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Investments and Risk

Understanding investments and managing risk are fundamental skills for building financial security. This comprehensive guide will equip you with the knowledge to make informed investment decisions and navigate the complex world of finance with confidence.

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What Is an Investment?

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.



Learning Objectives

1 Define Investment Fundamentals

Understand what investments are and why early learning is crucial for financial success.

3 Assess Risk Tolerance

Understand different forms of investment risk and evaluate your personal comfort level.

2 Identify Investment Types

Explore various investment options from savings accounts to stocks and cryptocurrencies.

4 Apply Risk Management

Use strategies like diversification and asset allocation to manage investment risk effectively.

Why Young People Should Learn About Investing

Time Advantage

Starting early gives young people the advantage of time. Due to compound interest—where earnings generate additional earnings—even small, consistent investments made during youth can grow substantially over years.

Financial Confidence

Early education in investing equips young people with essential financial tools to make informed choices throughout life. Understanding investments encourages long-term planning and builds confidence in managing personal finances.





Types of Investments

Investments come in many forms, each with its own characteristics in terms of risk, return, accessibility, and time commitment. Understanding these options helps you make informed decisions about where to place your money.

Savings Accounts

Low-risk financial products offered by banks that earn modest interest over time. Secure place to hold money while planning future investments.

Stocks (Equities)

Buying shares means owning part of a company. High return potential but higher risk, especially short-term.

Bonds

Debt instruments where you lend money for regular interest payments. Generally less volatile than stocks.



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More Investment Options



Real Estate

Investing in property to earn rental income or sell at higher prices. Long-term strategy requiring significant upfront capital and ongoing maintenance.



Investment Funds

Mutual funds and ETFs pool money from many people to buy diverse investments. Spreads risk and offers professional management.



Pension Schemes

Structured systems allowing individuals to save for retirement with tax benefits and potential employer matching.



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High-Risk Investment Options

Cryptocurrency

Digital assets using blockchain technology for decentralised transactions. Highly volatile and speculative, with values driven by market demand and regulatory developments. Requires extra research and scepticism.

Foreign Exchange (Forex)

Trading currencies to profit from exchange rate fluctuations. The largest financial market operating 24 hours daily. Extremely volatile and complex— not recommended for inexperienced investors.





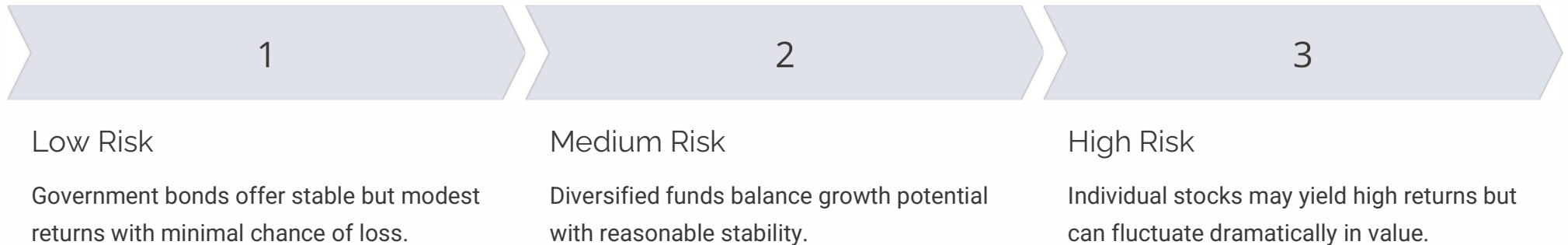
Investment Comparison Table

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
Cryptocurrency	Very High	Very High	Medium	Variable



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. Reward refers to the return an investor receives as income or appreciation in value.





The Young Investor's Advantage

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.



Understanding Investment Risk

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 investment values can fluctuate due to economic changes, market shifts, or specific company problems.

Basically, investment risk means there's uncertainty about returns, and sometimes things don't go as planned. Understanding different types of risk helps you make smarter choices.



Types of Investment Risks

Market Risk

Affects almost all investments due to big events like economic recessions, wars, or natural disasters. When the economy slows, stock prices often fall across the board.

