

THE CITY

Module 9

Investing



Financial Consumer
Agency of Canada

Agence de la consommation
en matière financière du Canada



BRITISH COLUMBIA
SECURITIES COMMISSION

WHAT ARE SAVINGS?

- money you're not spending

WHAT ARE INVESTMENTS?

- a way to use money with the hope of making more money



TYPES OF INVESTMENTS

- deposits in a financial institution (savings accounts, term deposits and guaranteed investment certificates)
- shares – also called stocks or equities (part ownership of a company)
- bonds and debentures (loans to a company or government)
- mutual funds (a professionally managed pool of money for investments)
- real estate (land and buildings)
- direct investment in a business



EXPECTED RETURN, RISK AND LIQUIDITY

EXPECTED RETURN the profit that you think you'll receive from an investment in the form of:

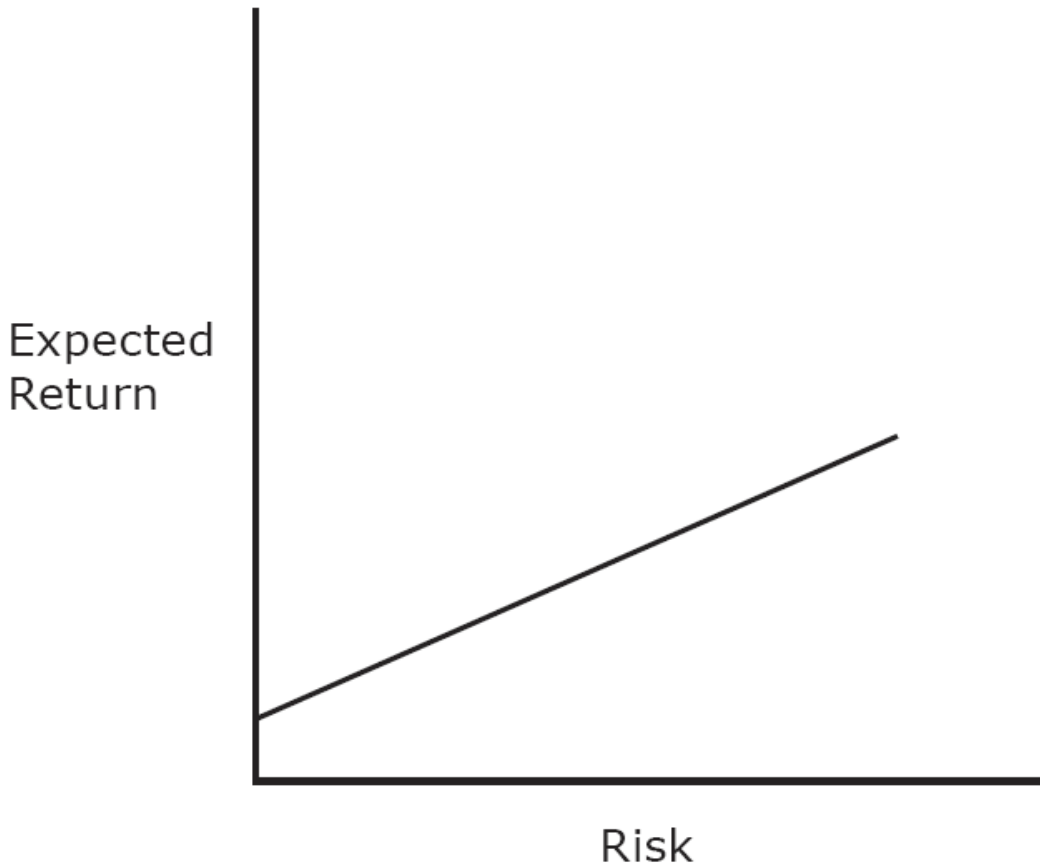
- income from interest or dividends
- increased value (capital gains)

RISK amount of uncertainty about the expected return, including the possibility that the investment may lose money or become worthless

LIQUIDITY ability to sell the investment quickly and at a fair price



EXPECTED RETURN AND RISK



“Expected return” is what you hope for.
You could lose, too.



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INVESTING YOUR \$10,000 INHERITANCE

OPTION 1: GUARANTEED INVESTMENT CERTIFICATE

- Low risk, return of \$400

OPTION 2: MUTUAL FUND

- Some risk, return of \$1,000 to \$1,500 in the past

OPTION 3: NEW COMPANY

- Unknown future
 - + may return \$5,000 to \$10,000 per year
 - + could go bankrupt and lose the initial \$10,000 and any gains



WHAT IS RISK TOLERANCE?

- the amount of risk that an investor feels comfortable with
- the amount of risk that an investor can afford to take

WHAT AFFECTS RISK TOLERANCE?

- personal goals
- life stage
- lifestyle
- time line
- knowledge



WHAT IS DIVERSIFICATION?

Spreading your money over a variety of investments to reduce risk.

- Choose **different types of investments**
- Choose various investments within each type

