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Chapter 18: Stocks

Check Your Answers: Section Assessment

Section 3

Review Key Concepts

1. The primary market is a market in which investors purchase new security issues from a corporation through an investment bank or some other representative of the corporation. The secondary market is a market for existing financial securities currently traded among investors.

2. Full-service, discount, or online brokerage firms charge commissions (fees) for buying and selling securities for you. An account executive (stockbroker) is an individual licensed to buy or sell securities or stocks for clients. A market order is a request to buy or sell a stock at the current market value. A limit order is a request to buy or sell stock at a specified price. A stop order is a type of limit order to sell a particular stock at the next available opportunity when the market price reaches a specified amount. Firms, stockbrokers, and individuals also have access to software and Web sites for evaluating stocks, tracking portfolios, monitoring value, and buying and selling securities online.

3. Long-term techniques (buy-and-hold, dollar cost averaging, direct investment, dividend reinvestment) are used by investors who want to avoid losses in their investments. Some investors use more speculative, short-term techniques (buying on margin, selling short) which can be risky. Only investors who fully understand the risks should use short-term techniques.

Higher Order Thinking

4. Answers should emphasize that individuals must take responsibility for their investments and make all final decisions. Stockbrokers are human and they may make mistakes. It is also possible to inadvertently become involved with a dishonest account executive who may take advantage of clients' trust.

English Language Arts

5. Choosing Your Broker Students may question the broker about: commissions and additional fees or charges; level of advice they offer; accessibility and availability; recommendations from other clients; how the broker assesses the needs of each client (conservative, aggressive, or middle-of-the road); his or her experience, training, and certifications; how he or she approaches investing (investment philosophy); and tools or research options available to clients.

Mathematics

6. Dollar Cost Averaging Shares purchased in 2007 = $3,000/$97.42 = 30.79 shares; Shares purchased in 2008 = $3,000/$97.67 = 30.72 shares; Shares purchased in 2009 = $3,000/$84.92 = 35.33 shares; Shares purchased in 2010 = $3,000/$130.85 = 22.93 shares; Total shares accumulated = 30.79 + 30.72 + 35.33 + 22.93 = 119.77; Dollar cost average = [($97.42 × 30.79) + ($97.67 × 30.72) + ($84.92 × 35.33) + ($130.85 × 22.93)]/119.77 = $100.19 or ($3,000 × 4 years)/119.77 = $100.19