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Cost Of Capital At Ameritrade

Introduction

Ameritrade implemented a plan to use substantial technology and advertising investments so they could increase their market share. The company needed to calculate its cost of capital as an essential step before making its strategic investment because this data would assess both financial feasibility and investment returns.

Understanding

A business must earn the necessary rate of return known as cost of capital to make all its investments financially sound. The capital structure proportion determines how the cost of equity and debt play their roles to form the weighted value. The assessment of equity cost at Ameritrade required financial model calculations because the company did not hold debt.

Risk Premium

The United States government bond yields provided the risk-free rate and data from the past stock market served as the foundation for obtaining the market risk premium.

Conclusion

The accurate measurement of cost of capital for Ameritrade would enable them to evaluate if investments in technology and advertising would deliver satisfactory returns. The decision-making process and financial sustainability required this calculation to be accurate.

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