

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
Savings accounts, guaranteed investment certificates (GICs), term deposits money deposited with banks, trust companies and credit unions	<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 savings may be withdrawn at any time some GICs and term deposits must be held to maturity, but many allow for early redemption or cashing out at a cost
Treasury bills Short-term (less than 1 year) debt securities issued by government	<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
Equities Shares in ownership of a company (also called stocks)	<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
Fixed income investments government and corporate bonds and debentures	<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

TYPES OF INVESTMENTS (cont'd)

Type	Expected Return	Risk	Liquidity
Mutual funds units in a pool of money that's managed for a large number of investors by a professional money manager	<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
Real estate property such as land or houses	<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
Direct investment investing your money to finance a private business	<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.themoneybelt.gc.ca).

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.themoneybelt.gc.ca)
- The Investment Industry Regulatory Organization of Canada (www.iiroc.ca)
- The Mutual Fund Dealers Association of Canada (www.mfda.ca)

SAMPLE INVESTMENTS

Name: Class/Block: Date:

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:

MY INVESTMENT PORTFOLIO

Name: Class/Block: Date:

How does an investor decide where to invest? That depends on many factors, which differ from person to person, and from time to time in an investor's life. Some of the key factors include:

YOUR INVESTMENT GOALS

What do you want your investments to do for you?

- You might want your investments to:
 - + Provide a sum of money at a future date for a major purchase or expense
 - + Increase in value over the long term
 - + Provide income
 - + Protect your money from inflation

YOUR RISK TOLERANCE

How much risk do you feel comfortable with? How much risk can you afford to take?

- Your appetite for risk will depend on your:
 - + personal goals
 - + life stage
 - + lifestyle
 - + time line
 - + knowledge

EXPECTED RETURN, RISK AND LIQUIDITY

- **Expected Return** – the profit you expect 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 at a fair price

DIVERSIFICATION

- the strategy of spreading your investments over a variety of products to reduce risk by:
 - + choosing **different types of investments**
 - + choosing **a selection of investments within each type**

MY APPETITE FOR RISK

Name: Class/Block: Date:

Choose the answer that's closest to the response you would give in the situation. Then count up the points for your choices and see how you scored.

- 1) Your best friend says his uncle will give you a chance to invest in a gold property in northern B.C. He says the investment will more than double before the end of the year. What do you do?
 - a) Listen, but remind yourself that a fool and his money are soon parted.
 - b) Tell him to put you down for \$75, and mentally write it off as the price to keep on good terms with your buddy.
 - c) Find more information about the gold mining company. If it looks like it has good potential, invest \$500.
 - d) Take every last dime you've saved and buy as many shares as possible.
- 2) Your boss is going to pay a year-end bonus, and gives you a choice between \$500 cash or \$600 in stock. You can't sell the stock for at least 12 months, and in that time the stock price could go up or down. What do you do?
 - a) Grab the money while you can.
 - b) Take the stock. Hey, any company that employs me will make more money in the long run.
- 3) A friend invites you to join a hockey pool to the tune of \$20. You could win over \$500. What do you do?
 - a) Say no thanks, and invite your friend to a game of street hockey instead.
 - b) Ask another friend to split the cost, since a \$10 loss is better than a \$20 loss.
 - c) Study the NHL statistics, listen to your gut feeling, and place your bets.
 - d) Find out if you can purchase two pools to increase your odds of winning the jackpot.
- 4) Your parents decide to give you a gift of \$10,000, asking that you invest it wisely. What do you do?
 - a) Buy a flashy used car, and take the folks for a ride.
 - b) Put the cash in a safe term deposit earning 4% interest a year.
 - c) Invest it all in a high-tech company just starting out with huge potential reward (and risk).
 - d) Get a financial adviser to help you select several stocks, bonds and mutual funds that represent different risk levels.
- 5) A stock you bought over a year ago has suddenly increased in value by over 40%. What do you do?
 - a) Let her roll and keep things right where they are.
 - b) Borrow money to buy more stock, certain it will keep going up.
 - c) Sell, and stash your dough in a low- or no-risk investment now that you've made a cool profit.

MY APPETITE FOR RISK (cont'd)

Give yourself points for each of your answers as follows:

Question	Your answer	Points	Your answer	Points	Your answer	Points	Your answer	Points
1	a)	1	b)	4	c)	6	d)	15
2	a)	1	b)	4				
3	a)	1	b)	4	c)	6	d)	10
4	a)	10	b)	2	c)	15	d)	8
5	a)	6	b)	10	c)	2		

YOU SCORED:

15 points or less: You're careful! You'll be happiest with investments that offer some guarantees, or you'll lie awake at night thinking about it. You'll probably be most comfortable with a safe mix of investments including term deposits, treasury bills, guaranteed investment certificates and government bonds.

16 to 35 points: You're not afraid to risk a little, but you don't take risks unnecessarily. You'll risk a bit if there's a good payoff, but you don't want to put all of your savings on the line. That's a good strategy, though it won't double your savings overnight. You'll probably want a well-diversified portfolio that's balanced between cash, bonds and common stocks.

36 or more points: You're willing to risk everything on the right deal. Sometimes that's okay, as long as you know you really could lose it all. If you can handle the potential losses, you might have a chance at really good returns. You're likely to invest more heavily in stocks, maybe even some shares of new companies. You might also be the type to start your own business.

MY INVESTMENT PORTFOLIO (cont'd)

ASSIGNMENT:

Review the results of your risk self-assessment as well as your education and career goals and future lifestyle choices. Imagine that you have \$25,000 to invest. List the types of investments you would choose for your portfolio, and the amount of each investment you would choose.

You can choose any of the investments described in Handout 9-4, "Sample Investments."

Use the form below to describe your choices.

Investment	Amount Invested	Expected Return	Risk	Liquidity	Why I Chose It

Discuss with your parents or another adult your choice of investments and any revisions they would recommend. Write a summary of your discussion.
