

Chapter 1 The Financial Planning Process

1.1 What is Personal Financial Planning?

LEARNING OBJECTIVE: Describe the personal financial planning process, and explain how the elements of a comprehensive financial plan fit together.

- Why Study Personal Financial Planning?
- What Are the Benefits of Personal Financial Planning?
- Why Do People Avoid Financial Planning?
- What Problems Can Be Caused by Poor Financial Planning?

The Personal Financial Planning Process

- Step 1: Organize Your Financial Information and Set Short-Term and Long-Term Goals
- Step 2: Analyze Your Current Financial Status
- Step 3: Identify and Evaluate Alternative Strategies for Achieving Your Goals
- Step 4: Implement Your Financial Plan
- Step 5: Monitor Your Progress and Revise Your Plan as Needed

Case Study 1.1 The Naughtons Revise Their Financial Plan after a Job Loss

Elements of a Comprehensive Financial Plan

1.2 Factors that Influence Financial Planning

LEARNING OBJECTIVE: Describe how individual characteristics and economic factors influence personal financial planning.

Individual Characteristics and Your Financial Plan

- Life Cycle Factors
- Demographic Characteristics
- Values and Attitudes

Economic Factors and Your Financial Plan

- Inflation
- Interest Rates
- The Economy and the Job Market
- Political Unrest and Global Issues

1.3 Setting Short-term and Long-term Financial Goals

LEARNING OBJECTIVE: Create a prioritized list of short term and long term personal financial goals.

Why Goals Are Important

The Goal-Setting Process

Case Study 1.2 The Riveras Develop Prioritized Goals

1.4 Selecting Qualified Financial Planning Professionals

LEARNING OBJECTIVE: Know when and how to find qualified financial planning professionals.

When Do You Need a Financial Planner?

Factors to Consider in Choosing a Financial Planner

Ethics in Action: Can You Trust Your Financial Advisor?

How are Planners Paid?

1.5 Making Effective Decisions

LEARNING OBJECTIVE: Consider opportunity costs and marginal effects in making personal finance decisions.

Make Reasonable Assumptions

Apply Marginal Reasoning

Consider Opportunity Costs

Use Sensitivity Analysis

Decision-Making Styles

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Chapter 2 Financial Planning Tools: Personal Financial Statements and the Time Value of Money

2.1 Organizing Your Financial Information

LEARNING OBJECTIVE: Develop a system for financial record-keeping, and prepare a personal balance sheet.

What Financial Records Do You Need to Keep?

- Will You Need Them in the Future?
- How Long Should You Keep Them?
- Where Should You Keep Them?

Summarizing Your Financial Condition

- How Much Are You Worth Today?
- Organizing the Personal Balance Sheet
- Valuing Your Assets and Debts

Case Study 2.1 Danelle Washington Develops a Balance Sheet

- Net Worth and Life Changes
- Cash Flow and Balance Sheet Impacts of Divorce

2.2 Evaluating Your Personal Financial Situation

LEARNING OBJECTIVE: Prepare a personal cash flow statement, and evaluate your financial situation using financial ratios.

The Personal Cash Flow Statement

- Cash Inflows
- Cash Outflows

Net Cash Flow

Case Study 2.2 Danelle Washington's Personal Cash Flow Statement

Using Financial Ratios

- Measuring Liquidity
- Measuring Debt Usage
- Measuring Savings Adequacy
- How Do You Compare?

2.3 The Time Value of Money

LEARNING OBJECTIVE: Explain how compound interest benefits investors.

The Power of Compound Interest

Time Value Calculation Methods

- Three Ways to Calculate Time Value
- Using Timelines to Clarify the Timing of Cash Flows

Future Value: How Much Will My Money Grow?

- Future Value of a Lump Sum
- Future Value of an Annuity

2.4 Present Value: How Much Do I Need Today to Reach a Future Goal?

LEARNING OBJECTIVE: Calculate present value of funds to be received or paid in the future.

Present Value of a Lump Sum

Present Value of an Annuity

Loan Payments

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Chapter 3 Budgeting and Cash Management

3.1 Developing, Implementing, and Monitoring a Household Budget

LEARNING OBJECTIVE: Develop, implement, and monitor a household budget.

