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Assignment 3

1. **Explain what amortisation is and how a down payment and loan duration impact it.**

Amortisation is a payment each month that combines both interest and the principal amount and is paid over a specific period of time until the loan is finished. Amortised payments are calculated by dividing the principal(the balance of the amount loaned after down payment) by the number of months set aside for repayment. This means that the higher the down payment, the lower the principle will be left of. Lower principle means lower monthly payment. On the side of duration, the longer the duration, the lower monthly payment will be, as the principle got divided by the larger number of month.

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

Health insurance helps an individual from a possible financial burden that could be occurred by illness or injury. Disability insurance is not very different, but it is for the compensation in the case of loss that is result from the disability. This could help people with an insurance who accidentally get sick or got injured because they do not have to pay this loss by themselves as the insurance will cover this. This helps lower the risk of big financial loss and for one's to achieve a more stable financial plan.

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

Life insurance is a protection against the loss of income that would result if the insured passed away. The named beneficiary receives the proceeds and is thereby safeguarded from the financial impact of the death of the insured.[1] Life insurance helps bridge the gap between the financial needs of your dependents and the amount available from other sources, is the amount to be provided by life insurance. This is actually a transfer of wealth to the trustee in case the proposer pass away. This helps the trustee with their financial position by both real asset term and tax purpose. The principle of this type of insurance is to share the risk within the risk pool to avoid the catastrophic loss.

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4. **Bob and Mary Martin 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 until the last five years. Then, with the economic downturn, they encountered major losses. How could asset allocation have reduced the dollar amounts of the Martin's losses?**

Asset allocation could help them diversify their portfolio. Currently, their portfolio is solely dedicate to the equity with only one stock. Their gain/loss only depends on the fluctuation of a single stock. They could diversify their portfolio by allocate their asset and invest in various type of asset. Given they did the asset allocation, this could reduced the loss because various type of asset does not completely move up and down together, their are a level of correlation. Thus, by allocating their asset and invest in the asset with different level of correlation, it will make their portfolio more stable - hence lower risk - while maintaining fair amount of average expected return. On the other word, during the period that high tech stock went very well, they wont get as high the return if they diversify, but during the downturn, they will not face this major loss.

[1] http://www.investopedia.com/terms/l/lifeinsurance.asp