| NGPF_LG.png | ***NGPF Activity Bank*****Investing**[*Implementation Ideas*](https://www.ngpf.org/blog/investing/using-active-learning-to-teach-asset-classes/) |
| --- | --- |

INTERACTIVE: Exploring Asset Classes

| Interactive: [Novel Investor's Asset Class Returns](https://novelinvestor.com/asset-class-returns/) |
| --- |

We all know that putting all your investment money into one company’s stock would be pretty risky. But, by choosing an entire asset class instead, would you be minimizing your risk and creating a winning strategy? Let’s find out.

**Part I: Define the Asset Classes**

An asset class is a grouping of investments that have similar characteristics, behave similarly in the market, and follow the same rules and regulations. Really common asset classes are stocks, bonds, and cash, but there are others as you’ll see below.

Use your prior knowledge, educated guesses, or internet research to match the asset class in column A to its proper description in column B.

| **Column A - Asset Classes**1. Lg Cap: Large cap stocks
2. Sm Cap: Small cap stocks
3. Int’l Stk: International developed stocks
4. EM: Emerging market stocks
5. REIT: Real estate investment trusts
6. HG Bnd: High grade bonds
7. HY Bnd: High yield bonds
8. Cash: Cash
9. AA: Asset Allocation Portfolio
 | **Column B - Descriptions**\_\_\_\_\_ International companies in countries with established industry, widespread infrastructure, and secure economies\_\_\_\_\_ Bonds with lower credit ratings and a greater chance of default, often issued by startups or struggling businesses \_\_\_\_\_ Cash or cash equivalents like Treasury bills backed by the federal government \_\_\_\_\_ Companies that own, operate, or finance income-generating real estate \_\_\_\_\_ Largest US companies, which have a market cap over $10 billion(continues on next page)\_\_\_\_\_ Smaller US companies, which have a market cap between $300 million and $2 billion\_\_\_\_\_ International companies in countries with still developing capital markets and less stable economies\_\_\_\_\_ Bonds with high credit ratings and lower risks of default, usually issued by stable companies \_\_\_\_\_ A diversified portfolio made up of 15% large cap, 15% international, 10% small cap, 10% emerging markets, 10% REITs, 40% high-grade bonds, and annual rebalancing |
| --- | --- |

1. In the chart under the interactive, each Asset Class is listed next to an Index. Index funds are what enable you to own many investments in that asset class. For example: 
2. What does the “Annual” column of the chart measure?

|  |
| --- |

1. What does it mean when an asset class has “Best” and “Worst” percentages that are spread very far apart?

|  |
| --- |

1. As an investor, you want to buy low and sell high. But, when an asset class has a bad year, such as International Stocks in 2014, why might it be hard to “hold on” without selling?

|  |
| --- |

**Part II: Learn to Read the Chart**

As you hover over a box, such as a dark green one for International Stock, the dark green box for each year will remain highlighted while all other boxes fade to the background. The next few questions will help you learn to read the chart.

1. Which asset class performed better in 2018 -- High Grade Bonds or Small Cap Companies?

|  |
| --- |

1. What was the annual return for Small Cap Stocks in 2009?

|  |
| --- |

1. Look at the annual return for Small Cap Stocks in 2010. If the 2010 return is LOWER than it was in 2009, why is Small Cap Stock higher on the list in 2010?

|  |
| --- |

**Part III: Dig Deeper on Asset Classes**

Now that you’ve got the lay of the land, let’s use this chart to determine whether diversifying into an index fund representing an asset class is enough.

1. Let’s look at cash first. It never has a negative year. Does that make Cash Equivalents a good investment? Why or why not?

|  |
| --- |

1. Although all investments are risky because you’re never guaranteed a positive return, bond funds are considered somewhat safer because bonds are less volatile than stocks and a *fund* means it owns many different bonds, rather than just one. Look at the index fund of High Grade Bonds in this chart. What would be some PROS and some CONS of investing in this bond index fund?

	1. PROS:

|  |
| --- |

* 1. CONS:

|  |
| --- |

1. Hover over the purple boxes for the MSCI Emerging Markets Index. What type of investor profile might be interested in emerging markets?

|  |
| --- |

1. The S&P 500 is a group of the 500 largest US companies, and investing in an S&P 500 index fund is frequent investing advice, even recommended by Warren Buffet. Looking at the chart, why do you think the S&P 500 is such a popular investing strategy?

|  |
| --- |

1. If you look at the \* that defines the Asset Allocation Portfolio, you’ll see it’s a weighted blend of many of the other asset classes. Using the chart, would you rather invest in the Asset Allocation Portfolio or one of the other index funds listed? Explain your answer.

|  |
| --- |

**Part IV: Reflect**

At the top of the page, the author writes: 

1. Use one asset class from the chart to illustrate and describe the danger of “looking for an encore,” picking the previous year’s winner and assuming it will be a winner again.

|  |
| --- |

1. If using the previous year’s performance to guess next year’s performance is so unreliable, why do you think so many investors try to use that strategy anyway?

|  |
| --- |