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Slide 3

**INVESTMENTS**  
**Module Objectives**  
A RESOURCE TO REACH THE AMERICAN DREAM

After completing this module you should be able to:

- Recognize different investment options
- Understand the concept of yield
- Recognize what are investment risks
- Understand how to reduce risks
- Understand what is risk tolerance
- Recognize the different investment styles
- Understand the concepts of asset allocation, diversification and rebalancing
- Recognize different allocation strategies
- Understand the importance of time on the market
- Recognize the meaning of social responsible investments

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**INVESTMENTS**  
**Investment Choices**  
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- You should know that a vast array of investment products exists - including stocks and stock mutual funds, corporate and municipal bonds, bond mutual funds, lifecycle funds, exchange-traded funds, money market funds, and U.S. Treasury securities.
- Let's take a closer look at the characteristics of the three major asset categories.
  - Stocks
  - Bonds
  - Cash

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**INVESTMENTS**  
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**Stocks**



- In financial markets, stock is the capital raised by a corporation through the issuance and distribution of shares.
- Stocks have historically had the greatest risk and highest returns among the three major asset categories.

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**Bonds**



- Bonds are a long-term loan certificate issued by governments and organizations in order to raise capital. The capital is repaid with interest.
- Bonds are generally less volatile than stocks but offer more modest returns.

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**Cash**

Cash and cash equivalents - such as savings deposits, certificates of deposit, treasury bills, money market deposit accounts, and money market funds - are the safest investments, but offer the lowest return of the three major asset categories.



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**What is Return?**

Investment return is what you get back on an investment you make. Ideally, the return will be positive, your initial investment or principal will remain intact, and you will end up with more than you invested. But because investing typically involves risk—especially if you invest in securities such as stocks, bonds, or mutual funds that invest in stocks and bonds—your returns can be negative, and you can wind up with less money than you initially invested.



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**INVESTMENTS**  
Return  
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For example, let's say you buy a stock for \$30 a share and sell it for \$35 a share. Your return is \$5 a share minus any commission or other fees you paid when you bought and sold the stock. If the stock had paid a dividend of \$1 per share while you owned it, your total return would be a gain of \$6 a share before expenses.

**Total return = Gain or loss in value + investment earnings**

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**INVESTMENTS**  
Rate of Return  
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Compare a return of \$5 per share on a \$30 investment with a return of \$5 per share on a \$60 investment. In both cases, your dollar return is the same. But your rate of return, which you figure by dividing the gain by the amount you invest, is different.

**In this comparison, the rate of return, also called the percent return, on the \$30 investment is 16.67% (\$5 ÷ \$30 = 16.666) while the rate of return on the \$60 investment is 8.33% (\$5 ÷ \$60 = 8.333)—just half.**

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**INVESTMENTS**  
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**Yield**

The yield on an investment is the amount of money you collect in interest or dividends, calculated as a percentage of either the current price of the investment or the price you paid to buy it.

For example, if a stock pays annual dividends of \$1 per share when the price is \$35, the current yield is 2.9% ( $\$1 \div \$35 = 0.02857$ ). However, if you bought the stock for \$25, and used that number as the basis of your yield, that same \$1 dividend would be 4% ( $\$1 \div \$25 = 0.04$ ).

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**What is risk?**

- Risk can be defined as the chance or possibility of loss.
- In financial terms is defined as the degree of uncertainty regarding the rate of return on and/or the principal value of an investment.
- Part of becoming a good investor is understanding the types of risks you will face.
- On the other hand, you will need to know how much financial risk you can afford in order to reach your goals.

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**INVESTMENTS**  
Types of Financial Risks  
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- There are three types of risks you need to become aware of:
  - Market Risk
  - Inflation Risk
  - Liquidity Risk



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**INVESTMENTS**  
Market Risk  
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- Market risk is the risk that the value of your investment will decrease due to moves in market factors. The four standard market risk factors include:
  - Equity risk
  - Interest rate risk
  - Currency risk
  - Commodity risk

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**Inflation Risk**

Inflation risk is the risk that the interest you're earning may fall below the inflation rate.



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**Liquidity Risk**

Liquidity risk is defined as the ease with which an investor can convert an investment to cash without negative impact on either capital or return.



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**INVESTMENTS**  
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### Risk versus Reward

- “No pain, no gain” - those words come close to summing up the relationship between risk and reward.
- The reward for taking on risk is the potential for a greater investment return.
- If you have a financial goal with a long time horizon, you are likely to make more money by carefully investing in asset categories with greater risk, like stocks or bonds, rather than restricting your investments to assets with less risk, like cash equivalents.
- On the other hand, investing solely in cash investments may be appropriate for short-term financial goals

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### Investment Styles

How you decide to allocate your assets—whether you choose a conservative, moderate, or aggressive allocation mix based on your tolerance for risk—is sometimes called your investing style, or profile

Your investing style reflects your personality, but it is also influenced by other factors like your age, financial circumstances, investment goals, and experience.

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**Time Horizon**

Your time horizon is the expected number of months, years, or decades you will be investing to achieve a particular financial goal.



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**INVESTMENTS**  
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**Risk Tolerance**

- Risk tolerance is your ability and willingness to lose some or all of your original investment in exchange for greater potential returns.
- An aggressive investor, or one with a high-risk tolerance, is more likely to risk losing money in order to get better results.
- A conservative investor, or one with a low-risk tolerance, tends to favor investments that will preserve his or her original investment.



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