Investing Strategies Quiz

Name:______KEY__________________ Mark: _____/13

1. Which of the following type of investment allows you to purchase into an entire industry, commodity group or stock market.
   a) Mutual Fund
   b) RRSP
   c) ETF
   d) REIT
2. The Management Expense Ratio is what makes mutual funds more affordable then ETF's.
   a) True
   e) False
3. Increasing the percentage of this type of investment in your portfolio will lower your risk.

   a) Equity

   b***) Bond***

4. A bond pays a dividend and an equity pays interest.

   a) True

   b***) False***

5. What is one advantage and one disadvantage of diversification?

Advantage	Disadvantage
• SPREAD OUT RISK TO LOWER IT • GIVE EXPOSURE TO DIFFERENT TYPES OF INVESTMENTS • **Diversification is the process of spreading your assets among several types of investments to minimize risk.** • One market may gain, while another market may lose, so your average returns are decent	• Less chance of a huge spike in returns due to a larger spread of investments (across stocks, bonds & money markets & international) • Less movement in a portfolio as it will take longer to grow and double your money • Potential for an investor to get impatient and move money towards one or two types of investment to get the "rush" of a quick return rather than a lower risk return that comes from a diversified portfolio

5. When your investment horizon is long you can invest with_______________.
   f) More Risk
   a) Less Risk

6. Equities that are focused on consumer goods are said to have ________ volatility when compared to tech and commodity stocks.

   a) High

   b) Low

   7. Explain why investing in penny stocks is attractive to investors and why it is so risky. (2 Marks)

- Penny stocks are Super volatile,
- often unproven companies that are just trying to raise capital for operations,
- temptation for investors to over-buy/ over-spend and greater chance to invest more than you might on a blue-chip stock,
- more speculative as traders tend to trade hourly betting on the movement of penny stocks,
- making money on penny stocks is not usually based on company performance, but on the 1-2 cent movement of a stock that a trader would buy in large volumes
- returns can be misleading as you think the company is doing well, yet the returns are just based on what other investors are also speculating,
- a very true form of betting- kind of like spinning the wheel on a gambling machine,
    - can be thrilling way to make money in small increments, which is why penny stocks can be attractive, but also addictive to the investor as they have to watch the small movements of the stock (hourly or even by the minute!)

8. Fill out the Chart (3 Marks)

Which is better? https://youtu.be/6DVTGd_tzUg

	Passive Investing	Active Investing
Advantage	This is for the long haul. Passive investors limit the amount of buying and selling within their portfolios, making this a very cost-effective way to invest. BETTER OPPORTUNITY FOR HIGHER RETURNS. Has outperformed active management over the years	as its name implies, takes a hands-on approach and requires that someone act in the role of portfolio manager. The goal of active money management is to beat the stock market's average returns and take full advantage of short-term price fluctuations.
Disadvantage	The strategy requires a buy-and-hold mentality. That means resisting the temptation to react or anticipate the stock market's every next move. 0.6%	Higher fees due to the active management Difficult to "time the market:" Average 1.4% management fees (has to outperform the passive investments by at least 0.8% to do better)
Investment Example	Exchange traded funds Robo advisors Tech reactive	Stock/bond portfolio managed by professional investment individuals