

# Investment Options Reference Guide

Comprehensive Information for Investment Decision Making

## Introduction

This reference guide provides detailed information about various investment options to help you make informed decisions when developing your investment strategy. Each option is described with its key features, risk level, potential return, and appropriate uses.

## Investment Options Comparison Table

Investment Option	Risk Level	Potential Return	Liquidity	Time Horizon	Minimum Investment
Savings Account	Very Low	0.5% - 1%	Very High	Short-term	\$0 - \$25
Certificate of Deposit (CD)	Low	1% - 3%	Low	Short to Medium	\$500 - \$1,000
Money Market Fund	Low	1% - 2%	High	Short-term	\$500 - \$2,500
Government Bonds	Low to Moderate	2% - 4%	Moderate	Medium-term	\$100 - \$1,000
Corporate Bonds	Moderate	3% - 6%	Moderate	Medium-term	\$1,000 - \$5,000
Balanced Mutual Funds	Moderate	4% - 7%	Moderate to High	Medium to Long	\$500 - \$3,000
Index Funds	Moderate to High	7% - 10%	High	Long-term	\$0 - \$3,000
Stocks (Individual)	High	Varies (10%+)	High	Long-term	Varies (\$1 - \$1,000+)
Growth Mutual Funds	High	8% - 12%	Moderate to High	Long-term	\$500 - \$3,000

*Note: Return ranges are approximations based on historical data. Actual returns may vary and are not guaranteed.*

*Time horizons: Short-term (0-3 years), Medium-term (3-10 years), Long-term (10+ years).*

## Detailed Investment Option Profiles

## Savings Account

Very Low Risk

**Description:** A basic deposit account that earns interest while keeping funds readily accessible.

**Return:** 0.5% - 1% annually

**Liquidity:** Very High (immediate access)

**Minimum:** \$0 - \$25 (varies by institution)

**Protection:** FDIC insured up to \$250,000

### Advantages

- Very safe, no risk of principal loss
- Immediate access to funds
- No market volatility
- Low or no minimum balance
- Government-backed insurance

### Disadvantages

- Very low interest rates
- Usually doesn't keep pace with inflation
- Limited growth potential
- Some may have maintenance fees
- Interest is taxable as ordinary income

### Best Suited For:

- Emergency funds
- Short-term savings goals (within 1 year)
- Regular transaction needs
- Those with very low risk tolerance

## Certificate of Deposit (CD)

Low Risk

**Description:** A time deposit that pays a fixed interest rate for a specific term length.

**Return:** 1% - 3% annually (varies by term)

**Liquidity:** Low (penalty for early withdrawal)

**Terms:** 3 months to 5+ years

**Minimum:** \$500 - \$1,000 typically

**Protection:** FDIC insured up to \$250,000

### Advantages

- Higher interest than savings accounts
- Fixed, predictable returns
- No risk of principal loss if held to maturity
- Government-backed insurance
- Various term options available

### Disadvantages

- Limited access to funds during term
- Early withdrawal penalties
- Returns may not keep pace with inflation
- May require minimum deposit
- Interest is taxable as ordinary income

### Best Suited For:

- Short to medium-term goals with known timelines
- CD laddering strategies
- Those who won't need immediate access to funds
- Conservative investors seeking slightly better returns than savings

## Money Market Fund

Low Risk

**Description:** A type of mutual fund that invests in high-quality, short-term debt instruments.

**Return:** 1% - 2% annually

**Liquidity:** High (1-2 business days)

**Minimum:** \$500 - \$2,500 typically

**Protection:** Not FDIC insured, but very low risk

### Advantages

- Higher yield than typical savings accounts
- Good liquidity with check-writing options
- Relatively stable NAV (Net Asset Value)
- Diversified across many short-term securities
- Professional management

### Disadvantages

- Not FDIC insured
- May have management fees
- Returns typically below inflation rate
- Higher minimum investments than savings
- Interest is taxable as ordinary income

### Best Suited For:

- Short-term savings with slightly better returns
- Temporary cash holding during market uncertainty
- Emergency funds that need modest growth
- Conservative investors seeking higher liquidity than CDs

## Government Bonds

Low to Moderate Risk

**Description:** Debt securities issued by the U.S. government with fixed interest payments.

**Return:** 2% - 4% annually

**Liquidity:** Moderate (can sell before maturity)

**Terms:** 1-30 years

**Minimum:** \$100 (T-Bills), \$1,000 (Treasury Notes)

**Protection:** Backed by "full faith and credit" of U.S. government

### Advantages

- Extremely low default risk
- Predictable interest payments
- Various maturity options
- State and local tax-exempt
- Can be sold before maturity

### Disadvantages

- Lower returns than corporate bonds
- Subject to interest rate risk
- May not keep pace with inflation
- Federal income tax on interest
- Less liquid than savings accounts

### Best Suited For:

- Conservative investors seeking safety
- Medium-term financial goals
- Diversification in a broader portfolio
- Income-focused investors

