INTRO TO INVESTMENTS, FINANCE & CREDIT

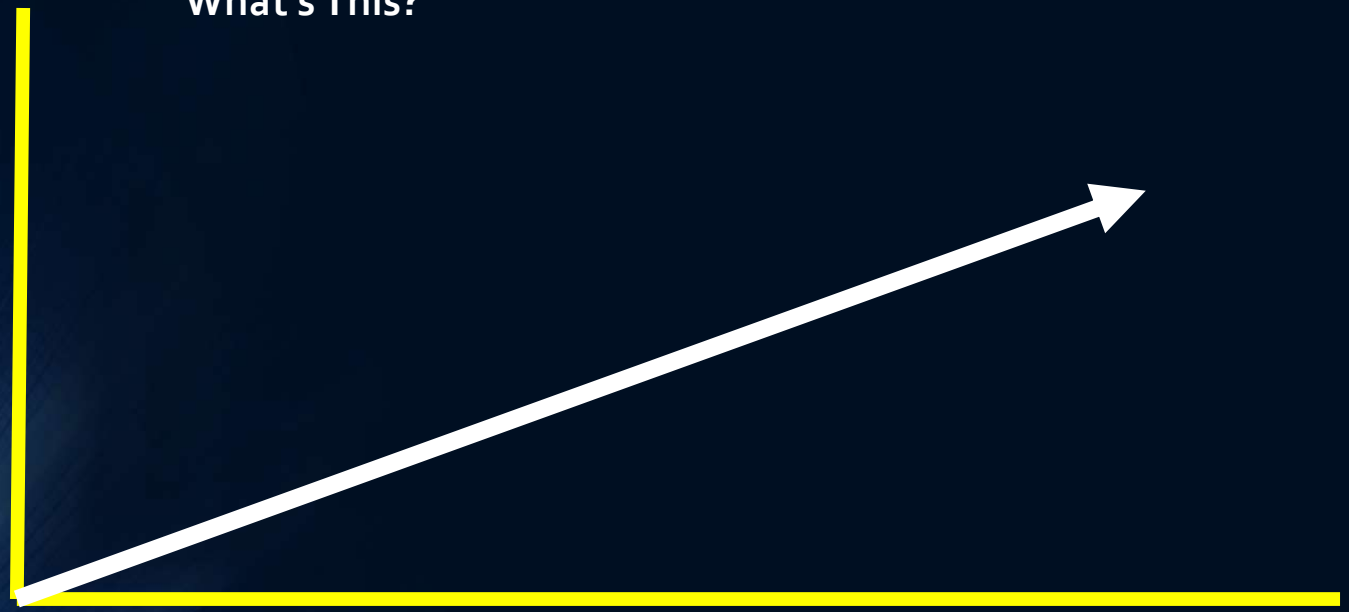
PORTFOLIO ANALYSIS CONCEPTS

Risk, Return, Time and Allocation

Introduction to Investments, Finance and Credit

INVESTMENTS, FINANCE AND CREDIT OVERVIEW

What's This?

