

10-5A Investment Diversification

To do now:

- 1. Write down the objective**
- 2. Take out earbuds**

You will need:

- Student Notes**
- Textbook**
- Calculator**
- Notebook Paper**
- Pen or Pencil**

Items in red are needed for the lecture.

OBJECTIVE

Compare different types of investments

You work hard for your money!

How can you get your money to work hard for you?



- What are the disadvantages of keeping your money in a safe in your home?

No interest is earned.

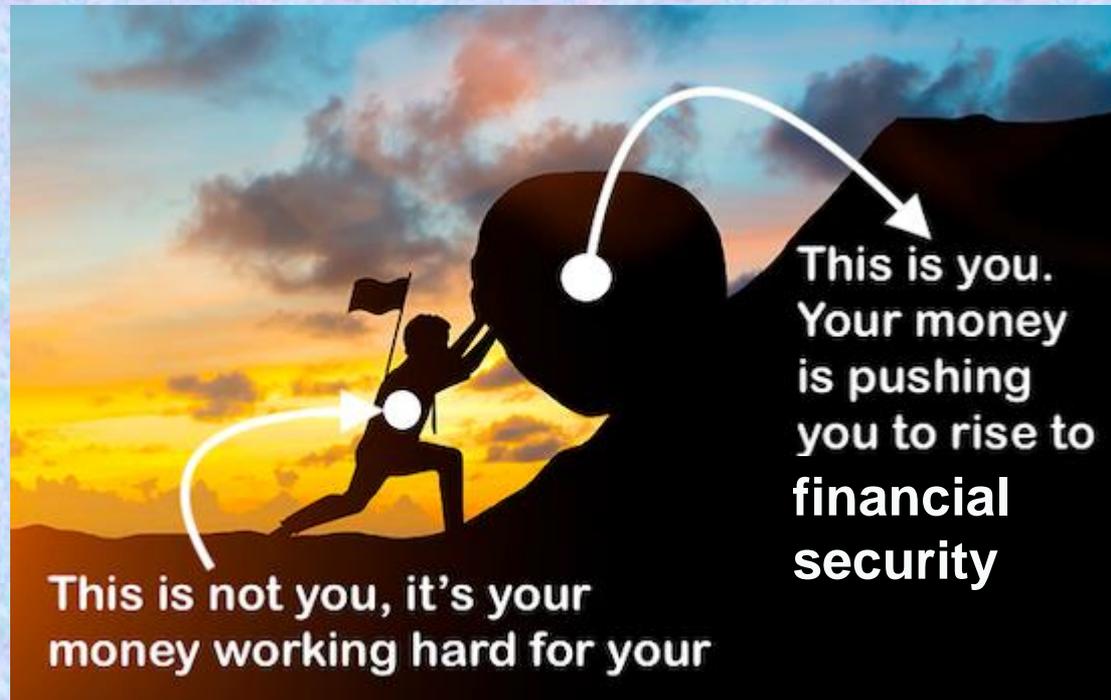
- What are the various ways your money can be invested?

Stocks, bonds, real estate, business owner, collectables,...

You work hard for your money!

How can you get your money to work hard for you?

- What are the risks associated with investments?
 - ❖ Income may not be what was **expected**.
 - ❖ You may lose some of your **capital**.
- What are some advantages?
 - ❖ Keep up with or exceed **inflation**
 - ❖ Improve your **life style**
 - ❖ Retire in **comfort**



Vocabulary

➤ Liquidity

- ❖ The ease that you can turn an investment into cash.
- ❖ Easiest: Bank account or CD
- ❖ Hardest: Real Estate

➤ Investment Risk

- ❖ It is the measure of how variable the outcome can be.
- ❖ Higher Risk – Greater return %
- ❖ Most risky: Speculative stocks and collectables
- ❖ Very risky investments are called aggressive
- ❖ Lower Risk – Lower return %
- ❖ Least risky: CDs or T-Bills

➤ Speculative Stock

- ❖ It is stock in a new unproven company
- ❖ It's more likely than not you'll lose some or all of your investment capital.

Example 1

- Amelia is planning to invest a \$90,000 inheritance she received.
- She plans on investing:
 - 20% into a growth stock,
 - 25% into an income stock,
 - 15% into corporate bonds,
 - the remainder into a 10-year certificate of deposit (CD)

