ECON 233 Finance 1- Week 1

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Who am I?

- Drishan Banerjee, 4th year PhD student. My interests are macroeconomics and international finance. (Very different from "finance")
- Office Hours from 9:30-11:30AM in E2, Room 403B. But send me an email if you want to talk at some other time.
- Sections from 5:20-6:25PM on Tue/Thu in crown 104/105.
- Who are you? please introduce yourself :)

Bonds

- Example: Company or government has a bond they are selling which has a face value \$1000. Maturity is 3 years.
- Coupon payments of 5% every year till maturity.
- Market's interest rate is 6%.
- Present value of interest/coupon payments = $\frac{50}{(1.06)} + \frac{50}{(1.06)^2} + \frac{50}{(1.06)^3}$
- Present value of face value of the bond = $\frac{1000}{(1.06)^3}$
- Sum of PV of all future cash flows from this asset = ? (bond sells at discount or premium?)

Common Stocks

- Common Stock - It is the stock we commonly buy.
- May or may not have dividends. In your trading apps usually dividends you receive are reinvested.
- **Residual Claimant** - In the event of a sale or liquidation, you are paid after creditors and preferred stock holders are paid first.
- Voting rights. Preferred stock holders don't have this.
- Holder makes a profit through Capital gains.

Call Options and Put Options

- Gives you the right to buy (Call) or sell (Put) an underlying asset at a pre-determined price on or by the pre-specified expiration date.
- Kind of like buying insurance against Price fluctuations.
- Example - You pay a premium to the Options underwriter when you buy an option. **Right to buy NVDA at $190 by Oct 15 for $5**.
- The Options or 'right' themselves can be traded. **Say on Oct 1, NVDA stock goes up from 170 to 180, the right to buy it at 190 also goes up from $5 to $8.**
- Do you know this guy and why he is smiling?

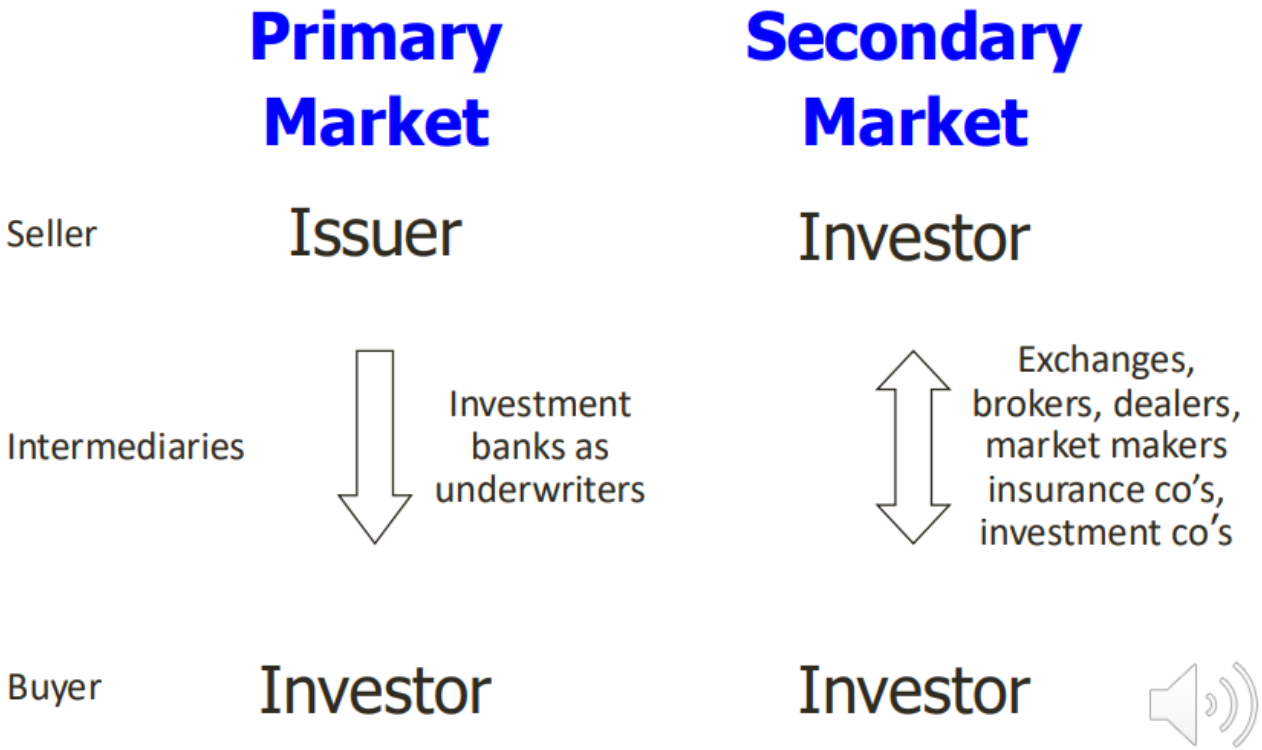


Futures Contract

- An aggrement or obligation to buy or sell an asset at a pre-specified price at a pre-specifed date.
- Higher risk
- Can also be traded.

Primary and Secondary Markets

New securities are issued in the primary and then trade in the secondary market



Mutual Fund

- Financial Instrument where fund managers pool money from many investors and buy a diversified portfolio of stocks, bonds, or other assets.
- When you invest into a mutual fund you own a part of the fund and therefore a proportional claim on the funds assets and returns.
- Benefits - It is managed by someone who ‘knows what they are doing’. Liquid. Diversified.
- Net Asset Value calculated once a day. And also, often incurs managing fees.

Hedge Funds and Mutual Funds

- Pools funds from **accredited investors** to invest in almost any kind of securities.
- Mutual funds are subject to SEC scrutiny. Hedge funds, since they are private, are less regulated.
- Charge very high fees.
- Barriers to entry is high - minimum investments are very high compared to mutual funds and also less liquid due to lock up periods.

Hedge funds and Mutual Funds

Investment Type	Hedge Funds	Mutual Funds
Stocks	Yes — long and short positions allowed	Yes — typically long positions only
Bonds	Yes — government, corporate, high-yield	Yes — government and corporate, usually long-only
Derivatives	Yes — options, futures, swaps, CDS	Limited — often only for hedging, not speculation
Commodities	Yes — oil, gold, agricultural products	Rarely, except via specialized funds
Currencies (Forex)	Yes — actively traded	Usually no direct exposure
Real Estate	Yes — direct or via private vehicles	Indirect, usually via REITs
Private Equity / Venture Capital	Yes — can invest in private companies	Generally no
Leverage	Allowed, often significant	Limited by regulation
Short Selling	Allowed	Usually restricted or not allowed

Price weighted and market weighted Stock Index

- DJIA is price weighted average of 30 large US companies. (Assumes one share of each company)
- SP500 is market capitalization weighted average of top 500 US companies. Weights change automatically as prices change.
- Market weighted indexes allot more weight to larger companies and reflect more of reality.
- Price weighted indexes are simpler to calculate and only need price data to calculate. Don't reflect reality.
- Issues?