BB1201

Investing and Savings — Part 2

Common Saving Plans

Type of Saving Plan	Definition	Approximate interest rate or $ made from this type of saving's plan
Savings accounts		
Term deposits and GIC's (Guaranteed Investment Certificates)		
RRSP (Registered Retirement Savings Plan)		
RESP (Registered Education Savings Plan)		

Common Forms of Investment

Type of Investment	Definition	Approximate interest rate or $ made from this type of investment
Canada Savings Bond		
Corporate Bonds		
Investing in Stocks		
Mutual Funds		
Real Estate		
Collectibles		

1. **A bond** is a definite promise to repay borrowed money on a certain future date, along with interest. A Canadian Savings Bond is along made to you by the government.

Parts of a Bond

Face Value how much was borrowed

Maturity date when the bond expires

Interest rate how much interest will be paid to the lender at the maturity date

Problem

Circle the face value, put a square around the maturity date and star the interest rate for the following bond. Then calculate the total you would get back from the bond at its maturity date.

$1 000, due January 17, 2016 6%

$1000 x 1.06 = $1060

2. **A stock** means that you become a part owner or shareholder of the company. Companies sell share to raise money to expand their operations. Shares do not have a maturity date. They can be held as long as shareholders desire. Stock prices are determined by supply and demand.

a. **Stock Market Animals**

i. **BULL** — If more people want to buy a stock (higher demand) than people wanting to sell (lower supply), the price will ↑

ii. **BEAR** — If more people want to sell (higher supply) than people wanting to buy (lower demand), the price will ↓

b. A profitable company has two choices:

i. Pay out some or all of its profit (earnings) to shareholders. These payouts are called dividends.

ii. Reinvest the earnings to grow/benefit the company.

c. As a stockholder which would you prefer?

risky

i. **Cyclical stocks**: cyclical stocks' prices move with the business cycle: increase during boom-times, and decrease during slow-downs or recessions.

Examples — automotive, airline, travel, entertainment and fashion industries.

stable

ii. **Defensive**: Tend not to fluctuate significantly as a result of changes in the business cycle.

Examples: Utility firms, those that sell consumable products (food, and personal hygiene products)

d. **Diversification** — Don't put all your eggs in one basket.

e. **Stock market problems**

i. You own 500,000 shares of 6 million shares of Mulla Corp. At the end of last year Mulla Corp. offered a dividend from its profits of one hundred million dollars. However, Mulla Corp. is going to use 10 million dollars of its profits to retool its plant in Montreal. The rest of the money will be offered in the dividend.

1. How much money did you receive in total from the dividend?

$= \$100$ million $- \$10$ million (re-investment)

$= \$90$ million

$8.33\% \times 90$ million $= 0.0833 \times 90$ million $= \boxed{\$7{,}497{,}000}$

2. What percentage of the company do you own?

$= \dfrac{500{,}000}{6{,}000{,}000} = 0.083 \times 100 = 8.33\%$

$100\,\cancel{m} \times \dfrac{100\,cm}{1\,\cancel{m}}$

ii. At the beginning of 2003 Armatta Inc. had an initial public offering of 10,000 shares for the price of $11 per share. You bought 2000 shares at that time.

1. How much money did you spend when buying the initial shares?

$2{,}000\,\cancel{shares} \times \dfrac{\$11}{\cancel{share}} = \$22{,}000$

gains

2. In September the share price rose to $32 at which point you decided to sell. What do you call the resulting profits? How much money do you have after selling the shares>? What was the gain worth in total?

$2000\,\cancel{shares} \times \dfrac{\$32}{\cancel{share}} = \$64{,}000$

$= $ sell price $-$ cost

$= \$64{,}000 - \$22{,}000$

$= \$42{,}000$