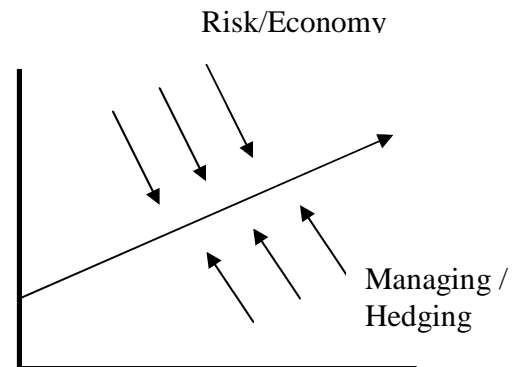


LECTURE 1

Chapter 1

DEFINITIONS:

- Value Creation (Cost < Result) – Investment
- Return Vs Risk - Analysis



Real Assets Vs Financial Assets (Land/Building Vs Stock/Bonds)

3 Investments Categories: **Debt (Fixed Income), Equity, Derivatives**

<u>DEBT</u>	<u>EQUITY</u>	<u>DERIVITIVES</u>
Promise to Pay Set Maturities Long Term/Short	Ownership Not a promise to pay Downside/Upside Bottom of Waterfall	Options/futures Bets on movements Transfer / Hedge Risk / Insurance on Movements Swaps/FX/Equity
<ul style="list-style-type: none"> • Government/Municipal • Corporate 		

Financial Markets and the Economy

- View on the Company/Economy
- Timing
- Risk Appetite (Passive Vs Active)
- Allocation based on views
- Management vs Ownership
 - Agency problems (conflicts) / Proxy fights
- Corporate Governance & Corporate Ethics

Efficient Market (flow of Information (no inside trading) – Security Analysis / Asset Allocation

- The Players: Firms or Borrowers / Households / Government / Financial Intermediaries (Banks, Insurance, Credit Unions)
- Capital Markets – Primary / Secondary
- Trends – Structures – FINANCIAL ENGINEERING: Hedge funds / Costumed Tailored risk / Pools / Funds Leverage / Non-Leverage

Chapter 2

DEFINITIONS:

ASSET CLASSES:

A. DEBT

a. MONEY MARKETS

1. T-Bills (most marketable) – short term (21, 91, 182 days) \$ 1,000 minimum investment (issued by the Government)
2. CDs – Banks Issue – Pay at the end of the fixed term (principal + interest)
CDs – treated as deposits (FDIC) (Issued by the Bank)
3. CPs – Issued by Companies – Investor buys – up to 270 days
4. BAs (Bank's credit standings)
5. Eurodollars – Dollar demand Deposit at Foreign Banks (foreign CDs)
6. Repos (repurchase) – overnight investments - safe loan backed by Government securities
7. LIBOR Markets

b. BOND MARKETS

1. Treasury Notes & Bonds (up to 10 years , 10-30 years, respectively)
2. Federal Agency Debt (FNMA, GNMA, FDMC – page 32) - provide Liquidity (got in trouble in 2007-2009 – sub-prime mortgages)
3. Municipal Bonds (Munis) – Tax exempt bonds – federal, State, City for infrastructure – IRBs Industrial Revenue Bonds - Tolls – Fund by Governments and sometimes, company partner up – i.e. Stadiums
4. Corporate Bonds (Callable / Convertible / Default Risk / HY Bonds / Junk Bonds)
5. Mortgage Backed Securities / pool of Mortgages.

B. EQUITY

- a. Common Stock (Ownership – Right to dividends)
Residual Value (Last of the waterfall)
Limited Liability Company
Stock Market Listing
- b. Preferred Stock – In between Debt / Equity in the waterfall (fixed income –
Convertible features

C. DERIVITIVES

- a. Options (Call / Put) – used for hedging
- b. Future Contracts – delivery of an asset at a specific delivery or maturity date at an
agreed price – CHICAGO BOARD OF TRADE

OTHER:

INDICES: DJ INDUSTRIAL / S&P 500 / RUSSELL 2000