Understanding Monetary Risks

Name: ____________________
Date: ____________________

The Challenge: Maya has $20,000 to invest. Her friend tells her to put it all in a "guaranteed" cryptocurrency that promises 50% returns. Another friend suggests keeping it all in a savings account "where it's safe." A third friend recommends diversifying across stocks, bonds, and savings. Which advice should Maya follow, and what risks does each approach carry?

Core Concepts: Four Types of Financial Risk

📉 Market Risk

The possibility of losses due to factors affecting overall market performance.

Example: *Anna invested $5,000 in tech stocks. When the tech sector declined, her investment dropped to $4,200—a 16% loss from market-wide factors.*

🏢 Financial Risk

Risk related to a company's ability to manage debt and meet obligations.

Example: *Sam bought $3,000 in startup bonds. The company had cash flow problems and couldn't repay bondholders. Sam lost most of his investment.*

💸 Inflation Risk

The danger that your money's purchasing power decreases over time.

Example: *Michael's $10,000 earned 1%/year for 5 years = $10,510. But 3% inflation means those goods now cost $11,593. He lost purchasing power.*

🚨 Fraud Risk

The danger of losing money to scams, deception, or fraudulent schemes.

Example: *Taylor received an email promising 20% returns with "no risk." Research revealed it was unregistered and had complaints. Taylor avoided the scam.*

Part A: Risk Identification Exercise

Identify the Primary Risk Type

For each scenario, identify which type of risk is MOST relevant and explain why.

Scenario	Risk Type	Why?
James receives a call about a "limited time" investment in a private company that promises to triple his money in 6 months.		
The Federal Reserve raises interest rates, causing stock prices across all sectors to decline.		
A retail company you invested in files for bankruptcy after taking on too much debt.		
Your savings account earns 0.5% while the cost of goods rises 4% annually.		

Part B: Risk Tolerance Assessment

Discover Your Risk Tolerance

Answer honestly—there are no right or wrong answers. Circle the response that best matches your reaction.

1. If your $10,000 investment dropped 20% ($2,000 loss) in one month, you would:

- ☐ A. Sell immediately to prevent further losses
- ☐ B. Hold and wait to see what happens
- ☐ C. Buy more while prices are low

2. You need money for a major purchase in:

- ☐ A. Less than 3 years
- ☐ B. 3-10 years
- ☐ C. More than 10 years

3. Which statement best describes your investment goals?

- ☐ A. Protect what I have, even if it grows slowly
- ☐ B. Balance growth and security
- ☐ C. Maximize growth, even with significant volatility

4. How would you feel checking your investments during a market downturn?

- ☐ A. Extremely anxious—I'd lose sleep
- ☐ B. Concerned but patient
- ☐ C. Confident—downturns are buying opportunities

Mostly A's	**Mix of A, B, C**	**Mostly C's**
Conservative	Moderate	Aggressive

5. Based on your answers, what is your risk tolerance level? Why do you think this is accurate?

Part C: Diversification and Asset Allocation

Building a Balanced Portfolio

Diversification spreads risk across different investments. Asset allocation divides money among asset categories.

Asset Class	Risk Level	Potential Return	Best For
Stocks	High	High (7-10% avg)	Long-term growth
Bonds	Moderate	Moderate (3-5% avg)	Income, stability
Cash/Savings	Low	Low (1-3%)	Emergency fund, short-term

Rule of Thumb: A common guideline is to subtract your age from 110 to find your stock allocation percentage. Example: At age 20, consider 90% stocks, 10% bonds. At age 60, consider 50% stocks, 50% bonds.

6. Design a portfolio for each risk tolerance level:

Risk Tolerance	% Stocks	% Bonds	% Cash/Savings
Conservative			
Moderate			
Aggressive			

7. How does diversification help manage market risk?

Part D: Solve Maya's Challenge

Evaluate the Three Options

Return to the opening challenge. Analyze each piece of advice Maya received.

Option 1: All in "Guaranteed" Cryptocurrency

8. What risks does this carry? Which type(s) of risk are most relevant?

Option 2: All in Savings Account

9. What risks does this carry? Why might this not be "safe" for long-term goals?

Option 3: Diversified Across Stocks, Bonds, Savings

10. How does this approach address multiple types of risk?

11. Which option should Maya choose and why? Design a specific allocation for her $20,000:

Part E: Fraud Detection

Red Flags Checklist

Learn to identify investment scams before they cost you money.

Common Fraud Warning Signs:

- "Guaranteed" high returns with "no risk"
- Pressure to invest immediately ("limited time offer")
- Unregistered investments or unlicensed sellers
- Overly complex strategies you don't understand
- Difficulty getting your money back
- Promised returns that seem too good to be true

12. A coworker tells you about an investment "insider tip" that will double your money in 60 days. What questions would you ask before investing?

Check Your Understanding

1. Which type of risk is MOST relevant for someone keeping all their retirement savings in a low-interest savings account for 30 years?

- [ ] A. Market Risk
- [ ] B. Financial Risk
- [ ] C. Inflation Risk
- [ ] D. Fraud Risk

2. What is the main purpose of diversification?

3. How should someone's asset allocation change as they get older and closer to retirement?

4. In your own words, explain why a "safe" investment can actually be risky for long-term goals.