ❖ A _____ value indicates a loss.

The formula used to calculate the ROI is:

$$\text{ROI} = \frac{(\text{ } - \text{ })}{\text{initial value}} \times 100$$

Example:

Maya invested \$50,000 in mutual funds for five years.
At the end of five years, she received a total amount of \$85,000.

So, the initial value of her investment is \$_____ and the final value of her investment is \$_____.

The difference of the final value and the initial value is the _____.

$$\begin{aligned} \text{ROI} &= (\text{ } \text{ value} - \text{ } \text{ value}) \div \text{initial value} \times 100 \\ &= (\text{ } - \text{ }) \div \text{ } \times 100 \end{aligned}$$

So, Maya made a _____ percent profit on her investment.



Comparing the percentage of profit (ROI) is more less accurate than simply comparing the monetary value of investment profits.

Example:

The return on a \$1,000 investment is \$50 while the return on a \$200 investment is \$35.

	Investment A	Investment B
Initial Value	1,000	200
Final Value		
Final – Initial	50	
ROI		

So, if you had \$500 to invest, comparing the ROI of the two investment options shows you that Investment _____ would give you a greater return than investment _____.

Annualized ROI

Annualized ROI = the _____ profit or loss from an investment
= ROI ÷ number of years

Example:

A company invested \$30,000 in a machine that helped them make a profit of \$60,000 in four years.

- initial value = _____
- profit = _____
- ROI = (_____ ÷ _____) × 100 = _____%
- Annualized ROI = _____% ÷ _____ = _____%

The company made a profit of _____ percent per _____.

Summary

How might a person's investment portfolio change as they get closer to retirement age?