

## Handout

# Characteristics and risks of various assets

**Note:** Before working with this handout, please read “The difference between saving and investing” and “Fundamentals of investing”.

### 1. Saving or investing?

Decide whether the people in the following situations are saving or investing. Choose the correct answers in the table below and explain.

Situation	Saving	Invest	Why
David Fuchs recently started his first job after graduating from university. He does not buy expensive clothes and new devices and does not take out any subscriptions. Instead, he is saving to travel the world in five years' time.	x		He sets money aside to pay for a major expense
A few months after starting on her first job, Lena Schmidt decides to build a financial reserve. She intends to use it as an emergency fund for unexpected expenses.	x		She saves money to build an emergency fund
Vanessa Möller regularly buys shares in order to make profits and have a large amount of money in ten to 15 years' time.		x	She aims to make profits and build wealth
Luca Winkler sets aside EUR 50 every month to buy high-quality camera equipment in a year's time.	x		He sets money aside to pay for a major expense
Max Weber has built an emergency fund and now wants to make long-term investments by investing a constant amount of money every month. He plans to maintain this strategy for at least ten years.		x	He builds long-term wealth
Sarah Müller is a secondary-school student and works as a waitress at a wine tavern on weekends. After every workday, she puts EUR 15 into her savings account so that she can buy a new bike in two years' time.	x		She sets money aside to pay for a major expense

## 2. Investing tradeoffs

Analyze the following savings and investment products and rate their liquidity, potential return and risk. Use a scale from 1 (low liquidity, no potential for high returns, high risk) to 3 points (high liquidity, strong potential for high returns, low risk). Explain why.

*Note: These are only sample solutions, Answers may differ in practice.*

Savings or investment products	Liquidity	Returns	Risk
A savings account with a balance of EUR 30,000 at a local bank pays a fixed annual interest rate of 0.5%	<b>3 points</b> (The money can be accessed at any time.)	<b>1 point</b> (Returns on savings accounts tend to be very low; only 0.5% in this example).	<b>3 points</b> (savings accounts are considered very safe as balances of up to EUR 100,000 are covered by deposit guarantee schemes).
The European Market Diversification Fund ETF is a broadly diversified fund that aims to replicate the performance of various European stock markets	<b>2 points</b> (ETFs can be bought and sold during trading hours and offer a high degree of liquidity).	<b>2 points</b> (The returns are based on the performance of the underlying index or asset).	<b>2 points</b> (ETFs offer diversification that reduces risk, compared to individual shares).
TechnoSolutions International AG, a very successful company with an excellent profit outlook, issues a bond with a maturity of 10 years and an annual yield of 2.5%. It has a top credit rating.	<b>2 points</b> (May vary due to market conditions; bonds can be usually sold quickly).	<b>1–2 points</b> (Bonds typically have higher returns than safe investments, but lower returns than shares).	<b>2 points</b> (The “A” rating suggests that this bond is safe, but there is still a default risk).
An Austrian bank pays an annual interest rate of 1.8% on a five-year term deposit.	<b>1 point</b> (Term deposits have lower liquidity as the money is tied up for a certain amount of time).	<b>1 point</b> (The return is slightly higher than on a savings account, but still tends to be very low; 1.8% in this example).	<b>3 points</b> (Term deposits are considered to be very safe as they are covered by deposit guarantee schemes).
The stock of Ganz-Gesunde-Lebensmittel (GGL) AG is trading at a share price of EUR 72.30. GGL AG is an innovative food industry company that specializes in the production of healthy nutritional options. Founded in 2015, the company	<b>2 points</b> (In principle, shares can be sold during trading hours).	<b>2–3 points</b> (The stock offers solid returns based on the growing healthy food market. The company has a sustainable	<b>2 points</b> (The company has established a strong market position and is experiencing steady growth. Nevertheless, the

has quickly grown and is known for its wide range of high-quality and healthy food. Since the company's IPO, the share price has gone up steadily, with small ups and downs along the way.		business model and a potential for long-term growth).	share price could drop unexpectedly.)
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### 3. Do you remember? Check what you know about the various types of investments

Select the correct statement(s)

Which statements about <b>savings accounts</b> are correct?	
o	Savings accounts are very safe as balances of up to EUR 150,000 are covered by deposit guarantee schemes.
x	It makes sense to have an emergency fund that you can access at any time, even if that money earns little or no interest.
x	Green savings books can be certified using the UZ 49 label.
x	When you save money, you put your money in a bank, and the bank pays interest in return.
o	Savings accounts tend to offer a good return as they pay high interest rates.

Which statements about <b>shares</b> are correct?	
x	You need a custody account to buy or sell shares.
o	It is advisable to focus on buying shares in a single company.
o	To assess the sustainability of a stock, you should review the liquidity of the company issuing the stock.
x	Share prices are influenced by supply and demand. When there is increased demand for shares in a company, the share price usually rises.
o	It does not make sense to hold shares for the long term.

Which statements about <b>bonds</b> are correct?	
<input checked="" type="checkbox"/>	When a bond matures, you usually get back the money that you have invested.
<input type="checkbox"/>	A higher interest rate on a bond often means a lower risk of losing your capital.
<input checked="" type="checkbox"/>	Bonds issued by governments of stable countries such as Germany and Austria have a very low risk of loss of capital.
<input type="checkbox"/>	Bond prices tend to be more volatile than share prices.
<input checked="" type="checkbox"/>	The price of a bond can change during its life.

Which statements about <b>investment funds and ETFs</b> are correct?	
<input type="checkbox"/>	Investment funds try to replicate an index as closely as possible.
<input checked="" type="checkbox"/>	ETFs tend to have lower costs than investment funds.
<input type="checkbox"/>	A fund always invests in a number of different stocks.
<input checked="" type="checkbox"/>	Investment funds with higher proportions of shares offer greater potential returns, albeit at higher risk.
<input checked="" type="checkbox"/>	Funds help investors diversify their portfolio.

### Questions for reflection:

*What savings goal am I pursuing at the moment?*

*Have I already achieved this goal?*

*If not, what actions do I need to take to achieve my savings goal?*

*If yes, am I willing to invest part of my income to build long-term wealth?*

*Where do I get my information about the return, risk, availability and sustainability of various investment products? Do I trust this information?*

**Note:** Before you buy a product, seek professional advice and only invest in products that you understand!