

Common Types of Investments

Securities

Stock

-pays in dividends or capital gains

-could be *common, preferred, nontraded*

can be *defensive or cyclical, growth or value, mid-*

Stocks are divided by Sector and Industry

buy from a broker by phone, email or internet

transaction fees

Bonds

Types
-*corporate*
-*municipal*
-*agency*
-*treasury*
-*asset backed*

-Credit risk/
Junk bonds
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Coupon Yield

-pays interest on loan OR
-can or sell before

Mutual Funds

Diversity Fees - can be *active or passive*

Can be a *Stock, Bond, Balanced Fund* OR a *Money Market aka Cash*

Categorized by *fund objective* such as *growth, short term, target date* and many

prospectus check expense ratio

underlying stocks or bonds

income distributions

ETFs exchange traded

adds diversified assets to your portfolio

-traded as a single entity on a stock market exchange

REITs Real Estate Investment

-Diversity
-can be *public or private*
-public REITs are traded on the market
-Dividends

Definitions

Securities

Widely available investments that are easily bought and sold . Stocks, bonds, mutual funds, exchange traded funds and Real Estate Investment Trusts are all securities.

Stocks (a.k.a. Equity or Shares) –

An ownership position within a company that represents a claim on part of the corporation's assets and earnings.

- All publicly traded companies issue common stock that rises and falls reflecting investor demand and the state of the markets. Preferred stocks usually have a guaranteed dividend that doesn't fluctuate with the market. Nontraded stocks are usually reserved for the company founders or current management and often have super voting power so that they retain control, but own less than a majority of the company.
- In the stock market companies are divided into **Sectors** (divides the economy into sections such as industrial, utilities or financial) and **Industry** (further subdivides the economy, an example of the industries for the utilities sector would be Electric Utilities, Foreign Utilities, Gas Utilities and Water Utilities).
- Types of stock include **Market Capitalization** (indicates the size of a company, small-cap is less than one billion, mid-cap is one to 5 billion, large-cap-over is over 5 billion), **Defensive** (stocks with a stable demand such as groceries, health care or electricity), **Cyclical** (less stable, often fluctuate with the strength of the economy), **Growth** (more risk, usually issued by companies that are expanding), **Value** (low or undervalued stocks that are selling below their real value) and **Volatile** (a stock that shows lots of short term fluctuations).
- Stock Split – A company may decide to bring down the price of its stock by splitting it. The split could be a 2-1, a 3-1 or 4-1 etc. split.
- Factors for stock evaluation- What are the company's products, Are they in demand and of high quality?, Is the industry as a whole doing well? How has the company performed in the past, Are talented, experienced managers in charge?, Are operating costs low or too high?, Is the company in heavy debt?, What are the obstacles and challenges the company faces?, Is the stock worth the current price?

Ways to compare stocks

EPS –

Earnings per share ratio. A common way to compare stocks.

Company earnings (quarterly or annually / # of shares)

P/E – price to earning ratio

Current stock price / EPS

- **Buying on margin** is when your stock broker lends you up to ½ of the stock cost . You must make enough profit to pay them back with interest.

- **Short selling** is when you borrow shares of a stock from your broker and sell them at the current price. Then, when the stock price goes down, you buy them back for a lesser price and return them to the broker. You pay interest on the borrowed stock and transaction fee.

Bonds –

A loan (not ownership) to a corporate or governmental entity for the promise of repayment plus a certain rate of interest. The can be paid at maturity, or at specific intervals during the life of the loan, or both. The investor makes money by the interest payment and yield at maturity or by selling the bond for capital gains..

Key characteristics:

- **Per value or face value** is the amount your are lending and expect to be paid back at maturity. Usually \$1,000 per bond, but can be in multiples of \$1,000. **Term** is the length of time until the bond matures. **Maturity date** is the date on which the principal is to paid in full to you. **Interest:** the percentage of the loan amount the borrower will pay you for the use of your money over the term.

-Bonds earn income by paying interest or by capital gains if they are sold before maturity.

Bond types:

- **Corporate** - issued by a private companies;
 - **Municipal** - issued by a state, county or city government;
 - **Agency** - issued by a government agency sponsoring an enterprise that provides a public service (ex: a utility company such as Tennessee Valley Authority);
 - **Treasury** - issued by the U.S Treasury - <http://www.treasurydirect.gov> ;
 - **Asset backed** - bonds that are secured by assets such as loans or accounts receivable.
 - **Factor for bond evaluation** - Does the borrower have money in the bank? Any other debt? Have they paid back loans in the past?
 - **Junk Bonds** are high risk or high yield bonds.
 - **Bond Coupon**- In the past a bond had detachable coupons that you presented to get your interest payments, so the interest payments are also called the bond's coupon. A **coupon yield** is the interest rate that is paid on the bond.
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Mutual Funds –

An investment company that raises money by selling its own shares or ownership equity to investors. The money is pooled and invested it in a portfolio of stocks, bonds, short-term money-market instruments and other securities or assets chosen by the mutual fund management. The investor does not own the stock and bonds, they own a share in the company that owns the stocks and bonds. The fund is not traded as an entity on a stock market or exchange.

A mutual fund can provide a diversified portfolio of stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments that an individual might not be able to afford on their own.

Types of Mutual Fund

- A **stock fund** is made up of just stocks; a **bond fund** is made up of just bonds; a **balanced fund** has both stocks and bonds.; **money market funds** or **cash equivalents** are made up of very short term investments.
- **Distributions** are paid to an investor when the fund realizes a profit after operating expenses. Taxes on your distributions can be very complicated with this type of investment.

Exchange Traded Funds (ETF) –

Pooled investments that combine aspects of mutual funds with those of individual stocks. Like a mutual fund, each ETF owns a group of investments, sometimes described as a basket, which reflects the composition of the index that the ETF tracks. But like a stock, an ETF is listed on an exchange and trades throughout the day, so that an order you place to buy or sell is executed at the current trading price.

Very similar to Mutual Funds with these exceptions –

- Operating costs are generally less.
- ETFs don't need to hold as much of their portfolio in cash as mutual funds do, because they don't have to buy back shares when investors want to redeem them. Instead, shares are bought and sold among investors at the market price. This allows for more of the assets to be invested and more potential profit.
- Market supply and demand applies, whereas in Mutual Funds you can always sell your shares back to the Fund.

Real Estate Investment Trust –

Corporations (they can be public or private) that sell shares to raise money for investments in real estate or, less often, a portfolio of real estate mortgages.

- Equity REITs offer you a way to invest in real estate indirectly, without the responsibility for identifying the properties to be included in the portfolio, or for raising the capital to buy them, or ensuring the portfolio is diversified.
 - It diversifies your portfolio by adding real estate holdings whose value has a low correlation to stocks, bonds, mutual funds and ETFs.
 - At least 90% of the corporation's taxable income must be distributed to the investors.
 - Evaluated much like a stock by looking at management quality, anticipated return, current dividend yields, anticipated growth and underlying assets.
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