

Student _____

Date _____

Class _____

Teacher _____

CHAPTER 8 Saving and Investing

Reviewing Key Terms: Complete the Sentence



DIRECTIONS: Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- | | | |
|---------------------------|--------------------|--------------------|
| A. speculative investment | D. common stock | G. mutual fund |
| B. retained earnings | E. preferred stock | H. diversification |
| C. equity capital | F. corporate bond | I. capital gain |
| | | J. prospectus |

1. Money that a business gets from its owners in order to operate is _____.
2. _____ gives the owner the advantage of receiving cash dividends before common stockholders receive any.
3. The process of spreading your assets among several different types of investments to reduce risk is called _____.
4. A corporation's written pledge to repay a specified amount of money, along with interest, to an investor is called a(n) _____.
5. A(n) _____ is a document that discloses information about a company's earnings, assets, and liabilities.
6. The profit from the sale of an asset such as stocks, bonds, or real estate is a _____.
7. A high-risk investment that might earn a large profit in a short time is called a(n) _____.
8. Profits that are reinvested in a company are called _____.
9. The most basic form of corporate ownership is _____, which entitles the owner, or stockholder, to voting privileges in the company.
10. An investment in which investors pool their money to buy stocks, bonds, and other securities, which are selected by professional managers who work for an investment company, is called a(n) _____.

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Understanding Key Concepts



DIRECTIONS: On a separate sheet of paper, answer the following questions.

1. Describe which savings method you plan to use when you begin working full time.
2. Which would you prefer to make: a safe investment or a speculative one? Explain your choice.
3. Michiko's parents purchased a government bond for \$10,000 at 5 percent interest for their daughter. When rates on government bonds rose to 8 percent, Michiko sold the bond before its maturity date. How much did she lose? Which component of risk caused her loss?
4. Angel wants to buy a house in five or six years. He plans to obtain the down payment by investing in stock now and then selling it when he finds the right house. Would you recommend that he buy stock in a "growth" company? Why or why not?
5. Explain three ways that common stock can show growth potential for the stockholder.
6. Why is a mutual fund often a safe way to invest?
7. Put the following steps of developing a personal investment plan in the correct order:
(a) Determine the amount of money you have to invest. (b) Establish investment goals.
(c) Recheck your investment program periodically. (d) List all the investments you want to evaluate. (e) Decide how much money you will need in order to reach your goals by a particular date. (f) Reduce the list of possible investments to a reasonable number. (g) Choose at least two investments to give yourself some diversity. (h) Evaluate the risk and potential return for all the investments on your list.
8. Give three examples of investments that earn tax-deferred income.
9. Marie Claire, a geologist, often works for several weeks collecting rock samples in remote areas. She has no access to television, newspapers, or business periodicals but wonders how her stocks are doing. What other sources of information might she use?
10. How do services provided by *Standard and Poor's Stock Reports* and *Morningstar Investment Reports* differ?

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Math-Building Skills: Examining Investment Performance

Comparing the performance of different mutual fund investments over several years can help you decide where to invest your money. In this activity, you will use your math skills to examine the performances of some mutual funds.

DIRECTIONS: *The information below shows by what percentage your money would have grown if you had started investing in each of the following stock mutual funds on January 1, 2008. The data shows the percentage of growth from January 1 to the next January 1. Using this information and a sheet of graph paper, create a line graph that shows the value and relative growth of an initial \$1,000 investment in each of the three mutual funds.*

Madison Investment Trust: January 1, 2009 (41%); January 1, 2010 (8%); January 1, 2011 (40%); January 1, 2012 (23%)

Monroe Equity Fund: January 1, 2009 (29%); January 1, 2010 (16%); January 1, 2011 (3%); January 1, 2012 (19%)

Quincy Adams Fund: January 1, 2009 (2%); January 1, 2010 (10%); January 1, 2011 (22%); January 1, 2012 (88%)

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Activity 2: Researching Investments



SKILLS ACHIEVED

Reading, Writing, Creative thinking, Decision making, Problem solving, Knowing how to learn, Acquiring and evaluating information, Organizing and maintaining information, Allocating money

OBJECTIVE: *Decide how to invest a surprise \$5,000 inheritance.*

Imagine that you have inherited \$5,000 from your favorite great aunt. She included a letter in her will encouraging you to invest the money responsibly so that you can take advantage of the compounding effects of investing. This activity will let you practice allocating your investment funds in a responsible and informed way.

Using the Internet, personal finance magazines such as *Money*, *Consumer Reports*, *Smart Money*, *Kiplinger's Personal Finance*, and any other source of information you choose, create an investment plan. In your plan, you should list the following kinds of information: how much of the money you will place in which investment, how you learned about the investment, and what rate of return you expect to receive on the investment. Use the chart below to list your investment choices. A sample entry has been done for you. Then, on a separate sheet of paper, prepare a written evaluation of the investment choices.

	Investment				
	1	2	3	4	5
Name of Investment	Vanguard S&P 500 Stock Index Fund				
Type of Investment	Stock Mutual Fund				
Amount to Invest	\$2,500				
Information Source	<i>Money</i> magazine				

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Finance Online: Preparing for an Investment Program



The Internet has a wealth of information about investments, but how do you find the facts you need?

Many people want to invest but do not have the time to follow the market. That is why mutual funds are popular; a professional manager monitors the market and makes the decisions for the investors. For this activity, use an Internet search engine to answer the following questions.

