

ifs Student Investor Challenge 2010/11- Worksheet 2

INVESTMENTS

When you save money, you are effectively lending it to someone, through a bank or building society, who will pay the money back in the future with some **interest** added. Interest is the money you receive for lending money. **Investment** is the purchase of goods or services with the aim of creating more money in the future. The financial services industry has developed a number of products to meet the demands of customers who prefer to invest rather than save. Investors benefit from the price change of the investment. When you buy a **stock**, you buy a **share** of a company – you become a **shareholder** or **stockholder**. You expect the company to grow and produce additional income and profits, or earnings. The profits of a company might be distributed to its shareholders through **dividends**. Shareholders might also benefit from the price change of a stock. If a company grows, we expect its **share price** to increase so that shareholders earn the difference in the form of **capital gains**.

Activity 2.1

What is the difference between investment and saving? What is interest? What are stocks and what are the benefits of owning them? What are dividends?

Activity 2.2

Do you think that picking the 'right' shares to invest in is 'pot luck', or are some company shares more likely to grow than others? Which shares might you expect to have increased since London won the Olympics 2012 bid?

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Activity 2.3

Let's say you put £1,000 in a savings account today. Assuming you don't withdraw any money, how much do you think you might have on the same date next year? Now let's assume you use the same amount of money to buy stocks. How much do you think you might have in one year's time? Which one is more predictable?

Activity 2.4

Find out more about the different types of investment by visiting the following website:

www.moneymadeclear.org.uk

Choose 'Savings & investments' from the top bar then under 'Product information' click on 'New to investments'. From the left-hand menu choose 'Types of investments' to find product definitions. Choose 'Pensions & retirement' from the top bar for information on pensions.

In the table below, match the five investment types to their correct definition by drawing a line between the investment type and its correct definition (the first one has been done for you).

Investment types		Definitions
Pension		A tax wrapper which means you pay less or no income tax or capital gains tax on the growth of the investments
Cash deposits		An individual can become a shareholder and be a part owner of a company. You can make a great deal of money but you can lose a great deal, too!
ISA		Where lots of people put their money into a fund which is then invested by a fund manager
Pooled investments		An account with a building society or bank is opened and an individual pays in regular or irregular amounts for as long as they wish
Shares		Everyone is advised to make sure they have enough money for when they retire by having one of these

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Activity 2.5

Use the following link to learn about some further key investment terms:

<http://www.thisismoney.co.uk/investing-tips-and-guides> then choose Share School, 1 - The basics

Find out what the following terms mean and write definitions in the boxes:

Stock market

Shares

Share certificate

Capital growth

Use this space to make a note of any other interesting terms you came across:

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Activity 2.6

Let's make some basic comparisons between saving and investment from September 2009 to September 2010.

— Tesco share
 - - - - Savings account



Source of Tesco share information: <http://uk.reuters.com>

At the beginning of September 2009 one stock of Tesco plc was priced at the London Stock Exchange at 377 pence. An investor could choose between buying one hundred Tesco shares for £377 and depositing the same amount in a savings account that pays 2.5% AER. He decides to buy the stock but then finds he needs the money back in April 2010. Has he made any profit on his investment? What would have happened if he had deposited the money in the savings account?

What if he did not need the money back until September 2010? Would he have made any profit from investing in the Tesco stock? Would he have achieved better returns if he had used the savings account?

Activity 2.7

On 8th September 2010 the price of 100 Tesco shares was £414. What was the gain of an investor who bought the stock at the beginning of September one year before? If he had put the same amount of money (ie £377) in the savings account, how much would he have?

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