

### **FINM1001 Case Study Assessment Question:**

**Sarah, a finance student, has received an inheritance and wants to invest it wisely to maximize returns. She is considering two investment options: Option A, investing in a single stock from a well-performing technology company, and Option B, diversifying her investment across different asset classes. Evaluate the advantages and disadvantages of each option and provide a recommendation based on the principles learned in FINM1001 Foundations of Finance.**

### **Case Study Assessment Answer:**

When considering the advantages and disadvantages of Option A and Option B, it is crucial to apply the principles learned in FINM1001 Foundations of Finance.

Option A, investing in a single stock, has the potential for high returns if the chosen company performs well. However, it also comes with significant risks. By investing all her funds in a single stock, Sarah is exposed to company-specific risks. If the stock underperforms or faces financial challenges, she could experience significant losses. This lack of diversification increases her vulnerability to market volatility and company-specific events.

On the other hand, Option B, diversifying her investment across different asset classes, offers several advantages. Diversification helps mitigate risks by spreading investments across various assets, such as stocks, bonds, and REITs. This strategy reduces the impact of a single investment's poor performance on the overall portfolio. By diversifying, Sarah can benefit from different asset classes that may perform well under varying economic conditions, increasing her chances of consistent returns.

However, diversification also has its limitations. It may lead to lower potential returns compared to investing in a single high-performing stock. Additionally, managing a diversified portfolio requires ongoing monitoring and rebalancing to maintain the desired asset allocation.

Considering these factors, it is recommended that Sarah opts for Option B, diversifying her investment. This approach aligns with the principles of risk management and diversification learned in FINM1001. By spreading her investment across different asset classes, Sarah can reduce the impact of individual asset performance, lower her overall risk exposure, and potentially achieve more stable long-term returns.

It is important to note that the specific allocation and selection of assets within Option B should be based on thorough research, risk tolerance, and financial goals. Seeking professional advice and conducting further analysis will help Sarah build a well-diversified portfolio that aligns with her investment objectives and maximizes her chances of long-term success.