## Corporate Bonds

Moderate Risk

**Description:** Debt securities issued by corporations with fixed interest payments.

**Return:** 3% - 6% annually

**Liquidity:** Moderate

**Terms:** 1-30 years

**Minimum:** \$1,000 - \$5,000 typically

**Protection:** No government backing, depends on company's financial health

### Advantages

- Higher yields than government bonds
- Predictable interest payments
- Priority over stockholders if company liquidates
- Various credit ratings for different risk preferences
- Can be sold before maturity

### Disadvantages

- Higher default risk than government bonds
- Subject to interest rate risk
- Less liquid than stocks or government bonds
- Fully taxable interest
- Value fluctuates with market conditions

### Best Suited For:

- Medium-term financial goals
- Income-focused investors
- Those seeking higher yields than government bonds
- Portfolio diversification

## Balanced Mutual Funds

Moderate Risk

**Description:** Professionally managed funds that invest in a mix of stocks and bonds.

**Return:** 4% - 7% annually

**Liquidity:** Moderate to High

**Allocation:** Typically 60% stocks, 40% bonds

**Minimum:** \$500 - \$3,000 typically

**Fees:** 0.5% - 1.5% expense ratio

### Advantages

- Built-in diversification across asset classes
- Professional management
- Balance of growth and income
- Less volatile than pure stock funds
- Automatic rebalancing

### Disadvantages

- Management fees reduce returns
- Less growth potential than pure stock funds
- Less control over specific investments
- Tax implications from fund transactions
- Performance varies by fund manager

### Best Suited For:

- Medium to long-term goals
- Those seeking moderate growth with reduced volatility
- Investors wanting simplicity with diversification
- Portfolios transitioning toward more conservative allocations

## Index Funds

Moderate to High Risk

**Description:** Passively managed funds that track specific market indexes (e.g., S&P 500).

**Return:** 7% - 10% annually (based on historical stock market averages)

**Liquidity:** High

**Minimum:** \$0 - \$3,000 (varies widely)

**Fees:** 0.03% - 0.3% expense ratio (typically low)

### Advantages

- Broad diversification across many securities
  - Very low expense ratios
  - Market-matching performance
  - Lower turnover for tax efficiency
  - Simple, passive investing approach
- Market-level volatility
  - No possibility of outperforming the market
  - Limited defensive measures in downturns
  - Less human oversight than active management
  - May include underperforming sectors/companies

### Best Suited For:

- Long-term goals (retirement, college funding)
- Cost-conscious investors
- Those who believe in market efficiency
- Core holdings in a diversified portfolio

## Individual Stocks

High Risk

**Description:** Ownership shares in individual companies.

**Return:** Highly variable, potential for 10%+ (or negative)

**Liquidity:** High (during market hours)

**Minimum:** Price of one share (can be \$1 to \$1,000+)

**Fees:** Trading commissions (many brokers now offer \$0 commissions)

### Advantages

- Highest potential returns
  - Full control over specific investments
  - Voting rights in company decisions
  - Potential dividend income
  - No management fees
- Highest volatility and uncertainty
  - Company-specific risks
  - Requires research and monitoring
  - More difficult to achieve diversification
  - Time-intensive to manage properly

### Best Suited For:

- Long-term growth goals
- Investors comfortable with significant volatility
- Those willing to research companies
- Supplement to a diversified portfolio

## Growth Mutual Funds

High Risk

**Description:** Actively managed funds focused on companies with high growth potential.

**Return:** 8% - 12% annually (potential for higher or lower)

**Liquidity:** Moderate to High

**Minimum:** \$500 - \$3,000 typically

**Fees:** 0.7% - 1.5% expense ratio

### Advantages      Disadvantages

- Professional selection of growth companies
- Built-in diversification across companies
- Potential to outperform market
- Access to research and expertise
- Simplified approach to growth investing
- Higher volatility than balanced funds
- Higher expense ratios
- Performance depends on manager skill
- May underperform in value-oriented markets
- Potential for higher taxes due to turnover

### Best Suited For:

- Long-term growth goals
- Investors with higher risk tolerance
- Those seeking professional management
- Portfolios with longer time horizons

## Time Horizon Guidelines

Matching your investment choices to your time horizon is crucial for developing an appropriate strategy:

<b>Time Horizon</b>	<b>Definition</b>	<b>Most Appropriate Vehicles</b>	<b>Risk Considerations</b>
Short-term (0-3 years)	Money needed within the next three years	Savings accounts, Money market funds, CDs, Short-term government bonds	Focus on capital preservation and liquidity; avoid market risk with these funds
Medium-term (3-10 years)	Money needed in 3-10 years	CDs, Government and corporate bonds, Balanced mutual funds	Some moderate risk is acceptable for better returns; some market exposure appropriate
Long-term (10+ years)	Money needed in 10+ years	Index funds, Growth funds, Individual stocks, Long-term bond funds	Higher risk tolerance appropriate; focus on growth over stability; time to recover from market fluctuations

Chapter 5.3: Evaluating Saving and Investment Strategies | PFL Academy

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