

TYPES OF INVESTMENTS

Name: Class/Block: Date:

People can choose from a wide variety of investments. This chart shows you some things to consider about some of the main types of investments.

Type	Expected Return	Risk	Liquidity
<p>Savings accounts, guaranteed investment certificates (GICs), term deposits</p> <p>money deposited with banks, trust companies and credit unions</p>	<ul style="list-style-type: none"> usually a fixed annual rate GICs sometimes tied to performance of an index or other standard 	<ul style="list-style-type: none"> low to moderate principal amount is usually insured, but interest rates can be fixed or variable 	<ul style="list-style-type: none"> savings may be withdrawn at any time some GICs and term deposits must be held to maturity, but many allow for early redemption or cashing out at a cost
<p>Treasury bills</p> <p>Short-term (less than 1 year) debt securities issued by government</p>	<ul style="list-style-type: none"> determined by difference between purchase price and value at maturity 	<ul style="list-style-type: none"> very low 	<ul style="list-style-type: none"> not redeemable, but can usually be sold quickly through investment dealers
<p>Equities</p> <p>Shares in ownership of a company (also called stocks)</p>	<ul style="list-style-type: none"> may pay regular dividends to share holders potential return may depend entirely on changes in share price 	<ul style="list-style-type: none"> moderate to high depends on size and stability of company, management, competition, etc. 	<ul style="list-style-type: none"> shares traded on stock exchanges are usually quite easy to sell shares that aren't listed on an exchange may be difficult or impossible to sell
<p>Fixed income investments</p> <p>government and corporate bonds and debentures</p>	<ul style="list-style-type: none"> interest rate is usually fixed bonds with longer terms will usually pay higher interest rates high risk "junk" bonds offer even higher rates 	<ul style="list-style-type: none"> risk of borrower defaulting is very low for government bonds but can be low to high for corporate bonds bond values go up and down with changing market interest rates 	<ul style="list-style-type: none"> most bonds can be bought and sold quickly through investment dealers some bonds are traded on stock exchanges

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TYPES OF INVESTMENTS (cont'd)

Type	Expected Return	Risk	Liquidity
<p>Mutual funds</p> <p>units in a pool of money that's managed for a large number of investors by a professional money manager</p>	<ul style="list-style-type: none"> • may include interest, dividends and capital gains (or losses) • return will depend on manager's investment decisions and on the management fees charged 	<ul style="list-style-type: none"> • low to very high, depending on what the fund invests in and on the skill of the fund manager 	<ul style="list-style-type: none"> • most mutual funds allow investors to cash in (redeem) their holdings on short notice
<p>Real estate</p> <p>property such as land or houses</p>	<ul style="list-style-type: none"> • depends on price, location, real estate market, etc. • may include rent or increase in value 	<ul style="list-style-type: none"> • low to high • depends on price, location, real estate market, etc. 	<ul style="list-style-type: none"> • takes more time to sell than many other investments • hard to sell small portions • depends on market
<p>Direct investment</p> <p>investing your money to finance a private business</p>	<ul style="list-style-type: none"> • low to very high • success depends on the business concept, the manager and on economic conditions 	<ul style="list-style-type: none"> • medium to very high • depends on type of business, competition, skill of the business manager, and the economy 	<ul style="list-style-type: none"> • low • may be very hard to sell

Investors can choose from thousands of different investments. The investments that offer the highest expected returns are those with the highest risk. Wise investors diversify their investments to help manage the risk.

Some investments are very complex. Factors like commissions, sales fees and tax levels can have a major impact on the final return. Investors usually seek expert advice from professional advisers to be sure they fully understand their investment and that the investment is a good choice for their investment goals. Companies that offer investment advice must be registered (licensed) and must comply with detailed standards of conduct.

Find out more about investment by visiting your provincial or territorial regulator's website (see the Financial Consumer Agency of Canada for links at www.fcac.gc.ca > Educational Programs).