Credit Risk

Concerns bonds or loans. If the company or government you lent money to can't pay it back, you might lose your investment.

Liquidity Risk

Some investments are harder to sell quickly without losing money, like real estate. You might have to sell for less than they're worth if you need cash fast.



More Investment Risks

01

Interest Rate Risk

When interest rates rise, bond values usually fall because new bonds pay more interest, making yours less attractive.

03

Currency Risk

Foreign investments can lose value when exchange rates change unfavourably against your home currency.

02

Inflation Risk

Rising prices reduce what your money can buy. If investments grow 5% but inflation is 3%, your real gain is only 2%.

04

Political Risk

Government rule changes or political instability can negatively affect certain companies or markets.



Assessing Your Risk Tolerance

Risk tolerance means how much ups and downs in your investment's value you can handle without feeling too stressed. Understanding your risk tolerance helps you choose investments that fit your goals and comfort level.

Key Questions

- What am I saving for long-term?
- When will I need this money?
- How would I react if investments lost value temporarily?

Scenario Testing

Imagine how you'd feel if your investments dropped by 10%, 20%, or 50%. Would you stay calm or want to sell immediately? Your reactions reveal your risk tolerance.



Risk Management Strategies



Diversification

Spread money across different investment types. If one performs poorly, others may balance it out, lowering overall risk.



Asset Allocation

Decide how much money to put into each investment type based on your risk comfort and goals.



Regular Review

Check investments regularly to ensure they still match your goals and risk tolerance as situations change.



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Smart Investing for Beginners

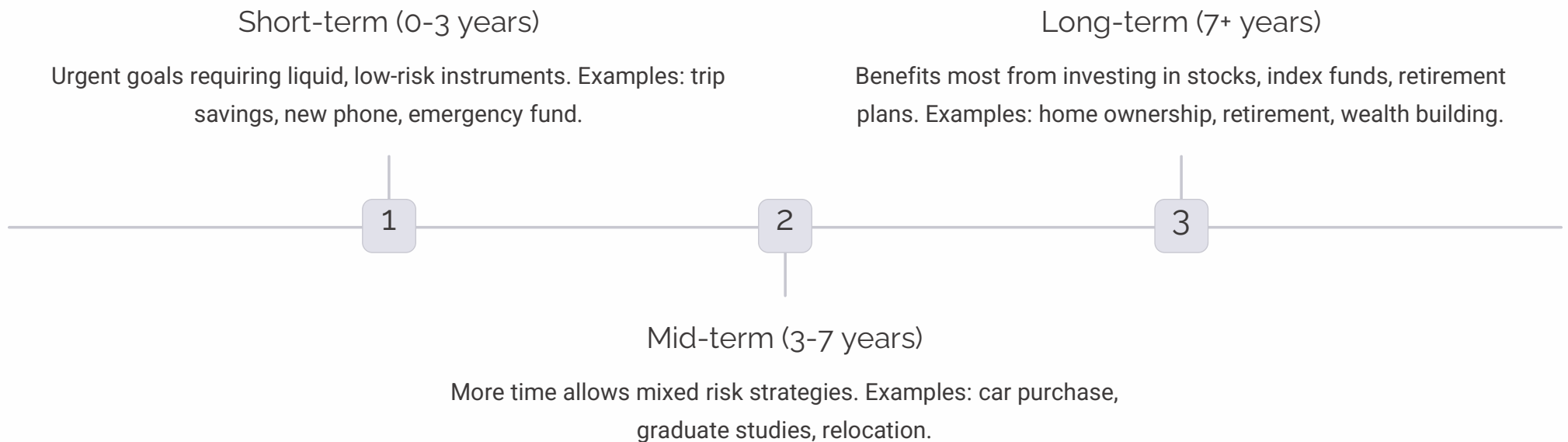
Many young people think investing is only for adults with high incomes or financial degrees. The truth is, the earlier you begin understanding and applying investing principles, the better positioned you'll be for financial freedom and security.

