Chapter 18 Stocks

SOFTWARE ACTIVITY (OPTIONAL)	**Spreadsheet Application**

Comparing the Performance of Stock Investments

Objective: Evaluate the performance of securities using numeric measurements for investment yield, current return, total return, capital gain, and earnings ratios.

Practice Situation

Phillip owns the following stocks and wishes to evaluate the performance of his investments. He read recently that many stock analysts predict declining returns on pharmaceutical and medical stocks for the near future. Phillip wants to verify for himself that this trend is occurring. He presents the following data on his portfolio. Calculate the current yield, current return, capital gain, total return, earnings per share, and price-earnings ratio for both of Phillip's investments for the past two years. Compare the performance of each stock for each year and then answer the questions that follow.

Chapter 18

Rudland Pharmaceuticals
6/1/2008–5/31/2009

Purchased 160 shares at $38/share on 6/1/2008
Annual dividends paid: $1.62 per share
Market value at 5/31/2009 = $41.00
Rudland Pharmaceuticals reported net earnings of $2,200,000 with 200,000 outstanding shares of common stock

6/1/2009–5/31/2010

Annual dividends paid: $1.55 per share
Market value at 5/31/2010 = $37.00
Rudland Pharmaceuticals reported net earnings of $2,100,000 with 220,000 outstanding shares of common stock

A&R Medical Technologies
6/1/2008–5/31/2009

Purchased 220 shares at $35.50/share on 6/1/2008
Annual dividends paid: $1.85 per share
Market value at 5/31/2009 = $38.00
A&R Medical Technologies reported net earnings of $750,000 with 100,000 outstanding shares of common stock

6/1/2009–5/31/2010

Annual dividends paid: $1.55 per share
Market value at 5/31/2010 = $36.00
A&R Medical Technologies reported net earnings of $765,000 with 120,000 outstanding shares of common stock

Spreadsheet Directions

1. Start your spreadsheet software program and open problem **SA09.xls**.

2. Using the data presented for both stocks for the period 6/1/2008–5/31/2009, calculate the following:

   - Current Yield
   - Current Return
   - Capital Gain

   - Total Return
   - Earnings per share
   - Price-earnings ratio

   Note: Format your calculated amounts for Current Yield as a Percentage, 2 decimal places. Format your calculated amounts for Current Return, Capital Gain, Total Return, and Earnings per share as Currency, 2 decimal places. The price-earnings ratio amounts should be formatted to Number, 2 decimal places.

3. Using the data presented for the period 6/1/2009–5/31/2010, calculate the same performance measurements for both stocks.

4. When you have completed your calculations, save your work to a new file labeled **SA09***.xls**. (Replace ******* with your initials.)

5. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

1. What was the total return for Rudland Pharmaceuticals stock for the year ended 5/31/2009? For the year ended 5/31/2010? _____

2. Is Phillip's Rudland Pharmaceutical stock investment experiencing an increase or a decline in total return? _____

3. What was the current yield for A&R Medical Technologies stock for the year ended 5/31/2009? For the year ended 5/31/2010? _____

Drawing Conclusions

1. Based on your calculations for these two years, would you agree with the opinions of the stock analysts? Are Phillip's investments experiencing a decline in performance and returns? Explain.

_____

_____

_____

_____

2. Phillip wonders whether he should consider selling his stock. What other issues should Phillip consider as he evaluates his investment returns and goals?

_____

_____

Chapter 18