



Risk vs. Reward

Investment contains risks.

Let's talk about how to assess those risks.

Types of Investments: Stocks

- When you buy a stock, you become part-owner of a company.
- When the company does well, its stock price generally goes up; when it struggles, so does the price of its shares.
- You can buy or sell your stocks whenever you want during trading hours.
- Stocks value can be volatile, going up and down quickly, and stocks of individual companies sometimes go completely bust (down to zero).
- Historically, and as a group, stocks are a good bet. Over time, stocks have returned 8-10% annually on average. Some years are better than others, so patience is needed when investing in the stock market.

Types of Investments: Bonds



- When you buy a bond, you're loaning money to a company or government entity.
- By selling you the bond, the issuer agrees to pay you back with interest over a certain amount of time.
- Since most companies and governments pay back their debts, bonds are seen to be a safer investment.
- Each bond has a rating, letting the investor know the risk level.
- The downside is they don't earn nearly as much money as stocks, returning an average of 5% annually.

How do we know if a bond is a good investment?

Moody's, Standard and Poor's, Fitch Ratings, and DBRS are some of the most internationally well-known bond-rating agencies. Generally, a "AAA" high-grade rated bond offers more security and lower profit potential (lower yield) than a "B-" rated bond.

Bond Ratings

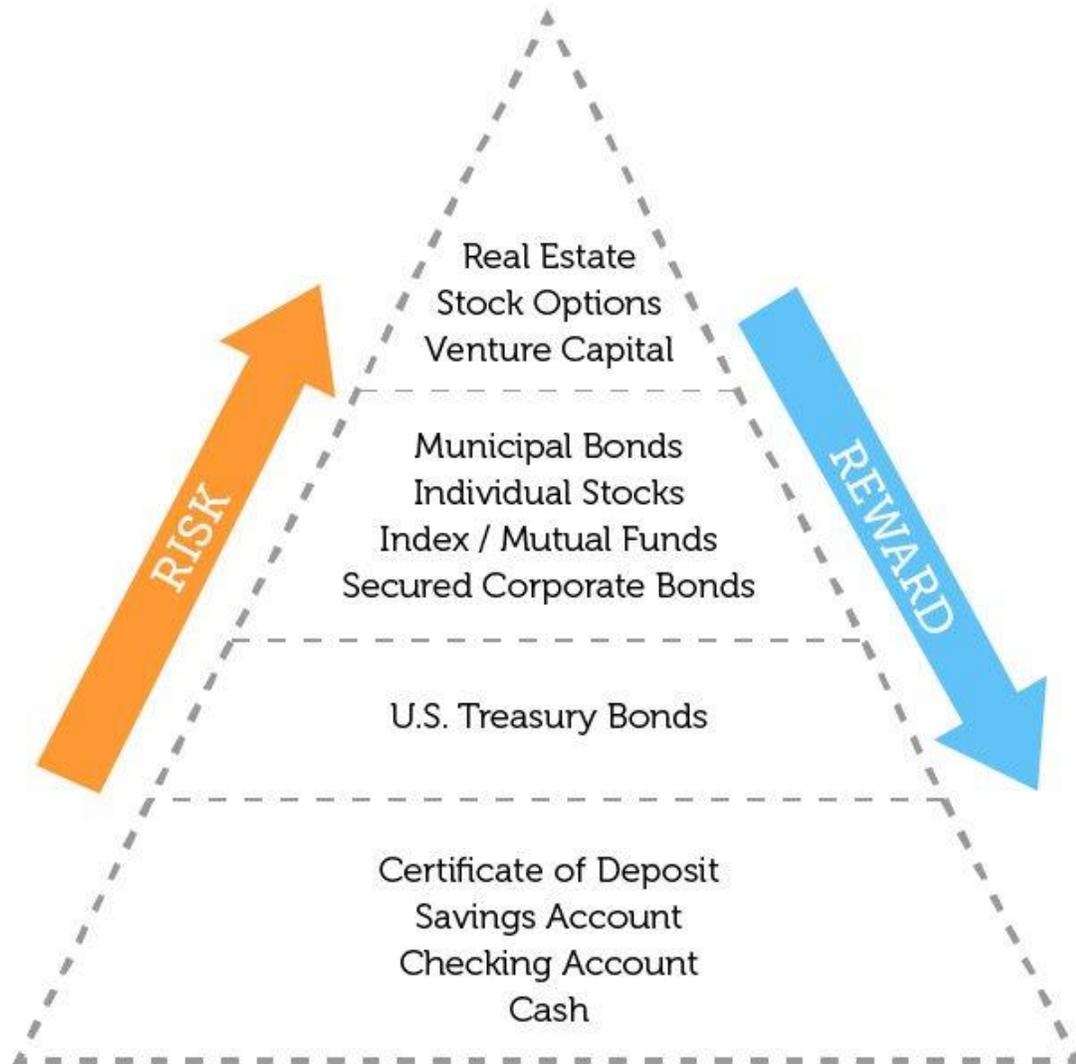
Moody's	Standard and Poor's	Grade	Risk
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Bbb	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default

Other types of investments

- Real Estate
- Start Up Companies
- Commodities



Risk vs. Reward Pyramid



When investing, risk and reward go hand in hand. That's because investments that have the potential to return a lot are generally riskier, and safer investments typically don't return much (make you as much money).

