

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 advantage of 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?



8%



- 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



Stock market

- If I buy a _____, I am loaning a company or government money.



◎ Bond



- Why would anyone choose risky investments?



RISK

**Security Is Mostly A Superstition. It Does Not Exist In Nature,
Nor Do The Children Of Men As A Whole Experience It. Avoiding
Danger Is No Safer In The Long Run Than Outright Exposure.
Life Is Either A Daring Adventure, Or Nothing.
~ Helen Keller ~**

- 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.drjournal.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?

econ

◉ 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?



**Stock Market
Astrology Report**

- ◉ 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 its 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



search ID: aba0577

**"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 have 1, 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?

⦿ $(5.00 - 5.90) / 5.90 * 100 = -15.25\%$

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- 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.