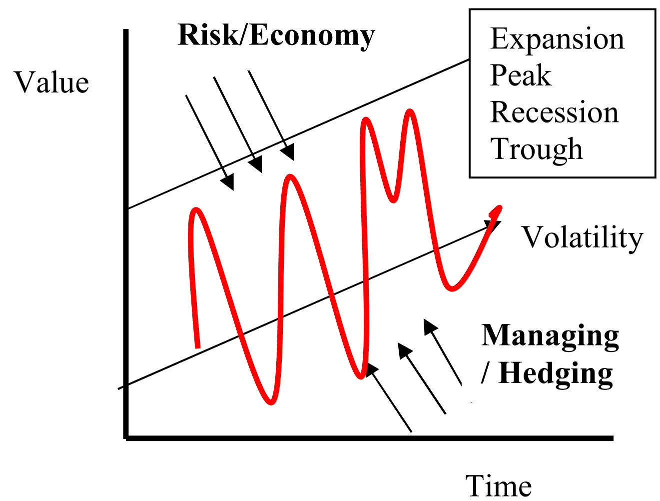
LECTURE 1



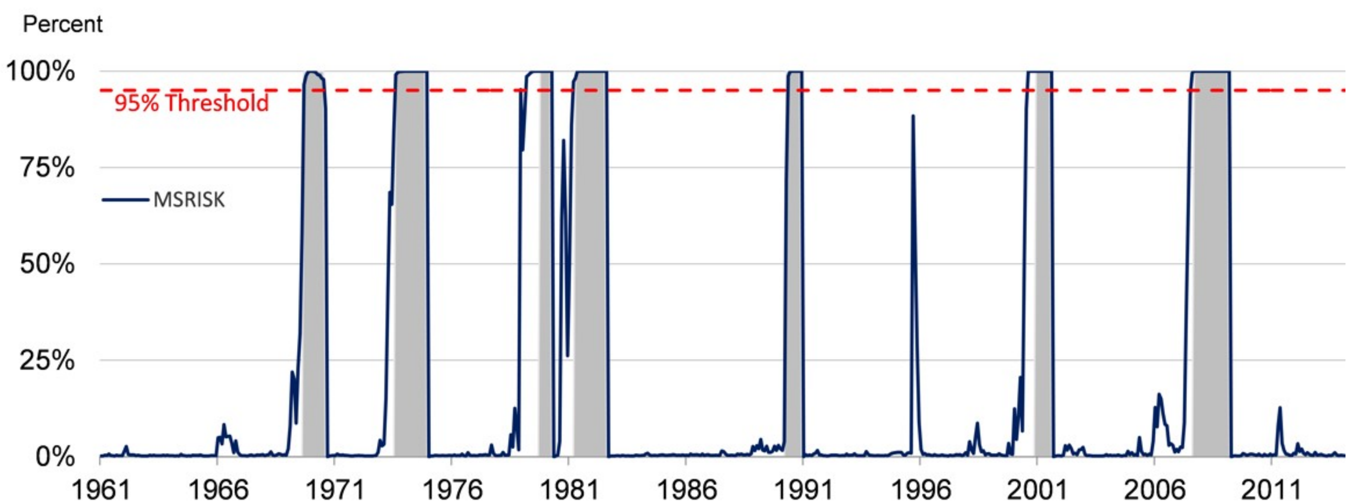
Chapter 1

DEFINITIONS:

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

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

ECONOMIC RECESSIONS



The 4 Factors before investing:

- **Return (Expected Return)**
- **Risk – Quantifying Risk – Volatility/credit/interest/duration/systemic**
- **Time**
- **Allocation**

<u>Available Investment Analyses :</u>

- **Fundamental**
- **Technical**
- **Behavioral**

FINANCIAL ASSETS

<u>DEBT</u>	<u>EQUITY</u>	<u>DERIVITIVES</u>
Promise to Pay	Ownership	Options/futures
Set Maturities	Not a promise to pay	Bets on movements
Long Term/Short	Downside/Upside	Transfer / Hedge Risk /
• Government/Municipal	Bottom of Waterfall	Insurance on Movements
• Corporate		Swaps/FX/Equity

<u>Financial Markets and the Economy</u>

- 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

<u>Financial Crisis of 2008</u>

Housing Collapse of 2007 –

Triggered the default of the structured products asset class

(Mortgaged Back Securities (MBS), Collateralized Debt Obligations (CDO), Collateralized Loan Obligations (CLO)

Strong Correlation – The rise of Systematic Risk

Triggered value devaluation of other asset classes:
(Equity, Bonds)

Investment banks fail – large holders of all investment types

Government support through Bailout -

Dott-Frank Reform Act

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