CAUTION: Investing ALWAYS comes with a risk. It's up to you, as the investor, to decide how to approach that risk.

Finding the Right Balance

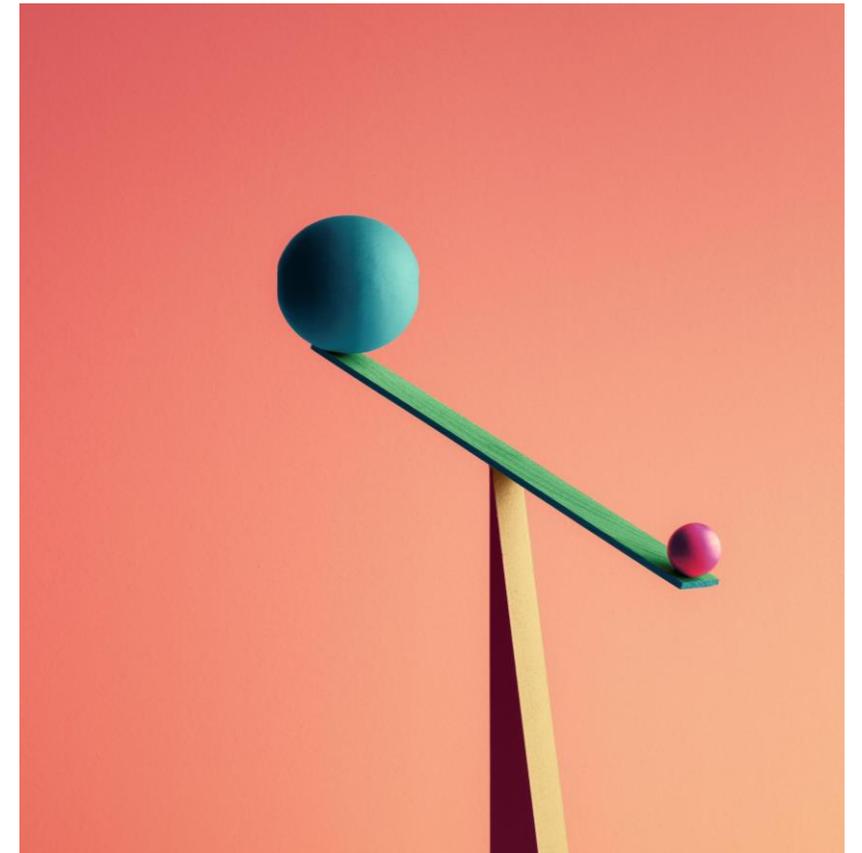
Everyone will approach their investments with a different level of comfort in the risks they take. This is called your “**risk tolerance.**” Risk tolerance is based on the following:

Investment timeline: The longer you have before you need to access your money, the more risk you can take on.

Risk appetite: How comfortable are you with risk? If your investments tumbled, would you panic and sell, or would you be able to hold on?

The takeaway?

The takeaway IS NOT that you should avoid risk. Keeping your money in a savings account or any other very low risk option probably won't get you where you need to go or keep your money growing with inflation. Instead, it's to take calculated, diversified risk. We'll talk about **diversification** in just a moment...



People often don't like to put "all their eggs in one basket!" Instead of choosing low or high risk, stocks or bonds, investors often choose to create a portfolio with a mix of all the available options. **This is called Diversification.**

- Many people select a mix of stocks and bonds for their portfolio, including more stocks if their risk tolerance is high and more bonds if it is low.
- Instead of picking stocks and bonds one-by-one for their portfolio, many investors buy mutual fund or exchange-traded fund (ETF) shares.





Mutual Funds

- A mutual fund is a basket of securities, like a ready-made portfolio.
- Mutual funds can invest in almost anything, including stocks, bonds, real estate, and commodities.
- Index funds track a benchmark, such as the S&P 500, meaning they match the market's returns.
- Actively managed funds try to beat the market.
- Unlike ETFs, with mutual funds, you can only buy or sell shares once a day.

