

## Week #10 – Chapter 8 – Finishing Stocks – Exam #3

Here we are in our last week of discussing stocks. Please finish studying chapters 17, 7, and 8. Please make sure you can do the ratio analysis calculations from chapter 17. Exam #3 will be available this week starting on Wednesday. As before, the exam will again be in two parts. The first part will be an online portion with multiple choices and true-false questions. There will be questions from chapters 17, 7, and 8. There will also be many review questions from chapter 5 so please review your notes from chapter 5. As we said before, the material in chapter 5 is very important and you need to be thoroughly immersed in it. If you ever plan to take the Series 7 exam to become a stockbroker, you must know this material so well that you could recite it in your sleep! Many of the instructional courses designed specifically for the Series 7 exam have you taking the same exam, with the questions rearranged, several times. (For those of you who did not do well on exam #2, here is your chance to redeem yourself. For those of you who did well, here is your chance to shine once again.)

The second portion of exam #3 will be an off-line portion which will contain the calculations from chapter 17 (financial ratio analysis) and some review questions from chapters 6 (common stock valuations). These calculations will look very much like the assignments for chapters 6 and 17. Make sure you have done the worksheets and remember to check your results against the answer keys. (Hint, hint. Wink, wink. Nudge, nudge. If I were a student in this class, I would make sure that I could discount a future stream of cash flows, a.k.a. present value, dividend discount models, Constant Perpetual Growth Model, Earnings and Dividends Model, Discounted Cash Flow Model.)

Did you enjoy some of the silliness in chapter 7? Well, there is even more silliness in chapter 8, especially the material about technical analysis. The beginning material about behavioral finance in chapter 8 is actually useful in all aspects of life as it discusses some of the common weaknesses that we investors have simply because we are human. The ending material on technical analysis is downright harmful to your long-term investing results, in my humble opinion. However, there are many, many traders and speculators who swear by technical analysis so we need to cover it. (Because technical analysis is somewhat akin to voodoo, fortune-telling, and palm reading, there are hardly any questions about technical analysis on the Series 7 exam. When I took the Series 7 in 1998, there was just one question out of the 120 total questions about technical analysis and it really was just asking me if I had ever heard about technical analysis.) As we mentioned before, this material is much easier than the previous chapters on common stock investments.

Please remember that there are two text books on reserve in the college library that you can use and read in the library. Don't forget *The Stock Steakhouse* discussion board is always there when you need help. You can post anonymously. Next week, we will start studying (yawn...) bonds.

Don't Give Up! *Never* Give Up!

Sincerely,

Frank Paiano

P.S. This week you need to cover chapter 8 and finish your studies of stocks. Exam #3 on chapters 17, 7, and 8 (with a review of chapters 5 and 6) will be available starting this Wednesday through Sunday.