

SIMON FRASER UNIVERSITY
Faculty of Business Administration

Assignment #2

BUS 417-D100
Security Analysis

19-2

Academic Honesty: This assignment is individual work. Students are required to follow requirements of S10.01 (see class webpage).

Rules for Submission: Answer to question in Part I to be typed, single spaced, of maximum length 1 page, with 1" margins and type point not less than 12. (This assignment is typed in 12 point.) Both a) and b) parts have to be contained within one single sided page. There is no page constraint for questions in Part II. Violations will be subject to deductions. Assignments are due in class, at the start of the first lecture in week 6. Be sure to answer all parts of each question.

PART I. ESSAY QUESTIONS. 20 pts. -- 10 pts. each for a) and b).

- 2.a) Describe the evolution of equity capital organization and trading from 1500 to the 1930's. In your answer be sure to identify: different approaches to equity capital organization; the time line of important legal developments; and, differing approaches to regulating the equity security market.
- b) Describe the development of the three general approaches to equity security analysis from 1900 to the present. In your answer be sure to identify: seminal contributions to the different approaches to the subject; and, to provide an overview of the essential elements of these possible approaches.

PART II: NUMERICAL QUESTIONS. 10 points – 5 pts. each. for a) and b)

- 1.a) You are in the Vancouver market for a house. Your effective all-in market borrowing rate for a 5 year term house mortgage from a chartered bank is 3.49%. The vendor of the house you are considering purchasing is willing to take back a \$675,000, 5 year due-on-sale mortgage at 2.8%, with a 25 year amortization. The asking price on the house is \$800,000. What is the value of the financing concession for this house?
- b) You are about to retire at age 60 and expect to achieve a 3.5% return on your invested capital over the full length of your retirement. What level of initial investment capital do you require to ensure a \$70,000 per year income until age 95 when your capital will be exhausted? If you start your retirement with \$2 million dollars, plan to have income of \$80,000 per year and expect to achieve a 3.25% return on invested capital, how many years will pass before your funds are exhausted? How does your answer change if the expected return is 4%? Derive the functional relationship between changes in interest rates and the time that will pass before funds will be exhausted.