

Assignments: (Total points: 20)

Required: Short-term Investments Research Assignment Sheet – **Due: TueThur Feb 7th; Online Feb 9th** (10 points)

Required: TreasuryDirect Questions Assignment Sheet – **Due: TuesThur Feb 7th; Online Feb 9th** (10 points)

Chapter 1 Sections:

Returns

The Historical Record

Average Returns: The First Lesson

Return Variability: The Second Lesson

More on Average Returns

Risk and Return

Chapter Terms:

investment returns

total dollar return *versus* total percent return

dividend yield

capital gains yield

historical returns

risk-free rate of return *and* risk premium

measures of risk – variance *and* standard deviation – ***the higher the standard deviation, the higher the risk***

normal distribution – the “bell curve”

average returns *versus* geometric average returns (*Geometric average returns are rarely used in the industry. We will ignore them.*)

Instr: F. Paiano

Overview of Security Types

Chap 3 / Lecture Notes

Chapter 3 Sections:

Classifying Securities

Interest-Bearing Assets

Equities

Derivatives

Option Contracts

} *For an overview chapter, the book spends far too much time and goes into far too much detail on these topics.*

} *We will cover these in detail at the end of the semester. For now, just know they exist and are very risky.*

Chapter Terms:

investor's time horizon – long-term (5 to 7+ years), intermediate-term (2 to 5 years), short-term (1 to 2 years)

common stock (a.k.a. stocks, equities) – dividends and capital gains

fixed-income securities (a.k.a. bonds) – interest and promised return of principal

short-term investments (a.k.a. “cash”) – minimal interest and guaranteed return of principal (or pretty darned close)

mutual funds (a.k.a. investment companies)

hybrid securities – preferred stock, convertible securities (convertible bonds & convertible preferred stock)

derivative securities – options, futures contracts (*These are not investments. They are speculations, a.k.a. gambling.*)

property – real estate, commodities, and tangibles (precious metals, jewels, collectibles)

time value of money (*The future value calculations will not be on the exam. The commentaries and answers keys are on the web site.*)

future value of a lump-sum principal (a.k.a. single payment – example: inheritance)

future value of a stream of investments (a.k.a. “annuity”, *not to be confused with the insurance product of the same name*)

primary assets *versus* derivative assets (*Ignore the details of derivatives, futures contracts, and options contracts for now.*)

futures contracts (a.k.a. futures – *very dangerous!*)

option contracts (a.k.a. options) – call *versus* put, option premium, strike price (*dangerous! – too much detail in the book*)

Instr: F. Paiano

Focus on Short-Term Securities

Lecture Notes

short-term investments (a.k.a. “cash” investments) – minimal interest and preservation of capital (page 74)

retail short-term securities: savings accts, money market funds, certificates of deposits, Treasury bills (a.k.a. T-bills)

institutional (or very “high net worth” individuals) short-term securities: commercial paper, banker's acceptance notes

emergency fund