

Activity Sheet 1: Conservative, Moderate or Speculative?

Decide if the following investments are conservative, moderate or speculative risks.

Investment 1: Company Clockwork makes clocks. Compared with other clock making companies, Company Clock has the highest revenue and earnings, but low profits. Company Clock's earnings have grown 15 percent over the past 5 years. The average earnings of other clock companies, in the past five years, have been at 10 percent. Based on this scenario, if you invested in Company Clock, what type of risk are you taking? Explain.

Investment 2: Jax Company provides gas and electric to your area. The stock pays an annual dividend of \$4 per share per year. You own 200 shares, so the company pays you a yearly dividend of \$800. This is a fixed income stock. What type of risk are you taking by investing in Jax Company? Explain

Investment 3: Watching the news, you learn about a new drug that supposedly makes children smarter. You've never heard of the drug manufacturer, but you decide to invest in this company. Why wouldn't we want our children smarter? If you have no other information and plan to invest in this drug company, what kind of risk are you taking? Explain.

Investment 4: Interior Electric announces it is creating an all-electric car, but it hasn't come out yet. Based on the news, its stock price has increased 20% in one month. If you buy the stock now, what type of risk are you taking? Explain.

Investment 5: ALLON oil company's profits have almost doubled this year. The price of the stock has gone up from \$48 to \$56 over the same period. If you were to invest in this stock, what degree of risk would this investment present? Explain.

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This is a moderate risk stock because it is growing at a faster rate than other clock

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This is a conservative stock because it pays a regular dividend as a fixed income stock.

Investment 3: Watching the news, you learn about a new drug that supposedly makes children smarter. You've never heard of the drug manufacturer, but you decide to invest in this company. Why wouldn't we want our children smarter? If you have no other information and plan to invest in this drug company, what kind of risk are you taking? Explain.

This is a speculative stock because there are not guarantees that the drug will work but it has the potential for high returns.

Investment 4: Interior Electric announces it is creating an all-electric car, but it hasn't come out yet. Based on the news, its stock price has increased 20% in one month. If you buy the stock now, what type of risk are you taking? Explain.

This is still a speculative stock because the car hasn't been built yet but has the potential if it does work and can compete with gasoline fueled automobiles.

Investment 5: ALLON oil company's profits have almost doubled this year. The price of the stock has gone up from \$48 to \$56 over the same period. If you were to invest in this stock, what degree of risk would this investment present? Explain.

This is a growth stock because its price is going up very fast. It is a know commodity for which there is demand now.