

## Twenty Questions about Investing

Alrighty then. Let's see how *you* do. Here are 20 questions about investing that you should know the answers to if you plan to be your own guide. If you don't know the answers to all (not some, not most, ALL) these questions, you need to buy a few good books or hit a few well-developed web sites to bone up.

1. When interest rates go up, bond prices
  - also go up
  - go down
  - stay the same
  
2. If a share is selling at \$60 a share and earning \$6 a share, it is said to be selling at a P/E ratio of how much?
  - 10
  - .60
  - 6
  
3. If you don't redeem your mutual fund shares, you don't have to pay any taxes.
  - True
  - False
  
4. In the past 10 years, over 70 percent of mutual funds have under-performed S & P 500 index.
  - True
  - False
  
5. When interest rates are rising, the stock market isn't usually as strong as it is when rates are falling.
  - True
  - False

6. Rate the level of risk associated with each of the following investments on a scale of 1-4, where 1 is low, 2 is limited, 3 is moderate and 4 is high:

- \_\_\_\_\_ Real estate investment trusts
- \_\_\_\_\_ B-rated bonds
- \_\_\_\_\_ Blue chip stocks
- \_\_\_\_\_ Money market funds
- \_\_\_\_\_ Small company stocks
- \_\_\_\_\_ Shares of a mining company
- \_\_\_\_\_ Futures, options, and other derivatives

7. Open-end mutual funds sell securities at a price based on their net asset value, and those shares are usually redeemed at their net asset value.

- True
- False

8. Securities firms are obligated to insure their mutual funds.

- True
- False

9. What type of mutual fund generally has the highest expense ratio?

- Global fund
- Index fund
- Growth fund
- Bond fund

10. A balanced mutual fund:

- Maintains a stable net asset value over the life of the fund.
- Seeks both income and capital appreciation by investing in stocks and bonds.
- Invests the same amount evenly in many securities.

11. What percentage of the world's securities are traded outside the United States?

- 40%
- 60%
- 80%

12. What comprises the DJIA?

- all companies listed on the New York Stock Exchange

- 30 selected major corporations from the NYSE and NASDAQ
- industrial stocks listed on the New York Stock Exchange

13. What are mutual fund expense ratios?

- the spreads between bid and ask prices
- the relationship between investment returns and interest rates
- the fixed expenses for administration and management that funds incur

14. When you sell a mutual fund share, what is the cost basis used for determining a gain or loss?

- the original purchase price
- the original purchase price, plus reinvested dividends, interest, and capital gains
- the sale price minus capital gains

15. Which of the following are true of common shares:

- Dividends are issued at the discretion of the directors of the company.
- The amount of the dividend is pre-set.
- Dividends can be paid as either cash or in additional shares.
- Common shares are callable at the discretion of the company's board.

16. Corporations split their shares to:

- reduce the number of shares in the marketplace
- reduce the price of their shares
- create treasury shares which can be used for DRIPs
- all of the above

17. In the event that a company is liquidated, preferred shareholders rank above:

- creditors
- common shareholders
- bond holders
- all of the above

18. Dividends not paid on a preferred share are lost to the investor unless the share has a:

- callable feature
- retractable feature
- sinking fund
- cumulative feature

19. When shares trade cum-dividend, purchasers of the shares receive the dividend as well.

- True
- False

20. Since stock exchanges have a minimum price requirement before more shares may be issued, companies sometimes raise the price of their shares to meet the exchange's requirements using a.
- share buy-back
  - share split
  - reverse-split

Check your answers by clicking [here](#). And remember, if you're going to be your own guide, you can't afford to mess up on important financial basics. For as long as you have a guide, you have a place to go to ask questions and find out information. On your own, you must find the information for yourself.

## Twenty Questions about Investing: The Answers

1. When interest rates go up, bond prices  
√ go down
2. If a share is selling at \$60 a share and earning \$6 a share, it is said to be selling at a P/E ratio of how much?  
√ 10
3. If you don't redeem your mutual fund shares, you don't have to pay any taxes.  
√ False (outside of a tax deferred plan, taxes may be owed on interest and dividend income)
4. In the past 10 years, over 70 percent of mutual funds have under-performed S & P 500 index.  
√ True
5. When interest rates are rising, the stock market isn't usually as strong as it is when rates are falling.  
√ True
6. Rate the level of risk associated with each of the following investments on a scale of 1-4, where 1 is low, 2 is limited, 3 is moderate and 4 is high:
  - 3 Real estate investment trusts
  - 4 B-rated bonds
  - 2 Blue chip stocks
  - 1 Money market funds
  - 3 Small company stocks
  - 4 Shares of a mining company
  - 4 Futures, options, and other derivatives
7. Open-end mutual funds sell securities at a price based on their net asset value, and those shares are usually redeemed at their net asset value.  
√ True
8. Securities firms are obligated to insure their mutual funds.  
√ False
9. What type of mutual fund generally has the highest expense ratio?  
√ Global fund

10. A balanced mutual fund:
  - √ Seeks both income and capital appreciation by investing in stocks and bonds.
  
11. What percentage of the world's securities are traded outside the United States?
  - √ 80%
  
12. What comprises the DJIA?
  - √ industrial stocks listed on the New York Stock Exchange
  
13. What are mutual fund expense ratios?
  - √ the fixed expenses for administration and management that funds incur
  
14. When you sell a mutual fund share, what is the cost basis used for determining a gain or loss?
  - √ the original purchase price, plus reinvested dividends, interest, and capital gains
  
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16. Corporations split their shares to:
  - √ reduce the price of their shares
  
17. In the event that a company is liquidated, preferred shareholders rank above:
  - √ common shareholders
  
18. Dividends not paid on a preferred share are lost to the investor unless the share has a:
  - √ cumulative feature
  
19. When shares trade cum-dividend, purchasers of the shares receive the dividend as well.
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20. Since stock exchanges have a minimum price requirement before more shares may be issued, companies sometimes raise the price of their shares to meet the exchange's requirements using a.
  - √ reverse-split