

Name _____

Investment Review Sheet 2

Compare and Contrast:

- Louis has the ability to save \$5000 per year of his salary toward retirement. Louis is trying to decide between two options: saving it in a bank CD account, or investing in a mutual fund.
- The bank CD account promises 2% interest.
- Louis has heavily researched mutual funds and is confident he can pick a fund that averages at least a 7% annual return.
- Fill out the two charts to compare the amount of money Louis can expect to have in each investment option.

Option 1: Bank CD. Use monthly compounding for "n."

| <u>Year</u> | <u>Beginning Balance</u> | <u>Amount This Year</u> | <u>Total Invested This Year</u> | <u>Rate</u> | <u>Calculation</u> | <u>Ending Balance</u> |
|-------------|--------------------------|-------------------------|---------------------------------|-------------|--------------------|-----------------------|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Option 2: Mutual Fund: Use quarterly compounding for "n."

| <u>Year</u> | <u>Beginning Balance</u> | <u>Amount This Year</u> | <u>Total Invested This Year</u> | <u>Rate</u> | <u>Calculation</u> | <u>Ending Balance</u> |
|-------------|--------------------------|-------------------------|---------------------------------|-------------|--------------------|-----------------------|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Which investment is expected to be better for Louis? _____

By how much? _____