Handout

Characteristics and risks of investment products

Note: Before working with this handout, please read „Fundamentals of investing“ und „Securities – shares, bonds, funds”.

1. Assessing share price reactions

In the following situations, how is the share price likely to move? Explain why.

Situation	Expected impact on share price
1. A leading technology company issues a profit warning and lowers its profit guidance.	Bad company news -> Demand falls -> Price falls
2. The chief analyst at a major bank issues a buy recommendation for the shares of a pharmaceutical company.	Buy recommendation leads to higher demand -> Price rises
3. A pharmaceutical company announces the launch of a promising drug.	Positive company news leads to higher demand -> Price rises
4. An economic research institute forecasts that gross domestic product will grow at a significant pace in the next year. The economic research institute publishes a detailed report on the matter.	Stronger expected economic growth means higher profits and more demand -> Prices rise
5. In recent weeks, an increasing number of media reports have said that several telecommunications companies are having major problems.	Due to the negative news, many investors sell the stocks-> Prices fall

6. An energy company says that it will make increased investments in renewable energy and phase out fossil fuels in the long term. By branching out into a new and promising business area, the company signals to investors that it focuses on innovation and its long-term future.	Positive company news -> demand increases -> Share price increases

2. Bond calculations

Fischer AG issues EUR 25 million in five-year bonds. Eva Silan buys EUR 1,500 worth of Fischer AG bonds. The bond pays an annual interest rate of 3.15%.

a) How much capital does Fischer AG raise with this bond?
Total issue size of the bond = EUR 25 million

b) What is the nominal value of the bonds that Eva Silan bought?
EUR 1,500

c) What are the annual interest payments that Ms. Silan receives (excluding taxes and fees)?
1,500 EUR * 3.15% = <u>EUR 47.25</u>

d) What is Eva Silan's annual investment income tax bill? (round to two decimal places)
47.25 EUR * 27.5% = <u>EUR 12.99</u>

e) What amount will Eva Silan receive in year 5 (at maturity)?
Nominal value (EUR 1,500) + coupon (EUR 47.25) – investment income tax (EUR 12.99) = <u>EUR 1,534.26</u>

3. Propose suitable investments

Propose investment ideas for the cases below, taking into account the investor's individual goals. Assume that the investors have a sufficient emergency fund in a savings account. In addition, they are not looking to invest in real estate or precious metals. They want to invest their excess money in securities. Explain your answers!

Situation	**Suitable investments (explain why!)**
1. Sascha Richter is 25 years old and would like to save EUR 150 a month for retirement. Sascha is undeterred by potential market volatility. He has a solid understanding of investing and wants to achieve his financial goals in a strategic way.	Potential choices: **ETF or stock savings plan** Why? Monthly fixed amount; investors has risk tolerance
2. Kersten Sonnenschein is 55 years old and has sold her stake in a company. She intends to use a part of the proceeds (EUR 300,000) to make a long-term investment. Kersten does not want to take a lot of risk but is looking to build long-term wealth.	Potential choices: **Bonds and bond funds** (provided that Kerstin already has an emergency fund) Why? Bonds and bond funds have lower volatility than shares and stock funds and offer higher returns than savings books and savings accounts.
3. Levi Keller is 28 years old and recently inherited EUR 100,000. Levi wants to put some of the money in a safe investment and also seeks to build long-term wealth.	Potential choices: Invest a part in safe government bonds and use the rest of the money to buy various **funds.** Why? The government bond is very safe and likely offers a higher return than a savings product. The rest can be spread over several investments.
4. Sophia Becker is 35 years old. After graduating from university, she got a well-paid job. Recently, she received a EUR 10,000 bonus that she would like to invest. She has already saved a considerable amount of money, which gives her financial security. Sophia is now looking to grow her wealth. She is prepared to take risks and will not need the money in the next ten years.	Potential choices: **A combination of ETFs, stock funds and shares** Why? She has a sufficient emergency fund; profit-oriented investment with high risk and high return

Questions for reflection:

What is my savings goal?
How well do I know the various investment options?
How willing am I to take risks?
What investment products align with my investment goals and risk tolerance?

Note: Before you buy a product, seek professional advice and do not invest in products you do not understand!