

Risk Return Choices

Compare security, risk, and possible investment returns.

SS.8.FL.5.5 "Explain that the rate of return earned from investments will vary according to the amount of risk and, in general, a trade-off exists between the security of an investment and its expected rate of return."

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline two details that show why an investment is more secure. Circle two details that show how taking more risk can bring a higher possible return.

Lena's Money Choices

- ① When Lena began saving for a future car, she compared places to put her money. A savings account at a bank was designed to protect deposits, often with federal deposit insurance up to legal limits. Its interest rate was usually modest. Lena could expect a small, steadier gain and could use the money easily. This security made the account useful for money she might need soon, such as an emergency repair or a planned purchase next year.
- ② She also considered buying shares in a company through a stock fund. If the companies performed well, the fund's value could rise more than a savings account, creating a higher possible return. However, share prices can fall, and Lena might have less money when she sells. A fund spread across many companies can reduce the harm from one company's trouble, but it cannot guarantee a gain. Lena would take more risk in exchange for the chance of more return.
- ③ Neither choice promises an exact result. Risk means the possibility that an investment's value will change in a way that causes loss or earns less than expected. Return is the money gained or lost on an investment, often measured over time. In general, investments with stronger protection and more predictable value offer lower expected returns. Investments with less certainty may offer higher expected returns, but the higher return is only possible, not guaranteed. Lena matched each choice to when she would need the money.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 Why was a savings account a useful choice for money Lena might need soon?

2 Compare the possible return of a stock fund with the return of Lena's savings account.

3 How can a stock fund spread across many companies lower risk without removing all risk?

4 Why does the passage say a higher return from a less certain investment is possible, not guaranteed?

3 YOUR TURN _____ Your own words

Jordan has \$600 to use for a laptop in eight months. Choose either a savings account or a stock fund for Jordan's money, then explain how your choice fits the need for security, risk, and expected return.

PART 1 • READ AND MARK

Underline two details that show why an investment is more secure. Circle two details that show how taking more risk can bring a higher possible return. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	Why was a savings account a useful choice for money Lena might need soon?	It offered stronger protection, a small steadier gain, and easy access to the money.
2	Compare the possible return of a stock fund with the return of Lena's savings account.	A stock fund could rise more and earn a higher possible return. A savings account usually offers a more modest, steadier return.
3	How can a stock fund spread across many companies lower risk without removing all risk?	Trouble at one company may cause less harm, but the fund's value can still fall and cannot guarantee a gain.
4	Why does the passage say a higher return from a less certain investment is possible, not guaranteed?	The investment's value can fall or earn less than expected, so taking more risk does not ensure a higher return.

PART 3 • YOUR TURN (SAMPLE ANSWER)

I would put the \$600 in a savings account because Jordan needs it in eight months for a laptop. The account has stronger protection and a steadier, lower expected return. A stock fund might earn more, but its value could fall before the laptop must be bought. That risk does not fit Jordan's short deadline.

Accept answers that accurately explain the trade-off between stronger security and lower expected return, or greater risk and a higher possible return. For Part 3, accept either choice if the student gives a logical explanation tied to Jordan's eight-month deadline.