# FNCE 249: Assignment 3

**Due:** After completion of Lesson 6

**Credit Weight:** 25% of your final grade

**Summary:** Application questions

## Instructions

To complete this assignment, use a word processing and/or spreadsheet program such as Microsoft Word and Excel or OpenOffice.org 2.0. Name your assignment files using only alphanumeric characters (e.g., SmithG\_FNCE249\_Assign3.docx). Do not use spaces in file names for assignments.

## Part 1: Mutual Funds **(20 marks)**

1. Go to [Mutual Funds](https://www.theglobeandmail.com/investing/markets/funds/) (The Globe and Mail) or [Morningstar](http://www.morningstar.ca/) and select six mutual funds, according to the following requirements:

one index fund

one dividend fund

one global fund

three equity funds in different sectors such as energy, technology, microcaps, income, etc.

2. Prepare a table showing each fund’s load fees (if any), MER, and return over one, three, and five years, and from inception. In your opinion, which fund is the best to invest in? Consider short- and long-term returns, load fees, and MERs. Explain why you chose this fund.

## Part 2: Investment Portfolio Review **(45 marks total)**

Your response to Part 2 should be 750–1250 words. Show complete calculations where required. Based on the stocks of the two companies you chose in Assignment 2/3 Preparation and analyzed in Assignment 2, answer the following questions:

3. Calculate the total return percentage achieved for each individual stock from the day you selected the stock to the present or most recent business day. Use the formula  
  
End Share Price – Beginning Share Price + Dividends Received (if any)  
 Beginning Share Price **(5 marks)**

4. Annualize the percentage return for each stock; that is, calculate what your return would be if you held the stock for one year. To do this, take your returns from above, divide by the number of days the share was held, and multiply by 365. **(2 marks)**

5. Calculate the annualized return for the portfolio. (Use an equal weighting for each stock.) Was your return higher or lower than the rate of inflation? **(3 marks)**

6. Compare your annualized return with that of the S&P/TSX Composite index over the past year. In one paragraph, explain why each return is greater or less than the index. **(10 marks)**

7. For each of your stocks, identify (in one sentence) the most significant variable that explains the performance of the stock. For example, if you held US bank stock and your stock has generated a 10% loss, you might identify the US housing market as the most significant variable affecting the stock’s average return. **(5 marks)**

8. In two paragraphs, describe the concept of *return versus risk*, and explain how you would use it in selecting a new investment portfolio. Explain how and why you used (or did not use) this concept when you chose your original two stocks. In your explanation, ensure that you answer the following questions: **(20 marks total)**

a. What would you do differently if you were to choose two different stocks for your portfolio? Explain your answer. **(10 marks)**

b. What specific actions could you take in the future when choosing stock investments to reduce risk and increase the reward in your portfolio? **(10 marks)**

## Part 3: Learning from the Masters **(35 marks total)**

Your response to Part 3 should be no more than 1000 words (total). Show complete calculations where required. Use the notes from Lesson 6 to answer the following questions. If appropriate, you may present information in tables.

9. Compare the investment philosophy you used to select your two stocks with that of Benjamin Graham. What would Benjamin Graham say about your stock picks? Provide a reason why your choice may be different than Mr. Graham’s would be. **(10 marks)**

10. Many companies do not have a solid track record of profitability. This is sometimes because of losses incurred from operations or simply because no revenues have been generated, such as a mining company that is searching for precious metal deposits. Tesla Inc., for example, had recorded only losses from operations until late 2018. Explain how an investor might be able to estimate the value of a share where there are no profits, historically. **(10 marks)**

11. Choose five of the master investors discussed in Lesson 6. Compare their investment styles, using a table if appropriate. Which of the masters’ investment styles do you believe will be most effective over the next 10 years? As an investment advisor, which of these investment styles would you use during a bull market? During a bear market? Fully explain each of your responses. **(15 marks)**