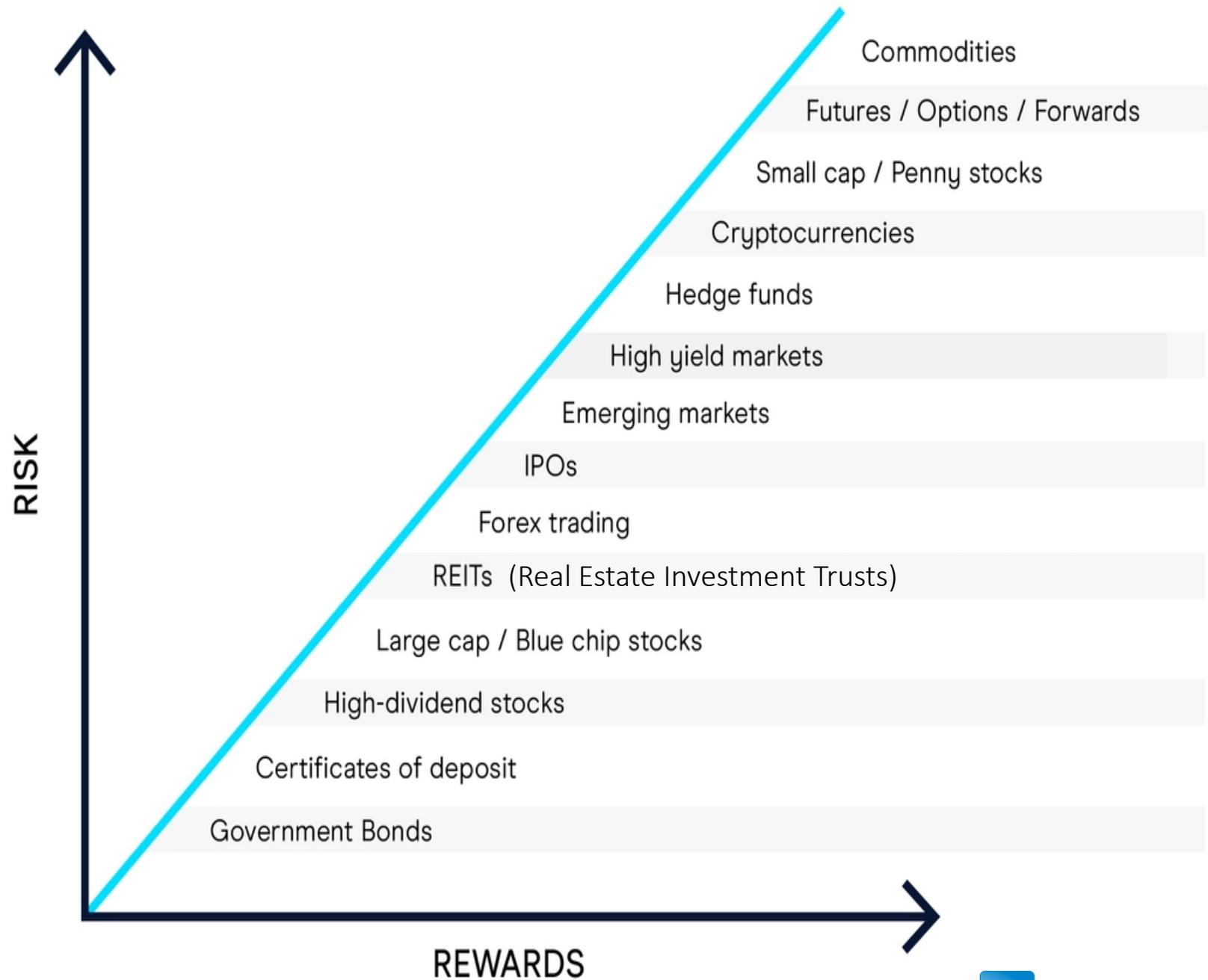
Learn about two investment options for diversification: Mutual Funds and ETFs:

Watch the video at the link below!

[Mutual Fund vs. ETF: What's the Difference?](https://www.investopedia.com/articles/exchangetradedfunds/08/etf-mutual-fund-difference.asp)



Risk vs. Reward Chart for Investments



Risk vs. Reward Game

In finance, risk vs. reward (or return) is the idea that the amount of potential return is proportional to the amount of risk taken in a financial investment.

In this game you will make decisions based on risk.

Goal? To end up with the most points! In the real world of investment points = money!

We will play the game several times so you can try different strategies.

Playing the Risk vs. Reward Game

Object of the Game

- You are trying to get the most points by the end of play. More risk could equal more rewards OR loss depending on how the die falls.
- You will earn a predetermined number of points each time you correctly predict which number will be rolled on a die. More points are rewarded if you guess correctly with fewer tries. You will each be given 20 points to begin the game.
- The points at the beginning of the game represent investment capital.
- The game will be played in 10 short rounds.
- Players must "pay to play." 1 point is subtracted from the tally sheet during each round of play.
- The object is to see who has the most points at the end of the game, and to keep track of the way they earned their points.

Sample Point Sheet

Points won or loss per number of guesses per round

Dice Numbers

# of guesses	Points won	Points Lost
6	0	0
5	1	1
4	2	3
3	5	4
2	10	6
1	20	15

Round #	1	2	3	4	5	6	Pay to Play -1	Win/Loss Amount	Total (Start with 20)
1	✓		⊙✓			✓	-1	5	24
2	⊙	✓		✓	✓	✓	-1	-3	20
3	✓	⊙✓					-1	10	29
4	✓		✓	✓	⊙✓	✓	-1	1	29
5	✓	✓	⊙✓				-1	5	33
6	✓	⊙	✓		✓	✓	-1	-3	29
7	⊙✓						-1	20	48
8			✓	⊙			-1	-15	32
9	✓	✓	✓	✓	⊙		-1	-3	28
10	✓		⊙✓	✓	✓		-1	2	29

⊙ = # rolled in the round



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