MGT613

NVA EDUCATION

Question 1: Describe the mechanics of trading in future market.

Question 2: Describe the primary objective of an investment portfolio.

Answer:
The objective of investment portfolio is to minimize the company risk. It include diversification of stocks.

Portfolio objectives are always going to center on return and risk, because these are the two aspects of most interest to investors. Indeed, return and risk are the basis of all financial decisions in general and investing decisions in particular. Investors seek returns, but must assume risk in order to have an opportunity to earn the returns. Furthermore, an individual can be a composite of these stages at the same time. The four stages are:

1. Accumulation Phase: In the early stage of the life cycle, net worth is typically small, but the time horizon is long. Investors can afford to assume large risks.
2. Consolidation Phase: In this phase, involving the mid-to-late career stage of the life cycle when income exceeds expenses, an investment portfolio can be .accumulated. A portfolio balance is sought to provide a moderate trade-off between risk and return.
3. Spending Phase: In this phase, living expenses are covered from accumulated assets rather than earned income. Although some risk taking is still preferable, the emphasis is on safety, resulting in a relatively low position on the risk-return tradeoff.
4. Gifting Phase: In this phase, the attitudes about the purpose of investments changes. The basic position on the trade-off remains about the same as in phase 3.

Question 3: Describe the role of clearing house in futures market.

Answer:
The clearinghouse for futures markets operates in the same way as the clearinghouse for options. Buyers and sellers settle with the clearinghouse, not each other. Thus, the clearinghouse, and not- another investor, is actually on the other side of every transaction and ensures that all payments are made as specified. It stands ready to fulfill a contract if either buyer or seller defaults, thereby helping to facilitate an orderly market in futures. The clearinghouse makes the futures market impersonal, which is the key to its success, because any buyer or seller can always close out a position and be assured of payment.

Question 4: Describe why an investor might purchase a call.

Answer:
A call option gives the holder the right to buy (or "call away") 100 shares of a particular common stock at a specified price any time prior to a specified expiration date. Investors purchase calls if they expect the stock price to rise, because (lie price of the call and the common stock will move together. Therefore, calls permit investors to speculate on a rise in the price of the underlying common stock without buying the stock itself.

Question 5: Describe why an investor might sell a put.

Answer:
A put option gives the buyer the right to sell (or "put away") 100 shares of a particular common stock at a specified price prior to a specified expiration date. If exercised, the shares are sold by the owner (buyer) of the put contract to a writer (seller) of this contract who has been designated to take delivery of the shares and pay the specified price. Investors purchase puts if they expect the stock price to foil, because the value of the put will rise as the stock price declines. Therefore, puts allow investors to speculate on * decline in the stock price without selling the common stock short.

Question 6: Difference between bottom approach and top down