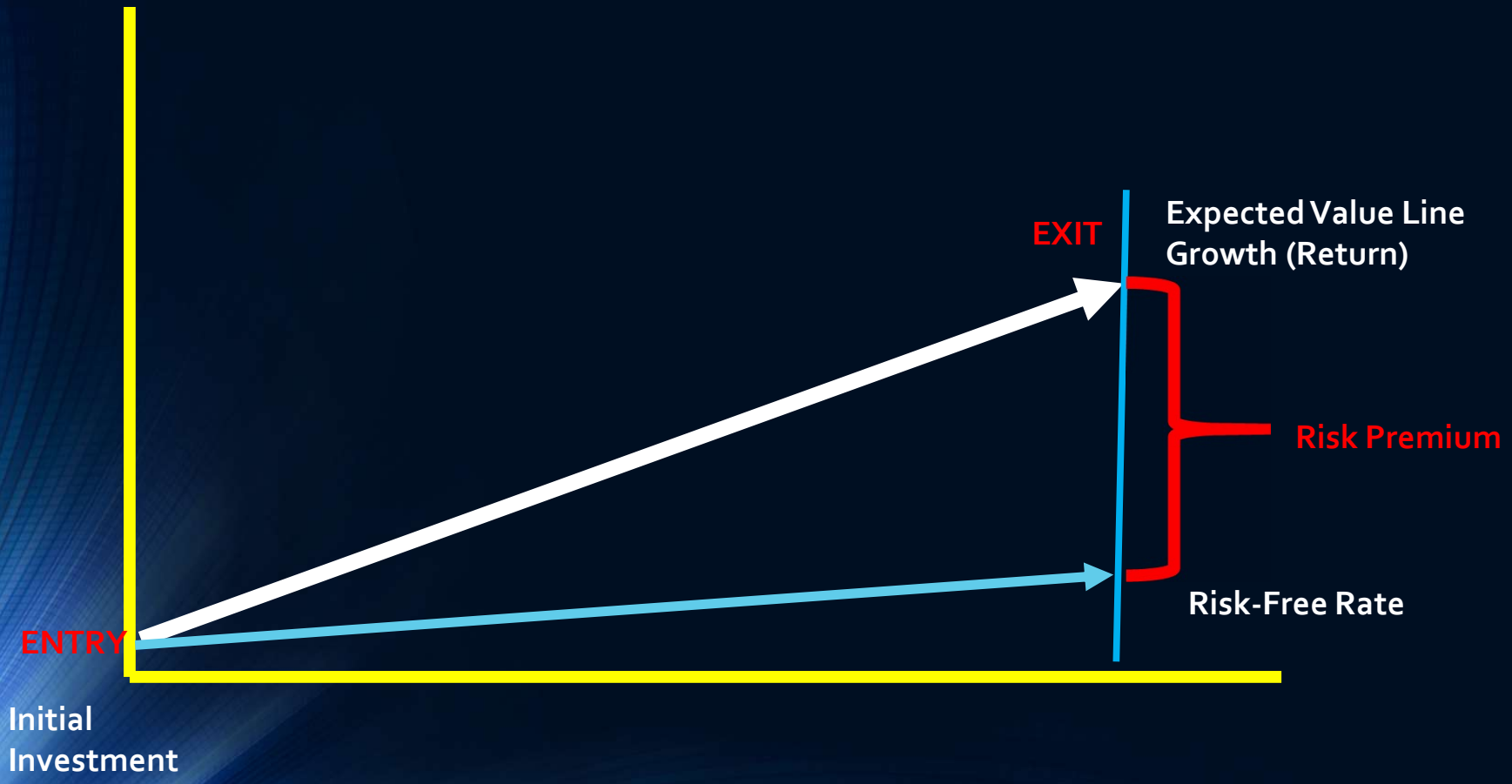


INVESTMENTS, FINANCE AND CREDIT OVERVIEW

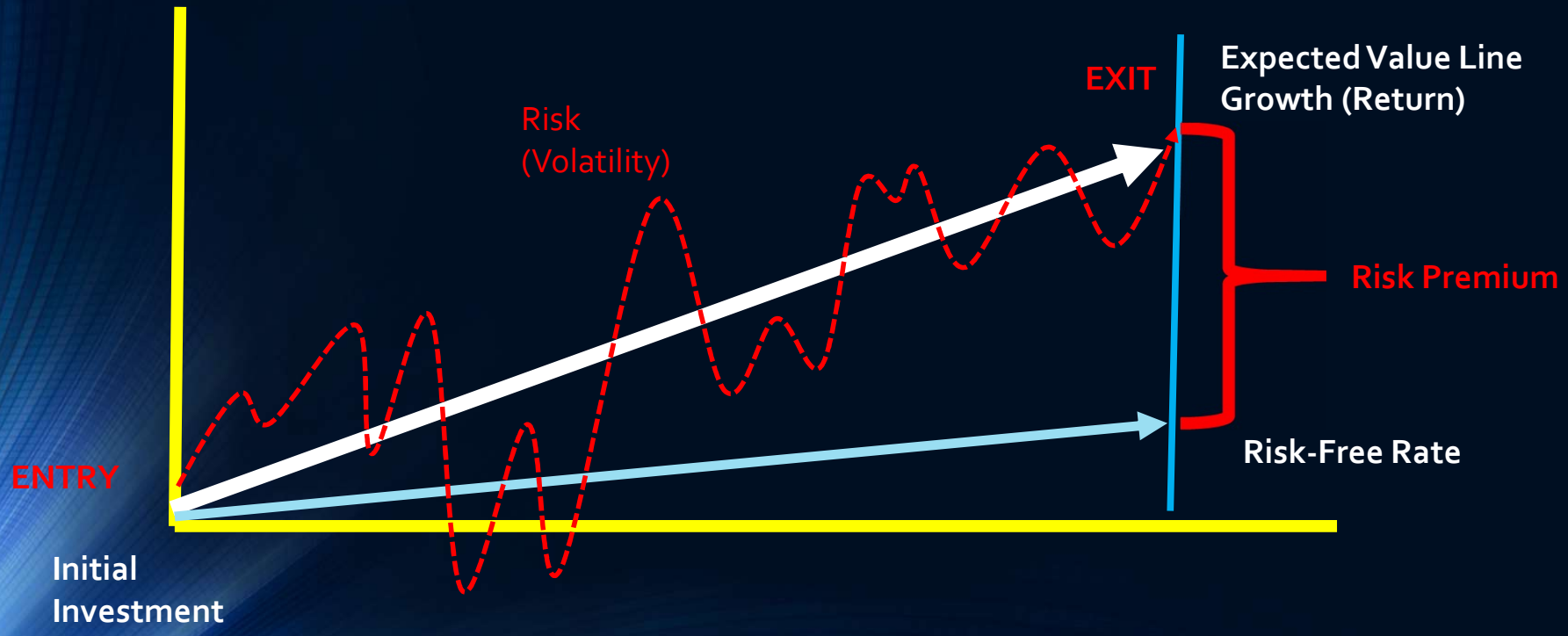
INVESTMENTS, FINANCE AND CREDIT OVERVIEW

What's This? EXPECTED VALUE LINE OF ANY INVESTMENT

INVESTMENTS, FINANCE AND CREDIT OVERVIEW



INVESTMENTS, FINANCE AND CREDIT OVERVIEW



The Study of Finance

- 3 FACTORS BEFORE YOU **INVEST**
  - **Measure Expected Return**
  - **Quantify Risk**
  - **Set Time (Exit)**

- Buying Stocks / Buying Bonds
- Buying Assets / Equipment
- Starting a New Project
- Buying a Company
- Starting a new Company

1 more FACTOR BEFORE YOU **INVEST (discuss in detail later)**

- **Allocation / Diversifiaction**

The Study of Finance

- 3 FACTORS BEFORE YOU INVEST
  - **Measure Expected Return**
  - **Quantify Risk**
  - **Set Time (Exit)**

Game: Tossing a Coin to win $6 (Payoff):

- Measure Expected Return: $6
- Quantify Risk: 50/50 win/loss
- Time: in 2 seconds

- How much to Invest?
  - $3 - mathematically using probability theory is (50% x $6) + (50% x $0) = $3 + 0 = $3

Game: Tossing one dice to win $6 (Payoff):

