

1. Brainstorm your short, medium, and long-term goals.

2. What is investing? _____

3. What is purchasing power? _____

4. How do gauges work? _____

5. What are stocks, bonds, and real assets? _____

6. What is risk tolerance? _____

7. What is a benefit of using a mutual fund? _____

8. What are the next steps you can take? _____

Optional Activity

Think of a company you could buy stocks in. You will use Yahoo Finance (finance.yahoo.com) to look this company up and then brainstorm the following:

If you bought stock in this company a year ago how are you feeling about this investment now? Why?

What are the high and low prices for this stock over the past five years?

During what time period do you notice the most dramatic change in price? What events do you think impacted this?

calculate the return on investment (current value of stock - cost of stock when you purchased it) / cost of stock when you purchased it

Investment Risk Tolerance Quiz

Take this quiz to get an idea of your investment risk tolerance – one of the fundamental issues to consider when planning your investment strategy. Choose the response that best describes you – there are no “right” or “wrong” answers.

When you're done, check the scoring grid to calculate your quiz score.

1. In general, how would your best friend describe you as a risk taker?
 - a. A real gambler ____
 - b. Willing to take risks after completing adequate research ____
 - c. Cautious ____
 - d. A real risk avoider ____

2. You are on a TV game show and can choose one of the following. Which would you take?
 - a. \$1,000 in cash ____
 - b. A 50% chance at winning \$5,000 ____
 - c. A 25% chance at winning \$10,000 ____
 - d. A 5% chance at winning \$100,000 ____

3. You have just finished saving for a “once-in-a-lifetime” vacation. Three weeks before you plan to leave, you lose your job. You would:
 - a. Cancel the vacation ____
 - b. Take a much more modest vacation ____
 - c. Go as scheduled, reasoning that you need the time to prepare for a job search ____
 - d. Extend your vacation, because this might be your last chance to go first-class ____

4. In terms of experience, how comfortable are you investing in stocks or stock mutual funds?
 - a. Not at all comfortable ____
 - b. Somewhat comfortable ____
 - c. Very comfortable ____

5. When you think of the word “risk” which of the following words comes to mind first?
 - a. Loss ____
 - b. Uncertainty ____
 - c. Opportunity ____
 - d. Thrill ____

6. Given the best and worst case returns of the four investment choices below, which would you prefer?
 - a. \$200 gain best case; \$0 gain/loss worst case ____
 - b. \$800 gain best case; \$200 loss worst case ____
 - c. \$2,600 gain best case; \$800 loss worst case ____
 - d. \$4,800 gain best case; \$2,400 loss worst case ____

¹ Risk Tolerance Quiz Source:

Grable, J. E., & Lytton, R. H. (1999). Financial risk tolerance revisited: The development of a risk assessment instrument. *Financial Services Review*, 8, 163-181.

7. In addition to whatever you own, you have been given \$1,000. You are now asked to choose between:

- a. A sure gain of \$500
- b. A 50% chance to gain \$1,000 and a 50% chance to gain nothing

8. Your trusted friend and neighbor, an experienced geologist, is putting together a group of investors to fund an exploratory gold mining venture. The venture could pay back 50 to 100 times the investment if successful. If the mine is a bust, the entire investment is worthless. Your friend estimates the chance of success is only 20%. If you had the money, how much would you invest?

- a. Nothing
- b. One month's salary
- c. Three month's salary
- d. Six month's salary

Investment Risk Tolerance Quiz Scoring Grid

The scoring for the risk tolerance quiz questions is as follows:

- 1. a=4; b=3; c=2; d=1
- 2. a=1; b=2; c=3; d=4
- 3. a=1; b=2; c=3; d=4
- 4. a=1; b=2; c=3
- 5. a=1; b=2; c=3; d=4
- 6. a=1; b=2; c=3; d=4
- 7. a=1; b=3
- 8. a=1; b=2; c=3; d=4

In general, the score that you receive on the *Investment Risk Tolerance Quiz* can be interpreted as follows:

- 11 or below** = Low risk tolerance (i.e., conservative investor)
- 12 to 14** = Below-average risk tolerance
- 15 to 17** = Average/moderate risk tolerance
- 18 to 20** = Above-average risk tolerance
- 21 and above** = High risk tolerance (i.e., aggressive investor)