Chapter 15 Narrative Revisions: page 306

- 4.A.i: analyze costs of owning versus renting housing
- 4.A.ii analyze benefits of owning versus renting housing

Renting or Owning a Home

When people first start out on their own, they usually don't have the amount of cash required as a down payment, or the credit history necessary, to purchase a home. Renting an apartment, condominium, or a house with or without a roommate is a common first "real-world" living experience. For instance, imagine you are moving out on your own for the first time. If you have a budget of $1,000 per month for housing, how will you decide what type of housing will best meet your wants and needs? Use figure 15.6 to analyze the costs and benefits of owning versus renting housing.

Figure 15.6

	Costs	Benefits
Renting Housing	- Deposit: in addition to monthly rent, when first signing a lease you will likely need to be prepared to pay the first and last month's rent plus a security deposit - Lease: signing a lease is a contractual agreement - Limited control: some rentals may limit what you can do, such as not being able to paint interior walls	- Sensible: renting can be a sensible choice when first starting out and you are unsure of where you want to settle long-term - Maintenance: renting can be low maintenance without having the responsibility of snow removal, landscaping, or repairs - Flexibility: most leases are one-year terms, giving you the option to re-sign or move at the end of the lease
Owning Housing	- Interest: you will pay interest in addition to your home loan - Taxes: homeowners are required to pay property taxes - Insurance: property owners are responsible for purchasing homeowners insurance	- Asset: property can be a strong asset to have in a personal financial portfolio - Equity: homeownership provides an opportunity to earn equity - Tax deductible: Mortgage interest and property taxes are deductible on tax returns

	- Maintenance: property maintenance and repairs can be costly over time - Limited mobility: most people that choose to own a home tend to stay in a geographic area longer	- Limited mobility: depending on your perspective, being rooted to a community through homeownership can also be seen as a benefit

Chapter 15 Narrative Revisions: page 303 Figure 15.3

- 4.B.i: analyze costs of owning versus leasing a vehicle
- 4.B.ii analyze benefits of owning versus leasing a vehicle

Leasing or Owning a Car

A common first major purchase is an automobile. A smart consumer should plan for this expenditure by setting a budget, researching possible vehicles that fit within the budget, and figuring out how to pay for it. Cash may be the easiest choice, but borrowing might be necessary.

If having your own car is necessary, decide whether to lease or buy. Leasing a car can get you into a new vehicle for a lower monthly payment. However, at the end of the lease, you do not own the car. When it is time to purchase a vehicle, how will you decide whether to lease or own? Use Figure 15.3 to analyze the costs and benefits of owning versus leasing a vehicle to help you decide the best choice for your situation.

Figure 15.3

	Costs	Benefits	When to Own or Lease
Owning a vehicle	- Expensive: purchasing a new vehicle is expensive and typically carries a higher monthly payment than a lease. If paying for a vehicle in full you will need the necessary funds to do so. If borrowing funds, you will need to supply a down	- Freedom: owning your own car gives you the freedom to drive as many miles as desired without restrictions - Asset: a car that is paid in full can be a helpful asset to your personal financial situation	- You want to own your car when the loan is paid off - You have the down payment and can afford the monthly payment - You want to trade in an older car - You drive more than 12,000 miles per year

	payment and manage interest payments on top of the loan repayment. - Selling: you are responsible for selling the vehicle when you are ready to move on to a new car	- Customization: owning a car gives you the flexibility to customize it in any way you desire	- You plan to properly maintain the car so that it will last many years
Leasing a vehicle	- Limits: most leases limit drivers to 12,000 miles per year; if you are a heavy driver, this limitation may cost extra in overage charges - Fees: some extra fees may apply when taking on a lease, such as an acquisition fee for initiating the lease and a disposition fee if you decide not to purchase the car at the end of the lease	- Payments: leasing can provide low monthly payments that may better align with your budget - Hassle-free: when you are ready to change your vehicle, you can avoid the hassle of having to sell the car - Flexibility: leasing lets you try out different cars before purchasing and enables you to have a new car every few years - Taxes: lease payments can sometimes be deducted as job-related on income taxes	- You want a low monthly payment - You want to avoid the hassle of eventually selling the car - You drive less than 12,000 miles per year - You want to try out different cars before purchasing - You like having a new car every two to three years - You can deduct the lease payment as job-related on your income taxes

