FIN 366: INVESTMENTS
INDICES AND INVESTMENT COMPANIES
CRITICAL THINKING & CONCEPTUAL QUESTIONS

1. What are the three major market indices we've discussed? How is each weighted? Describe the number and types of stocks in each.
2. What are the three major "total market" indices we've discussed?
3. Describe the process of rebalancing. For which type of index is rebalancing required?
4. What are the implications of rebalancing on transaction costs and taxes?
5. Which type of index does not require rebalancing? Why?
6. How is a price weighted index's *initial* divisor determined? Why must it be adjusted for stock splits or reverse stock splits?
7. Why is the dollar value of a stock's price at a moment in time irrelevant to the performance or quality of a firm?
8. Who are the major institutional investors (or fund families) offering mutual funds and/or ETFs?
9. Describe the components of a firm's NAV. Provide examples of each component.
10. What is the primary way in which mutual funds and ETFs differ?
11. What are benefits that ETFs offer over mutual funds?
12. Describe why ETFs are "tax efficient" relative to mutual funds. Explain why an investor redeeming their shares with a mutual fund might result in a tax liability for all investors in the fund, but an investor exiting their ETF position only results in a tax liability to the individual investor.
13. What is a fund's turnover and why might it be problematic for investors in a fund?
14. How are closed-end funds *similar* to ETFs? In what way are they *different* from mutual funds?
15. What type of investment company comprises the greatest percentage of total net assets of all investment companies?
16. Which type of investment company is increasing its share of investment companies overall over the last several years?
17. Describe the distinction between active and index funds.
18. Below are brief descriptions of various investment funds. Identify which type (or types) of fund each is:
    a. Consists of holdings in companies that have pledged to be carbon-neutral before 2050
    b. Invests in fixed income and equity securities, switching weightings of each as the manager chooses
    c. Invests in Exxon, Chevron, Conoco Phillips, and Kinder Morgan, as well as other similar companies
    d. Holds equity shares in proportion to the CRSP Total Market Index

e. A fund that invests more in conservative fixed income securities and less in risky equity securities over time
f. Holds commercial paper, government securities, and certificates of deposit
g. Invests in common stock that the managers decide is most likely to perform well into the future.
h. An index fund whose shares can be bought on margin or sold short

19. What comprises a fund's annual expense ratio?
20. Characterize the average performance of mutual funds over the last several years. What might explain this performance relative to a broad market index?
21. Why are hedge funds, private equity funds, and venture capital funds not considered investment companies? What do each of these funds specialize in, and what type of investor may be attracted to them and permitted to invest in them?
22. If an individual investor holds shares of a firm through an investment company, what does that mean for the investor's voting rights at that firm?
23. CHALLENGE Suppose a mutual fund manager has been very successful in exploiting anomalies and buying stocks that are mispriced. As a result of the manager's excellent performance, the manager has attracted **inflows** as many investors purchase shares in their mutual fund. Why might these inflows make it challenging for the manager to continue to perform well in the future?
24. CHALLENGE A mutual fund can become "**closed**" to new investors if it no longer accepts additional money investors. Related to the question above, why might a mutual fund "close"? Does a mutual fund closing make it a "closed end fund"?
25. CHALLENGE Prices of closed end funds trading in markets often differ substantially from their NAV. If the price of a closed end fund is greater than its NAV, it is trading at a **premium**. If the price of a closed end fund is less than its NAV, it is trading at a **discount**. Why is this puzzling? How might a trader exploit these differences in closed end fund prices and NAV?