

## **ifs Student Investor Challenge 2010/11 – Worksheet 7**

### **MANAGING RISK**

You can **diversify** your risk if you buy a basket of shares, following a ‘risk-spreading’ strategy. A group of different companies’ shares that an investor might own is called a **portfolio**. Portfolio performance is a result of how well the stocks perform collectively (measured by the price you bought them at compared with the current market price). The benefit of buying a diversified portfolio is that losses on a certain stock can be diluted or compensated by gains in other stocks that comprise the portfolio. **Professional managers** make investment decisions about each portfolio and you can participate in such portfolios by investing in a **collective investment scheme**. There are several types of collective investment scheme to choose from, including:

- unit trusts;
- investment trusts;
- tracker funds (for example, exchange-traded funds).

Such schemes are also known as **pooled investments**, where many people put in different amounts of money and the total amount is invested in different assets or asset classes and managed by a professional asset manager.

#### **Activity 7.1**

The table below presents the value of four stocks on 4<sup>th</sup> January 2010 and 9<sup>th</sup> September 2010.

<b>Company</b>	<b>4/1/2010</b>	<b>9/9/2010</b>
BAE	362p	321p
Lloyds	51p	73p
Easyjet	356p	378p
Barclays	278p	310p

Source: [www.londonstockexchange.com](http://www.londonstockexchange.com)

Let’s say you bought 100 stocks of each company. What is the total value of your portfolio on 4<sup>th</sup> January? What is the value of your portfolio on 9<sup>th</sup> September?

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**Activity 7.2**

A stock market index is a representation of a portfolio of stocks in a certain market. FTSE 100 is the stock index of the UK market and it comprises the 100 largest UK blue-chip companies based on size and liquidity. Funds usually use stock indices as a benchmark, or reference, for their performance. Indices have their value not in price but using a points system. The points change corresponds to a change in price of the stocks composing the index portfolio. As you can see in the following graph, from mid July 2010 Vodafone Group Plc has performed better than the performance of the FTSE index.

**Comparison: FTSE 100 index and Vodafone Group Plc  
 September 2009 to September 2010**



Source: <http://uk.reuters.com>

Which one do you think presents higher variability? Why?

**Tip** Look at the highest and lowest prices. Which line on the graph varies the most?

**Activity 7.3**

Let's look at some other indices. Click on:

[www.bloomberg.com](http://www.bloomberg.com)

Go to 'Market Data' and find out what the following indices are by clicking on the names: Dow Jones Industrial Average, S&P 500, Nasdaq Composite Index, CAC 40 Index, DAX Index and Nikkei 225.

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### **Activity 7.4**

The table below presents the value of the main stock indices on 13<sup>th</sup> September 2010.

<b>Index</b>	<b>Value</b>	<b>Last change</b>	<b>% change</b>
S&P 500	1,109.55	5.37	
NASDAQ	2,242.48	6.28	
FTSE 100	5,559.45	57.81	
CAC 40	3,767.49	41.67	
DAX	6,271.23	56.46	

Source: [www.londonstockexchange.com](http://www.londonstockexchange.com)

Calculate the daily percentage change of each index. Which index had the biggest change?

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### **Activity 7.5**

Click on this web link to find out more about pooled investments:

[http://www.moneymadeclear.org.uk/products/investments/types/pooled\\_investments.html](http://www.moneymadeclear.org.uk/products/investments/types/pooled_investments.html)

What are the main benefits of pooled investments?

### **Activity 7.6**

Click on this web link to find out more about the asset management industry:

[www.investmentuk.org](http://www.investmentuk.org)

Go to 'Investors', then 'Glossary'. Find out what the following are: unit trusts, investment trusts and index tracking funds.

### **Activity 7.7**

Click on this web link to find out more about stock indices:

[www.ftse.com](http://www.ftse.com)

Go to 'About us'. What is the FTSE Group and what are their indices used for?

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