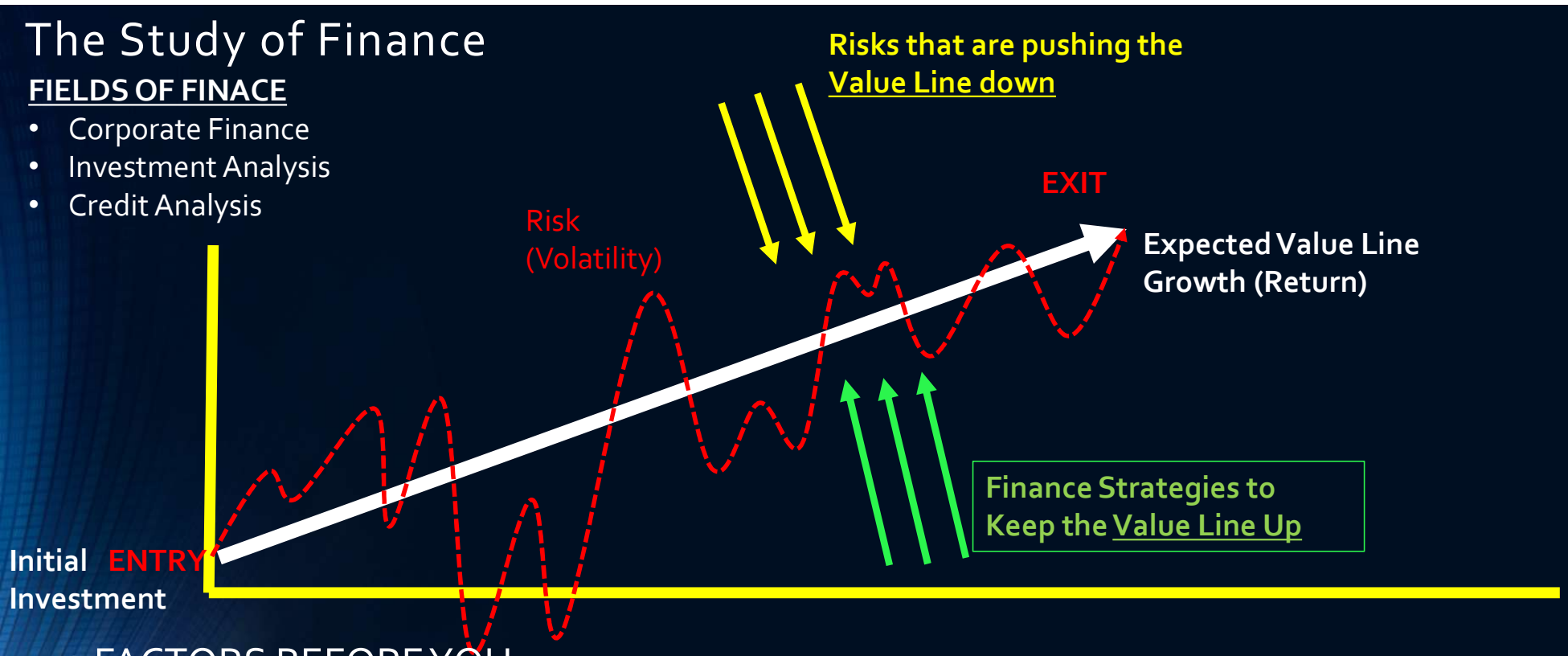
- Measure Expected Return: $6
- Quantify Risk: 1/6 to win, 5/6 to lose
- Time: in 2 seconds

- How much to Invest?
  - $1 - mathematically using probability theory is (1/6 x $6) + (5/6 x $0) =
    $1 + 0 = $1

