**Chapter 7: Fund Management**

|  |
| --- |
| **Case Study: Harris**  Harris is a recent graduate with a good job. He is smart but knows little about investment, and he has been told it would be sensible to invest a modest amount of around $100 per month into equities, hopefully to enable him to afford a house one day. He particularly likes shares in technology companies as he feels technology is where the potential growth is. |

**Share price data of popular technology companies:**

|  |  |
| --- | --- |
| http://www.logospike.com/wp-content/uploads/2015/11/Apple_Logo_2015_01.jpgApple is trading at a price of $110 per share | https://www.seeklogo.net/wp-content/uploads/2011/06/facebook-icon-logo-vector.pngFacebook is trading at $76 per share |
| http://www.wired.com/wp-content/uploads/2015/09/2015.jpgGoogle is trading at $522 per share | http://img.bhs4.com/d7/c/d7c61e7c18d8c9122ece27c0ebc99ebb1ba7a22b_large.jpgMicrosoft® is trading at $42 per share |

**With his $100, what shares can Harris buy?**

|  |
| --- |
|  |

**What are the key things to consider in this situation?**

**Things to consider….**

**Draw diagrams below to illustrate how the two investment methods below would work:**

|  |
| --- |
| **DIRECT INVESTMENT** |
| **INDIRECT INVESTMENT** |

**Define and explain how Harris can benefit from DIVERSIFICATION**

|  |
| --- |
|  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CASE STUDY: The Apple and Google Fund**  A fund manager has set up a fund to invest in the best-value technology companies, and advertises for investors. Each investor is only asked to invest $100. The fund manages to attract 1,000 investors – a total of $100,000.  The fund manager feels that current best value shares are those of Apple and Google. He feels slightly more positive about Apple and uses the money to buy 600 Apple shares (costing $110 each) and 65 shares in Google (costing $522 each). The remaining money in the fund is kept on deposit for the moment, ready to spend when the right opportunity arises.  The fund’s investments are:   |  |  |  |  | | --- | --- | --- | --- | | **Investment** | **Share Price** | **Number of Shares** | **Total** | | Apple | $110 | 600 | $66,000 | | Google | $522 | 65 | $33,930 | | Cash | n/a | n/a | $70 | |  |  |  | **$100,000** |   Each investor’s $100 is no invested in Apple and Google, despite the fact that one individual Apple or Google share is too expensive for $100 to purchase.  Assuming Harris uses his $100 to invest in this fund, he would now own 1/1,000th of the fund, which effectively means he has 60% of an Apple share and 6.5% of a Google share, plus a little bit of cash.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Investment** | **Share Price** | **Number of Shares** | **Total** | **Harris’ Investment** | | Apple | $110 | 600 | $66,000 | $66.00 | | Google | $522 | 65 | $33,930 | $33.93 | | Cash | n/a | n/a | $70 | $0.07 | |  |  |  | **$100,000** | **$100** |   **The fund has essentially allowed Harris and the other 999 investors to purchase a portion of an Apple and Google share.** |

**Summarise the benefits of fund management using the mind-map below:**