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7. Investments and Risk

An investment is the act of committing money or resources to an asset with the expectation of generating a return or profit over time. Rather than keeping money idle, investing involves using that money to acquire something that has the potential to grow in value or generate income. This could include financial instruments such as stocks and bonds, tangible assets like real estate, or even intangible assets like a stake in a business.

In practical terms, investing means taking a calculated risk to achieve a financial goal. While the outcome of an investment is never guaranteed, the goal is to increase the value of the initial input over time. For example, buying shares in a renewable energy company or investing in a social enterprise may offer both a financial return and a sense of contribution to a larger cause.

Investing always carries risk—the possibility of earning less than expected or losing money. However, higher risk usually comes with the potential for higher reward. A safe investment typically gives low returns, while a high-risk investment might yield more but could also lead to a greater loss.

Learning Objectives

By the end of this module, you will be able to:

- Define what an investment is and why it is important to start learning early.
- Identify different types of investments, from savings accounts to stocks and cryptocurrencies.
- Understand the different forms of investment risk and how to assess your personal risk tolerance.
- Use key strategies like diversification and asset allocation to manage risk.
- Set clear short-term and long-term financial goals using the SMART framework.
- Explain how compound interest works and why it is a powerful tool for growth.
- Create a personal budget that frees up money for investing, even with a small income.
- Compare different investment platforms and tools to find one that suits your needs.
- Identify the red flags of common financial scams and myths.
- Apply critical thinking to evaluate financial advice and make safer investment decisions.



Why Should Young People Learn About Investing?

Early education in investing equips young people with essential financial tools to make informed choices throughout life. Understanding how investments work encourages long-term planning and builds confidence in managing personal finances. It also cultivates responsibility, critical thinking, and an awareness of how economic systems function.

Starting early gives young people the advantage of time. Due to the effect of compound interest—where earnings generate additional earnings—even small, consistent investments made during youth can grow substantially over a number of years. This knowledge helps young individuals prepare for significant future milestones such as higher education, home ownership, travel, or entrepreneurship.

Types of Investments

Investments come in many forms, each with its own characteristics in terms of risk, return, accessibility, and time commitment. Below are some common types of investments that young people should be aware of:

Savings Accounts and Term Deposits

Offered by banks and credit unions, these are low-risk financial products that earn modest interest over time. While not typically considered "investments" in the traditional sense, they are a secure place to hold money while planning for future investments. Term deposits (also known as fixed deposits) require you to lock away funds for a set period in exchange for slightly higher interest.

Stocks (Equities)

Purchasing stock means buying a share of ownership in a company. If the company performs well, the value of your stock may increase, and you may also receive dividends (a portion of the company's profits). However, stock prices can also fall due to market conditions or company performance. Stocks can offer high returns but are considered higher-risk, especially in the short term.

Bonds

Bonds are debt instruments issued by governments, municipalities, or corporations. When you buy a bond, you are lending money in exchange for regular interest payments and the return of the principal at maturity. Bonds are generally less volatile than stocks and are considered medium- to low-risk, depending on the issuer.

Real Estate: Investing in real estate involves buying property to earn rental income or to sell it later at a higher price. This is often a long-term strategy requiring significant upfront capital and ongoing maintenance. Real estate values can rise, but property markets can also fluctuate, so risks still exist.

Investment Funds (e.g., Mutual Funds and ETFs): Investment funds pool money from many people to buy lots of different investments. This spreads out the risk, making it safer. Mutual funds are managed by experts who choose what to buy and sell. ETFs are like baskets of investments you can easily buy or sell on the stock market. They're a simple way for beginners to invest.

Pension Schemes: Many European countries have structured pension systems that allow individuals to save for retirement. Contributions often come with tax benefits and may be matched by employers. Though not immediately accessible, pensions are crucial long-term investments in financial security.

Cryptocurrency: Cryptocurrencies like Bitcoin, Ethereum, and others are digital assets that use blockchain technology for decentralized transactions. They are highly volatile and speculative, with values driven by market demand, innovation, and regulatory developments. While some see potential in cryptocurrency as a long-term investment or alternative store of value, others caution against its instability and risk of scams. Youth should approach crypto with extra research and skepticism.

