

## SAMPLE INVESTMENTS

Name:  Class/Block:  Date:

Use Handout 9-2, "Types of Investments," to review the investments outlined below and fill in the blanks to describe the characteristics of each. As an example, the first one is completed for you.

### CANADA SAVINGS BONDS, PREMIUM SERIES

- issued and guaranteed by the Government of Canada
- bonds are guaranteed to pay 1.75% in the first year, 1.90% in the second year, 2.05% in the third year
- may be cashed in at any bank in Canada for face value plus interest to date

Type of investment: <i>fixed income (bond)</i>	Liquidity: <i>high (cashable at any bank)</i>
Risk rating: <i>very low (guaranteed by government)</i>	Expected return: <i>low (1-1/2 to 2-1/2% per year)</i>

### MIDAS BANK SAVINGS ACCOUNT

- savings account in a Canadian bank
- pays interest compounded monthly, at an annual rate of 0.7% on the first \$5,000, and 1.25% on amounts over \$5,000
- includes 10 free banking transactions per month

Type of investment:	Liquidity:
Risk rating:	Expected return:

### MOKA-COLA SHARES

- shares in a new company formed to produce a new coffee-flavoured cola drink
- shares are listed on a public stock exchange, but don't trade often. Brokers charge a commission of 2% to trade the shares
- the company believes that it can challenge the cola giants with its patented formula for extracting coffee flavour and adding it to carbonated beverages
- the company plans to pay no dividends, but will invest any income it receives in expanding production and distribution
- the company projects that it will double in size at least every two years

Type of investment:	Liquidity:
Risk rating:	Expected return:

## SAMPLE INVESTMENTS (cont'd)

### GLOBAL ENTERTAINMENT PRODUCTS SHARES

- shares in the largest entertainment products company in the world, with annual sales of \$9.5 billion
- shares are traded on several major stock exchanges around the world. Brokers charge a commission of 2% to trade the shares
- the company brings out new products every week to compete with smaller rivals
- the company pays dividends four times a year, but keeps enough of its profits to pay for new product development and to buy other smaller companies from time to time

Type of investment:	Liquidity:
Risk rating:	Expected return:

### ETHICAL FUN MUTUAL FUND UNITS

- units in a fund that invests in companies that manufacture toys and games following strict ethical and environmental standards
- fund managers believe that ethical toys will be a profitable retail sector that will pay steady dividends and grow at a rate of 10% to 15% per year
- fund managers charge an annual fee equal to 3% of the funds they're managing.
- fund charges a fee of 3% when investors sell their units

Type of investment:	Liquidity:
Risk rating:	Expected return:

### TECHNICAL TESTS MUTUAL FUND UNITS

- units in a fund that invests in very new technologies before they have a proven market
- fund is new and has not been offered publicly before, but fund managers are known to analyze risks carefully before they invest
- fund brochures say that it's very risky, but could increase in value rapidly if the new technology it supports becomes profitable
- fund managers charge an annual fee equal to 5% of the funds they're managing
- fund charges a sales fee of 5% when investors sell their units

Type of investment:	Liquidity:
Risk rating:	Expected return:

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## SAMPLE INVESTMENTS (cont'd)

### GOVERNMENT OF CANADA 90-DAY TREASURY BILLS

- an investment in government securities that can be cashed in for their full face value in 90 days
- rather than paying interest, these treasury bills are sold for \$995 today and can be cashed in 90 days from now for \$1,000 (equivalent to a bit more than 2% per year)
- can be sold through any bank or investment dealer in Canada for their market value on the date of sale

Type of investment:	Liquidity:
Risk rating:	Expected return:

### HOT PETE PETROLEUM COMPANY BONDS

- issued by a private company with large oil and gas holdings in northern Canada, and long-term contracts to supply petroleum products to customers in the United States
- The company has issued the bonds to pay for pipeline extensions to ship its petroleum products to its customers
- bonds pay interest quarterly, calculated at a rate of 5.5% per year
- bonds are non-redeemable for five years, but because the company is well established and has a good financial record, the bonds can be traded through investment dealers

Type of investment:	Liquidity:
Risk rating:	Expected return:

## SAMPLE INVESTMENTS – ANSWER KEY

### CANADA SAVINGS BONDS, PREMIUM SERIES

Type of investment: fixed income (bond)	Liquidity: high (cashable at any bank)
Risk rating: very low (guaranteed by government)	Expected return: low (1-1/2 to 2-1/2% per year)

### MIDAS BANK SAVINGS ACCOUNT

Type of investment: cash	Liquidity: very high, can withdraw any time
Risk rating: very low, guaranteed	Expected return: very low

### MOKA-COLA SHARES

Type of investment: equity (shares)	Liquidity: low – very limited trading
Risk rating: high (new business)	Expected return: high <i>if</i> projections are accurate

### GLOBAL ENTERTAINMENT PRODUCTS SHARES

Type of investment: equity (shares)	Liquidity: high – widely traded
Risk rating: moderate (established business)	Expected return: moderate - regular dividends and some expected growth

### ETHICAL FUN MUTUAL FUND UNITS

Type of investment: mutual fund units	Liquidity: high (investors can cash in units, but fee is charged)
Risk rating: moderate to high	Expected return: moderate to high, but reduced by managers' fees

### TECHNICAL TESTS MUTUAL FUND UNITS

Type of investment: mutual fund units	Liquidity: high (investors can cash in units, but fee is charged)
Risk rating: high according to fund brochure	Expected return: high, though uncertain. Managers' fees are high

## SAMPLE INVESTMENTS – ANSWER KEY (cont'd)

### GOVERNMENT OF CANADA 90-DAY TREASURY BILLS

Type of investment: short-term (treasury bill)	Liquidity: very high (can be sold any time)
Risk rating: very low (guaranteed by government)	Expected return: low (about 2% per year)

### HOT PETE PETROLEUM COMPANY BONDS

Type of investment: fixed income (corporate bonds)	Liquidity: moderate to high (traded through investment dealers only)
Risk rating: low (well established company with good prospects)	Expected return: low to moderate (5.5% per year)