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- 6.D.i: evaluate risk of various investment options, including stocks

Evaluate Risk of Stocks

Investors should take a long-term approach when evaluating the risk of stocks. Stocks tend to be the most volatile investments; that is, their value can fluctuate greatly in the short-term making them a risky investment if you do not plan on maintaining them for the long-term. However, stock values can go up and down quickly in response to the market. There is always risk involved when investing in stocks, but over time, stocks have performed better than other types of investments overall, making their return on investment a positive one.

When evaluating risk of stocks, a critical element to understand is that your stock is only worth the market value, or the price the stock would cost or sell for in the marketplace. There is no guarantee that your stock will be worth at least what you paid for it. Stocks are considered a liquid investment because you can sell them at any time for cash. Potential shareholders can reduce the risk of losing money on an investment by researching the company and their stock performance.

To evaluate the risk of stocks, plan to conduct thorough research before making any purchases. There is a wealth of information available for potential investors. Some resources include investor publications, company reports, and the internet. When evaluating risk of a stock, investors typically focus on the following evaluation criteria:

- Company's revenues and profitability
- Current price of the stock and movement up or down
- Market capitalization, or value of the company's outstanding shares
- Company's balance sheet
- Company press releases

A good place to get a quick summary of a stock's recent price and trading information is the latest stock quote. Any financial newspaper will publish stock quotes, but real-time data is available online. All you need is the company's ticker, or stock symbol. The stock symbol is an abbreviation used to identify a particular stock traded on an exchange.

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- 6.D.ii: evaluate risk of various investment options, including bonds

Bonds

Bonds are another way for companies and governments to raise capital. While stocks are considered equity or ownership investments, bonds are debt investments. A bond is a debt security in which an investor loans money to a bond issuer. During the term of the bond, the bond issuer pays the investor a fixed interest rate, usually semiannually. When the bond matures, or becomes due, the investor is paid the bond's face value.

Evaluate Risk of Bonds

Investors should evaluate the risk of a bond before purchasing one. To evaluate risk, you will need to understand that the face value is the stated value of a bond when issued, and the amount an investor will receive at the bond's maturity date. The maturity date is when a bond will be paid. Governments and corporations issue bonds to raise capital to finance their operations. When evaluating risk of bonds, it is important to understand that corporate bonds are generally riskier than government bonds because they are secured only by the future profits and assets of the company. Municipal bonds—offered by state, city, and local governments—are also known as tax-exempts. Investors evaluate risk of bonds by analyzing the bond rating. All bonds are given a **bond rating**, or a grade that indicates their credit quality. The ratings range from AAA, the highest rating, to C, or junk bonds, which is the lowest. By analyzing the type of bond—corporate, government, or municipal—coupled with a review of the bond rating, you can effectively evaluate the risk of a bond before investing it.

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- 6.D.iii: evaluate risk of various investment options, including mutual funds

Mutual Funds

A **mutual fund** is a managed collection of cash, stocks, bonds, and other securities. Each investor owns shares of the fund. The mutual fund company charges fees to manage the fund. Most mutual funds are an open-end fund, or do not have a restriction on the amount of shares the fund can issue. If the fund management feels that total assets of the fund have become too large, the fund can be closed to new investors. A closed-end fund only issues a certain number of shares and no new ones as investor demand grows.

Evaluate Risk of Mutual Funds

Mutual funds can be an effective addition to any investment portfolio. Without the burden of selecting individual stocks or bonds, mutual funds make investing in a diversified portfolio attainable. However, mutual funds are not without risk. Like other investment tools, mutual funds do not guarantee the original amount invested. Therefore, it is important to evaluate risk of mutual funds to ensure you select the right investment option for your long-term goals. To evaluate risk of mutual funds, investors examine some common areas, including the following:

- The fund's performance history
- The fund's management team
- The fund's turnover rate, or how often it buys and sells investments