Factors Affecting Household Budgets

The Budgeting Process

- Forecasting Future Income and Expenditures

Implementing Your Budget

Case Study 3.1 The Riveras Develop a Budget
Monitoring Your Budget

Case Study 3.2 The Riveras Track Their Budget Variances
Revising Your Budget

Money Attitudes and Household Budgeting

Ethics in Action: Financial Infidelity

3.2 The Role of Cash in Your Financial Plan

LEARNING OBJECTIVE: *Explain why cash management is an important component of your financial plan.*

Costs and Benefits of Holding Cash

- Managing Monthly Transactions
- Preparing for Cash Emergencies
- Making a Temporary Investment

How Much Should You Hold in Cash?

The Rules of Effective Cash Management

- Balance Your Checking Account Every Month
- Pay Your Bills on Time
- Pay Yourself First
- Evaluate Alternative Accounts and Providers

3.3 Providers of Cash Management Services

LEARNING OBJECTIVE: *Identify and evaluate the types of financial institutions that provide cash management services.*

Depository Institutions

- Commercial Banks
- Savings Institutions
- Credit Unions
- Internet-based Financial Institutions

Nondepository Institutions

- Mutual Fund Companies
- Life Insurance Companies
- Brokerage Firms
- Financial Services Firms

Evaluating Financial Institutions

- Products
- Price
- People

3.4 Evaluating Cash Management Products and Services

LEARNING OBJECTIVE: *Evaluate checking and savings account choices based on liquidity, safety, and cost.*

Criteria for Evaluating Cash Accounts

- Liquidity
- Safety
- Costs and After-tax Interest

Checking Accounts

- Regular Checking Accounts
- Interest-earning Checking Accounts

Savings Accounts

- Demand Deposits versus Time Deposits
- Regular Savings Accounts
- Certificates of Deposit
- Money Market Mutual Funds
- Money Market Deposit Accounts
- US Savings Bonds

The Rule of 72

3.5 Resolving Cash Management Problems and Avoiding Identify Theft

LEARNING OBJECTIVE: *Select appropriate tools for dealing with cash management problems, and protect yourself from identity theft.*

Cash Management Problems and Solutions

- If You Overdraft Your Account...
- If You Receive a Bad Check...
- If You Want to Stop Payment on a Check...
- If You Need Money in a Hurry...
- If You are Unbanked...

Identity Theft

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Chapter 4 Tax Planning

4.1 The Federal Income Tax System

LEARNING OBJECTIVE: *Understand the major features of the federal income tax system.*

The Progressive Nature of the U.S. Tax System

Marginal Tax Rates

- Tax Rate Schedules
- Marginal versus Average Tax Rates
- Inflation Indexing of Tax Brackets
- Consider the Marginal Tax Effect in Making Financial Decisions

4.2 Filing Requirements

LEARNING OBJECTIVE: *Determine whether you need to file a federal income tax return and which forms you should use.*

Filing Status

Adjusted Gross Income and Taxable Income

IRS Forms

4.3 Federal Income Tax Calculation

LEARNING OBJECTIVE: *Prepare a basic tax return.*

Reporting Income

- Total Income
- Adjusted Gross Income

Deductions and Exemptions

- Standard Deduction
- Itemized Deductions
- Exemptions

Calculation of Taxes Owed

- Tax Table and Tax Schedules
- Tax Credits
- Does the Alternative Minimum Tax Apply?
- Additional Taxes Owed By the Self-Employed

Determining Taxes Due or Refund to Be Received

Case Study 4.1 Will the Riveras Receive a Tax Refund?

4.4 Tax Planning Strategies

LEARNING OBJECTIVE: *Establish financial planning strategies to legally minimize the taxes you pay.*

Maximize Pre-tax Contributions to Qualified Benefit Plans

Reduce Applicable Tax Rate on Certain Income

Make Use of Available Deductions and Credits

Avoid Audits and Penalties

- Enforcement of Tax Laws
- What Are the Odds of Getting Audited?
- Complexity of the Tax System

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Chapter 5 Credit

5.1 What is Consumer Credit?

LEARNING OBJECTIVE: *Describe the role of consumer credit in your financial plan.*

Types and Sources of Consumer Credit

- Closed-End versus Open-End Credit
- Sources of Consumer Credit

Ethics in Action: What's the Harm in Payday Loans?

