

9.07 Buying on Margin

Name _____

Sunshine has \$15,000 to invest using a 25% margin account. She buys stock in Viacom at a price of \$50 per share on January 3rd, 2014. A \$0.50 dividend was paid each quarter. In December 2015, after the dividend date, she sells the stock when the price is \$65 per share. Her broker's fee for transactions using margin is 2%.

Sunshine has \$15,000 to invest using a 25% margin account.

♥ What does the underlined part mean?

♥ How much does she have in total to invest?

She buys stock in Viacom at a price of \$50 per share on January 3rd 2014.

♥ How many shares does she buy?

A \$0.50 dividend was paid each quarter.

♥ What is her total dividend income? (Check the years.)

In December 2015, after the dividend date, she sells the stock when the price is \$65 per share.

♥ How much cash does she get from the sale?

Her broker's fee for transactions using margin is 2%.

♥ Determine the fee on the Buy date and the Sell date. Add them together.

♥ How much did she initially borrow for this purchase?

♥ After she pays that all back, how much money did she make after dividends and fees?

Nyela has \$12,000 to invest using a 20% margin account. She buys stock in 3M (the company that makes Post-its) at a price of \$40 per share in January. A \$0.605 dividend was paid each quarter. In December, after the dividend date, she sells the stock when the price is \$52 per share. Her broker's fee for transactions using margin is 4.5%. Determine her total profit from her 3M position.

Assume Nyela didn't use a margin account and she used only \$12,000 to invest. Determine how much more she made by using a margin account. Her broker's fees on cash account transactions is 1.5%.

Wells has \$45,000 to invest using a 25% margin account. He buys stock in Nike at a price of \$32 per share in January. A \$0.45 dividend was paid each quarter. In December, after the dividend date, he sells the stock when the price is \$38.50 per share. His broker's fee for transactions using margin is 5%. Determine his total profit from his Nike position.

Stick with Wells. Assume Nike had a bad year and the price at the time he sold was \$28 per share. Determine how much money Wells lost. (Same dividends and fees.)