Part B

END-OF-CHAPTER

SOLUTIONS

Chapter 1
A Brief History of Risk and Return

Answers to Questions and Problems

Core Questions

1. No, whether you choose to sell the stock or not does not affect the gain or loss for the year; your stock is worth what it would bring if you sold it. Whether you choose to do so or not is irrelevant (ignoring taxes).

2. Capital gains yield = ($31 – $42)/$42 = –26.19%
Dividend yield = $2.40/$42 = +5.71%
Total rate of return = –26.19% + 5.71% = –20.48%

3. Dollar return = 750($60 – $42) + 750($2.40) = $15,300
Capital gains yield = ($60 – $42)/$42 = 42.86%
Dividend yield = $2.40/$42 = 5.71%
Total rate of return = 42.86% + 5.71% = 48.57%

4. *a.* average return = 5.41%, average risk premium = 1.31%
b. average return = 4.10%, average risk premium = 0%
c. average return = 12.83%, average risk premium = 8.73%
d. average return = 17.21%, average risk premium = 13.11%

5. Jurassic average return = 11.4%; Stonehenge average return = 9.4%

6. A: average return = 6.20%, variance = 0.00627, standard deviation = 7.92%
B: average return = 9.40%, variance = 0.03413, standard deviation = 18.47%

7. For both risk and return, increasing order is *b, c, a, d*. On average, the higher the risk of an investment, the higher is its expected return.

8. That's plus or minus one standard deviation, so about two-thirds of time or two years out of three.

9. You lose money if you have a negative return. With a 6 percent expected return and a 3 percent standard deviation, a zero return is two standard deviations below the average. The odds of being outside (above or below) two standard deviations are 5 percent; the odds of being below are half that, or 2.5 percent. You should expect to lose money only 2.5 years out of every 100. It's a pretty safe investment.

Chapter 8
Stock Price Behavior and Market Efficiency

Answers to Questions and Problems

Core Questions

1. There are three trends at all times, the primary, secondary, and tertiary trends. For a market timer, the secondary, or short-run trend, might be the most important, but, for most investors, it is the primary, or long-run trend that matters.

2. A support area is a price or level below which a stock price or market index is not likely to drop. A resistance area is a price or level above which a stock price or market index is not likely to rise.

3. A correction is movement toward the long-run trend. A confirmation is a signal that the long-run trend has changed direction.

4. The fact that the market is up is good news, but market breadth (the difference between the number of gainers and losers) is negative. To a technical analyst, a market advance on narrow or negative breadth is not a particularly positive event.

5. The Arms (or trin) is a ratio. The numerator has the average number of shares traded in stocks that were down for the day; the denominator has the average number of shares traded that were up for the day. It indicates whether trading is heavier in down or up issues.

6.

	Monday	Tuesday	Wednesday	Thursday	Friday
Adv – Dec	845	720	–1,465	–745	600
Cumulative	845	1,565	100	–645	–45

The market closed the week on a modestly bullish signal according to this technical indicator.

7.

	Monday	Tuesday	Wednesday	Thursday	Friday
Avg Dec Vol	78.571	115.000	130.864	89.231	110.526
Avg Adv Vol	133.531	95.349	105.357	113.636	119.355
Arms Ratio	0.588	1.206	1.242	0.785	0.926

The market closed the week on an essentially neutral signal according to this technical indicator.