This section focuses on real-world application: setting financial goals, distinguishing between saving and investing, using compound interest, budgeting for investments, and exploring accessible platforms.



Why Set Goals Before Investing?

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





Saving vs. Investing

Saving

Purpose: Protect your money

Risk: Very low

Returns: Low but guaranteed

Liquidity: High - easily accessible

Best for: Emergency funds, short-term goals

Investing

Purpose: Grow your money

Risk: Variable

Returns: Potentially higher

Liquidity: Variable

Best for: Long-term wealth building

Both saving and investing are essential. You save to protect your money and invest to grow it. Saving comes first—especially for emergency funds—but investing helps you build wealth over time.



The Power of 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.

€1,000

Initial Investment

Starting amount at 10% annual return

€1,100

Year 1

Earn €100 interest

€1,210

Year 2

Earn €110 on the larger base

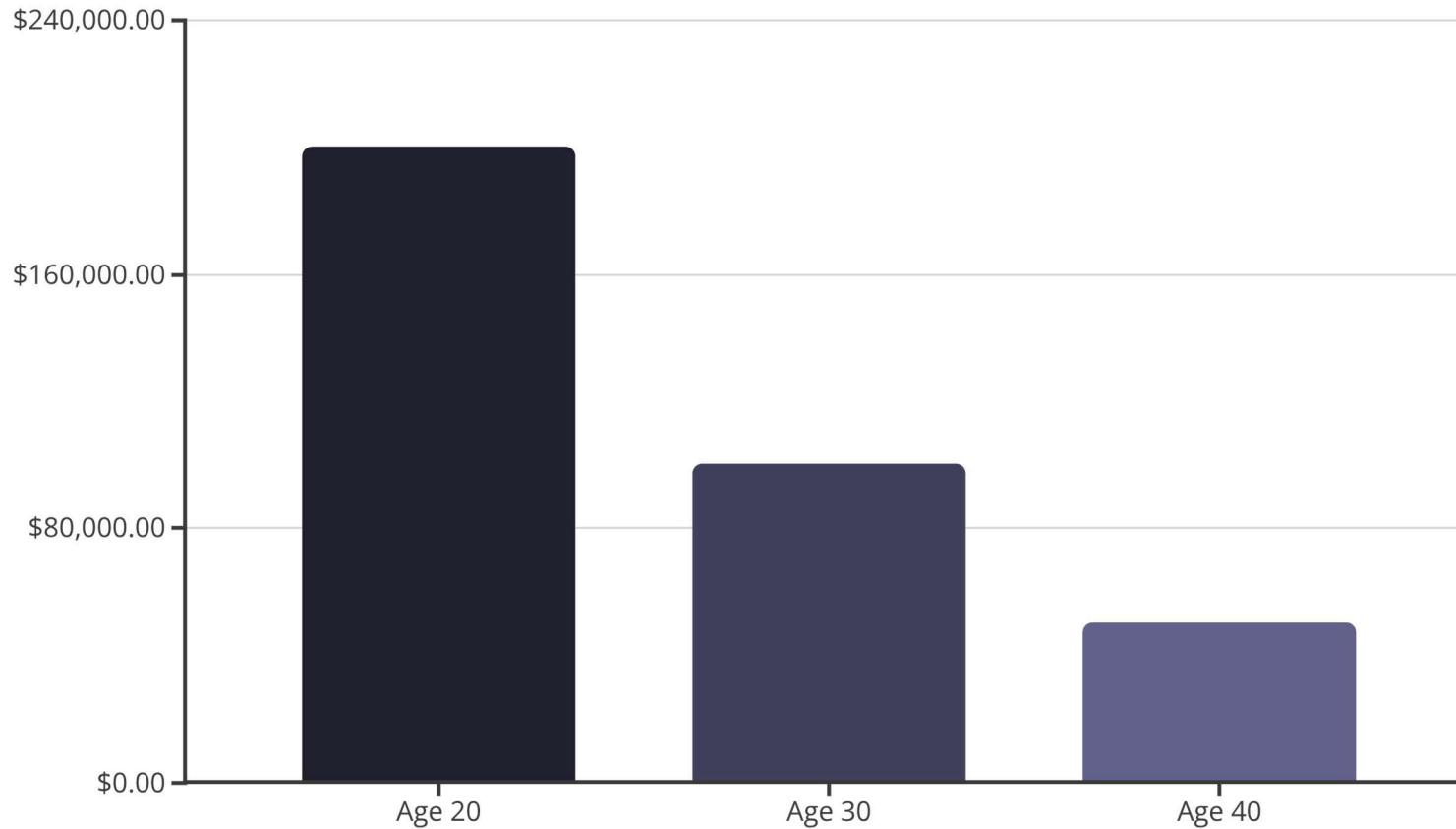
This exponential growth continues, with the base amount growing each year. Over time, this can lead to significant wealth from small regular investments.