Foreign Exchange (Forex): Forex trading involves buying and selling currencies to profit from fluctuations in exchange rates. It is the largest and most liquid financial market in the world, operating 24 hours a day. While it offers opportunities for profit, forex trading is extremely volatile and complex. It is not typically recommended for inexperienced investors due to its high risk and the influence of global economic events.

Investment Comparison Table

We can make it all simpler by putting them on a table:

Investment Type	Risk Level	Return Potential	Accessibility	Time Commitment
Savings Accounts	Low	Low	High	Flexible
Stocks (Equities)	High	High	Medium	Medium-Long term
Bonds	Medium-Low	Moderate	Medium	Medium
Real Estate	Medium	Medium-High	Low	Long-term
Investment Funds	Varies	Varies	Medium	Medium
Pension Schemes	Low	Moderate	Low (until retirement)	Long-term
Cryptocurrency	Very High	Very High	Medium	Variable
Foreign Exchange (Forex)	Very High	Very High	Medium	Active/Short term

Risk vs. Reward Explained

A central principle in investing is the trade-off between risk and reward. Risk refers to the possibility that an investment may not perform as expected and may even result in financial loss. Reward refers to the return an investor receives, either as income or appreciation in value.

Typically, investments with higher return potential also carry higher risk. For example, government bonds are considered low-risk and offer stable, but modest, returns. Stocks, on the other hand, may yield high returns but can also fluctuate dramatically in value, particularly in uncertain economic environments.

Young investors have a valuable advantage: time. With a longer investment horizon, they may be better positioned to take on higher risks, since short-term losses can be offset by long-term gains. However, understanding personal risk tolerance is essential. Not every young person is comfortable with volatility, and financial choices should reflect individual values and circumstances.

Recognizing the relationship between risk and reward allows individuals to make conscious decisions—balancing potential gains with the possibility of setbacks. A thoughtful investment approach involves research, patience, and a clear understanding of both opportunities and challenges.

Activities

Activity 1: What Would You Invest In?

Objective: Help youngsters understand the concept of investment by connecting it to their own interests and everyday life.

Instructions:

1. Divide into small groups of 3–5 people.
2. As a group, brainstorm 3–5 things you could "invest" in. These could be:
 - Money-based (like buying a stock, crypto, sneakers, or a property)
 - Time-based (like learning a skill, starting a project, or helping a cause)
3. For each idea, discuss:
 - What is the possible return or benefit? (e.g., money, knowledge, connections, satisfaction)
 - What are the risks or downsides? (e.g., losing money, wasting time, burnout)
 - Would this be short-term or long-term?

Activity Continuation

1. Choose one idea and prepare a 1-minute pitch to share with the whole group, explaining why you think it's a smart investment.

Activity 2: Which Investment Type Matches You?

Objective: Help youngsters explore traditional types of investments and identify which ones match their personality, goals, and comfort with risk.

Instructions:

1. Show participants a simplified version of the investment table (page 10).
2. Ask each person to choose one investment type they are most curious about or feel drawn to.
3. Pair up with someone who picked a different investment type and share:
 - Why did you choose that type?
 - What do you already know about it?
 - What are you unsure or curious about?
4. In a group discussion, ask volunteers to share what they learned from their partner and whether they changed their mind or discovered something new.

Investment Risk

To put it simply, it is the potential for harm or financial loss. Investment risk is the chance that your investment might not earn what you expect, or you could even lose some or all of the money you put in. This happens because the value of investments can go up or down due to many factors. These include changes in the economy, shifts in the financial markets, or specific problems with a company or industry. Basically, investment risk means there's uncertainty about how much return you'll get, and sometimes things don't go as planned.

Types of Investment Risks

Investment risks come in different forms, each affecting your money in various ways. Knowing these risks helps you make smarter choices and protect your investments.

Market Risk

Also called systematic risk, affects almost all investments at once because it comes from big events like economic recessions, wars, or natural disasters. For example, when the economy slows down, stock prices often fall across the board, which can lower the value of your investments.

Credit Risk

This mainly concerns bonds or loans. If the company or government you lent money to can't pay it back, you might lose some or all of your investment. Bonds with better credit ratings are safer, so it's important to choose wisely and spread your investments to reduce this risk.

