Module 4: Student Activity

Debt, Doubling & Managing Risk

The Rule of 72 is a simple way to determine how long an investment will take to double. Remember that by dividing 72 by the annual rate of return, we can estimate how many years it will take for an investment to double.

1. Using the information above, let's assume that Michael invests $1,000 at a 6% average annual return. What is the value after 36 years?

A. $4,000
B. $6,000
C. $8,000
D. $13,000

2. Now let's assume that Michael finds a different opportunity to invest $1,000 at an average annual return of 12%. What is the value of the investment after 36 years?

A. $13,000
B. $64,000
C. $128,000
D. $48,000

3. What are the differences between "wants" and "needs"? Provide examples of each.

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4. True or False: Past investment returns provide an accurate indication of future performance of an investment?

A. TRUE
B. FALSE

5. Circle whether the identified item is a short-term investment, long-term investment, or not an investment.

A. Cash	Long Term	Short Term	Not Investment
B. Savings Account	Long Term	Short Term	Not Investment
C. Art Collection	Long Term	Short Term	Not Investment
D. Real Estate	Long Term	Short Term	Not Investment
E. U.S. Treasury Bills	Long Term	Short Term	Not Investment
F. Corporate Bonds	Long Term	Short Term	Not Investment

6. For the identified items below, please circle whether the asset is low, medium or high risk.

G.	Cash	Low	Medium	High
H.	Savings Account	Low	Medium	High
I.	Art Collection	Low	Medium	High
J.	Real Estate	Low	Medium	High
K.	U.S. Treasury Bills	Low	Medium	High
L.	Foreign Equities	Low	Medium	High
M.	Corporate Bonds	Low	Medium	High

7. True or False: Active investors trade a lot more with the hope of beating the market. Passive funds rely on gaining the returns of the broader market. Who is statistically more likely to be more successful?

A. ACTIVE INVESTORS
B. PASSIVE INVESTORS

8. Circle the correct answer: Does diversifying investments increase or decrease risk compared to a single investment?

A. INCREASE
B. DECREASE

9. The average investor's return is far lower than the market average return because of which of the following? Circle all that apply.

A. People invest irrationally based on emotion.
B. Investors try to time the market.
C. Frequent trading results in more commissions.
D. Investors chase returns and are scared to cut losses.
E. All Answers Are Correct

10. True or False: Lower costs & expenses are an important thing to look for when evaluating an ETF, Mutual Fund, or Hedge Fund.

A. TRUE
B. FALSE

11. True or False: Passively managed funds or ETFs that do not place a lot of trades, generally have higher costs & expenses than their actively managed counterparts?

A. TRUE
B. FALSE

12. You should aim to save at least what percent of your income?

A. 78%
B. 6%
C. 3%
D. 15%