

## **Assignment 4**

### **1) Explain what amortization is and how a down payment and loan duration impact it.**

Amortization is the reduction of the loan from the fixed payments made over a period of time. The down payment will help decrease the amount of money that you ask for the loan. The larger the amount of downpayment, the lower the payment of the loan will be. Loan duration will tell you the length period of the loan. If the payment of the loan is higher than the minimum set payment, the duration of the loan will be shorten.

### **2) What is the importance of health insurance and disability insurance in personal financial planning?**

The medical cost is increasing everyday so planning for an health insurance is important for financial planning in the long run. The right health insurance will add value to your financial planning and will last through your retirement life. The medical expense now may seem manageable as you earn stable income but the same expense in your retirement life will look much more as you earn no income. Therefore, it is the best to include health insurance in personal financial planning in order to be prepared for all the expense that it takes. Another insurance that is important in personal financial planning is disability insurance. If you are involved in a disabling accident and didn't have disability insurance, you may incur financial problems. You may be unable to pay the current bills or save the money for the future. The disability insurance policy will help reduce these risk as it will replace lost income when you are unable to work form the accident or illness.

### **3) What is life insurance? What is its purpose and principle?**

The life insurance is known as life assurance which is a way to help protect your loved ones if you were to die during the length of your policy. The person who apply for the life insurance will need to choose the amount of cover you need, how

long you need it and you can pay your premiums monthly or annually. In return, your dependents have the reassurance that if you died while the policy is covered they will receive the cash sum pay. Life insurance can help in estate planning by passing asset to the heir with tax free. The life insurance are an advantage for high income earners as they get special tax. In addition, the life insurance helps guarantee the insurability and force the person to save money.

**4) Joe and Jane are both 35 years old. Although they graduated from college almost 15 years ago, they have never developed a diversified investment program. What extra money they had was invested in high-tech stocks that did quite well. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Joe's and Jane's losses?**

There are 2 types of risk which are systematic and unsystematic risk. The systematic risk affects the overall market. This risk is unpredictable and can't reduce through diversification. Therefore the systematic risk is also refer as market-related or nondiversifiable risk. The unsystematic risk is unique to a specific company or industry. This risk can be reduce by diversification. The asset allocation is the process of diversifying the investment across range of different asset class to minimize the risk. Joe and Jane could diversify their investment across cash, shares, bonds, property, commodities, private equity and alternative investments. The asset allocation will help them reduce the company unique risk but can't mitigate the market risk like economic downturn.