Liquidity Risk

Some investments are harder to sell quickly without losing money, like real estate or certain bonds. If you need cash fast, you might have to sell these investments for less than they're worth. To avoid this, keep some money in easy-to-sell assets like stocks or savings accounts, and always have an emergency fund.

More Types of Investment Risks

Interest Rate Risk

This affects bonds mostly. When interest rates go up, the value of bonds you already own usually goes down because new bonds pay more interest. For example, if you have a bond paying 3% but new bonds offer 4%, yours becomes less attractive and loses value.

Inflation Risk

Inflation means prices go up over time, which can reduce what your money can buy. If your investments grow 5% but inflation is 3%, your real gain is only 2%. To protect against inflation, consider investments like stocks or real estate that tend to increase in value over time.

Currency Risk

If you invest in foreign countries, changes in currency exchange rates can affect your returns. For example, if you buy European stocks but the euro weakens against your home currency, your profits may shrink when converted back.

Political Risk

Changes in government rules or political problems can affect investments. New laws or instability might hurt certain companies or markets. Keeping an eye on political developments and spreading your investments across countries can help lower this risk.

How to Assess and Determine Your Risk Tolerance

Risk tolerance means how much ups and downs in your investment's value you can handle without feeling too stressed. Knowing your risk tolerance helps you choose investments that fit your goals and what you're comfortable with.

Start by thinking about your financial goals and how long you plan to keep your money invested. Then, imagine how you would feel if your investments dropped by 10%, 20%, or even 50% in a short time. Would you stay calm or want to sell right away? Your feelings about these losses show how much risk you can handle.

Ask yourself questions like:

- What am I saving or investing for in the long run?

Risk Assessment Questions

- When will I need to use this money?
- How would I react if my investment lost value temporarily?

Understanding your reactions helps you figure out if you prefer safer investments or if you're okay with taking bigger risks for the chance of higher rewards.

Risk Tolerance Questionnaires

Risk tolerance questionnaires are tools that help you understand how comfortable you are with taking risks in investing. They usually ask questions about your goals, how long you plan to invest, your financial situation, and how you might react when investments lose value.

For example, they might ask:

- How long do you plan to keep your money invested?
- What would you do if your investments dropped a lot in value?
- Are you investing mainly to keep your money safe, earn regular income, or grow your wealth?
- How much do you know about different kinds of investments?

Many banks and financial advisors offer these questionnaires online. They give you a structured way to see your risk tolerance and help guide you to investments that fit your style.

Strategies to Manage Investment Risks

To protect your money and reach your financial goals, it's important to manage the risks that come with investing. Here are some key strategies:

Diversification means spreading your money across different types of investments, like stocks, bonds, real estate, and others. This helps because if one investment does poorly, others may do better and balance things out. By having a mix, your overall risk is lower.

Asset allocation is deciding how much money to put into each type of investment based on your comfort with risk and your goals. For example, someone who wants less risk might put more money in bonds, while someone comfortable with risk might choose more stocks.

Regular portfolio review means checking your investments regularly to make sure they still match your goals and risk tolerance. Markets and your personal situation can change, so it's smart to adjust your investments over time.

Investing in low-risk assets like government bonds can add stability to your portfolio. These investments don't change in value as much and can help protect your money, especially if you want to avoid big losses.

Having an emergency fund is very important. This is money saved to cover unexpected expenses, like medical bills or car repairs, so you don't have to sell your investments when the market is down.

If you're planning for retirement, managing risk becomes even more important. Moving some money to safer investments can help protect what you've saved, while still keeping some in growth investments to beat inflation.

Finally, risk-adjusted return analysis means looking at how much return you get compared to the risk you take. This helps you pick investments that give you the best possible rewards for the amount of risk you're okay with.

Remember, investing isn't just about trying to make the most money — it's about protecting what you have and making smart choices to reach your goals. Keep learning, review your investments often, and adjust your plan when needed.

Activities: Risk Corners

Non-Formal Learning Activity: Risk Corners

Objective: Help students understand different levels of investment risk by choosing how they'd react in real-life money scenarios.