Keywords Used	Site Names	Web Site Addresses	Information Offered

1. Find the name of an investment firm. What services does it offer?

2. Name five mutual funds.

3. For what purposes other than retirement might an investor use an IRA?

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Your Financial Portfolio Worksheet



Avoiding Future Shock

Choose a short- or long-term financial goal you would like to reach and use these guidelines to prepare an investment plan for yourself. Research some of the available investments and come up with your own investment alternatives.

Established goal:	
Amount of money needed:	
Initial amount to invest:	
Possible investment alternatives:	
Risk factor for each alternative:	
Expected return for each alternative:	
Top 3 choices:	
Final choice:	

Then in the space below explain your reasons for your final choice.

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**Software
Activity
(Optional)**

Spreadsheet Application

Charting the Performance of an Investment



OBJECTIVE: Chart the performance of a stock price and calculate the total return on a stock transaction.

Practice Situation

The following information illustrates the monthly price for a share of Eastman Kodak common stock.

January 1	\$56	July 1	\$55
February 1	\$58	August 1	\$56
March 1	\$52	September 1	\$59
April 1	\$52	October 1	\$61
May 1	\$53	November 1	\$62
June 1	\$56	December 1	\$63

Rachael Campbell purchased 300 shares of Eastman Kodak common stock on March 1. She paid a commission of \$80. On December 1, Rachael sold all 300 shares. That commission was \$85. Dividends were \$3.36 per share for the period of March 1–December 1.

Use a spreadsheet to chart the price of one share of Eastman Kodak stock from January 1 through December 1. Next, compute the total return on Rachael's investment. Answer the questions on the next page.

Spreadsheet Directions

1. Start your spreadsheet software program and open problem SA08.xls. Enter the monthly stock price data into the spreadsheet.
2. To create a chart of the stock price data you have entered, select **Insert** from the Toolbar at the top of the screen. Then, select **Chart** from the menu choices.
3. Choose *Column* as the type of chart you wish to create. Click *Next*.
4. Select the Data Range by clicking on the small spreadsheet icon to the right of the Data Range field. Then, on the spreadsheet, select the cells that contain the data and labels you want displayed in the chart. Click *Next*.
5. Type **Eastman Kodak Stock Prices** as the Chart title.
6. Type **Month** as the Category (X) axis. Type **Price** as the Value (Y) axis. Click *Next*.
7. For placement of the chart, select the option: *Set chart as object in Sheet 1*. Click *Finish*.
8. Your chart should now be inserted on the same spreadsheet as your data. You may click on the chart's edges to resize or drag it to another location within the sheet.
9. Enter the data for Rachael's stock transactions. First, enter the data for the purchase of the stock on March 1. Next, enter the data for the sale of the stock on December 1. *Note: Format all dollar amounts to Currency, 2 decimals.*

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10. Compute the transaction summary information.
11. When your calculations are completed, save your work to a new file labeled SA08***.xls. (Replace *** with your initials.)
12. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

1. Based on the chart that you created for the stock prices of Eastman Kodak common stock, what is the overall trend of this investment? Explain.

2. What was Rachael's total return on her stock transactions at December 1?

Drawing Conclusions

1. In addition to the profit from the sale of the stock that Rachael gained, what other financial benefit did she experience from the Eastman Kodak stock transaction? Explain.

2. Discuss the financial implications involved when deciding to sell a stock investment. For example, if Rachael had sold her stock on November 1 instead of December 1, what implications would have been involved? Did Rachael choose a favorable time to sell her stock? Explain.

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SELF-ASSESSMENT QUIZ

DIRECTIONS: Circle the letter of the choice that best completes the statement or best answers the question.

1. A person risks losing most or all of his or her money in (A) a savings account (B) an elective savings program (C) a speculative investment (D) a conservative investment.
2. If a person loses buying power because he or she invests money at a fixed interest rate, the risk factor at fault is (A) inflation (B) business failure (C) interest rates (D) the market.
3. The formula for finding the value of a corporate bond if interest rates change is
(A) $\text{Original Price} \times \text{Loss of Buying Power}$ (B) $\text{Market Price} \div \text{Annual Interest Earned}$
(C) $\text{Annual Interest Earned} \div \text{New Interest Rate}$ (D) $\text{New Interest Rate} - \text{Old Interest Rate}$.
4. Which investment is the safest source of income? (A) U.S. Treasury bills (B) corporate bonds
(C) precious metals (D) collectibles
5. Stock in a company provides the stockholder with regular income when the company
(A) reinvests its earnings (B) pays dividends (C) splits its stock (D) pays interest until maturity.
6. A major goal when investing in real estate is to (A) earn interest (B) receive dividends
(C) have liquid assets (D) sell at a profit.
7. Which investment would most likely top an investment program "pyramid"?
(A) U.S. Treasury bills (B) stock in a foreign company (C) mutual funds
(D) certificates of deposit.
8. The federal government requires that the Securities and Exchange Commission
(A) give exams to financial planners (B) issue licenses to planning companies
(C) certify or charter financial planners (D) monitor large financial planning companies.
9. An example of an investment that produces tax-exempt income is (A) corporate bonds
(B) IRAs (C) municipal bonds (D) 403(b) retirement plans.
10. The federal government requires that any corporation selling new issues of securities must provide investors with (A) the Survey of Current Business (B) a prospectus (C) a financial planner (D) an investors' service.