The Study of Finance

FIELDS OF FINACE

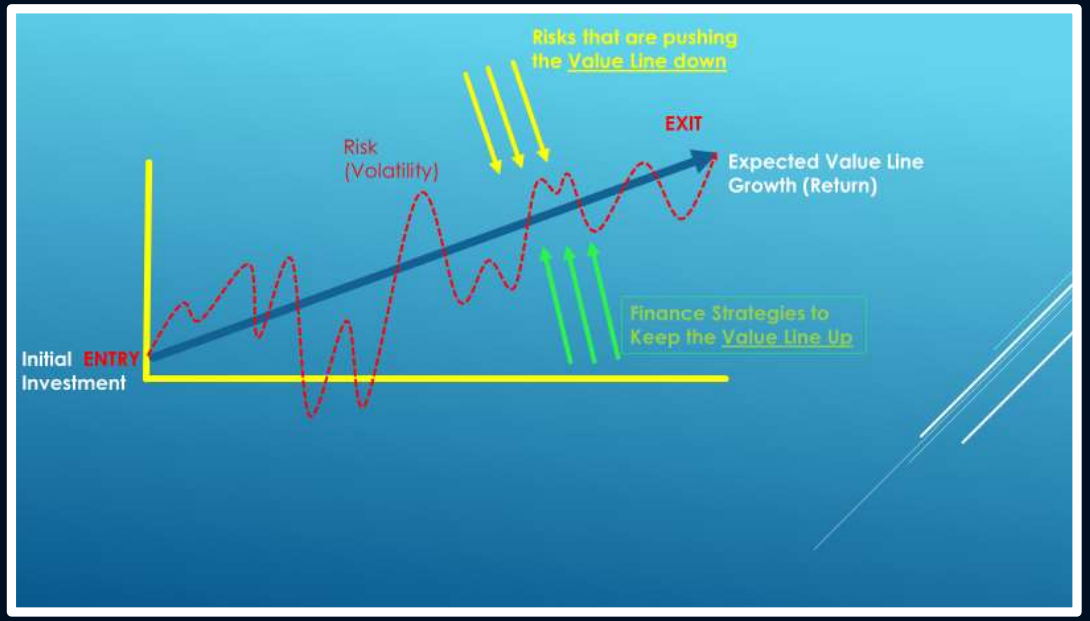
- Corporate Finance
- Investment Analysis
- Credit Analysis



- 3 FACTORS BEFORE YOU INVEST
  - **Measure Expected Return**
  - **Quantify Risk**
  - **Set Time (Exit)**

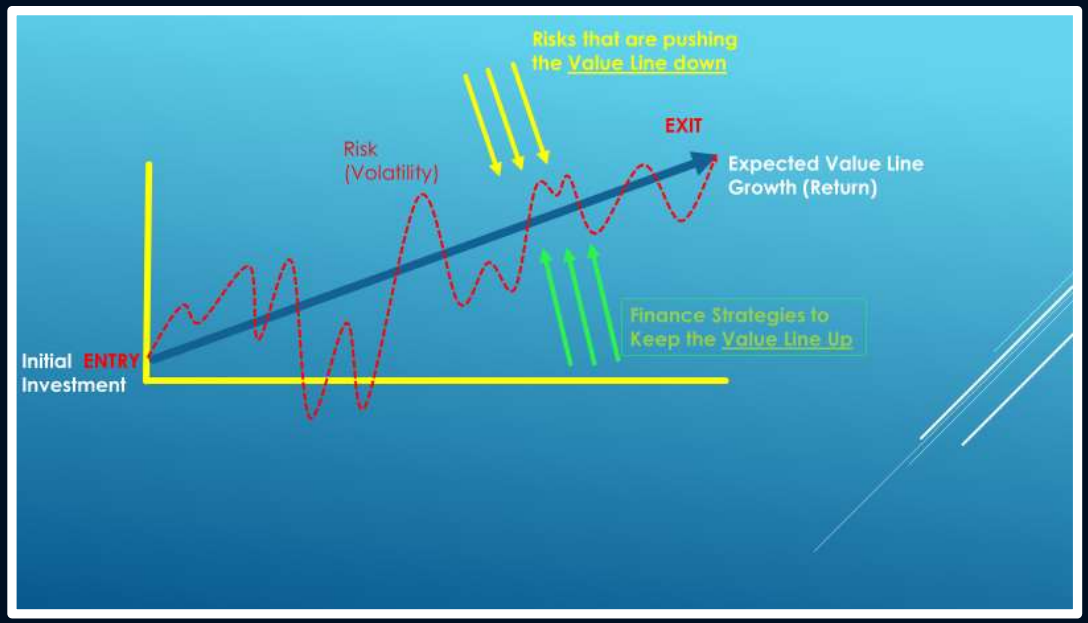
The Study of Finance

- **Corporate Finance**
  - Risks that are pushing the Value Line Down:
    - Economy
    - Competition
    - Government
    - Disasters
    - Other Systemic/Firm Specific Risks
  - Strategies to Keep the Value Line Up
    - Operating Strategies
    - Transactional Strategies
    - Financing Strategies
    - Social Responsibility



