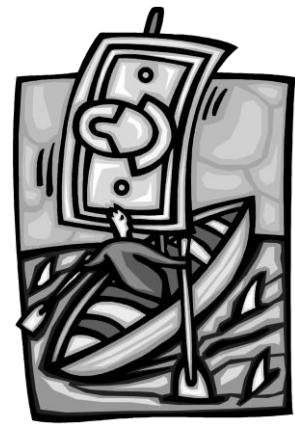


A Case for Diversification



This is a case study of two individuals and their very different strategies for investing. Meet Ricky Risktaker and Suzy Safety ...

What the Stock Buyers Did

In December of 2022, Ricky Risktaker had \$20,000 to use to purchase stocks. He decided to purchase one stock. He purchased 1,500 shares of Wiz-Mart stock at \$13.25 per share.

At the same time, Suzy Safety also had \$20,000 to use to purchase stocks. She decided to diversify, to spread her stock purchases over several industries. She purchased two retail stocks, one communication stock, and one utility stock. Her purchases included 250 shares of Wiz-Mart at \$13.25, 200 shares of Zears at \$25.00, 250 shares of ABC Communications at \$21.25, and 250 of Great Lakes Gas & Power at \$25.50.

Calculate the initial investments (amount spent to purchase each stock), the total for each purchaser, and **complete column A**. (Ignore the broker's commission for this exercise.)

CHART 1

You will complete columns B and C later

Stock	Number of Shares	2022 Share Price	(A)		(B)		(C)	
			Initial Value of Investment		2023 Share Price	2023 Value of Investment		
RICKY RISKTAKEK'S PORTFOLIO								
Wiz-Mart	1,500	\$13.25						
TOTAL								
SUZY SAFETY'S PORTFOLIO								
Wiz-Mart	250	\$13.25						
Zears	200	\$25.00						
ABC Comm.	250	\$21.25						
GLG&P	250	\$25.50						
TOTAL								

What the Stocks Did

Unfortunately, the retail markets had a bad year. Even the seasonal shopping for Christmas couldn't help the slumping retail industry. Stocks in these companies dropped or were flat, showing no real growth in 2023. Zears was an exception, probably because of extremely aggressive merchandising and advertising. ABC Communications was relatively flat, but had a modest increase. Great Lakes Gas and Power, a utility stock, did not experience significant growth, but utilities rarely do. This industry's stocks, often called defensive stocks, can usually be counted on to be stable – no significant growth or decline. Investors usually buy them for the long run.

Percentage Change in the Price of Stocks

Find the percentage change in price from 2022 to 2023; then complete Chart 2 below. In order to find the percentage difference, you divide the amount of change by the original price. For example, the difference in price for Wiz-Mart from \$13.25 in 2022 to \$7.15 in 2023 is \$6.10.

$$\frac{\text{Amount of Change from the Original Price}}{\text{Original Price}} \times 100 = \text{Percentage Change}$$

$$6.10 / 13.25 \times 100 = \text{Percentage Change}$$

Complete the calculations. Indicate whether the change is an increase or decrease (+ or -).

CHART 2

Stock	Price Dec. 2022	Price Dec. 2023	Difference in Price	Percentage Change
Wiz-Mart	\$13.25	\$7.15		
Zears	\$25.00	\$32.50		
ABC Comm.	\$21.25	\$23.25		
GLG&P	\$25.50	\$26.75		

What They Have Left

Because of the change in the price of stock, the value of the portfolios has changed. **In Chart 1 on the first page, fill in column B, calculate the value of the portfolios in 2023, and complete column C.** Calculate the percentage change of each investment portfolio below.

1. What was the percentage change in Ricky's investments from 2022 to 2023? _____
2. What was the percentage change in Suzy's investments from 2022 to 2023? _____

Compare the Two Investment Strategies

3. Who had the better return on investment? Why?
4. What advantage did Suzy have in diversification? Explain.
5. What if Ricky had put all his eggs into the Zears basket instead of Wiz-Mart?
6. Evaluate the risk of each strategy.