Finance for managers

Finance

Financial Management al Affiliation) (A) The future value amount 000, 000

The number of years = 5 Interest rate= 10%

FVA n = $ 1, 000, 000

The future value for a perpetuity discounted at interest rate of 10% for a period of five years= 164. 4940.

The value is derived from a table of future value factor for an ordinary annuity.

PMT = periodic deposit, retirement payment

PMT= FVA n /FVIFA k n

= 1, 000, 000/164. 4940

=$ 6, 079. 25

He should deposit annual deposits of $ 6, 079. 25 for the next 30 years at the rate of 10% per annum as offered by the bank.

(D) If the 30 year old is a conservative investor, I would recommend the adoption of the classical asset allocation model which subtracts the age of the investor from 100. This method is used to calculate the amount to be allocated towards equities. As the 30 year old grows older, it is assumed that he becomes more risk averse due to the reduced capability of generating income as one grows older. Since the thirty year old plans to retire at 60 and die by the age of 85 years, the best asset allocation using the classical asset allocation model is (100-30) 70% for stocks and 30% for bonds.

If the 30 year old is a moderate investor, who plans to live longer than the prescribed age of 79-82, they should adopt the new life asset allocation model. The model is based on the calculation that the person subtracts his age from 120. That is, (120-30) meaning that 90% should be allocated to stocks while 10% is allocated to bonds.

Simko argues that, this allocation model is best suited for individuals who are health fanatics and plan to live well into their mid-eighties. Recent scientific reports indicate that people are living longer than in previous years. Additionally, stocks have been identified as outperforming money markets (bonds) over the long run. The stocks can be used to cater for the needs of the 30 year old into her retirement years (Simko, 2012).

According to Ostbo, for an aggressive investor, the best model is the nothing to lose allocation model, which is based on the assumption that stocks outperform bonds in the long run. It is most suited for individuals who are rich and won't rely on stocks for survival, or poor individuals who are willing to risk their savings to get high rewards. Additionally, the person should be young and willing and able to invest for a period of 20 years and more (Ostbo, 2013).

Personally, I would adopt the new life asset allocation model because it caters for the needs of a person, who plans on living up to 85 years and is a moderate investor. I would therefore allocate 90% to equities and 10% to fixed income (bonds). However, I would not allocate any percentage to real estate due to the recent bursting of the housing market bubble in 2007 and neither would I allocate any percentage to gold and cash because of their volatile nature. I would lose the value of my initial investments by investing in them.

I am happy with my investment decision because it is prudent and dependable. The allocation is suitable for long-term retirement plans with minimal risks involved.

References

Ostbo, B. (2013). Ports 2013 success through diversification. Reston, Va.:

American Society of Civil Engineers.

Simko, S. (2012). Strategic Fixed Income Investing An Insiders Perspective on Bond Markets, Analysis, and Portfolio Management. New York: Wiley.