

## SERIES 65 KEY FACTS

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- An investor invests \$100 in oil instead of in real estate. At the year end the oil is worth \$125 but the real estate is worth \$155. This \$30 difference is known as the **opportunity cost**.
- An investor invests \$100 a month for 5 months in a mutual fund. In month 1 he buys 10 shares, in month 2 – 12.5 shares, in month 3 – 20, in month 4 – 12.5, in month 5 – 9.1 What is his cost basis? **\$500**. What is his average cost per share?  $\$500 / 64.1 \text{ shares purchased} = \mathbf{\$7.80}$
- An investor buys a stock for \$95 and sells it 1 year later for \$100. During the year he received \$3 in dividends. If he is in a 30% tax bracket, and they are non-qualified dividends, his after tax yield is?  $\$3.00 * .7 = \$2.10$  in after tax dividend.  $\$2.10 / 95$  (his cost) = **2.2%**. If they were “qualified dividends”, then  $\$3.00 * .85 = \$2.55$  in after tax dividends.  $\$2.55/95 = \mathbf{2.7\%}$
- An investor buys a stock for \$95 and sells it 1 year later for \$100. During the year he received \$3 in dividends. What is his total return?  $5 + 3 = 8, 8/95$  (his cost) = **8.42%**
- For a customer in a 30% tax bracket muni bonds will always have the best after tax return.
- If a parent buys stock for \$4,000 and later gives it to a child the child will get to assume the original cost basis and holding period, the child’s basis will be \$4,000. If the shares are inherited, they are inherited at their current market price and the holding period starts upon inheritance.
- Coupon rate is sometimes called the nominal rate.
- A 9% 10 year bond is purchase for \$939. What is its YTM (approximately). First, I would look at its price, since you purchased it for a discount you know that YTM must be higher than the nominal yield of 9%. You want to take the average income (\$90 in annual interest + \$6 in annual gain) and divide it by the average price (purchase price + maturity price / 2) =  $939+1000=1939/2 = 970$ . So that  $96/970 = 9.9\%$  YTM.
- A client takes out a 15 year real estate mortgage with a fixed interest rate of 8%. His monthly payments are \$800. What is the original loan amount? First, let’s look at what it is not. Ultimately, the client will pay out  $\$800 * 180 \text{ payments} = \$144,000$ . So we know it is less than that. Without a financial calculator or amortization table, this formula is impossible to compute. The original loan amount is around \$84,000.
- A client earns 10% a year on a \$1000 investment. If inflation is 4%, his “real return” is 6%.

- The balance sheet includes retained earnings, assets, and liabilities. Income and expenses are found on the income statement.
- Items added to a balance sheet for clarification purposes are called footnotes.
- When comparing quarterly returns of different types of investments an advisor should use annualized returns.
- A corporation's liquidity and flexibility is best illustrated by looking at its cash equivalents.
- An upward bond yield curve illustrates that the investors wants higher yields due to the risk and time involved in a long term bond investment.
- The Russell 2000 index is an index that measures the stock price performance of SMALL CAP companies.
- A traditional IRA is a type of qualified plan that requires distributions to begin after 70 ½, or be subject to a penalty of 50% on the RMD.
- The DJIA is made up of large cap companies.
- Mr. Jones dies at age 73, leaving his 401K to his wife, who has a life expectancy of 10 years. When she dies, 2 years later, she leaves the 401k balance to her daughter, who has a life expectancy of 43 years. Under the New Rules, the required minimum distribution will be based upon **the daughter's life span**.
- To slow down inflation the Federal Reserve will raise short term interest rates, and take money out of circulation.
- An increase in the number of unemployed workers means that the economy will shrink.
- If a call option has a strike price of \$30 and the underlying stock has a market value of \$40, the option has an intrinsic value of \$10. Anytime the market price is above the strike price on the call there is intrinsic value.
- A bank CD is not a derivative.
- Options, warrants and rights are all derivatives.
- Marginable securities are not asset classes.
- To keep your portfolio in line with your investment objective, you will need to rebalance.
- A convertible bond has a conversion ratio of 20. If the common stock of the company is selling at \$65, parity is  $\$65/\text{share} * \text{the conversion ratio of } 20 = \$1300$
- The following are all sold at a discount: T-bills, Zero Coupons, Series E Bonds. Bank CDS are not sold at a discount. Do not confuse Bank CDs with negotiable CDs.