

Week #14 – Finishing Bonds and Beginning Asset Allocation – Exam #4 Next Week

Welcome to week #14. By now, you should be finished with boring, old bonds. Please get started on chapter 11, Diversification and Risky Asset Allocation. This material ties together our discussions of stocks, bonds, and mutual funds. It also presents a very good argument for using the method of buying securities called *dollar-cost averaging*. Dollar-cost averaging, a system of periodically (usually monthly) buying investments with a fixed dollar amount – \$50 per month, \$100 per month, whatever is affordable – is pretty much the only way most of us common working people will ever really be able to invest. I know, I know! It makes investing boring, but it works!

Next week (not this week) we will have exam #4. It will cover bonds (chapters 9 and 10 with some material from 18, 19, and 20) and diversification and asset allocation (chapter 11). As we have said before, the book goes into far more detail about bonds than is necessary. Make sure you understand the material that is in the presentations and audio/visual lectures and can do the bond calculations from the worksheets. We will also have at least one Constant Perpetual Growth Model and one Discounted Cash Flow Model calculation for stocks, just like exams 2 and 3. *Huh? What? Again?! Why?* Because if there is one thing we want you to be able to do before the end of this semester, it is to be able to calculate the present value of a stream of future cash flows, okay? Plus the Discounted Cash Flow Model problems are very similar to the bond valuation problems that we learn in chapter 10! And, of course, there will be bond valuation calculations on the exam, also. The material for hybrid securities is available but it will not be included on the exam. Hybrid securities constitute only a small percentage of investments and they are really not that important to retail investors such as ourselves. There is a very easy assignment for hybrid securities. In fact, it is the easiest 5 points you will earn all semester! Don't forget it.

As mentioned above, exam #4 will be next week and will cover chapters 9 and 10 on bonds, and chapter 11 on asset allocation. We will start covering options and futures (chapters 15 and 14) next week even though they will not be on exam #4. Also, please remember that there are two textbooks on reserve in the library.

Lastly, I have been fairly sure and now I am 100% sure that some students simply do not read the weekly announcements. (How do I know? Because they 'fessed up!) Obviously, if you are reading this, then you are one of the students who does read the weekly announcement. Thank you very much. However, I am concerned about this. What more can I do to get students to keep up-to-date with our class? Should I record the announcements as mp3 files? Will students be more inclined to listen to the weekly announcements rather than read them? Also, I put a postscript (P.S.) with the most important information in every announcement because I learned from marketing that many people just read the postscript. Any comments would be extremely appreciated. As I have said, I always feel uneasy when teaching online. I always have this nagging feeling that I should be doing more for the online classes. (In the face-to-face classes, I can see the faces of the students and get a good gut-level feeling whether or not they are understanding the material. In the online classes, you just never meet your students. It's unnerving!)

We are getting near the end, Folks. Don't Give Up! ***Never*** Give Up!

Sincerely,

Frank Paiano

P.S. Please get started on chapter 11, Diversification and Risky Asset Allocation, with an emphasis on dollar-cost averaging, practically the only way that most of us "common folk" will ever get started investing. Exam #4 on chapters 9 and 10 (bonds) and chapter 11 (diversification & risky asset allocation) will be next week. We will also start covering options and futures (chapters 15 and 14) even though they will not be on exam #4.