

Hear-old case study

Business



**Edu
Pony**

Hear-old management trainee at a large chemical company. She is single and has no plans for marriage. Her annual salary is \$34, 000 (placing her in the 15 percent tax bracket), and her monthly expenditures come to approximately \$1 , 500. During the past year or so, Elaine has managed to save around \$8, 000, and she expects to continue saving at least that amount each year for the foreseeable future. Her company pays the premium on her \$35, 000 life insurance policy.

Because Alien’s entire education was financed by scholarships, she was able to save money from the summer and part-time Jobs she held as a student. Altogether, she has a nest egg of nearly \$18, 000, out of which she’d like to invest about \$15, 000. She’ll keep the remaining \$3, 000 in a bank CD that pays 3 percent interest and will use this money only in an emergency. Elaine can afford to take more risks than someone with family obligations can, but she doesn’t wish to be a speculator; she simply wants to earn an attractive rate of return on her investments.

Critical Thinking Questions 1 .

What investment options are open to Elaine? 2. What chance does she have of earning a satisfactory return if she invests her \$1 5, 000 in (a) blue-chip stocks, (b) growth stocks, (c) speculative stocks, (d) corporate bonds, or (e) municipal bonds? 3. Discuss the factors you would consider when analyzing these alternate investment vehicles. 4. What recommendation would you make to Elaine regarding her available investment alternatives? Explain.