The Advantages and Disadvantages of Consumer Credit

- Advantages of Consumer Credit
- Disadvantages of Consumer Credit

Applying for Consumer Credit

5.2 Your Consumer Credit Plan

LEARNING OBJECTIVE: *Maintain your creditworthiness, and understand your consumer credit rights.*

Measuring Your Credit Capacity

- Using Financial Ratios to Measure Credit Capacity
- The Five C's of Credit
- Understanding Your Credit Score

When and How to Use Consumer Credit

Strategies for Reducing Debt

Your Consumer Credit Rights

- Full Information from Prospective Lender
- Clear and Accurate Billing Statements
- Limits on Interest Rate Increases and Fees
- Freedom from Discrimination
- Know Why You Were Denied Credit
- Fair and Respectful Debt Collection
- Accuracy of Reported Credit Information
- Correcting Information in Your Credit Report

Bankruptcy

- Contact Your Creditors Directly
- Consult a Professional Credit Counselor
- File for Bankruptcy
- Chapter 7 Bankruptcy
- Chapter 13 Bankruptcy

5.3 Credit Cards

LEARNING OBJECTIVE: *Evaluate credit card choices based on terms and costs.*

Types of Cards

- Bank Credit Cards
- Retail Credit Cards
- Travel and Entertainment Cards
- Debit Cards
- Smart Cards and New Technology

Common Credit Card Contract Terms

- Annual Fees
- Annual Percentage Rate (APR)
- Transaction, Billing, and Due Dates
- Minimum Payment
- Penalties and Fees
- Finance Charge

5.4 Consumer Loans

LEARNING OBJECTIVE: *Evaluate consumer loan choices based on your financial needs, loan terms, and costs.*

Common Types of Consumer Loans

- Home Equity Loans
- Automobile Loans
- Student Loans

Comparing Consumer Loan Alternatives

- Secured versus Unsecured Loans
- Interest Rates
- Payment Arrangements
- Finance Charges
- Repayment of Principal
- Early Repayment of Installment Loans
- Other Loan Repayment Plans

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Chapter 6 Making Automobile and Housing Decisions

6.1 Making Auto Decisions on a Budget

LEARNING OBJECTIVE: *Evaluate your household automobile needs and budget.*

Making Smart Purchase Decisions

- Keep Your Financial Goals in Mind
- Don't Ignore the Small Stuff
- Why Auto and Housing Decisions Are Harder

Assessing Needs and Affordability

- Do You Need a Car?
- Can You Afford a Car?

Case Study 6.1 The Walkers Estimate the Costs of an Additional Vehicle

Evaluating Vehicle Choices

- Price
- New Versus Used
- Equipment
- Size and Fuel Economy
- Safety
- Reliability and Warranties

6.2 Should You Lease or Buy a Car

LEARNING OBJECTIVE: *Decide whether to lease or buy a vehicle, and negotiate the terms for purchase and financing.*

Leasing versus Buying

- What is a Lease?
- What Determines the Cost of an Auto Lease?
- Closed-End versus Open-End Leases
- Lease Contracts

Negotiating the Auto Purchase Price

- Components of Auto Dealer Profit
- Negotiation Strategies

Making Consumer Complaints

6.3 Making Housing Decisions on a Budget

LEARNING OBJECTIVE: *Evaluate your housing needs and budget.*

Housing Needs over the Life Cycle

The Rent-versus-Buy Decision

- Types of Housing
- The Costs of Renting versus Buying
- Legal Issues for Tenants

How Much House Can You Afford?

- The Nonfinancing Costs of Home Ownership
- The Down Payment
- Expected Closing Costs
- Maximum Loan Amount and House Price

6.4 Mortgage Financing

LEARNING OBJECTIVE: *Evaluate mortgage financing alternatives.*

What is a Mortgage?