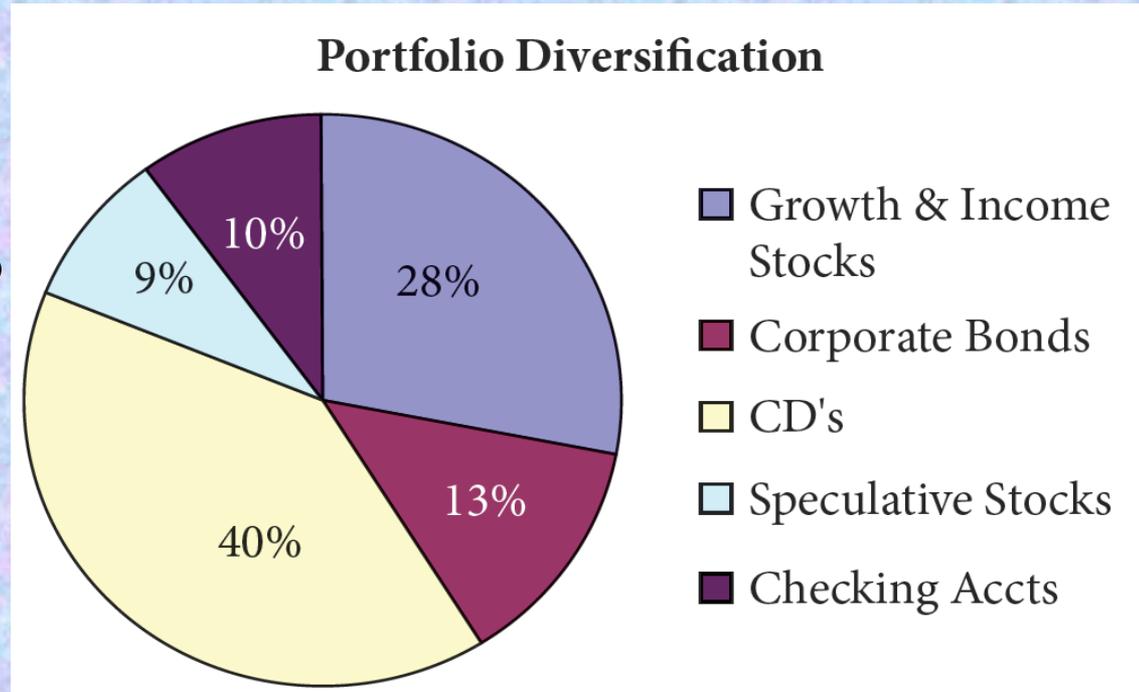
How much money will she be allocating to each category of investment?

- growth stock: $90,000 \times .20 = \mathbf{\$18,000.00}$
- income stock: $90,000 \times .25 = \mathbf{\$22,500.00}$
- corporate bonds: $90,000 \times .15 = \mathbf{\$13,500.00}$
- CD: $90,000 - 18,000 - 22,500 - 13,500 = \mathbf{\$36,000.00}$

➤ A year ago, Kaitlyn invested a \$250,000 inheritance she received from her nana, as shown in the following graph.

➤ **Earnings** were:

- growth and income stocks 21%
- corporate bonds 8%
- CDs 2%
- speculative stocks lose 88%
- checking account grows 1%



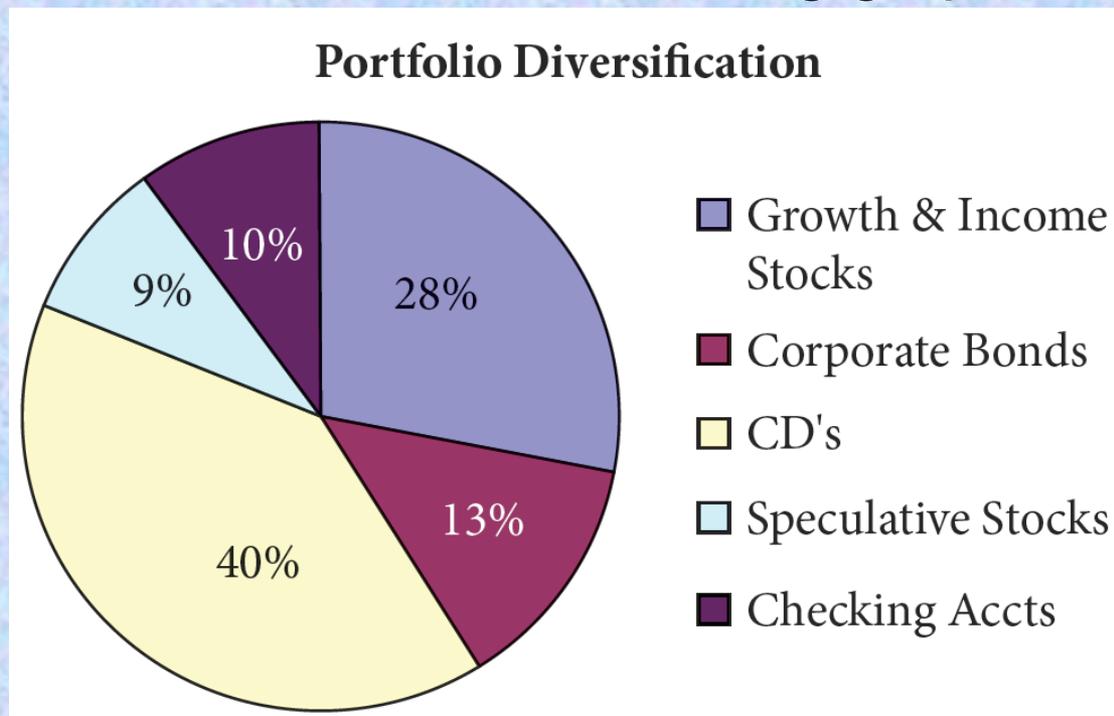
a. How much was invested in each?

