

Assignment 4

1. Explain what amortization is and how a down payment and loan duration impact it?

Amortization is a process of paying debt over the period of time through the regular payment. Each monthly payment looks the same, but the payment is made up of several parts that change over time. At first, the most of payment is interest. Then the interest would be paid less than previous period because of less principal. So, a down payment affect amortization in term of reduce the amount of money in a loan. This make the loan and payments to be less. Moreover, loan duration represents maturity of that loan. The higher amount of payments, the shorter loan duration will be.

2. What is the importance of health insurance and disability insurance in personal financial planning?

health insurance covers the most part of the risk in term of medical expenses that is unpredictable, in other word, this reduce medical expenses in life. Disability insurance offer income protection that a disability has a barrier to complete the work in long term period. This mean it also protect your future life from uncertain situation. Both insurances should be a part of your financial planning in order to protect your family's economic security and also your retirement from the uncertain effect that could be happened all times.

3. What is life insurance? What is its purpose and principle?

Life insurance is a protection against the financial loss. This will result from a person who die before the regulation. People usually buy life insurance to cover someone who rely on them from financial losses after they died. The life insurance principle is the measuring the death of people

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 the major losses. How could asset allocation have reduced the dollar amounts of the Joe's and Jane's losses?

Asset allocation is the separate your asset into several different types of investments with its own risk. In this case, Joe and Jane could spread their asset investing in more mutual funds, conservative stocks or government bonds depend on the risk which is the risk of these three are also low instead of investing their whole asset in high-tech stocks which has higher risk compared to those three investments. In my opinion, they should have 60 percent of their investments in high-tech stocks, growth investments, which is volatile in the shorter term. The remainder of their money should be invested in safer, low risk, more conservative investments.