# UNIT 1 TEST REVIEW

Investing

 Name the government agency whose job it is to monitor the stock market. SEC or Securities Exchange Commission

Name an advantagesof a mutual fund.



#### Diversification



# Which would typically be a riskier investment, a stock or a mutual fund?



#### Stock



• If I had an account earning 5%, how long would it take for my money to double?



# 14.4 years



• If I wanted my money to double in 9 years, what interest rate would I need to earn?







• Buying the same amount of an asset at regular intervals (like once a month, for example) in order to minimize risk is the definition of what term?



Dollar cost averaging



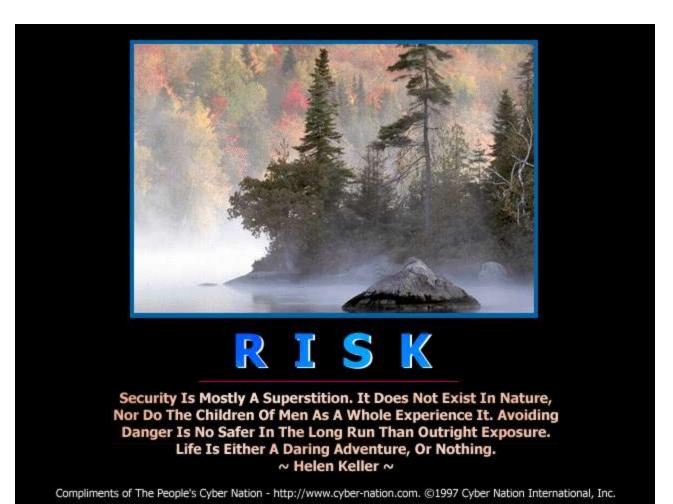
 If I buy a \_\_\_\_\_\_\_, I am loaning a company or government money.



## Bond



#### • Why would anyone choose risky investments?



They offer the greatest potential return



#### • Buying lots of different assets to minimize risk is the definition of what?



The Warren Buffett way "Put your eggs in one basket and watch it like a hawk!" (Mark Twain) (Picture by www.dnjournal.com)

#### Diversification



Give 2 advantages of a 401(k)



- Helps you save for retirement
- Company match
- Tax savings



• What does it mean if my stock is appreciating?



## Price is increasing



• What type of price movements do we expect from a large cap stock?



Small movements, stable price



• What are the two largest stock exchanges in the US?



# NASDAQ and NYSE



# How can I invest in a privately owned company?



#### I typically cannot: they don't issue stock



## • How is market cap calculated?



#### Price X number of shares



• How can I identify a mutual fund by it's ticker? Ends in X

• 5 letters long

• If I wanted to learn more about a particular mutual fund, I would need to obtain what piece of reading material?



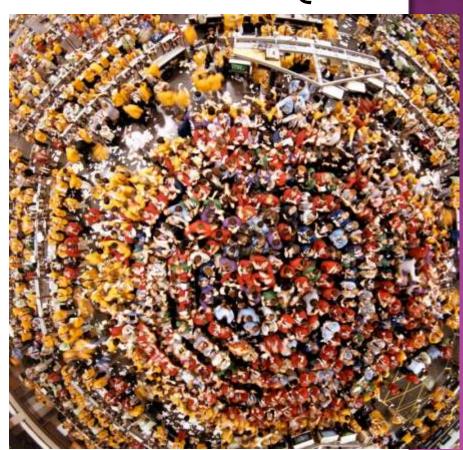
From John Murphy's book Intermarket Analysis (John Wiley & Sons, 2004)

#### Prospectus



"Your lab tests came back. You're as strong as the U.S. dollar. Don't worry. We have medications that can make you better."

• How can you tell the difference between stocks traded on the NYSE and the NASDAQ?



NYSE stock symbols have1, 2, or 3 letters

NASDAQ has 4

• If a stock opens at 5.90 per share and closes at 5.00 per share, what is the percentage change in price? • (5.00-5.90)/5.90\*100=-15.25%

• If I bought 60 shares of AT and T and the annual dividend is .25. If I hold the stock for 10 years, what will my total dividends be? • If I bought 60 shares of AT and T and the annual dividend is .25. If I hold the stock for 10 years, what will my total dividends be?

150

Explain how a mutual fund can minimize risk.

• Instead of investing in one asset, you're investing in several at once.  Explain how using the market cap information can minimize risk. Purchase stocks of different cap sizes.

 Explain how dollar cost averaging can minimize risk.  Buying a little at a time can prevent you from buying at the wrong time.