

# [Finance notecards from linkedin learning](https://assignbuster.com/finance-notecards-from-linkedin-learning/)

Stock-Evidence that a stockholder is an owner of a portion or a share of a corporation

-Ownership, equity

Bond- Evidence that the bondholder is owed money by the by the company (or any other entity) that issued the bond

- Loan, debt

ONFINANCE NOTECARDS FROM LINKEDIN LEARNING SPECIFICALLY FOR YOUFOR ONLY$13. 90/PAGEOrder NowPure debt- Mandatory annual payments (interest), regardless of performance

- Fixed payments

-Repayment at a certain maturity date

- First to remove assets at bankruptcy

Pure equity- Optional annual payments (dividends)

-Variable payments (can increase or decrease)

- Last to remove assets at bankruptcy

Government bond- Bonds issued by national governments (sovereign bonds)

- Also known as Treasury bonds

- In theory, they have zero risk of default

Municipal bondsBonds issued by provinces, cities, agencies (sub-sovereign bonds)Corporate bondsBonds issued by companiesAsset-backed bondsBonds that are supported, or underlaid, by a special pool of assets (securitization)Public debtCorporate bondsPrivate debtLoans directly negotiated with banks or groups of private lendersOver-the-Counter (OTC) TradeA trade privately arranged through a dealer, broker, or investment bankMutual fund- takes care of automatic withdrawls and investments

-requires annual management fees

Financial Institutions- Intermediaries that gather savings from investors and channel it to companies

- The 4 primary financial institutions are banks, investment banks, investment funds, and insurance companies

Traditional bank- Borrows money from depositors

- Lends money to loan customers

- Makes money on the spread between the low interest rate the bank's depositors require and the higher interest rate the bank charges loan customers

Primary asset of Traditional banks- loans receivable

- the amount that the bank expects to collect in the future from the commercial borrowers who have come to the bank

Primary liability of Traditional banks- deposits made to the bank in the form of savingsBest way to check the status of the current economyLook at the bad debt trend of local banks, which will indicate how financially stable or unstable people arePrimary functions of Investment Banks1) Lead companies through deals

2) Engage in investment trading

Index funds- Can be thought of as a computer

- Invests money " according to a mathematical rule"

- Low management fee

- available to anyone regardless of knowledge or net worth

- Useful to long-term investors who just want to put their money in, and let it sit there

Managed fund- Experts specifically and strategically decide where to invest your money

- expensive management fee in exchange for attention to detail and expertise

- goal is to at least beat the S&P 500

Private equity funds- Generally require large investments

- hard to get your money out (low liquidity)

- limited to sophisticated investors with a lot of money

Hedge funds- use mathematical relationships to come up with very sophisticated rapid trading strategies, and they're gonna invest your money on that basis

- limited to sophisticated investors with a lot of money

S&P 500 Index- most popular index fund

- represents the 500 largest companies in the United States

- used as a common benchmark

Two ways that insurance companies make money1) Change premiums greater than losses and administrative costs

2) Invest income during the lag time between the moment money is given to them and the moment they have to pay out claims

Property/casualty insurance companies- Cover losses from flood, fire, earthquake, and automobile losses

- examples include State Farm, Allstate, Geico, etc.

Health insurance companies- cover traditional health insurance, catastrophic health insurance, disability, long-term health care.

- Classic example is Blue Cross Blue Shield

Life insurance companies- Sells term policy and whole life policies

- Examples include Prudential, MetLife, New York Life.

- People pay premiums, and they guarantee that they'll provide for those who are left after we pass.

Business insurance- Help with settling business disputes such as medical malpractice, business interruption issues, price indemnity.

- Examples include Zurich Insurance, Travelers Insurance, AIG, etc.

Price RiskUncertainty about the future price of an asset, such as inventory, equipment, etc. Credit RiskUncertainty that the other party in an agreement will abide by the terms of the agreementInterest rate riskUncertainty about future interest rates and their impact on future cash flowsExchange rate riskUncertainty about fair values when assets and liabilities are in a foreign currencyCash flow riskUncertainty about amount of cash that will be generated or consumed in the future, based on decisions made todayBetaThe market-wide risk that cannot be eliminated through diversification

- Beta = The covariance between a company's returns and the market returns, divided by the variance in the market returns

Beta = 1- Perfect correlation

- Means that the investment risk moves exactly with market risk

Beta > 1Value is very sensitive to market changesBeta < 1Value is not really impacted by broad economic movementsEquity risk premiumThe extra amount you expect to earn on your investment because you're investing in risky assets, and willing to accept some riskCAPMExpected return =

Risk-free rate + (Beta \* Equity risk premium)

ETFExchange-traded funds

- Can reflect a specific index

- A lot cost, low effort way of getting into investing

Mutual Fund- Not traded on an exchange, so you have to go directly to a mutual fund company to buy and sell

- They are actively managed by experts who buy and sell holdings to take advantage of changes in real time