

H O M E W A R E

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ROI

RETURN ON INVESTMENT
is one vital measure of your money's performance.



Are you weighing your options for a new investment? Return on Investment calculates how much yield your money will produce. Other Homeware programs — NPV, IRR, and Payback Period — add to your analysis options.



ROI

ANALYZING YOUR INVESTMENTS

For many years, America's corporate giants have used computers to help them get the best return on their idle dollars. Now OSCAR can help you harness computer power, too.

There are four measures the corporate pros rely on to check any investment's performance:

Return on Investment, simply put, is the average annual interest rate you're receiving.

Internal Rate of Return is comparable to the average *compounded* interest rate. It measures what happens when you reinvest the yearly earnings, instead of spending them.

Net Present Value checks the return from an investment against the rate of inflation, to see if you are actually *losing* money by investing.

Payback Period is the time it takes to get back the amount you invest.

To get the most use out of these programs, set up an analysis sheet listing your investment choices. List the investments across the top. Down the side put:

- Amount: the total capital you want to invest.
- Holding Period: the number of years you'll keep the investment.
- Sales Amount: the investment's value at the end of the holding period.
- Marginal Tax Rate: your income tax bracket (and don't forget to include the effects of state income taxes).
- How the proceeds will be taxed: long-term gains (L), ordinary gains (S), or not at all (N).
- Cash Flow: the amount you expect to get from the investment each year — dividends, interest, etc.

This is the information each program will require. Then continue your listing to record the results.

Here's an example of how you'd use those tools. Suppose you want to invest \$10,000 in something that beats

the 7-percent inflation rate you expect over the next few years. You want the best yield you can get, of course, but at minimum risk. You've narrowed the field to a money market account and one blue chip stock.

Your banker thinks the money market account's average yield will be 10 percent a year for the next 10 years. Your broker says the stock will pay an annual dividend of 5 percent, and probably will increase in value by 45 percent in the next decade. You are in the 30-percent tax bracket. Here are the comparative results of the different ways of analyzing the investment:

ROI: Stock 7.46 percent, money market account 7 percent. The stock paid a higher dividend.

IRR: Money market account 6.49 percent, stock 6.25 percent. The money market account is beginning to look a little better.

NPV: Money market account, +\$700, stock +\$223. The money market account yields more because it returns money faster. Any plus value means the investment has beaten the inflation rate (sometimes referred to as the "discount rate").

Payback: In this case, you receive your original money back in 10 years on *both* investments. Payback analysis is more useful when comparing investments with no fixed term, such as a limited partnership, where you need your original investment back within a certain period of time.

Which is better? Probably the money market account in this case. But what if inflation is 3 percent? Or what if money market rates are 11 percent? What if your tax bracket changes?

This is where you use the computer to make "what-if" choices. Plug in any figures you like and the computer will do the calculating. Put the numbers down on your analysis sheet, then you can lean back and make an informed investment decision.

How to Use Return on Investment

The average yearly Return on Investment (ROI) gives you a tool for comparing any kind of investment with any other. An investment with a higher ROI will earn more money for you than one with a low ROI.

ROI is stated as a percentage of the dollar amount invested. It takes into account the money you take out every year (*cash flows*) as well as any growth in value (*capital gains*).

OSCAR's ROI program also lets you compute the effect of taxes on your earnings.

Program Instructions

◆ Load the program into your computer with OSCAR. Then type **RUN**. (Refer to your User's Manual if you have difficulties.)

◆ Enter the amount invested and the sale proceeds up to \$9,999,999, the holding period (up to 15 years), and your marginal tax rate. Enter expected cash flows for each year. The computer will reject any input that's in error.

◆ Hit **RETURN** or **ENTER** if the program does not go to the next prompt automatically.

◆ When the computer asks how to compute the taxes, type **L** if you expect long-term gains treatment, **S** for ordinary income and **N** if you want to ignore any tax effects.

◆ Type **Y** (yes) if you want to change any of your inputs before the program runs, and the computer will repeat the questions; type **N** (no) if your inputs are correct.

◆ Type **Y** if you want to abandon the program. If you don't, type **N** and the computer will calculate the investment's ROI.

◆ Hit any key to restart the program to analyze the next investment. To keep any of the previous inputs, just hit the space bar instead of entering new data.

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