The Pyramid of Risk and Reward

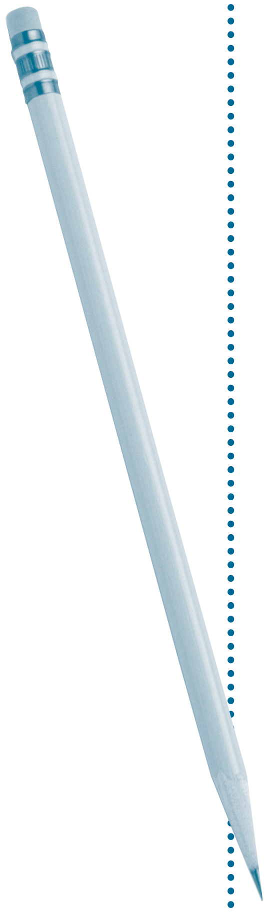
**Highest Risk/
Highest Potential Return or Loss**

**Lowest Risk/
Lowest Potential Return or Loss**

The list above ranks investments according to their risks and rewards. The higher an investment is on the pyramid, the greater the risk. Because the risk is greater, the potential rewards and potential losses are greater.

Your job is to rank each of these investments on a 1-3 scale with 3 representing the most risk or reward. Circle the number that best represents each risk or reward. For risk, "1" is the lowest risk and "3" the highest risk. For reward, "1" is the lowest reward and "3" the highest reward. Give reasons for your rank of each of the risks and reward. Let's go for it.

Continued



MATTRESS

You could hide your money under a mattress.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

REGULAR (PASSBOOK) SAVINGS ACCOUNT

The Federal Deposit Insurance Corporation (FDIC) insures savings accounts for up to $100,000. Interest rates are usually lower than rates for other types of savings choices, but you can open an account with very little money. You can also withdraw your money whenever you like.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

CERTIFICATE OF DEPOSIT

CDs are a special type of savings deposit that you must leave in the bank for a set amount of time during which you receive a fixed rate of interest. The FDIC also insures these accounts for up to $100,000. Banks usually require that you deposit at least $500. If you withdraw your money before the end of the given time, you must pay a penalty.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

MONEY MARKET MUTUAL FUNDS

These funds are sold by companies that sell stocks, bonds, and other types of investments. The funds' managers lend money to businesses and governments for short periods of time. For every dollar put in such a fund, an investor can expect to get back a dollar plus interest. Although money market mutual funds are not insured by the federal government, they are low-risk investments. Interest rates are usually higher than on bank accounts but lower than for stocks and bonds bought and held for the long term. Investors can get their money at any time; they can even write checks on the account.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

STOCKS

Stocks are shares of ownership in a corporation. When you buy stock, you usually take a greater risk than you would with any other type of investing. Your reward will vary, depending on the prices you pay for your stocks and the dividends you receive. Stocks on exchanges such as the New York Stock Exchange and Nasdaq can be bought and sold any time the exchange is open. The amount of money you need to buy stock depends on the prices of the stocks you want to buy and the number of shares you want.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

U.S. GOVERNMENT SAVINGS BONDS

You can buy savings bonds from the federal government for as little as $50. You can't sell them to other people, but you can sell them to the government whenever you want cash. There are limits on when you can sell them before maturity without a penalty of loss of interest.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

Continued

STOCK MUTUAL FUNDS

Stock mutual funds invest in stocks. The risk depends on the investment objective. Some funds invest in high quality or blue-chip stocks, and others invest in more speculative stocks. The major difference in buying a fund rather than individual stocks is that you own many stocks, and you don't have all your eggs in one basket. Therefore, the risk is lower than with an individual stock. You can sell your shares in the fund back to the fund company at any time.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?

REAL ESTATE

Most investors in real estate buy the house they live in. Houses can increase in value, but housing prices can also fall. Sometimes when they rise, they rise less than the inflation rate. To sell your house, you must find a buyer. Many buyers and sellers use real estate brokers.

Financial Risk	1	2	3
Market Price Risk	1	2	3
Liquidity Risk	1	2	3
Inflation Risk	1	2	3
Reward	1	2	3

Why?