- Common Characteristics of Mortgage Loans
- Resale of Loans in the Secondary Market
- Types of Mortgages

Factors That Affect Mortgage Payments

- Interest Rate
- Term of the Loan
- Points
- Other Factors

When to Refinance

- Why Refinance?
- Costs of Refinancing

Case Study 6.2 The Nguyens Consider Refinancing Their Mortgage

6.5 Completing the Real Estate Transaction

LEARNING OBJECTIVE: *Identify factors that affect home prices, and explain the other costs of completing a real estate transaction.*

Determinants of Real Estate Value

The Home Buying Process

- Choosing a Broker
- How a Broker is Paid
- Your Legal Relationship with a Broker
- Negotiating the Contract
- Arranging the Mortgage Financing

The Closing

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Chapter 7 Insurance Cars and Homes

7.1 Managing Personal Risks

LEARNING OBJECTIVE: Apply the risk management process to identify risks and decide how to manage them.

The Risk Management Process

Identify and Evaluate Property and Liability Risks

Risk Management Methods

- Avoid the Risk
- Reduce the Risk
- Transfer the Risk
- Retain the Risk

7.2 How Insurance Works

LEARNING OBJECTIVE: Explain how risk pooling works, and define common insurance policy terminology.

Risk Pooling and Insurance

Insurance Premiums

Insurance Policy Terminology

7.3 Managing Homeowner's and Renter's Risks

LEARNING OBJECTIVE: Describe the loss coverage provided by homeowner's and renter's insurance and the factors that impact premiums.

What Risks Do Homeowners and Renters Face?

Property Risk

Liability Risk

Ethics in Action: Dog Owner's Dilemma

- Defenses to Liability Claims

Insuring Your Home

- Property Coverage
- Additional Losses Covered
- Liability Coverage

Pricing of Homeowners Insurance

- Location and Property Characteristics
- Coverage Purchased
- Deductibles and Discounts
- Your Risk Profile

Case Study 7.1 How Does a Bad Credit History Affect Insurance Premiums?

Umbrella Liability Insurance

7.4 Auto Insurance

LEARNING OBJECTIVE: Explain your choices for auto insurance coverage and what factors are likely to increase your premiums.

State Auto Insurance Laws

Policy Coverage

- The Personal Automobile Policy (PAP)

Case Study 7.2 Which Auto Policy Will Cover the Loss?

- No-Fault Auto Insurance

Auto Insurance Pricing Factors

- How Much You Drive
- How Well You Drive
- Your Risk Characteristics
- Where You Drive
- Where You Park Your Car Overnight
- What Type of Vehicle You Drive
- Who Your Insurance Is

7.5 Buying Insurance and Making Claims

LEARNING OBJECTIVE: Compare insurers based on quality, service, and price before buying a policy.

Steps to Buying Property and Liability Insurance

The Role of Agents and Brokers

Comparing Insurance Policies

Using Internet Resources to Get Price Quotes and Evaluate Insurers

Making a Claim on Your Insurance

- What to Do If You Have an Auto Accident

Steps in Filing a Claim

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Chapter 8 Life Insurance and Long-Term Care Planning

8.1 Life Insurance and Your Financial Plan

LEARNING OBJECTIVE: Determine how much life insurance you need.

Life Insurance Compared with Auto and Homeowner's Insurance

Factors That Affect Premiums

Case Study 8.1 When Will Carson Die?

- The Role of Insurance Company Investments
- Intended Use of Policy Proceeds

Life Insurance Needs Analysis

- Income-Multiple Method
- Financial Needs Method

Case Study 8.2 How Much Life Insurance Do Arjun and Tanya Chopra Need?

Factors Affecting Your Life Insurance Needs

8.2 Buying Life Insurance

LEARNING OBJECTIVE: Select the type of life insurance that best meets your needs.

Choosing the Type of Policy

- Term Life Insurance
- Permanent Life Insurance
- Buy Term and Invest the Difference?

Choosing an Insurer

- Financial Strength
- Stock versus Mutual

Choosing an Agent

8.3 Reading Your Policy

LEARNING OBJECTIVE: Define key terms used in life insurance policies.

Policy Declarations

Key Provisions in a Life Insurance Policy

Ethics in Action: The Ethics of Viatical Settlements

Settlement Options

8.4 Planning For Long-term Care Costs

LEARNING OBJECTIVE: Explain the choices for funding long-term care needs.

