

NAME: _____

DATE: _____

INSTRUCTION

Saving & Investing Products

What + Why: Crack the code on how investments actually make money, and why bigger rewards usually come with bigger risks.

How Investments Work

Investing isn't just about choosing the option with the highest return. Different investments work in different ways, and those differences affect how much risk you take on. Use this note-taking guide to help break down how common investment types function and why they behave differently over time.

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- A loan to a government or company
 - Earns interest payments
 - Moderate risk
 - Average annual return: _____%

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- Money locked in at a bank for a set time
 - Earns a fixed interest rate
 - Low risk
 - Average annual return: _____%

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- Ownership in a company
 - May generate returns through price increases and, in some cases, dividend payments
 - Higher risk
 - Average annual return: _____%

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- A fund that tracks the overall market
 - Value generally rises and falls with the overall stock market
 - Higher risk
 - Average annual return: _____%

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- Money kept at a bank or credit union
 - Earns interest
 - Very low risk
 - Average annual return: _____%

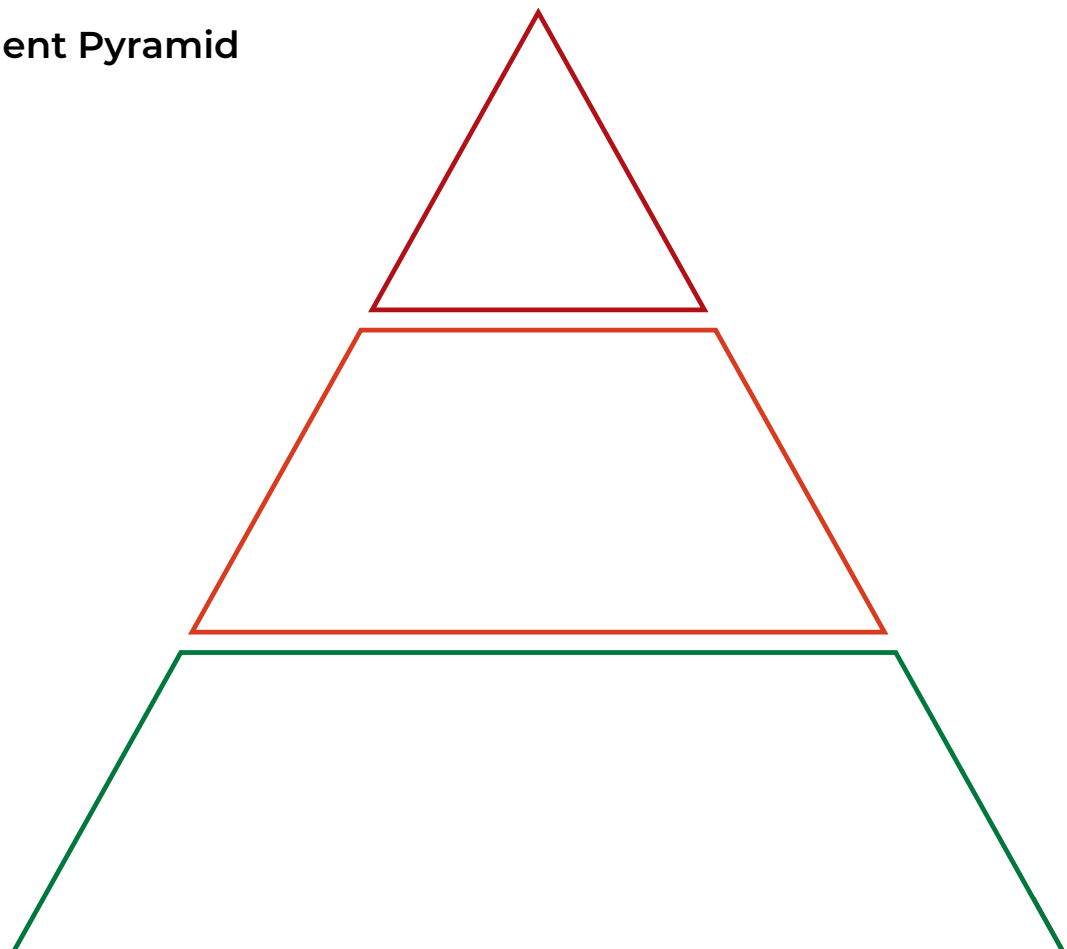
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- A collection of investments traded like a stock
 - Risk depends on the types of investments included in the fund
 - Moderate to high risk
 - Average annual return: _____%

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- A collection of stocks and/or bonds
 - Risk is spread across many investments
 - Moderate to high risk
 - Average annual return: _____%

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- A collection of bonds (sometimes in the thousands) from multiple issuers
 - Earns regular income through interest payments across the fund (unlike individual bonds, they never mature)
 - Moderate risk: Diversification reduces default risk, but value may decrease when interest rates rise.
 - Average annual return: _____%

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- A type of savings account that earns a significantly higher interest rate than a standard savings account
 - Earns interest; funds remain accessible and FDIC or NCUA insured
 - Very low risk
 - Average annual return: _____%

The Investment Pyramid



Key Terms

- **diversification:** an investment strategy that spreads money across a variety of assets, industries, investment types, or geographical areas to reduce the impact of poor performance in any single investment
- **liquidity:** how easily an asset can be converted to cash without significant loss of value
- **maturity:** the date when a bond, certificate of deposit, or similar financial product becomes due and the original amount invested is returned, often along with any interest earned
- **time horizon:** the length of time an investor expects to hold an investment before needing the money, guiding risk tolerance and asset choices
- **risk tolerance:** the amount of uncertainty or potential financial loss an investor is willing to accept