

Name _____

Choosing the Right Stocks for Your Investment Journey

Short Answer Key

1. Risk tolerance refers to your ability and willingness to withstand the possibility of losing some or all of your investment. It's important when choosing stocks because it helps you select investments that align with your comfort level regarding potential losses.
2. Blue-chip stocks belong to large, well-established companies with a history of stability, while growth stocks represent companies expected to grow at an above-average rate compared to others in the market. Blue-chip stocks are known for stability and dividends, while growth stocks are known for their potential for high growth but may not pay dividends.
3. When analyzing a company's management team, consider factors such as their experience, track record, and ability to lead the company effectively. Strong leadership is crucial for a company's success.
4. Diversification involves spreading your investments across various stocks and asset classes to reduce the risk associated with any single investment. It benefits a stock portfolio by minimizing the impact of poor performance by one stock, as losses in some holdings may be offset by gains in others.
5. Industry trends are important because they can affect a company's performance. For example, a growing industry may lead to increased demand for a company's products or services, potentially benefiting its stock price. Conversely, declining industry trends may pose challenges for the company.

