

Personal finance unit 4 assignment

Law



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Brittany James FIN 1100 Module 4 Home Work Assignments [Answer all questions in details] 1. | Matthew Boyd asks for your help! He has saved \$10,000 and wants to invest in common stock. Choose one of the long-term or short-term techniques described in this chapter and – long term technique: Dollar cost averaging •explain how that method could help Matthew achieve his investment goals. – this method Dollar cost averaging is a long-term technique used by investors who purchase an equal dollar amount of the same stock at equal intervals. This could help Matthew, because he could avoid the common pitfall of buying high and selling low.

He could make money if the stock is sold at a price higher than the average cost for a share of stock. | 2. | Describe why corporations issue common stock. -corporations issue common stock to finance their business start up costs and help pay for expansion and their ongoing business activities.

Describe why investors purchase common stock. – Because investors want larger return than those that more conservative investments offer. | 3. | How do interest rates in the economy affect the price of a corporate bond? -An increase or decrease in interest rates can affect the price of a bond.

The value of a bond may also be affected by the financial condition of the company or government unit issuing the bond, the factors of supply and demand, an upturn or downturn in the economy, and the proximity of the bond's maturity date. | 4. | What is the primary difference between common stock and preferred stock? -Preferred stock is a type of stock that gives the owner the advantage of receiving cash dividend before common stockholders are paid any dividends. | 5. | Bob and Mary Martin are both 35

years old. And although they graduated from college almost 15 years ago, they have never developed a diversified investment program.

What extra money they had was invested in high-tech stocks that did quite well until the last three years. Then, with the economic downturn and terrorist attacks, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Martin's losses? -Well asset allocation is being able to invest in different types of investment options such as stocks, bonds, mutual funds, etc. so all your eggs are not in one basket. Which that's what Bob and Mary did was invest in a high-tech stock only, and since that took a down fall so did their money.

Spreading out your investment money helps grow your money in different places and has a better chance of really making your money grow and have more security. | 6. | You are trying to evaluate two bond issues. One bond issue is rated " A" by Moody's; the other is rated " B. " How important are the bond ratings issued by Moody's Investors Service? - The ratings represent the investment grade security, to show a safe investment that provides a predictable source of income or not. Based on your answer, would you purchase the " A" bond or the " B" bond? - " A" bond is a better investment grade security. | . | Describe either the purchase options or withdrawal options that can be used to invest in or withdraw money from the investment company that sponsors an open-end mutual fund. - You can place an order to buy or sell shares in an open-end fund during the day, but shares will not be bought or sold until the end of the trading day. The Purchase or withdraw options are payroll deduction programs, automatic reinvestment programs, automatic withdrawal programs, and the option to <https://assignbuster.com/personal-finance-unit-4-assignment/>

change shares in one fund to another fund within the same fund family. | 8. |

Define five of the six terms presented below: A) corporate bond -A corporation's written pledge to repay a specified amount of money with interest. (B) bond indenture -A legal document that details all of the conditions relating to a bond issue. (C) trustee -A financially independent firm that acts as the bondholders' representative. (D) mortgage bond -A corporate bond secured by various assets of the issuing firm. (E) debenture bond -A bond that is backed only by the reputation of the issuing corporation. (F) convertible bond | 9. | Explain the difference between a load fund and a no-load fund.

From a performance standpoint, is there a significant difference between mutual funds that charge commissions and those that do not? – the difference between load fund and no-load fund is Load fund is a mutual fund in which investors pay a commission every time they purchase shares, and no-load fund is a mutual fund in which the individual investor pays NO sales charge. There is no significant performance difference between mutual funds that charge commissions and those that do not. | 10. | Describe the steps involved in a typical stock transaction. A market order which is a request to buy or sell a stock at the current market value. -limit order which is a request to buy or sell a stock at a specified price. -stop order which is an order to sell a particular stock at the next available opportunity after its market price reaches a specified amount. | 11. | Choose four of the investment alternatives presented in Chapter 13 – Stocks, bonds, mutual funds, and real estate describe how the factors of safety, risk, income, growth, and liquidity

affect that investment alternative. -All these factors matter when choosing an investment alternative.

Because you want to make sure there's safety (minimal risk of loss) in the investment. there are many different risk such as inflation risk, interest rate risk, business failure risk, market risk, and global investment risk. Income and growth in the investment will hopefully increase in value. And liquidity is the ability to buy or sell an investment quickly without substantially affecting the investment's value. | 12. | Why do investors purchase mutual funds instead of purchasing stocks, bonds, or other investments on their own? -The major reasons investors purchase mutual funds are professional management and diversification. 13. | What is the difference between a U. S. government treasury bill, treasury note, and treasury bond? -The difference is Treasury bills is less than a year of maturities, treasury note is between 1-10 years of maturity, and treasury bonds is the longest with 30 years of maturity. | 14. | Describe the sources of investment information investors can use to evaluate a potential investment. -The internet, newspapers and news programs, business periodicals and government publications, corporate reports, and investor services and newsletters. | 15. After graduating from a community college, you obtain a job as a medical records technician. Your monthly take-home salary is \$2, 000. Your monthly expenses are \$1, 600. Based on this information, what steps should you take to establish a long-term investment program? – well you should pay yourself first before you spend the rest of your income. Since there's \$400 left to spend. I would suggest \$100-200 a month to set aside to invest into a stock or mutual fund

with invest building on it over time. which offers a higher potential return compared to certificates of deposit or savings accounts. |