

**Chapter Assignments:** (0 points – *No required assignment*)

*Highly Recommended:* See below

**Due:** N/A

**Chapter Sections:**

Getting Started

Brokerage Accounts

Short Sales

Investor Objectives, Constraints, and Strategies

Forming an Investment Portfolio

**Chapter Terms:**

brokerage firms: full service, discount, deep discount, mutual funds, DRIPs

cash accounts

margin accounts

margin trading

buying on margin

financial leverage

margin requirement (a.k.a. initial margin)

margin loan (a.k.a. debit balance)

restricted account

maintenance margin

margin call

excess margin

pyramiding

margin = (value of security - margin loan) / value of security

account balance sheet

margin using account balance sheet = account equity / total assets

long purchase (a.k.a. “going long”)

short selling (a.k.a. “selling short” “shorting a stock” “going short”)

margin for short sales = ( margin deposit + proceeds from short sale - value of security ) / value of security

margin for short sales using account balance sheet = account equity / short position

margin call price level = [ ( margin deposit + short proceeds ) / number of shares ] / ( 1 + maintenance margin )

short squeeze

*Highly Recommended:*

Why do investors choose a certain brokerage firm? (For that matter, what motivates someone to choose a certain bank, mechanic, doctor, grocery store, etc.?) Unless you decide to forego a brokerage account and deal directly with DRIPs (dividend reinvestment programs), you are going to need to choose a brokerage firm. Will you go with one of the low-cost, deep-discount brokers such as Scottrade, or TD Ameritrade, or E\*Trade and never actually talk to a broker, let alone meet one? Or would you be willing to spend a bit more for personalized service from one of the traditional “mom and pop” discount brokerage firms which usually have just one office? Or do you want to spend much more and have access to your own personal broker from a prestigious, full-service broker such as Merrill Lynch or Morgan Stanley? Also, don’t forget that some mutual fund companies such as Vanguard and Fidelity now offer brokerage accounts. Spend a few hours searching about the Internet, reading magazines, books, and other commentaries and reviews, and visiting in person some of the brokerage firms available. You can even visit the brokerage offices of some of the deep-discount brokers since companies such as Scottrade and Fidelity have individual offices here in San Diego. If you already are a seasoned investor, please consider sharing your experiences, good and bad, with the rest of the class. (You can send them to me and I will post them anonymously.)