THE CHALLENGE

Liam wants to buy a car in 18 months. He has $5,000 saved but needs $8,000. His friend Julia, who is 17, wants to start saving for retirement instead. They're both looking at the same investment options but realize they might need completely different strategies. One friend suggests stocks; another says CDs are safer.

How should Liam and Julia each approach their very different financial goals, and why would the same investment be right for one but wrong for the other?

Learning Objectives

- Compare the risks and returns of various saving and investment options.
- Evaluate which financial strategies align with different time horizons.
- Apply decision-making criteria to select appropriate financial vehicles.

CORE CONCEPTS

Term	Definition
Certificate of Deposit (CD)	A savings product with a fixed interest rate for a specific time period, with penalties for early withdrawal.
Mutual Fund	A pooled investment managed by professionals, investing in stocks, bonds, or both for diversification.
Rate of Return	The gain or loss on an investment, expressed as a percentage of the original amount.
Diversification	Spreading investments across different assets to reduce risk.
Liquidity	How quickly an asset can be converted to cash without losing value.

Background: Choosing between saving and investment options requires matching the vehicle to your goals, timeline, and risk tolerance. Low-risk options (savings accounts, CDs) preserve capital but offer lower returns. Higher-risk options (stocks, mutual funds) offer growth potential but can lose value. Understanding this risk-return relationship helps you make informed decisions for both short-term and long-term goals.

APPLY IT

PART A: INVESTMENT VEHICLE ANALYSIS

Study the comparison table and answer questions about each option's suitability.

Option	Typical Return	Risk Level	Liquidity	Best For
Savings Account	0.5%-1.5%	Very Low	High	Emergency fund
CD (1-Year)	2%-4%	Very Low	Low (penalty)	Short-term goals
Corporate Bond	4%-6%	Moderate	Medium	Medium-term goals
Mutual Fund (Mixed)	6%-8%	Moderate	High	Long-term growth
Individual Stocks	7%-10%+	High	High	Long-term, aggressive

Scenario 1: Liam's Car Fund (18 months)

Liam has $5,000 and needs $8,000 in 18 months. He cannot afford to lose any of his current savings.

Best option: _____

Why NOT stocks? _____

He should also: _____ (Save more monthly / Find alternative income)

Scenario 2: Julia's Retirement Fund (40+ years)

Julia, 17, wants to invest $1,000 for retirement in about 48 years. She doesn't need this money anytime soon.

Best option: _____

Why is risk acceptable? _____

> **Hint:** *Time horizon is the key factor. Short-term goals need security; long-term goals can handle volatility.*

PART B: GROWTH PROJECTIONS

Compare how Julia's $1,000 could grow over 40 years with different options.

Investment Option	Annual Return	Value After 40 Years
Savings Account (1%)	1%	$1,489
CD (3%)	3%	$3,262
Mutual Fund (7%)	7%	$14,974
Stock Index (10%)	10%	$45,259

1. How much MORE would Julia have with a stock index fund versus a savings account after 40 years?

Show your work:

Answer: $_____ more

2. If Julia added just $50/month to her mutual fund (7% return) for 40 years, she would have approximately $131,000. How does this compare to her $1,000 one-time investment?

PART C: RISK TOLERANCE ASSESSMENT

3. Rate your personal risk tolerance based on how you'd feel if your investment dropped 20% in one year:

- [ ] A. I'd panic and sell immediately (Conservative)
- [ ] B. I'd be worried but would wait to see if it recovers (Moderate)
- [ ] C. I'd see it as a buying opportunity (Aggressive)

4. Based on your risk tolerance, which investment option from the table would be most appropriate for YOUR long-term goals? Why?

CHECK YOUR UNDERSTANDING

1. Which statement best explains the relationship between risk and return?

- [ ] A. Higher risk always leads to higher returns
- [ ] B. Higher potential returns typically come with higher risk
- [ ] C. Low-risk investments are always the best choice
- [ ] D. Risk and return are unrelated

2. Why would a CD be appropriate for Liam's car fund but NOT for Julia's retirement?

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3. Calculation: Liam puts $5,000 in a 1-year CD at 2.5% interest. How much will he have after the CD matures?

Show your work:

Answer: $_____

4. Julia's mutual fund drops 15% in her first year. Should she sell? Explain using what you know about time horizons.

5. Reflection: Think about a financial goal you have. What is your time horizon, and based on this lesson, which type of investment vehicle would be most appropriate? What factors influenced your choice?