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Early Start Advantage



This chart shows potential wealth at age 60 from investing €50 monthly at 7% annual returns. Starting at 20 versus 30 makes a dramatic difference—time is one of your most valuable financial assets.



Budgeting to Invest

You don't need to be rich to start investing—but you do need to be intentional with your money. Creating space for investments requires understanding where your money goes.

01

Track Income

List all money coming in monthly: wages, stipends, side gigs.

02

Track Expenses

List fixed costs (rent, bills) and variable costs (food, transport, social life).

03

Categorise Spending

Separate needs (essential), wants (lifestyle), and financial goals (savings/investments).

04

Apply Structure

Use the 50/30/20 rule: 50% needs, 30% wants, 20% savings and investments.



The 50/30/20 Budget Rule



- Rent and utilities
- Food and groceries
- Transport
- Insurance

Wants

30% of income

- Dining out
- Entertainment
- Hobbies
- Shopping

Savings & Investments

20% of income

- Emergency fund
- Investment accounts
- Retirement savings



Investment Platforms and Tools

Young people today have unprecedented access to investing tools, but choosing wisely is critical. Different platforms serve different needs and experience levels.

1

Mobile Investing Apps

Examples: Trading 212, eToro, Revolut.
User-friendly with low or zero fees, perfect for beginners.

2

Traditional Brokerages

Examples: DEGIRO, Interactive Brokers.
More control and options but require greater financial literacy.

3

Robo-advisors

Examples: N26 Invest, Scalable Capital.
Use algorithms to invest based on your goals and risk tolerance.



