INVESTMENT INVESTIGATOR SCENARIOS

TEACHER ANSWER KEY

For each question below, encourage the students to determine

- When will I need the money?
- What can I expect the rate of return to be on the different choices?
- When can I withdraw the money?
- Which of the four financial instruments discussed would be appropriate? Could there be more than one?
- Does this instrument (or instruments) help diversify my investments?

Student instructions: Consider the following scenarios and determine which type of investment instrument is most appropriate:

1. For your 13th birthday, your grandparents give you $1,000 for your college fund.

With a four- to five-year horizon, stocks would offer the highest potential return but carry more risk. A CD would provide safety but with a significantly lower return on investment.

2. You get a job when you turn 16 and are saving to buy a car next year.

The time period is too short to use stocks, so a savings account or a CD would provide some appreciation through interest.

3. You are working a summer job between your freshman and sophomore year of college. You will need the money in the fall for incidentals.

Money market account

4. You have graduated from college, found your dream job, and want to start saving for a down payment for a house.

You have a longer time period here, so some of your funds should go into stocks. Some should probably go into a savings account or CD (depending on how much you have to start the account and the frequency of deposits).

5. You get married and have twins. Start saving for their college.

You have a very long time period, so a diversified portfolio, including stocks, CDs, and a savings account would be appropriate.

6. Start saving for retirement.

Build a diversified portfolio including certificates of deposit, money market accounts, bonds, and stocks.

7. You receive an inheritance of $5,000.

Build a diversified portfolio including certificates of deposit, money market accounts, bonds, and stocks.