

Pros and Cons of Investment

SAFA Financial Literacy Lesson

What is investment?

Investment is using money to make money. This can be done through various asset classes, like stocks, mutual funds, bonds, and real estate.



Advantage: Economy Grows

As the economy grows over time, companies also grow. This is due to the fact that with economic growth, consumers become more wealthy, and this leads to an increase in demand, fueling the production of companies and creation of jobs. As the economy grows, so do you.



Upside: Outpace Inflation

By investing, you can outpace inflation due to the far greater returns in comparison to saving money. The historical annual average return calculated using the S&P 500 index is about 10.5%, which allows you to outpace the average annual inflation rate of 3.8%.



Downside: More Fraud

Due to the lack of government programs like the FDIC insuring your investments, it is riskier to invest, and you must be very cautious. Some common types of fraud that we discussed before are pyramid schemes, promissory notes, and cryptocurrency frauds.



Downside: Returns are not guaranteed

With investment, you are not guaranteed to make money. For example, when you purchasing stocks, the company that you invest in could do poorly in the market, leading to investors selling their shares and the stock price would dramatically drop. If you sell at this time, you can lose your investment.

