

The Stock Market Game™



Week In Review

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Stocks were on the rebound on Friday the 13th despite the recent Reuters/University of Michigan Surveys of Consumers report showing U.S. confidence fell to its weakest level in three months amid grim expectations for job and income prospects. Apparently when we get depressed, we go to the mall and shop as consumer stocks lead the market's gains this morning. Department store operator JC Penney Co. Inc. (NYSE: JCP) reported earnings for the holiday quarter could beat estimates, while clothing retailer Abercrombie & Fitch CO (NYSE: ANF) posted much better-than-expected results and said it would speed up expansion overseas.

While many are gearing up for the holiday spending season, it's a good time to talk about different types of investments and risk tolerance. Last week, we highlighted bonds and discussed how they are safer than stocks. Mutual funds are also safer than stocks and fixed income mutual funds, which include mostly bonds, are safer than stocks as well. Stocks and mutual funds are available for everyone in the SMG. The availability of individual bonds vary from state to state, and are offered in the state of Illinois.

As mentioned above, different types of investments involve varying degrees of risk. A diversified portfolio should contain stocks, bonds and mutual funds, but should be weighted based on a person's age, time horizon and risk tolerance, which is essentially a gauge of how much risk one can comfortably live with. Some people can handle a lot of risk and never lose sleep if their investments are down for the day, month or year. Other people are very risk averse and the idea of losing any of their principal, even if it's only on paper (i.e., an unrealized loss), is unacceptable.

Generally, if you're young and investing for retirement you should be mostly invested in stocks, because you have a long time horizon. Risk-averse investors can mitigate some of their worry by investing in a growth mutual fund which makes them automatically diversified. As you get older, you should be switching investments and your portfolio should increasingly be filled with bonds or fixed income mutual funds. When you retire, you should own very little stock, because your time horizon is now very short. Most retirees live off the interest from their fixed income investments. So, the general rule is that people should become more and more risk averse as they get older.

In the publications section of the Teacher Support Center, the *Beyond the Market* guidebook includes a lesson plan entitled *Investor's Menu* which can help teach students about different types of investments. Also in the Teacher Support Center, SMG has a core lesson on risk, titled, "What is Risk?" Be sure to check it out.

Have a great week!