Investment Vehicle Comparison Chart

Chapter 5.4: Time is Money – Developing a Savings and Investment Strategy

> **Important:** This comparison chart is for educational purposes only and is not investment advice. Risk levels, returns, and characteristics are general guidelines and may vary based on specific products and market conditions. Always research investments thoroughly or consult with a financial professional before investing.

Short-Term Investment Vehicles (1-3 years)

These investment vehicles are appropriate for financial goals with short time horizons where capital preservation and liquidity are primary concerns.

Investment Vehicle	Risk Level	Typical Return Range	Liquidity	Key Features	Best For
High-Yield Savings Account	**Very Low**	1-2%	High	• FDIC insured (up to $250,000) • Easy access to funds • Interest rates may change	Emergency funds, short-term savings goals, cash reserves
Money Market Account	**Very Low**	1-2%	High	• FDIC insured (up to $250,000) • May offer check-writing privileges • Typically requires minimum balance	Emergency funds, short-term savings, transaction accounts
Certificates of Deposit (CDs) (Short-term, 3-12 months)	**Very Low**	1-3%	Low	• FDIC insured (up to $250,000) • Fixed interest rate • Penalties for early withdrawal	Known upcoming expenses, slightly higher returns than savings
Treasury Bills (T-Bills)	**Very Low**	1-3%	Medium	• Backed by full faith and credit of U.S. government • Maturities from 4 weeks to 52 weeks • Exempt from state and local taxes	Extremely safe short-term investments, cash management
Short-Term Bond Funds	**Low**	2-4%	High	• Invests in bonds with 1-3 year maturities • Some interest rate risk • Not FDIC insured	Slightly higher yields than cash with modest risk

Medium-Term Investment Vehicles (3-10 years)

These investment vehicles are appropriate for financial goals with medium time horizons where balancing growth and risk becomes more important.

Investment Vehicle	Risk Level	Typical Return Range	Liquidity	Key Features	Best For
Intermediate-Term Bond Funds	**Low-Medium**	3-5%	High	• Invests in bonds with 3-10 year maturities • Moderate interest rate risk • Higher yield than short-term bonds	Medium-term goals with moderate income needs
Corporate Bond Funds	**Medium**	3-6%	High	• Invests in bonds issued by corporations • Higher yields but greater risk than government bonds • Credit risk varies by bond rating	Medium-term income with acceptance of moderate risk
Balanced Mutual Funds	**Medium**	4-7%	High	• Mix of stocks, bonds, and sometimes cash • Typically 60% bonds/40% stocks or 60% stocks/40% bonds • Professional management	Medium-term goals with moderate growth and income needs
Long-Term CDs (3-5 years)	**Low**	2-4%	Low	• FDIC insured (up to $250,000) • Higher rates than shorter-term CDs • Significant penalties for early withdrawal	Known expenses several years away
Conservative Allocation Funds	**Medium**	3-6%	High	• Typically 30% stocks, 70% bonds and cash • Seeks modest growth and income • Less volatile than stock-heavy funds	Medium-term goals with lower risk tolerance

Long-Term Investment Vehicles (10+ years)

These investment vehicles are appropriate for financial goals with long time horizons where growth and beating inflation are primary concerns.

Investment Vehicle	Risk Level	Typical Return Range	Liquidity	Key Features	Best For
Stock Mutual Funds	**High**	7-10%	High	• Professional management • Diversification across multiple stocks • Various strategies (growth, value, income)	Long-term growth, retirement, education savings
Index Funds	**Medium-High**	7-9%	High	• Passively tracks a market index (S&P 500, etc.) • Lower fees than actively managed funds • Broad market exposure	Long-term growth with lower management costs
Exchange-Traded Funds (ETFs)	**Varies**	Varies by type	High	• Trades like stocks throughout the day • Often lower expense ratios than mutual funds • Available for various asset classes	Long-term growth, tactical asset allocation
Growth Stocks/Funds	**High**	8-12%	High	• Focus on companies expected to grow faster than average • Higher volatility • Usually minimal or no dividends	Aggressive long-term growth, typically for retirement
Target-Date Funds	**Varies by target date**	Varies by date	High	• Automatically adjusts asset allocation as target date approaches • Becomes more conservative over time	Retirement savings with automatic rebalancing

				• All-in-one retirement solution	
Real Estate Investment Trusts (REITs)	**Medium-High**	5-8%	Medium	• Invest in income-producing real estate • Required to distribute 90% of taxable income to shareholders • Provides real estate exposure without direct ownership	Income, growth, and diversification in a long-term portfolio

Understanding Risk-Return Relationship

There is a fundamental relationship between risk and potential return in investing. Generally, investments with higher potential returns carry higher risk of loss. Understanding this relationship is essential for creating appropriate strategies based on your time horizon and risk tolerance.

Risk Category	Potential Return	Potential for Loss	Time Horizon Match	Examples
Low Risk	Low returns, often just keeping pace with or slightly above inflation	Minimal risk of principal loss	Short-term (1-3 years)	CDs, high-yield savings, money market accounts, Treasury bills
Medium Risk	Moderate returns, generally outpacing inflation	Some potential for temporary loss, but less volatility than high-risk investments	Medium-term (3-10 years)	Bond funds, balanced funds, conservative allocation funds
High Risk	Higher potential returns, significantly outpacing inflation over long periods	Substantial risk of loss in the short term, but historically positive returns over long periods	Long-term (10+ years)	Stocks, equity mutual funds, growth funds, REITs

Diversification Strategies

Diversification is the practice of spreading investments across different asset classes, sectors, and geographic regions to reduce overall risk. Below are some common diversification strategies based on risk profiles:

Risk Profile	Suggested Allocation	Rationale
Conservative	• 50-60% Bonds • 20-30% Stocks • 10-20% Cash/Short-term • 0-10% Alternative investments	Focus on capital preservation with some growth potential. Appropriate for shorter time horizons or low risk tolerance.
Moderate	• 40-50% Stocks • 40-50% Bonds • 5-10% Cash/Short-term • 0-10% Alternative investments	Balance between growth and income. Suitable for medium time horizons (5-10 years) or moderate risk tolerance.
Aggressive	• 70-80% Stocks • 10-20% Bonds • 0-5% Cash/Short-term • 5-15% Alternative investments	Focus on maximum growth. Appropriate for long time horizons (10+ years) and high risk tolerance.

Key Diversification Principles:

- Diversify across asset classes (stocks, bonds, cash, alternatives)
- Diversify within asset classes (different sectors, industries, company sizes)
- Consider geographic diversification (domestic and international)
- Adjust allocation based on time horizon and goals
- Rebalance periodically to maintain target allocation