Time: 10–15 minutes

Materials Needed: None! (Just space to move around)

How to Play:

1. Label four corners of the room:
 - Very Safe
 - Somewhat Safe
 - Somewhat Risky
 - Very Risky
2. Read out different investment scenarios (see examples below). After each one, students move to the corner that matches how risky they think it is.
3. After each round, ask a few students:
 - Why did you choose that corner?
 - Would you invest your own money in this?

Example Scenarios:

- "You put your money in a savings account with a bank."
- "You invest in a new company that just launched a cool app."
- "You buy government bonds that pay steady interest."
- "You put all your money into one cryptocurrency."
- "You buy stocks from 5 big, stable companies."

Why It Works:

- Fun and movement-based – perfect for energy breaks. Great for a young class.
- No writing or tech required.
- Starts great discussions about risk using real-world examples.
- On spot learning and critical thinking

Smart Investing for Beginners

Many young people think investing is only for adults with high incomes or financial degrees. The truth is, the earlier you begin to understand and apply the principles of investing, the better positioned you'll be for financial freedom and security later in life. This module will introduce you to the basics of investing, with a focus on real-world application: how to set financial goals, distinguish between saving and investing, use compound interest to your advantage, budget to make space for investing, and explore accessible investment platforms. No prior financial knowledge is required. The goal is to help you take confident, informed first steps.

Why Set Goals Before Investing?

Investing without a purpose can be risky and unfocused. Your financial goals determine how long you can invest your money, how much risk you can take, and what kind of investment vehicles are most appropriate.

Types of Financial Goals:

01

Short-term (0–3 years)

These goals are relatively urgent. They require liquid and low-risk financial instruments. Examples: Saving for a trip, buying a new phone, emergency fund.

02

Mid-term (3–7 years)

Here, you have more time, which allows for a mix of lower and moderate-risk strategies. Examples: Saving for a car, graduate studies, or a relocation.

03

Long-term (7+ years)

These goals benefit most from investing, particularly in instruments like stocks, index funds, or retirement plans. Examples: Home ownership, retirement savings, building long-term wealth.

Reflection Exercise

- What is one financial goal you want to achieve in the next 2 years?
- What is one goal for 5 years from now?
- What would "financial independence" mean for you in the long term?

Write these down. We'll refer back to them later.

Saving vs. Investing

Both saving and investing are essential. Understanding how they differ—and how they work together—is fundamental to building a strong financial base. You save to protect your money. You invest to grow your money. Saving comes first—especially for building an emergency fund—but investing helps you move beyond simply preserving your income toward growing wealth over time.

Compound Interest

Compound interest is one of the most powerful forces in finance. It's when your money earns interest, and that interest earns interest, repeatedly, over time.

A Simple Example:

- You invest €1,000 at a 10% annual return.
- In one year, you earn €100, bringing the total to €1,100.
- In the second year, you earn 10% of €1,100, not €1,000—so you get €110.

This continues, with the base amount growing each year. Over time, this exponential growth can lead to significant wealth—even from small regular investments.

Early Start Advantage:

Start investing €50/month at age 20:

You could have ~€200,000 by age 60 (assuming 7% annual returns).

Start at age 30 with the same amount:

You might only reach ~€100,000.

Lesson: Time is one of your most valuable financial assets.

Activity:

Use a free online compound interest calculator. Try different combinations:

- €25/month for 10, 20, and 30 years
- €1,000 upfront investment vs. regular monthly deposits

Record what surprises you.

Budgeting to Invest

You don't need to be rich to start investing—but you do need to be intentional with your money.

Step-by-Step Budgeting Process:

Track your income: What money comes in monthly? Include wages, stipends, side gigs.

Budgeting Process Continued

Track your expenses: List fixed costs (rent, bills) and variable costs (food, transport, social life).

Review and categorise:

- Needs (essential)
- Wants (lifestyle/discretionary)
- Financial goals (savings/investments)

Apply a structure: A common model is the 50/30/20 rule:

- 50% for needs
- 30% for wants
- 20% for savings and investments

Make room to invest: Even €10 or €25/month is a powerful start.

Activity

- Write out your current budget.
- Highlight areas where you could reduce spending.
- Choose a realistic amount to begin investing monthly

Investment Platforms and Tools

Young people today have unprecedented access to investing tools—but choosing wisely is critical.