Long-Term Care Needs Analysis

Sources of Funds for Long-Term Care

- Family Caregivers
- Household Resources
- Community Resources
- Medicare
- Medicaid
- Life Insurance Policies

Long-Term Care Insurance

- When Is the Best Time to Buy Long-Term Care Insurance?
- Tax Considerations
- Features to Look for in Long-Term Care Insurance
- Talking with Family about Long-Term Care Insurance

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Chapter 9 Employee Benefits: Health, Disability, and Retirement Plans

9.1 The Value of Employee Benefits

LEARNING OBJECTIVE: Explain the value of employee benefits as a component of compensation.

Types of Benefits Offered by Employers

Why Benefits are Preferable to Cash Compensation

- Lower Underwriting Costs
- Lower Administrative Costs
- Lower Taxes

Case Study 9.1 Lori Evaluates Tax Savings from Employer-Provided Health Insurance

Comparing Job Offers Based on Salary and Benefits

- Comparing Salaries Based on Cost of Living

Case Study 9.2 Lori Compares Salary Offers Based on Cost of Living

- Comparing Employee Benefit Packages

Case Study 9.3 Lori Compares Job Offers Based on Salary and Benefits

9.2 Health Insurance and Your Financial Plan

LEARNING OBJECTIVE: Evaluate your health-related costs, and select appropriate health insurance to meet your needs.

Health Insurance Needs Analysis

- Expected Health-Care Costs
- National Trends in Health-Care Costs

Health Care Reform

Types of Health Insurance Plans

- Fee-for-Service Plans
- Deductibles and Coinsurance
- Managed-Care Plans
- Dental and Vision Insurance Plans
- Trends in Plan Type

Government-Sponsored Health Insurance

- The Medicare Program: Health Insurance for Seniors
- Medicaid: Health Insurance for the Poor
- COBRA Continuation Coverage

9.3 Planning For Disability Income

LEARNING OBJECTIVE: Analyze your disability income needs, and identify sources of disability income.

Disability Needs Analysis

Sources of Disability Income

- Employer-Sponsored Disability Income Protection
- Individual Disability Insurance
- Workers' Compensation
- Social Security Disability

Case Study 9.4 Mateo Rivera Estimates His Disability Income Needs

9.4 Employer-Sponsored Retirement Plans

LEARNING OBJECTIVE: Explain the benefits of participating in employer-sponsored retirement plans.

Tax Advantages of Qualified Plans

Defined-Benefit versus Defined Contribution Plans

Features of Defined Benefit Plans

- Benefit Formula
- Vesting
- Portability
- Government –Guaranteed Benefits
- Disability, Survivors, and Retiree Health Insurance

Features of Defined Contribution Plans

- What is Your Employer's Contribution Promise?
- Can You Contribute to the Plan?
- Who Makes the Investment Decisions?
- Retirement Plans for Small Businesses
- Limits on Contributions

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Chapter 10 Saving for Distant Goals: Retirement and Education Funding

10.1 Developing a Retirement Plan

LEARNING OBJECTIVE: Estimate retirement income needs, and develop savings goals.

What Are Your Retirement Goals?

How Much Will You Need to Save for Retirement?

Estimating Retirement Expenses

Estimating Expected Income and Income Shortfall

Estimating Retirement Wealth Needed

Estimating Monthly Savings Target

Case Study 10.1 Camilla Hardin Develops a Plan for Retirement Saving

Why Do So Many People Avoid Retirement Planning?

- Myopia
- Ignoring Inflation
- Focusing on Averages
- It Won't Happen to Me

10.2 Retirement Income from Employer Plans and Social Security

LEARNING OBJECTIVE: Explain how employer-sponsored retirement plans and Social Security can help you meet your retirement goals.

Income from Employer-sponsored Plans

- Income from DB Plans
- Income from DC Plans

Income from Social Security

- What is Social Security, and How Is It Funded?
- Who Is Eligible to Receive Benefits
- Fully Insured Status
- Normal Retirement Age
- Early or Delayed Retirement
- Spousal Benefits
- How Much Will Social Security Pay Me?
- Will Social Security Be Around When You Retire?
- Causes of Projected Insolvency
- Prospects for Reform

Ethics in Action: Cost of Living Increases for Social Security Beneficiaries

10.3 Individual Retirement Savings Alternatives

LEARNING OBJECTIVE: Explain why individual retirement accounts (IRAs) offer advantages over taxable savings accounts and annuities.

