



key takeaways

- Investing is about making your money work for you.
- Reinvesting your earnings allows you to take advantage of compounding.
- Each investor is different in his or her objectives and risk tolerance.
- Each investment vehicle has its own unique characteristics.
- Investing can take many forms: stocks (including index and mutual funds), bonds, options, futures, real estate, commodities, hedge funds, private equity.
- The best portfolios are ones that are diversified against risk and within multiple asset classes.
- Stock means ownership. As an owner, you have a claim on the assets and earnings of a company as well as voting rights with your shares.
- Stock is equity, bonds are debt. Bondholders are guaranteed a return on their investment and have a higher claim than shareholders. This is generally why stocks are considered riskier investments and require a higher rate of return.
- You can lose all of your investment with stocks. The flip-side of this is you can make a lot of money if you invest in the right company, especially if you have a long-term outlook.

Source: www.investopedia.com

glossary of terms

Source: www.investopedia.com

GENERAL

Investing- the act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit

Capital- financial assets or the financial value of assets such as cash

Compounding- the ability of an asset to generate earnings, which are then reinvested in order to generate their own earnings. In other words, compounding refers to generating earnings from previous earnings

Time Value of Money- the idea that money available at the present time is worth more than the same amount in the future, due to its potential earning capacity; this core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received; also referred to as "present discounted value"

Asset Class- a specific category of assets or investments, such as stocks, bonds, cash, international securities and real estate; assets within the same class generally exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations

Portfolio- the group of assets—such as stocks, bonds and mutual funds—held by an investor

Security- an instrument representing ownership (stocks), a debt agreement (bonds), or the rights to ownership (derivatives)



Risk Tolerance- the degree of uncertainty that an investor can handle in regards to a negative change in the value of their portfolio

Volatility- a statistical measure of the dispersion of returns for a given security or market index; can either be measured by using the standard deviation or variance between returns from that same security or market index; commonly, the higher the volatility, the riskier the security

Diversification- A risk-management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. Diversification strives to smooth out unsystematic risk events in a portfolio so that the positive performance of some investments will neutralize the negative performance of others. Therefore, the benefits of diversification will hold only if the securities in the portfolio are not perfectly correlated

Liquidity-1) the degree to which an asset or security can be bought or sold in the market without affecting the asset's price; characterized by a high level of trading activity, 2) the ability to convert an asset to cash quickly; also known as “marketability”

STOCKS

Stock- a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings; also known as “shares” or “equity”

Dividend- distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders

Stock Market- the market in which shares are issued and traded either through exchanges or over-the-counter markets; also known as the equity market, it is one of the most vital areas of a market economy as it provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance

Mutual Fund-a security that gives small investors access to a well-diversified portfolio of equities, bonds and other securities; each shareholder participates in the gain or loss of the fund. Shares are issued and can be redeemed as needed

Index Fund-a portfolio of investments that is weighted the same as a stock-exchange index in order to mirror its performance

Market Value-1) the current quoted price at which investors buy or sell a share of common stock or a bond at a given time, 2) the market capitalization plus the market value of debt

Preferred Stock- a class of stock ownership with a higher claim on the assets and earnings than common stock that usually has a dividend that has to be paid out to preferred stock holders before common stock holders

Treasury Stock- stock that has been repurchased by the company (making them no longer available for public purchase) and does not pay dividends



OTHER INVESTMENT TOOLS

Options-a contract sold by one party (option writer) to another party (option holder) that offers the buyer the right but not the obligation to buy (call option) or sell (put option) a stock or other financial asset at an agreed-upon price (strike price) during a certain period of time or on a specific date

Futures-a financial contract obligating the buyer to purchase an asset (or the seller to sell an asset) such as a physical commodity or financial instrument (stock, bond, etc.) at a predetermined date and price and are often used to speculate on the price movement of the asset

Commodities-a basic good used in commerce that is interchangeable with other commodities of the same type and are most often used as inputs in the production of other goods or services. Some examples of commodities include oil, gold, wheat and corn

Fixed Income Security- an investment that provides a return in the form of fixed periodic payments and eventual return of principal at maturity; the payments of a fixed-income security are known in advance (ie. a bond is a type of fixed income security)

Bond- a debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate

Municipal Bond- a federal tax-exempt debt security issued by a state, municipality or county in order to finance its capital expenditures (i.e. the construction of a new bridge or highway)

Treasury Bond (T-Bond) - a marketable, government debt security with a maturity of more than 10 years that makes semi-annual interest payments, which are taxed only at the federal level

Corporate Bond- a debt security issued by a corporation that are often graded as either high-grade investment bonds because of the company's financial stability or as high-yield bonds because of a higher interest paid out due to a higher risk of default

Certificate of Deposit (CD)-a savings certificate entitling the bearer to receive interest; CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination; generally issued by commercial banks and are insured by the FDIC; term of a CD generally ranges from 1 month to 5 years

Money Market-the securities market dealing in short-term debt and monetary instruments; money market instruments are forms of debt that mature in less than one year and are very liquid

Private Equity- investment firms that typically use a lot of debt, thereby eliminating the equity portion of the company's balance sheet to purchase companies they view as undervalued and/or inefficient to improve internally for ultimate sale for a return

Hedge Fund- an investment firm with an aggressively managed (i.e. high risk) portfolio that utilizes multiple investment strategies and techniques in US and international markets with the goal of generating high returns for investors; usually large initial minimum investments are required of clients