Name____________________

DIVERSIFICATION ACTIVITY SHEET 1

MONEY CONFIDENT Kids

Presented by T.Rowe Price

Spread It Around!

Economic Scenarios

The prices of stocks go up and down for many different reasons. If a company introduces an exciting new product or has good earnings results, the stock of that company usually increases. The opposite happens with bad news for that company.

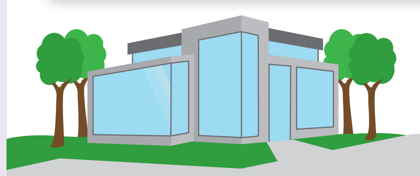
Sometimes, news affects an entire industry. If more people are buying products online, the stocks of companies that sell their products through retail stores might decline. Political unrest or a natural disaster in one country might cause many stocks located in that country to decline. Then there are events that cause most stocks to increase or decrease. Prospects for good economic times usually lift most stocks, while fear of hard times depresses the price of most stocks.

Because it's impossible to know what the future holds, it is important to diversify so that bad times for some companies don't sink your whole portfolio.

This chart shows how mutual fund **returns** can change from year to year depending on factors such as economic conditions.

PERFORMANCE CHART

Type of Fund	Year 1	Year 2	Year 3	Year 4	Year 5
Small Biotechnology Companies	+ 17%	- 37%	+ 22%	+ 10%	+ 32%
Medium-Sized Airline Companies	+ 19%	- 28%	+ 22%	+ 5%	+ 11%
Large Companies From Many Industries	+ 11%	- 6%	+ 20%	+ 7%	+ 8%
International—Large Consumer Products Companies	+ 6%	- 2%	+ 17%	- 5%	+ 6%



Review the chart above, then read through the five scenarios on the next page.

Name______________________________

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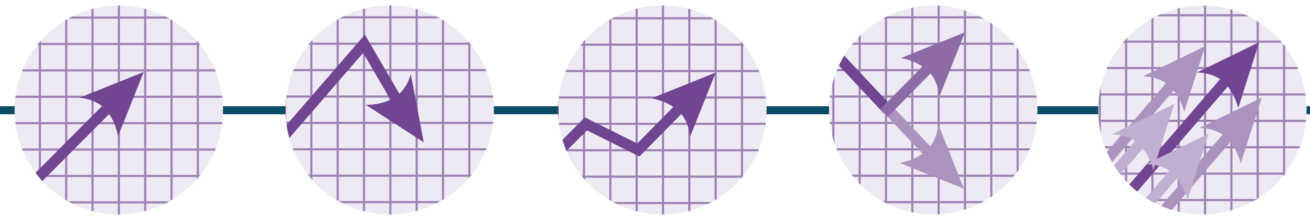
5

Economic Scenarios

(Continued)

Read the five scenarios for each year, and match them to the mutual fund Performance Chart on the previous page. Notice how the economic scenarios impact whether the returns are positive or negative.



Year 1 **Year 2** **Year 3** **Year 4** **Year 5**

Year 1: All four funds had positive returns in a fairly stable market environment.

Year 2: The world entered a major economic recession, which caused a broad decline in global markets.

Year 3: Markets everywhere had significant gains, thanks to a broad-based global economic recovery.

Year 4: The U.S. experienced moderate economic growth, but other economies around the world declined.

Year 5: While all five funds had positive returns, the biotechnology fund soared, thanks to the introduction of exciting new biotechnology products.

Considering the industry fluctuations from year to year, explain why it is important to have a diversified portfolio.

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Answer Key: Answers will vary but should explain that the stocks of different types of companies perform differently depending on economic conditions. With a diversified portfolio, losses in some areas can be offset by gains in others.