Individual Retirement Accounts

- Traditional IRAs
- Roth IRAs
- Taxes on Benefits Received

Taxable Accounts

- The Importance of Starting Early
- Earnings on Investment Make a Big Difference

Annuities

- Key Features of Annuities
- Taxes and Expenses
- Health and Life Expectancy
- Home Equity Loans and Reverse Annuity Mortgages

Not on Track to Retire?

10.4 Planning for Education Costs

LEARNING OBJECTIVE: Develop a plan for funding future education costs that incorporates government savings incentives.

How Much Will Future Education Cost?

How Much Will You Need to Save?

Case Study 10.2 Funding Jake Johnson's College Education

Education Funding Plan

Government Programs to Help Fund Education Expenses

- Tax-Preferred Education Savings Plans

Tax Credits for Education Expenses
Other Education-Related Tax Breaks

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Chapter 11 The Fundamentals of Investing

11.1 Developing a Realistic Investment Plan

LEARNING OBJECTIVE: *Develop a realistic investment plan to meet your long term financial goals, taking into account budgetary constraints, transaction costs, and taxes.*

First Things First: Establishing a Firm Foundation

Establishing Investment Goals

How Much Do You Need, and When Do You Need It?

Case Study 11.1 Newlyweds Set Their Investment Goals

Obtaining the Money to Invest

Key Strategies for Investment Success

Start Early and Be Consistent
Take Advantage of Favorable Tax Rules
Minimize Transaction Costs
Be an Informed Investor
Keep Accurate Records

11.2 Understanding Your Investment Choices

LEARNING OBJECTIVE: *Identify and define the major types of investments.*

Investing by Lending and Owning

The Advantages and Disadvantages of Lending
The Advantages and Disadvantages of Owning

Major Asset Classes

Common Stock
Bonds
Money Market Securities
Preferred Stock
Real Estate
Derivatives
Mutual Funds

11.3 The Risk-Return Tradeoff

LEARNING OBJECTIVE: *Compare investment alternatives based on return and risk.*

Rate of Return

Risk

How Risk Averse Are You?

Factors Affecting Risk Attitudes

Types of Investment Risk

Inflation Risk
Interest-Rate Risk
Default Risk
Liquidity Risk
Market Risk

11.4 Diversification and Performance Evaluation

LEARNING OBJECTIVE: *Evaluate portfolio performance relative to a similarly diversified benchmark index.*

How Diversification Works

Asset Allocation

Evaluating Performance against a Benchmark

Dow Jones Industrial Average
S&P 500 Index
Other Stock Market Indexes

Active versus Passive Investing

Can Active Investors Beat the Market?
Are Markets Efficient?
Passive Investing Strategies
Does Timing Matter to Passive Investors?

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Chapter 12 Investing in Stock and Bonds

12.1 Investing in Common Stock

LEARNING OBJECTIVE: *Describe the characteristics and classifications of common stock.*

What is Common Stock?

Why Do Companies Issue Stock?
What Are the Rights and Obligations of Stock Ownership

Advantages of Stock Investing

No Management Responsibility
Higher Long-Run Returns
Liquidity
Diversifiable Risk

Disadvantages of Stock Investing

Risk
No Control

Classification of Common Stock

Income versus Growth Stocks
Blue Chip Stocks
Cyclical versus Defensive Stocks
Industry and Sector
Market Capitalization

Measures of Common Stock Performance

12.2 Investing in Bonds

LEARNING OBJECTIVE: *Describe the characteristics and classifications of bonds.*

What is a Bond?

The Purpose of Bonds

Types of Bonds

Classification by Type of Issuer

Ethics in Action: Mortgage-Backed Securities

Classification by Bond Characteristics

Bond Terminology

Prospectus
Trustee
Face Value
Maturity Date
Coupon Rate and Payment
Callable Bonds
Convertible Bonds

Bond Value

Why Do Investors Buy Bonds?