Key Platform Types:

Mobile investing apps: Examples include Trading 212, eToro, Revolut, and Robinhood (region-dependent). These platforms are user-friendly and often have low or zero fees.

Traditional brokerages: Platforms like DEGIRO or Interactive Brokers offer more control and investment options but require greater financial literacy.

Robo-advisors: These use algorithms to invest for you based on your goals and risk tolerance. Examples: N26 Invest, Scalable Capital.

Factors to Consider:

- Regulation and safety
- Fees and minimum investment amounts
- Range of available investments
- User experience and educational support
- Security

Platform Activity & Scams, Myths & Critical Thinking

Activity:

Choose two platforms available in your country. Compare:

- Minimum deposit requirements
- Fees for trading or managing funds
- Usability and educational resources
- Reviews or feedback from other young investors

Write a short summary of which you would feel more comfortable starting with—and why.

Conclusion: Starting Small, Thinking Big

Smart investing begins with understanding your goals, having a clear picture of your finances, and making use of the tools available to you. Even modest monthly investments can lead to powerful outcomes when started early and maintained consistently. It's not about trying to get rich quick—it's about building stability, independence, and opportunities over time. The most important step? Starting.

Scams, Myths & Critical Thinking

In the digital age, young people are constantly exposed to information about money—from TikTok "financial gurus" to online ads promising quick profits. While some resources are helpful, others are misleading or even dangerous. Understanding how to question what you see online—and knowing what not to do—is just as important as knowing how to invest wisely.

Common Financial Myths

Myth 1: "You need to be rich to start investing."

Reality: You can begin with small amounts. Many platforms allow you to invest with €1 or less. The most important factor is starting early, not starting big.

Myth 2: "Investing is the same as gambling."

Reality: Investing involves risk, but it is based on research, strategy, and long-term planning. Gambling relies on chance and short-term outcomes.

Myth 3: "Cryptocurrency always goes up."

Reality: Crypto is highly volatile. Some people make profits, others lose everything. No asset class is guaranteed to rise in value.

Myth 4: "I'm too young to worry about this."

Reality: The earlier you start learning, the better prepared you are. Waiting to think about money often leads to missed opportunities.

Spotting Scams

Financial scams are increasingly sophisticated and often target young or first-time investors. If something seems too good to be true, it probably is.

Common Types of Scams:

1. **Get-Rich-Quick Schemes:** Promises of doubling your money fast, guaranteed profits, or "secret formulas" are classic warning signs. Legitimate investing takes time.
2. **Fake Investment Platforms:** Scammers create fake websites or apps that mimic real brokers. Always verify a platform's registration and read reviews before signing up.
3. **Social Media "Experts" and Influencers:** Not everyone offering financial advice online is qualified. Be cautious of people selling courses, promoting NFTs or crypto without transparency, or asking for upfront payments.
4. **Phishing and Identity Theft:** Emails or messages asking for your financial details or passwords should always be treated as suspicious. Reputable companies never ask for sensitive information this way.
5. **Ponzi and Pyramid Schemes:** These involve recruiting others into an investment and paying returns from new investors' money. They collapse when new recruits stop joining.

Red Flags to Watch For

Use this checklist when assessing any investment opportunity or financial offer:

- "Guaranteed" high returns - All investments carry some level of risk
- Pressure to act quickly - Scammers want you to decide without thinking
- Lack of transparency - You should understand where your money goes
- No official website or registration - Legitimate companies are regulated and traceable
- You're asked for sensitive info upfront - Never share financial data over email/DM
- Testimonials that feel scripted or fake - Often used to build false trust

Building Critical Thinking

Critical thinking is your best defense against financial manipulation. It means thinking independently, questioning information, and checking facts before making decisions.

Questions to Ask Before Taking Financial Advice:

- Who is giving this advice? Are they qualified?
- What is their motivation? Are they trying to sell me something?
- Is the information backed by data or research?
- Have I verified this from another independent source?
- Does it sound too good to be true?

In a world where anyone can claim to be a financial expert, your ability to think critically and recognise red flags is more valuable than any one investment tip. Protecting your financial future begins with staying informed and aware.