Module 7 Article

Different Assets Mean Different Risks & Returns

Can You Afford The Risk?

Investing in riskier assets can be a great way to increase your potential for higher returns, but it may not always be the right choice for everyone. Before you decide to invest in riskier assets, there are a few things you should consider.

First of all, you need to take into account your individual financial situation and goals. Riskier assets can bring higher rewards, but they also come with more volatility and greater risks of loss. If you're looking for steady growth over time or don't want to take on too much risk, investing in safer options such as treasury bonds might be better suited for your needs.

What's Your Time Frame?

Another important factor is the time frame: the longer the time frame you have available, the more likely it is that riskier investments will pay off in the end. That's because, over long periods of time, markets tend to even out and return average rates of return.

That said, short-term investments may not show the same results; stocks and other risky investments can quickly lose value as well as gain it over shorter periods of time.

Different Types Of Stocks Offer Different Returns

Growth stocks, dividend stocks, and value stocks are all different types of investments. Growth stocks are those that are expected to rapidly increase in value due to their strong underlying fundamentals and potential for appreciation. These stocks usually have high levels of volatility, making them a riskier but potentially more lucrative investment opportunity. Dividend stocks are those that provide regular income distributions to shareholders in the form of cash payments or additional shares of stock. Value stocks are investments that may not be performing well in the present-day market but offer potential for gains once their underlying fundamentals improve or the general market conditions change.

Small-cap companies typically refer to businesses with smaller market capitalizations—often under $2 billion—and therefore, generally produce less revenue than larger corporations. These companies often experience greater fluctuations in stock prices but can be rewarding investments if they perform well over time as investors believe that these companies tend to outperform the overall market and will appreciate significantly once their true value is realized by investors.

Mid-cap companies generally fall between $2 and $10 billion in terms of market capitalization and therefore, generate higher revenues than small-cap companies; however, they can still offer growth opportunities as they're seen as being able to take advantage of emerging trends faster than their large-cap counterparts.

Finally, large-cap companies refer to those with a market capitalization exceeding $10 billion and often represent some of the most valuable brands in the world such as Apple Inc., Alphabet Inc., Amazon.com Inc., Microsoft Corp., etc.. These large firms are often slower growing than small-cap or mid-cap firms; however, they can offer more stability through steady dividend payments or share repurchases which reward shareholders on an ongoing basis instead of relying solely on appreciating stock prices for returns.

There is no one “right” type of investment when it comes to choosing between growth, dividend, or value stocks; it all depends on individual investor preferences based on risk tolerances and desired outcomes.

Large caps also come with certain advantages such as more liquidity and stronger balance sheets but also face increased competition from similarly sized rivals which can affect stock price movements at times adversely leading investors seeking higher returns towards investing in smaller companies instead where possible rewards could far exceed any potential losses making them attractive options for savvy investors looking for outsized returns within reasonable risk parameters.

Past Performance
To give an idea of what kind of returns can be expected from investing in different asset classes over long periods of time: Small company stocks have averaged 10% returns since 1926, while large company stocks have seen 8%.

Mutual funds have returned 8% on average since 1970, with some funds faring better than others depending on their investment approach and holdings. Finally treasury bonds have returned 5% - 6 % on average since 1945 (depending on the type).

The Bottom Line
Overall investing in riskier assets has potential for higher returns but also comes with greater risks and volatility; investors should weigh their individual circumstances carefully before deciding what kind of strategy is best for them.

Long-term investment horizons are often necessary when investing in higher-risk assets so that markets can even out and return average rates of return over time; experienced investors who understand how to diversify their portfolios should also look into hedging techniques that help reduce losses if investments start going south during market downturns.

National Financial Education Standards Addressed In This Article
4.12-3a, 4.12-3b, 4.12-3c