

Buy and Hold: A Stock Market Quiz Answers

Multiple Choice

Directions: Circle the best choice for each question.

1. What is the major difference between a stock and a bond?
 - a. A bond is ownership in a company, but a stock is a loan.
 - b. A bond can always be resold for its face value, but a stock cannot.
 - c. *A stock is ownership in a company, but a bond is a loan.*
 - d. A stock can always be resold for its face value, but a bond cannot.
2. Assuming interest rates do not change, which of the following investments will have the highest value at the end of 10 years?
 - a. \$10,000 held in cash
 - b. \$5,000 invested in bonds paying 2% annual interest + \$5,000 invested in stock with a 5% total return on investment
 - c. \$10,000 invested in stock with a 10% total return on investment
 - d. *\$5,000 invested in bonds paying 5% annual interest + \$5,000 invested in stock with a 3% total return on investment*
3. Aaron invested \$25,000 in a portfolio of stocks and bonds in 2002. In 2012, his portfolio was valued at \$35,000. What is Aaron's annual rate of return on these investments?
 - a. 2.86%
 - b. *3.42%*
 - c. 4.0%
 - d. 40.0%

Constructed Response

Directions: Answer the following questions in a complete sentence.

4. Alice has \$10,000 in her checking account, which is earning no interest. She is confident that she will not need this money in the next five years. At the end of five years, she hopes to have saved enough to buy a house.
 - a. If she keeps her money in the checking account, what will happen to the value of her savings? *It will decrease because of inflation.*
 - b. If she buys a five-year bond, paying 2.5% annual interest, how much money will she have at the end of five years? *\$11,250*

- c. A friend has advised her to buy stock in Heavy Lemon, a relatively new cosmetic company that went public two years ago. What are two things she should know about Heavy Lemon before deciding? *The stock price, the trend in stock price, what the company makes, what is happening in the cosmetic industry.*

- d. Alice decides to buy stock in Heavy Lemon. She buys 600 shares at \$15.00/share. Three years later, the stock is worth \$12.00/share. What is her total return on this investment at this point? *-20%*

- e. Alice decides to hold onto her stock, and two years later it is worth \$16.00/share. What is her annual rate of return? *1.3%*

- f. Alice put all of her money into one investment tool. Evaluate her strategy. *This is not a good strategy; she could have lost everything; she should have diversified and bought different stocks and some bonds.*