For information about investing and avoiding fraud, see the investor education websites at:

- InvestRight.org (sponsored by the British Columbia Securities Commission)
- InvestorEd.ca (sponsored by the Ontario Securities Commission)
- www.lautorite.qc.ca (sponsored by the Autorité des marchés financiers, Quebec's provincial regulator)

Questions about or problems with an investment or a financial adviser? Contact:

- Your provincial securities regulator (see the Financial Consumer Agency of Canada for links at www.fcac.gc.ca > Educational Programs).
- The Investment Industry Regulatory Organization of Canada (www.iiroc.ca)
- The Mutual Fund Dealers Association of Canada (www.mfda.ca)

SAMPLE INVESTMENTS

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Use Handout 9-2, "Types of Investments," to review the investments outlined below and fill in the blanks to describe the characteristics of each. As an example, the first one is completed for you.

CANADA SAVINGS BONDS, PREMIUM SERIES

- issued and guaranteed by the Government of Canada
- bonds are guaranteed to pay 1.75% in the first year, 1.90% in the second year, 2.05% in the third year
- may be cashed in at any bank in Canada for face value plus interest to date

Type of investment: <i>fixed income (bond)</i>	Liquidity: <i>high (cashable at any bank)</i>
Risk rating: <i>very low (guaranteed by government)</i>	Expected return: <i>low (1-1/2 to 2-1/2% per year)</i>

MIDAS BANK SAVINGS ACCOUNT

- savings account in a Canadian bank
- pays interest compounded monthly, at an annual rate of 0.7% on the first \$5,000, and 1.25% on amounts over \$5,000
- includes 10 free banking transactions per month

Type of investment:	Liquidity:
Risk rating:	Expected return:

MOKA-COLA SHARES

- shares in a new company formed to produce a new coffee-flavoured cola drink
- shares are listed on a public stock exchange, but don't trade often. Brokers charge a commission of 2% to trade the shares
- the company believes that it can challenge the cola giants with its patented formula for extracting coffee flavour and adding it to carbonated beverages
- the company plans to pay no dividends, but will invest any income it receives in expanding production and distribution
- the company projects that it will double in size at least every two years

Type of investment:	Liquidity:
Risk rating:	Expected return:

SAMPLE INVESTMENTS (cont'd)

GLOBAL ENTERTAINMENT PRODUCTS SHARES

- shares in the largest entertainment products company in the world, with annual sales of \$9.5 billion
- shares are traded on several major stock exchanges around the world. Brokers charge a commission of 2% to trade the shares
- the company brings out new products every week to compete with smaller rivals
- the company pays dividends four times a year, but keeps enough of its profits to pay for new product development and to buy other smaller companies from time to time

Type of investment:	Liquidity:
Risk rating:	Expected return:

ETHICAL FUN MUTUAL FUND UNITS

- units in a fund that invests in companies that manufacture toys and games following strict ethical and environmental standards
- fund managers believe that ethical toys will be a profitable retail sector that will pay steady dividends and grow at a rate of 10% to 15% per year
- fund managers charge an annual fee equal to 3% of the funds they're managing.
- fund charges a fee of 3% when investors sell their units

Type of investment:	Liquidity:
Risk rating:	Expected return:

TECHNICAL TESTS MUTUAL FUND UNITS

- units in a fund that invests in very new technologies before they have a proven market
- fund is new and has not been offered publicly before, but fund managers are known to analyze risks carefully before they invest
- fund brochures say that it's very risky, but could increase in value rapidly if the new technology it supports becomes profitable
- fund managers charge an annual fee equal to 5% of the funds they're managing
- fund charges a sales fee of 5% when investors sell their units

Type of investment:	Liquidity:
Risk rating:	Expected return:

SAMPLE INVESTMENTS (cont'd)

GOVERNMENT OF CANADA 90-DAY TREASURY BILLS

- an investment in government securities that can be cashed in for their full face value in 90 days
- rather than paying interest, these treasury bills are sold for \$995 today and can be cashed in 90 days from now for \$1,000 (equivalent to a bit more than 2% per year)
- can be sold through any bank or investment dealer in Canada for their market value on the date of sale

Type of investment:	Liquidity:
Risk rating:	Expected return:

HOT PETE PETROLEUM COMPANY BONDS

- issued by a private company with large oil and gas holdings in northern Canada, and long-term contracts to supply petroleum products to customers in the United States
- The company has issued the bonds to pay for pipeline extensions to ship its petroleum products to its customers
- bonds pay interest quarterly, calculated at a rate of 5.5% per year
- bonds are non-redeemable for five years, but because the company is well established and has a good financial record, the bonds can be traded through investment dealers

Type of investment:	Liquidity:
Risk rating:	Expected return: