

Name \_\_\_\_\_



Date \_\_\_\_\_

## Introduction to Risk and Return

Before investing your money, you will have to understand the important concept of **risk and return**. Risk and return means that the returns you will get when investing your money will vary. You may even lose money. However, no matter what you do with your money, you are always taking some amount of risk. If you keep your money at home, you risk that it could be lost or stolen. If you place your money in a bank account, you risk that the returns that you get will not be high enough.



Risk and return also means that if you take greater risks, you should expect to get greater returns. If you want the possibility of getting greater returns, you need to invest your money in more risky investments, for example bonds or stocks. Different bonds and stocks even have different degrees of risk. So how much risk should you take with your money? That depends on many different factors including your age, risk tolerance, and investment objectives. No matter where you invest your money, you first should understand the investment's risks and potential rewards.

**EXERCISE:** You have been given the option to invest in either a safe investment, or one that has more risk. The safe investment will give you a return of 1%. The risky investment's return will vary. Finish filling in the following table, and answer the questions that follow:

**SAFE INVESTMENT:** Here is the return for the safe investment. It will always give the same return.

Money to Invest	Return	Gain(Loss)	Total
\$1,000.00	1%	\$10.00	\$1,010.00

**RISKY INVESTMENT:** The risky investment's return will vary, and may be one of the following. Finish filling in the following table. Round each calculation to the nearest penny.

	Money to Invest	Return	Gain/Loss	Total
1.	\$1,000.00	-13%	\$ _____	\$ _____
2.	\$1,000.00	-17%	\$ _____	\$ _____
3.	\$1,000.00	-6%	\$ _____	\$ _____
4.	\$1,000.00	10%	\$ _____	\$ _____
5.	\$1,000.00	-6%	\$ _____	\$ _____
6.	\$1,000.00	21%	\$ _____	\$ _____

Should you choose the safe investment or the risky investment? Why?

**ANSWERS**

	<b>Beginning Savings</b>	<b>Interest Rate</b>	<b>Interest</b>	<b>Savings in one year</b>
1.	\$1,000.00	-13%	(\$130.00)	\$870.00
2.	\$1,000.00	-17%	(\$170.00)	\$830.00
3.	\$1,000.00	-6%	(\$60.00)	\$940.00
4.	\$1,000.00	10%	\$100.00	\$1,100.00
5.	\$1,000.00	-6%	(\$60.00)	\$940.00
6.	\$1,000.00	21%	\$210.00	\$1,210.00

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