Predictable Income Stream
Matching Timing of Cash Flow Needs
Lower Risk
Diversification
Profit on Price Changes

12.3 Investing in Preferred Stock

LEARNING OBJECTIVE: *Compare the features of preferred stock with those of common stock and bonds.*

What is Preferred Stock?

Preferred Stock Valuation

Contract Terms Affecting Preferred Stock Cash Flows

Callability
Cumulative Dividends
Fixed versus Adjustable Dividends
Convertibility

The Benefits and Risks of Preferred Stock

12.4 Securities Markets

LEARNING OBJECTIVE: Describe the operation and regulation of the securities markets.

Primary versus Secondary Market

Securities Exchanges

- The Rise of Electronic Trading
- Listing of Securities

Buying and Selling Stocks and Bonds

- Bid and Ask Price
- Types of Orders
- Long versus Short
- Types of Brokerage Accounts

Regulation of Securities Markets

- Information Disclosure Requirements
- Insider Trading
- Circuit Breakers
- Other Regulations

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Chapter 13 Investing in Mutual Funds and Real Estate

13.1 What is a Mutual Fund?

LEARNING OBJECTIVE: Distinguish different types of investment companies based on key characteristics.

What Does a Fund Investor Actually Own?

Types of Investment Companies

- Open-End Funds
- Closed-End Funds
- Exchange-Traded Funds
- Unit Investment Trusts
- Real Estate Investment Trusts

Growth in the Market

Classification of Mutual Funds

- Classification by Investment Objective
- Classification by Portfolio Composition

13.2 Mutual Fund Investing

LEARNING OBJECTIVE: Explain the advantages and costs of investing in mutual funds versus individual securities.

The Advantages of Mutual Fund Investing

- Diversification
- Professional Money Management
- Liquidity
- Dividend Reinvestment
- Beneficiary Designation
- Withdrawal Options

The Costs of Mutual Fund Investing

- Shareholder Fees
- Fund Expenses
- Comparing Costs
- Mutual Fund Classes by Fee Structure

Selecting and Evaluating Funds

- The Mutual Fund Selection Process
- How Many Funds?
- The Mutual Fund Transaction

13.3 Real Estate Investment

LEARNING OBJECTIVE: Identify the advantages and disadvantages of direct and indirect real estate investments.

Your Home as an Investment

Direct Real Estate Investment

- Advantages of Direct Real Estate Investment
- Disadvantages of Direct Real Estate Investment

Indirect Real Estate Investment

- Real Estate Investment Trusts
- Mortgage-Backed Securities
- Limited Partnership

13.4 Speculative Investments

LEARNING OBJECTIVE: Explain why investments in precious metals, gems, collectibles, and derivatives are speculative.

Precious Metals and Gems

Collectibles and Art

Financial Derivatives

- Advantages of Investing in Derivatives
- Risks of Investing in Derivatives
- Using Derivatives to Reduce Risk

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Chapter 14 Estate Planning

14.1 What is Estate Planning?

LEARNING OBJECTIVE: Identify key components of an estate plan, and determine whether you need one.

The Estate Planning Process

Who Needs an Estate Plan?

Key Components of an Estate Plan

Ethics in Action: Terri Schiavo's Life-or-Death Experience

Organizing Financial and Legal Documents

14.2 Methods of Transferring Property

LEARNING OBJECTIVE: Explain the importance of having a valid will and arranging in advance for easy transfer of assets to your heirs.

Preparing a Valid Will

- Capacity to Make the Will
- Common Elements of a Will
- Should a Lawyer Draft Your Will?
- Making Changes to Your Will

Passing Property Outside of a Will

- Ownership of Assets
- Beneficiary Designation

14.3 Estate and Gift Taxes

LEARNING OBJECTIVE: Estimate the size of your estate and the taxes that would be owed upon your death.

Federal Gift Taxes

Federal Estate Taxes

Case Study 14.2 Lisa Calculates Her Taxable Estate

State Death Taxes

14.4 Reducing Taxes Through Trusts and Gifts

LEARNING OBJECTIVE: Understand how trusts, gifts, and charitable contributions can be used to minimize estate taxes.

When Are Trusts Useful?

Types of Trusts

- Revocable versus Irrevocable Trusts
- Living versus Testamentary Trusts
- Charitable Trusts

Gifting Alternatives

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