CONCEPT: RATIOS – ECONOMIC RETURN FROM INVESTING

● The ***economic return from investing*** is a ratio used by investors to analyze their profits from investments.

□ This ratio doesn't use the financial statements, rather the personal gains of the investor.

- A company can use this ratio to analyze their investments as well.

$$Economic\ Return\ from\ Investing = \frac{Dividends\ and\ Interest\ Received + Change\ in\ Fair\ Value}{Fair\ Value\ of\ Investment\ at\ Beginning\ of\ Period}$$

Note: This ratio is generally shown as a _______________, make sure to multiply by 100!

Numerator: The numerator shows the _________________ from the investment during the period
Denominator: The denominator shows the value of the investment at the beginning of the period.

Analysis: This ratio shows the amount of profit/loss per dollar invested.

□ Economic returns come from two sources:

- Dividends received are known as the ***dividend yield***
- Changes in the fair value of the investment (i.e. stock price) are ***capital gains/losses***

PRACTICE: An investor bought a share of Apple common stock for a cost of $160. During the year, Apple paid dividends of $1 per share. At the end of the year, the stock price had increased to $177. Calculate the economic return from investing.

a) 10.6%
b) 11.3%
c) 0.106%
d) 0.113%