

Investing: Risks & Returns

Name: _____

Risks are the chances we take. Investment risk is the chance that we may lose some or all of our money. **Returns** are what we expect to earn from an investment. We expect to have more money after we make an investment, because we expect to earn returns.

1. This video begins with an important point: *While all investing advisors will agree that investments with potentially higher-returns have higher risks of loss, it is wrong to say that higher-risk investments always have higher returns.* Please explain what this means and why the difference is important.
2. What is an example, mentioned in this video, of an “investment” that has higher risk, but does not realistically have potential for higher returns?
3. Why are there no investments with high expected returns and low risks? Please be sure to explain your answer (a 2 or 3-word answer is not enough).

4. According to this video, there is a market-force (interaction between buyers and sellers) that prevents high-expected return investments from having little or no risk. Please explain how this works.

5. If market forces eliminate investments with high returns and low risks, why don't these same forces eliminate investments with high risks and low returns? Please explain your answer.

6. What is an example, from this video, of a high risk investments that will pay low returns?

7. What do we mean by "expected return"?

8. Is "expected return" the return you should expect to earn from an investment? Why or why not?