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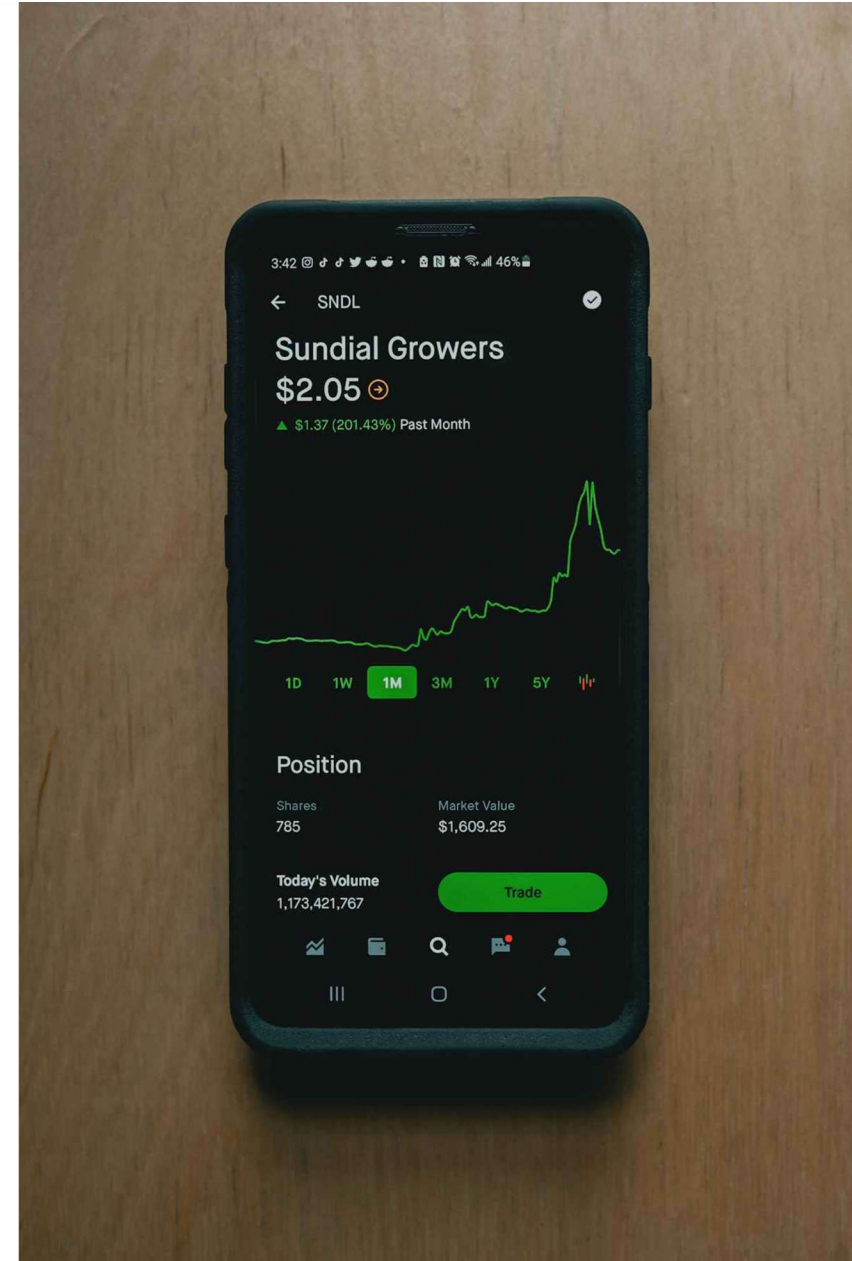
Platform Selection Factors

Essential Considerations

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

Getting Started

Even €10 or €25 monthly is a powerful start. Choose a platform that matches your experience level and offers educational resources to help you learn as you invest.





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YOUTHCENTS

Scams, Myths & Critical Thinking

In the digital age, young people are constantly exposed to financial information—from TikTok "gurus" to online ads promising quick profits. Understanding how to question what you see online is just as important as knowing how to invest wisely.



Common Financial Myths

“

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

Reality: You can begin with small amounts. Many platforms allow investing with €1 or less. Starting early matters more than starting big.

”

“

Myth: "Investing is the same as gambling"

Reality: Investing involves research, strategy, and long-term planning. Gambling relies on chance and short-term outcomes.

”

“

Myth: "Cryptocurrency always goes up"

Reality: Crypto is highly volatile. Some profit, others lose everything. No asset class is guaranteed to rise.

”



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Spotting Financial 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.

Get-Rich-Quick Schemes

Promises of doubling money fast or "secret formulas" are classic warning signs. Legitimate investing takes time.

Fake Investment Platforms

Scammers create fake websites mimicking real brokers. Always verify platform registration and read reviews.

Social Media "Experts"

Not everyone offering financial advice online is qualified. Be cautious of people selling courses or asking for upfront payments.



Red Flags Checklist

Red Flag	Why It's a Problem
"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 registration	Legitimate companies are regulated and traceable
Requests for sensitive info	Never share financial data over email or DM
Scripted testimonials	Often used to build false trust



Building Critical Thinking

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

- Who is giving this advice?
Are they qualified? What credentials do they have?
- What is their motivation?
Are they trying to sell you something? How do they benefit?
- Is it backed by evidence?
Is the information supported by data or research from reputable sources?
- Have you verified independently?
Check information from multiple independent sources before acting.



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Conclusion

Smart investing begins with understanding your goals, having a clear picture of your finances, and making use of available tools. Even modest monthly investments can lead to powerful outcomes when started early and maintained consistently.

It's not about getting rich quick—it's about building stability, independence, and opportunities over time. Your ability to think critically and recognise red flags is more valuable than any single investment tip.

. Protecting your financial future begins with staying informed, aware, and taking that first confident step towards your financial goals.