Test Your Financial Sophistication

By Editor Test *Wed, Dec 23, 2009*

Here are 18 true-or-false questions that economists asked Americans over age 55. The average score among the college-educated was 68%. Perhaps you'll fare better.

How financially sophisticated are you? To find out, answer these 18 True or False questions. When you're finished, compare your answers with the Answer Key at the end of this article. Allot yourself five points for each correct answer.

A perfect score would be 90. The average college-educated person over age 55 scored 61.25, or 68%. If you're wondering whether you can get continuing education credit for taking the test, the answer is, "Not as far as we know."

This test was designed by Annamaria Lusardi of Dartmouth College, Olivia S. Mitchell of The Wharton School and Vilsa Curto of Harvard University for people over age 55 with varying levels of education. A paper based on their findings, "Financial Literacy and Financial Sophistication in the Older Population: Evidence from the 2008 HRS," was published by the Michigan Retirement Research Center at the University of Michigan in September 2009.

1. You should put all your money into the safest investment you can find and accept whatever returns it pays.

2. I understand the stock market reasonably well.

3. An employee of a company with publicly traded stock should have a lot of his or her retirement savings in the company's stock.

4. It is best to avoid owning stocks of foreign companies.

5. Even older retired people should hold some stocks.

6. You should invest most of your money in either mutual funds or a large number of different stocks instead of just a few stocks.

7.To make money in the stock market, you have to buy and sell stocks often.

8. For a family with a working husband and a wife staying home to take care of their young children, life insurance that will replace three years of income is not enough life insurance.

9. If you invest for the long run, the annual fees of mutual funds are unimportant.

10. If the interest rate falls, bond prices will fall.

11. When an investor spreads money between 20 stocks, rather than 2, the risk of losing a lot of money increases.

12. It is hard to find mutual funds that have annual fees of less than one percent of assets.

13. The more you diversify among stocks, the more of your money you can invest in stocks.

14. If you are smart, it is easy to pick individual company stocks that will have better than average returns.

15. Financially, investing in the stock market is no better than buying lottery tickets.

16. Using money in a bank savings account to pay off credit card debt is usually a good idea.

17. If you start out with $1,000 and earn an average return of 10% per year for 30 years, after compounding, the initial $1,000 will have grown to more than $6,000.

18. It’s possible to invest in the stock market in a way that makes it hard for people to take unfair advantage of you.

Answers.
1. F; 2. T; 3. F; 4. F; 5. T; 6. T; 7. F; 8. T; 9. F; 10. F; 11. F; 12. F; 13. T; 14. F; 15. F; 16. T; 17. T; 18. T.

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