

A characteristic of defensive stocks is

- A. income.
- B. growth.
- C. steady earnings.
- D. price stability in periods of economic decline.

Question 3

0 / 1 point

Ben Knight purchased some shares when they had the following characteristics:

Price Earnings Ratio	Earnings per Share
11.5	\$3.25

Ben held the shares for 1 year, received \$1.25 in dividends per share and sold them for \$39 each.

His annual shareholders return was closest to ____%.

- A. 14.8
- B. 7.7

Answer: B 7th Cdn Ed, p 385; 6th Cdn Ed, p 344; 5th Cdn Ed, p 344; 4th Cdn Ed, p 343; Class Notes VIII-B-6.

The purchase price can be found by combining the P/E ratio and the Earnings per share:

$$\text{Initial Price} = \text{P/E} \times \text{EPS} = 11.5 \times \$3.25 = \$37.38$$

The increase in share price for the share over the year was: $\$39 - \$37.38 = \$1.63$

$$\begin{aligned} \text{The Annual Shareholders Return} &= \frac{\text{Annual Dividend} + \text{Appreciation in Value}}{\text{Initial Stock Investment}} \times 100 \\ &= \frac{(\$1.25 + \$1.63)}{\$37.38} \times 100 = 7.7\% \end{aligned}$$

Question 5

0 / 1 point

Which of the following statements is correct?

- | | |
|-----|--|
| I. | The federal government has implemented a tax on distributions from most income trusts, making them less attractive than they used to be. |
| II. | The global trend is for governments to impose less regulation on REITs. |

- A. I only
- B. II only
- C. Both I and II
- D. Neither I nor II

Joe Boylan purchased 600 common shares of Standard Cartons Inc. at the start of the year for \$140 per share.

He went on vacation in July and on his return was surprised to see that the shares were now trading at \$59 each. When he called his broker, he was notified that the company had a 5:2 stock split just one day earlier.

Assume that once the stock split occurred, there was no new information which came to the market to change the share price. The value of Joe's portfolio just before the stock split was closest to \$_____.

- A. 84,000
- B. 90,000
- C. 49,560
- ⇒ D. 88,500
- E. 14,160
- ✘ F. 123,900

Answer: D 7th Cdn Ed, p 371; 6th Cdn Ed, p 332; 5th Cdn Ed, p 332; 4th Cdn Ed, p 331.

After the split, Joe would have $600 \text{ shares} \times 5/2 = 1,500$ shares.

With each share worth \$59, the value after the split would be $1,500 \text{ sh} \times \$59 / \text{sh} = \$88,500$.

This should also be the value just before the split as well (since there was no new information which would have changed the value once the split had occurred): but before the split the share price would have been 5/2 times higher: his portfolio would have been worth:

$$600 \text{ shares} \times (5/2 \times \$59 \text{ sh}) = \underline{\$88,500}$$

Note that the price at which he acquired the shares is not relevant to this discussion.