

FINAL EXAM

BUS 492, Security Analysis
Prof. Poitras

03-1

EXAM INSTRUCTIONS: Please record all answers in the examination book provided. Calculators with enhanced capabilities such as the ability to attach external drives, whether such drives are attached or not, are prohibited. The exam is closed book, no books or other materials are permitted to be used during the examination.

EXAM DURATION: ONE HOUR

Ben Graham made the following observation in *The Intelligent Investor* (1949):

"The distinction between investment and speculation in common stocks has always been a useful one and its disappearance is a cause for concern. We have often said that Wall Street as an institution would be well advised to reinstate this distinction and to emphasize it in all dealings with the public. Otherwise, the stock exchanges may some day be blamed for heavy speculative losses, which those who suffered them had not been properly warned against".

Comment on the implications of this statement for the valuation of securities. In your answer be sure to provide an assessment of the validity of the statement as well as a discussion of how security valuation would have to be conducted if the statement were correct.