

Chapter 18 Project

Financial Markets

Purpose

After finishing this chapter, you have learned that households have a range of investment choices available to them, including but not limited to bank accounts; investments, like stocks; and tangible assets, like a house. Let's explore how an individual's investment choices relate to everyday life.

The purpose of this exercise is to help you understand that investment options vary with respect to rate of return, risk level, and liquidity. How an individual chooses among these options often changes, especially as they grow older.

Directions

This exercise has two parts. In the first, you will consider how your investment choices may change over the course of your lifetime. In the second, you will consider one specific type of investment and how you can tailor that investment experience to your life.

Part 1 - Investment Choices over Your Lifetime

This chapter divided the mechanisms used by households to save money into three categories:

- Deposits in bank accounts
- Investments in bonds, stocks, money market mutual funds, and stock and bond mutual funds
- Housing and other tangible assets, like gold

Table 3 in Lesson 18.2 elaborated on these categories with more specificity, describing how the rate of return, risk level, and liquidity vary with each.

Assuming that you always desire a high rate of return, let's consider how your risk level and need for liquid assets might be a function of your stage in life by creating a chart. Complete the following tasks for each stage of life: now, fifteen years from now, and forty years from now.

- Summarize what your life might be like in terms of relevant factors like age, employment, income, debt, financial responsibilities, and life goals.
- Predict your risk level (high, medium, low) with a brief statement explaining why.
- Predict your need for liquid assets (high, medium, low) with a brief statement explaining why.

Once your chart is complete, use it in conjunction with Table 3 in Lesson 18.2 to write an essay that identifies your ideal investment choice in each stage of life, justifies each investment choice, and explains why your investment choices are different (or not) in each stage of your life.

Your essay should be at least three paragraphs in length and describe your investment choices in the context of your own everyday life. The best analysis will be specific and demonstrate application to your own experiences.

Part 2 - Tailoring a Stock Choice to Your Life

Table 3 in Lesson 18.2 describes a stock as a high-return investment choice with medium-to-high risk and medium liquidity. In addition to these characteristics, a stock is an investment choice that is unique in how it can be tailored to your life.

Suppose you have the opportunity to purchase a stock and invest in a company. Which stock would you choose? In addition to considering the aforementioned risk level and liquidity, and assuming your goal is high return, you may consider these other factors:

- Historical performance
- Trends in the marketplace
- Companies with strong or particularly interesting business models
- Sizes of companies
- Products you use everyday that you think are particularly interesting or might prove to be successful
- Research/what you see in the news
- Talking to family and friends
- Industry and/or company analysis

Compose a one-slide digital presentation to pitch your stock choice. Your goal is to explain your stock choice and convince a hypothetical audience that it was a responsible choice. Note that while it may be tempting to invest in large companies or companies that have historically performed well, it is important to base your investment decision on multiple factors. It is also wise to do your own research before choosing a stock rather than simply relying on the advice of others. You may come across a hidden gem!

Checklist

Part 1

- ☐ Consider your current and future needs for liquid assets.
- ☐ Understand the characteristics of different financial investments.
- ☐ Determine investment choices based on your needs and characteristics.
- ☐ Write an essay analyzing your investment choices.

Part 2

- ☐ Choose any stock.
- ☐ Identify your stock's characteristics (level of risk, liquidity, etc.).
- ☐ Create a presentation informing why the stock is a wise investment.