

Name _____



**ASSET ALLOCATION
ACTIVITY SHEET 1**

Can You Handle the Risk?

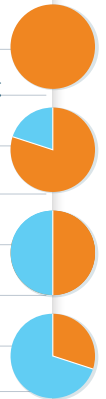
All investments have risks. For example, if you own stock in a company that goes out of business, that stock will lose value and you'll lose money. On the other hand, if you buy stock in a company that really takes off, your stock will go up in value and you'll make money.

Many young people, like Nikki, are willing to deal with higher-risk investments because even if they lose money, they know they have many years to make up for the loss. Someone like Nikki's mom, who is closer to retirement, will typically reallocate to lower-risk investments, since she will need to withdraw her money soon.



Directions: Match the person with the appropriate investments.

Person	Investments
1. Desmond, an 85-year-old retiree	a. 100% invested in a mutual fund investing in new high-tech companies
2. Carmen, a 30-year-old attorney	b. Mutual funds with 80% stocks, 20% bonds
3. Indira, a 55-year-old electrician who expects to retire in 10 years	c. Mutual funds with 50% stocks, 50% bonds
	d. Mutual funds with 30% stocks, 70% bonds



■ STOCKS
■ BONDS

Explain your thinking:

Desmond: _____

Carmen: _____

Indira: _____

Answer Key: (1) d. Desmond needs the income and relative safety that a higher percentage of bond funds gives him because he doesn't have income from a job anymore. He keeps a smaller percentage of stocks to guard against the effects of inflation. (2) b. Carmen can afford to accept the higher risks but higher potential reward of stocks because she has a high-paying job and has many years until retirement to weather the ups and downs of the stock market. (3) c. Even if the stock market declines over the next 10 years, Indira still has a good-size investment in bonds that will give her a secure income as she enters retirement.