

Test Your Investing IQ

1. When interest rates go up, what happens to bond prices?
 - A. Bond prices drop.
 - B. Interest rates do not influence bond prices.
 - C. Bond and interest rates always rise together.
2. If you lose money in a mutual fund that you bought at a bank, the Federal Deposit Insurance Corporation (FDIC) will protect your assets.
 - A. True.
 - B. False.
3. How is a fee-only financial planner paid?
 - A. He earns a commission when he sells client stocks and other securities.
 - B. The planner typically charges by the hour or project.
 - C. He receives a percentage of your holdings gain in value.
4. What is dollar-cost averaging?
 - A. It's a tool the U.S. Treasury uses to measure the cost of money.
 - B. It's a financial strategy that requires you to invest the same amount of money at regular intervals, such as every month.
 - C. It's another term for the buy-and-hold stock strategy.
5. If your investment earns an average annual return of 10 percent, how many years will it take before your money doubles?
 - A. Ten years.
 - B. Seven years.
 - C. Five years.
6. Stocks always provide a better return than bonds or money markets.
 - A. True.
 - B. False.
7. If two bonds are of the same quality, a short-term bond will usually provide a higher yield than a long-term one.
 - A. True.
 - B. False

8. If you don't sell your mutual fund shares, you won't have to pay any capital gain taxes.
- A. True.
 - B. False.
9. Stock index funds will always do better than other stock mutual funds because they have lower expenses.
- A. True.
 - B. False.
10. When you take direct possession of your retirement assets after leaving a job, you will be faced with a withholding tax amounting to:
- A. 5 percent.
 - B. 10 percent.
 - C. There is no withholding tax, but you will owe income tax on the amount.
11. If your spouse doesn't work, the maximum amount he or she can contribute to a yearly Individual Retirement Account is
- A. \$250
 - B. \$2,000
 - C. None. You can only make a contribution if you are employed.
12. The new tax rate for long-term capital gains is
- A. 25 percent.
 - B. 20 percent, but 10 percent for anybody in the 15 percent bracket.
 - C. Congress is still bickering over what the new rates will be.
13. Which description of the Roth IRA is true?
- A. Your contributions are not tax-deductible, but you will owe no taxes on the money when it's withdrawn.
 - B. You can withdraw the money for certain uses if the money stays put for at least five years.
 - C. Both A and B.

14. With the new IRA changes, you can avoid incurring a penalty for an early withdrawal if the money is used for
- A. Higher-education expenses.
 - B. Covering expenses related to the first-time purchase of a home.
 - C. Both A and B.
15. Tax-free municipal bonds and variable annuities are both ideal investments to put in an IRA or other tax-deferred retirement plans.
- A. True.
 - B. False
16. The percentage of bonds, stocks, and cash that you pick for your portfolio will have a greater impact on the success of your investment plan than choosing the right individual stocks or bonds.
- A. True.
 - B. False.
17. Parents can realize a tax savings if they use Series EE savings bonds for their children's college education. To qualify, the bonds
- A. Must be registered in the child's name.
 - B. Must be in a parent's name.
 - C. It doesn't matter.
18. High-yield corporate bonds are
- A. Issued by corporations like Disney and IBM, which enjoy excellent credit ratings.
 - B. Junk bonds that are used by companies plagued with poor credit ratings such as Amazon.com.
19. Who is the world's most successful investor?
- A. Steve Skrocki
 - B. Warren Buffet
 - C. Bill Gates
 - D. Steve Jobs
20. How many stocks make up the Dow Jones Industrial Average?
- A. 10
 - B. 100
 - C. 30
 - D. 50