

Assignments: (Total points: 20)

Required: Short-term Investments Research Assignment Sheet – **Due: TueThur Feb 12th; Online Feb 14th** (10 points)

Required: TreasuryDirect Questions Assignment Sheet – **Due: TuesThur Feb 12th; Online Feb 14th** (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 (a.k.a. absolute 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 (a.k.a. the normal curve, 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 } *For an overview chapter, the book spends far too much time and goes into far too much detail on these topics.*
Option Contracts } *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. Stay away!*)
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