<u>Key Vocabulary</u> for

Risk Tolerance and Diversification

Diversification: an investment strategy in which you spread your investment dollars among different markets, sectors, industries, and securities. The goal of the strategy is to protect the value of your overall portfolio in case a single security or market sector takes a serious downturn and drops in price.

Index: An index reports changes, usually expressed as a percentage, in a specific financial market, in a number of related markets, or in an economy as a whole. Each index — and there are a large number of them — measures the market or economy it tracks from a specific starting point, which might be as recent as the previous day or many years in the past.

Industry: A group of companies producing similar products or services.

Portfolio: A collection of investments owned by one individual or organization.

Risk: The chance of losing all or part of the value of an investment.

Risk Tolerance: An individual investor's ability to accept loss of some or all of the money they have invested. A person's risk tolerance is based on a number of factors

Before students can become informed investors, they must understand that every investment carries some level of risk. Risk is defined as the "exposure to a chance of loss." Each investor must decide what level of risk is acceptable to them. This is called "risk tolerance." Once a person's level of risk tolerance is understood, they can build their portfolios to match their risk level. Most investments fall into three categories:

1. **Conservative**—Investment-grade bonds and preferred stocks are considered conservative.
2. **Moderate**—Include growth stocks, which are stocks that pay little or no dividends because the company is investing all of its earnings in its rapid growth, particularly young companies with great potential.
3. **Speculative**—Stock investments are volatile and can lead to large profits or severe losses.

Risk: The chance of losing all or part of the value of an investment.

Risk Tolerance: An individual investor's ability to accept loss of some or all of the money they have invested. A person's risk tolerance is based on a number of factors including age, financial stability, amount of time before the invested funds are needed for other purposes, etc.

Volatility: Indicates how much and how quickly the value of an investment, market, or market sector changes.