- Growth and income: $250,000 \times .28 = \mathbf{\$70,000.00}$
- Corporate bonds: $250,000 \times .13 = \mathbf{\$32,500.00}$
- CDs: $250,000 \times .40 = \mathbf{\$100,000.00}$
- Speculative Stocks: $250,000 \times .09 = \mathbf{\$22,500.00}$
- Checking account: $250,000 \times .10 = \mathbf{\$25,000.00}$

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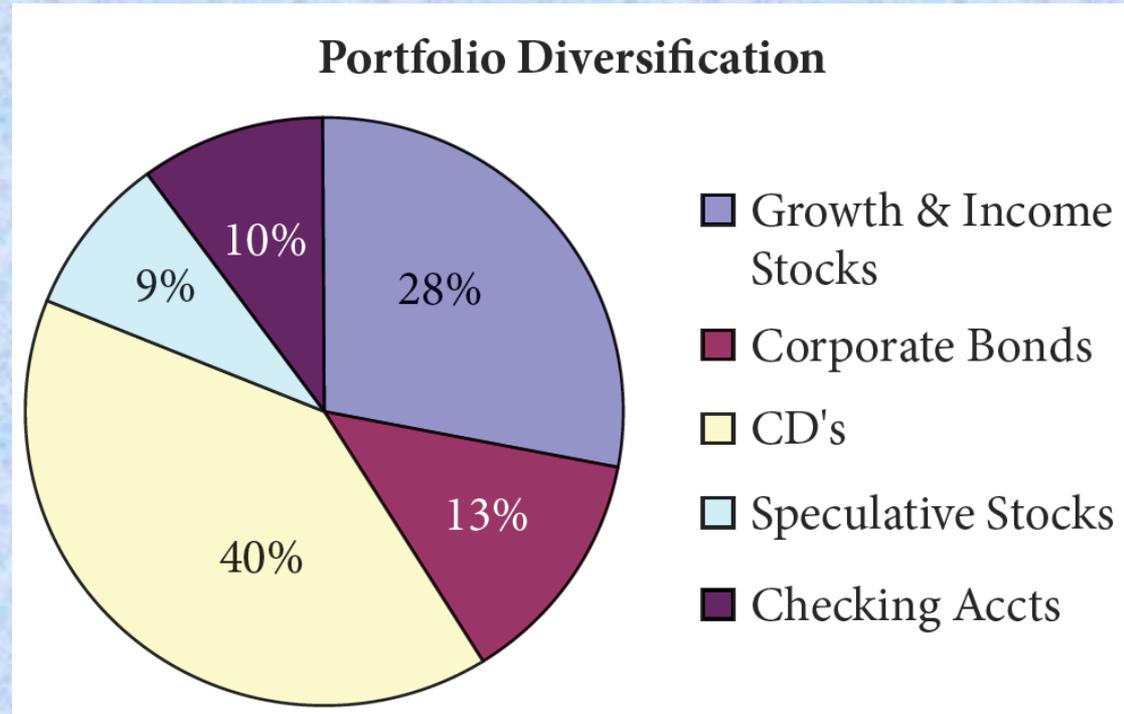
b. How much did each investment earn/lose?

- Growth and income: $70,000 \times .21 = \mathbf{\$14,700.00}$
- Corporate bonds: $32,500 \times .08 = \mathbf{\$2,600.00}$
- CDs: $100,000 \times .02 = \mathbf{\$2,000.00}$
- Speculative Stocks: $22,500 \times (-.88) = \mathbf{\$-19,800.00}$
- Checking account: $25,000 \times .01 = \mathbf{\$250.00}$

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➤ **Earnings** were:

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- CDs 2%
- speculative stocks lose 88%
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c. How much did she earn/lose on her investment portfolio?

$$\$14,700 + \$2,600 + \$2,000 - \$19,800 + \$250 = \mathbf{\$-250.00}$$

Example 3

- Claire has \$12,000 she would like to invest for the next 4 years.
- She is considering purchasing 240 shares of stock in Castellano Corporation preferred stock.
- The annual dividend is \$1.84 per share.

a. What is the annual dividend for all of the shares?

$$1.84 \times 240 = \text{\$}441.60$$

b. What is the total dividend for all 4 years?

$$441.60 \times 4 = \text{\$}1,766.40$$

c. She sold the stock at the end of 4 years for \$10,500. What was her gain/loss on the stock?

$$\text{Sell} - \text{buy} = 10,500 - 12,000 = \text{\$-1,500.00}$$

d. What was her total gain/loss on the stock?

$$1,766.40 - 1,500 = \text{\$}266.40$$

What do I do now?

The 10-5A Assignment

When is it due?

Next Class