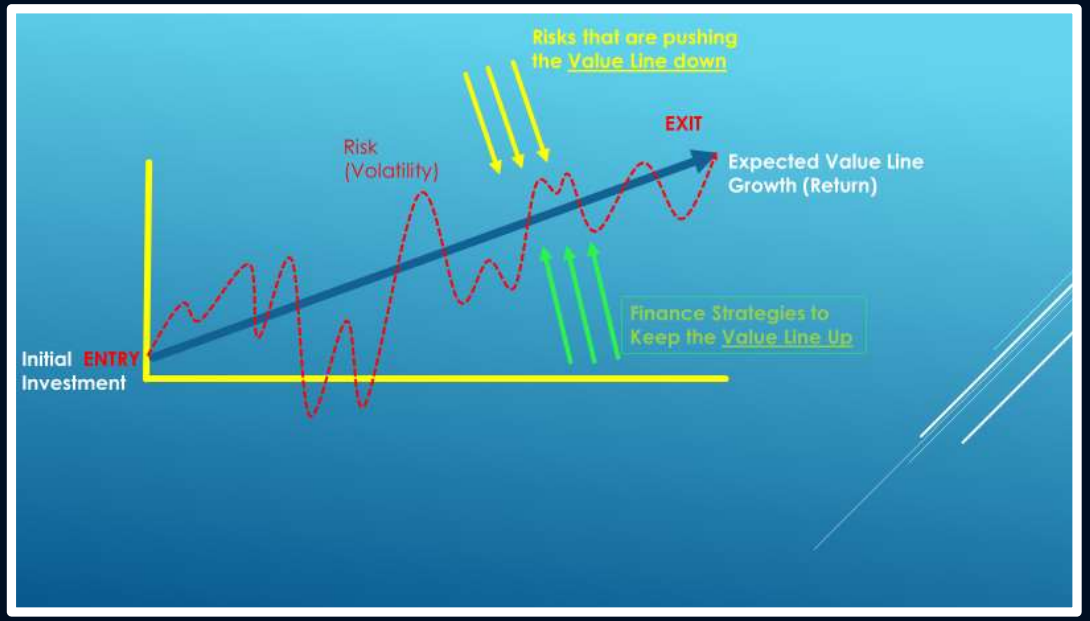
The Study of Finance

- Investments
  - Risks that is pushing the Value Line Down:
    - Economy and Markets
    - Government & Regulation
    - Liquidity
    - Other Systemic/Firm and Asset Class Specific Risks
  - Strategies to Keep the Value Line Up
    - Allocation/Diversification Strategies
    - Hedging Strategies (Using Derivatives)



The Study of Finance

- Credit Analysis
  - Risks that is pushing the Value Line Down:
    - Economy
    - Government
    - Other Systemic/Firm and Asset Class Specific Risks
  - Strategies to Keep the Value Line Up
    - Loan / Bond Structure
    - Debt Capacity Analysis



Chapter 1: Risk & Return Analysis

Risk & Return Analysis

- Before investing, the investor needs to consider the following four factors:
  1. Measurement of the expected return (Er)
  2. Quantification of the risk (σ)
  3. How to allocate the investments to achieve efficiency and optimization (A for Allocation)
  4. Time to determine the exit strategy or realization of the investment (t)

Time Value of Money Concepts

- One-Time Investment
- Annuities or Even Annual Cash flows
- Uneven Annual Cash Flows