Name________________________________Period________________Date___________________

Before You Invest

Funds put into business, real estate, stocks, bonds or some other enterprise for the purpose of making an income or profit are called **investments.** There are several types of investments you can make, but not all investments are wise investments for a particular individual. Investment involves risk, and the greater the opportunity for high return, the greater the risk for investment loss. The relationship between risk and return potential is often represented as a pyramid. Low-risk investments make up the broad foundation of the pyramid; higher-risk investments may be added in smaller amounts toward the top of the pyramid. When choosing an investment, you should take the time to evaluate and research the investment in addition to evaluating your personal financial status and tolerance for risk.

As previously discussed, tracking your net worth will provide insight into individual investment strategies. It is recommended that you place money in investments only after taking basic financial steps such as the following:

- Set a reasonable budget considering your income and stay within those limits. The only way to grow financially is to take in more money than you spend.
- Start and continue a savings program to build up funds for emergencies, unexpected needs and unplanned purchases. Additional savings can then be accumulated for investments.
- Have accessible credit, such as credit cards, to use in financial emergencies.
- Have insurance to protect assets and current lifestyle in the event of a disaster or shortcoming.

Some different types of investments include stocks, bonds, mutual funds, money markets and real estate. It makes sense to invest in a variety of investments from different institutions rather than in only one type, such as all stocks in one corporation. This is called **diversification**. Knowing about various types of investments can help you determine the best investment route for your financial situation.