Investment Essay

Student's Name

Institutional Affiliation

**Investment essay**

**Introduction**

 As a business owner, an investor must make sure that his decision now doesn't harm the business in the future. Being interested in this lot can be beneficial; however, it has to be fiscal. Having a CD (certificate of deposit) worth 40,000 that earns 4% compounded and will mature in 3 years, however, the projected value of the lot in 3 years would be worth $ 44,994.56 as illustrated below. A decent financial strategy would be first to determine what the CD would be worth in 3 years (Brechner, 2012).

Amount = Principal (1 + r) ^n

Amount = $ 40,000 (1 + 0.04) ^3

**Value of CD at maturity = $ 44,994.56**

**Difference between the two investments**

     The CD has a value worth $40,000 is cashed in now; the lot can be purchased for $38,000. One result of cashing in the CD is the $500 penalty, which would only leave an investor with $1500. If it was to wait until the CD matures, it could collect the 3% interest without any penalties. The CD is currently worth $40,000, receiving 3% interest the first year increasing the CD by $1200, now making the current value $41,200. For the second year, the CD currently is worth $41,200, and annual 3% now increase the amount by $1,236. As it is illustrated, each year the value of the CD increases. After three years the CD will now be worth $43,709.08. Now economically, the lot is stated to be worth more than invested through CD (Brechner, 2012).

**Best option**

When analyzing these financial decisions, there are several pros and cons. When thinking of purchasing the lot, it is prudent to project that the value of the lot will be worth $45,000 in three years. When taking a risk as such, two things can happen, either it can exceed market earnings our risk losing money. In my opinion, at least with the CD, it's a contract the guarantees 3% compounded annually. In the future the CD will increase; however, the lot value is higher. The CD can be renewed for another three years; however, the business needs the lot, and the cost increases the longer it takes.

**Impacts of the option**

The most financial decision would be to purchase the lot. With the CD for 3 years, it'll be worth $45,000, which is a $7,000 difference. It would be more problematic to purchase the lot now, and take the $500 penalty, versus buy passing on it. This is something that will help contribute to our business, purchasing the lot will give up the $3,709 interest the bank was going to pay; however, the worth of the lot in the next 3 years will increase by $7,000, almost doubling the 3% interest on the CD (Loughran, 2012).

     All in all, when planning any financial decision, it is always important to pay attention to how this would impact a future decision. In this situation, when purchasing the lot at $38,000 now versus what it’ll be worth later; $45,000 is more fiscal. It only has a penalty of $500 but brings in revenue for the business. It’s a great financial plan (Loughran, 2012). The business plan will show that this decision will have a significant impact on the business entity and the value of the lot was well worth spent.

References

Brechner, R. A. (2012). *Contemporary mathematics for business and consumers*. Australia: South-Westen/Cengage Learning.

Loughran, M. (2012). *Intermediate accounting for dummies*. Hoboken, NJ: J. Wiley & Sons.