3.5 Managing Risk

Student Activity Packet

UNIT: INVESTING

Name:

Students will be able to:

- Explain what risk is and its role in investing
- Analyze effective strategies to manage investment risk such as investing early, diversification, and dollar cost averaging
- Calculate the impact of using dollar cost averaging in hypothetical scenarios and by using the real historical performance of an index fund

NOTE: Vocabulary for this unit can be found in the NGPF Personal Finance Dictionary

INTRO

PROMPT:

Use the space below to answer the prompt.

1. **Hypothetical scenario: Your teacher rolls a 20-sided die. You have the opportunity to receive a specific amount of money if you correctly guess which number is rolled:**

   - **Guess the number exactly: $500**
   - **Guess even or odd: $50**
   - **Guess it will fall between 1 and 19: $5**

   Which option would you pick and why?

LEARN IT

VIDEO: What is Investment Risk?

In the previous prompt, your decision was likely influenced by how much risk you were willing to take. Learning to manage your risk is an important part of creating an investing strategy that works for you. Watch this video to learn about effective risk management strategies for investing. Then, answer the questions.

1. **Even though risk seems like a bad thing, why is that not always the case with investing?**

2. **In your own words, explain the three strategies the video suggests using to manage risk.**
    a. **Time:**

    b. **Diversification:**

    c. **Invest over time:**

VIDEO: [The Power of Diversification]
Let's take a closer look at the second strategy mentioned in the previous video to manage investment risk: diversification. Watch this video to learn about the difference between diversifying by asset class and diversifying across investments. Then answer the questions.

1. **Explain what it means to diversify by asset class.**

2. **Explain what it means to diversify across investments.**

3. **The video mentions that diversification doesn't guarantee that if one investment goes down, another will go up to make up for it. Why is it still a good idea to diversify your investments?**

DATA CRUNCH: [How Does Your Asset Mix Impact Your Returns?]
Continue exploring the strategy of diversification by taking a look at how it can affect the returns on your investment. Analyze the data and answer the questions on this worksheet to complete the Data Crunch.

DO IT

ACTIVITY: ANALYZE: Dollar Cost Averaging in Action

The very first video you watched recommended focusing on three factors to minimize risk: time, diversification, and investing over time, also known as dollar cost averaging. In this activity, you'll explore how dollar cost averaging can help minimize risk by taking a look at the numbers! Follow the directions on the worksheet to complete the activity.

EXIT TICKET

Follow your teacher's directions to complete the Exit Ticket.