Course 2: Investing for Your Future

Investment Risk Tolerance

Not everyone invests the same way. Some people are okay with bigger risks for the chance of bigger rewards, while others prefer to play it safe. This is called your **risk tolerance.**

- **Aggressive:** High risk, high reward. (Think: betting big for bigger potential gains.)
- **Moderate:** A balance of risk and stability.
- **Conservative:** Low risk, stable returns.

👉 **Quick Example:** If you put $100 in a risky stock, it could grow to $200... or drop to $50. A conservative choice, like a bond, won't double your money but is much less likely to lose value.

Diversification

You've probably heard the saying: **"Don't put all your eggs in one basket."** That's diversification — spreading your investments out across different types of assets so one bad investment doesn't ruin everything.

👉 **Tip:** A diversified portfolio might include a mix of stocks, bonds, and cash investments.

Types of Financial Investments

- **Stocks:** Buying shares = owning part of a company. Can grow fast but risky.
- **Bonds:** A loan to a company or government. Safer than stocks but smaller returns.
- **Cash Investments:** Super safe options like savings accounts. Easy to access but very low returns.
- **Mutual Funds:** A bundle of investments (stocks, bonds, etc.) managed by professionals. Good for instant diversification.
- **ETFs (Exchange-Traded Funds):** Like mutual funds but traded on the stock market, usually with lower fees.

👉 **Quick Example:** Imagine you want to invest $500. You could buy stock in one company (risky if it drops), or buy into an EFT that owns hundreds of companies, spreading your risk.

Investing in the Real World

Story 1: Diego and the Rollercoaster Stock

Diego, a junior, saves $300 from mowing lawns and invests it all in a single tech stock his friend recommended. At first, his $300 jumps to $400, and he feels like a genius. But two months later, the stock drops to $200. Diego realizes that investing everything in one stock is risky — and that diversification is the smarter way to go.

Story 2: Aisha and the Balanced Portfolio

Aisha, a senior, works at an ice cream shop and has saved $1,000. She splits it up: $500 into a stock index fund, $300 into bonds, and $200 in a savings account for emergencies.

Over the year, her stock fund grows by 10%, her bonds earn steady interest, and her savings stay safe. By diversifying, Aisha ends the year with about $1,120, giving her steady growth and security.

Story 3: Mateo and the Dream Car

Mateo, a sophomore, wants to buy a used car in two years. He saves $1,500 from a summer job. Instead of putting it into risky stocks, he places most of it in a high-yield savings account and some in short-term bonds.

When it's time to buy the car, his account has grown to nearly $1,600. It's not flashy growth, but it gets him closer to his goal without risking his hard-earned savings. He learns that your **timeline** (short-term vs. long-term goals) should shape how you invest.

FAQs: Investing for the Future

Q: What does "risk tolerance" really mean?
It's how much risk you're comfortable taking with your money. Higher risk can mean higher reward — but also bigger losses.

Q: Why can't I just invest everything in one stock?
You could — but if that stock tanks, so does your money. Diversification protects you.

Q: What's the difference between a mutual fund and an ETF?
Both are collections of investments. Mutual funds are managed by professionals and often have higher fees; ETFs are cheaper and traded like stocks.

Q: Which investment is safest?
Cash investments (like savings accounts) are the safest, but they have the lowest returns.

Q: How do I know if I should invest in stocks or bonds?
It depends on your goals and timeline. Stocks are better for long-term growth; bonds are safer for short-term stability.

Think About It

1. Would you describe your own risk tolerance as aggressive, moderate, or conservative? Why?
2. If you had $500, how would you split it between stocks, bonds, and savings?
3. What's one real-world example of "diversification" outside of money (sports, school, etc.)?
4. If you needed your money in 2 years, would you choose stocks or bonds? Why?
5. How does your financial goal (short-term vs. long-term) change the way you'd invest?

Terms to Know

- **Risk Tolerance** – How much risk you're willing to take when investing.
- **Diversification** – Spreading money across different investments to reduce risk.
- **Stocks** – Shares of ownership in a company.
- **Bonds** – A loan to a company or government in exchange for interest payments.
- **Cash Investments** – Safe, short-term savings like bank accounts or CDs.
- **Mutual Funds** – Professionally managed bundles of investments.
- **ETFs (Exchange-Traded Funds)** – Funds like mutual funds, but traded on stock exchanges, often with lower fees.