

Introduction to Investments

Introduction to Investments – Study Notes

1. What Is an Investment?

Aspect	Description
Definition	Allocation of money (or other resources) to an asset with the expectation of generating a return over time.
Key Goal	Grow wealth, preserve capital, or achieve a specific financial objective.
Time Horizon	Short-term (days/months), medium-term (1-5 years), long-term (5+ years).
Risk-Return Trade-off	Higher expected returns generally require taking on higher risk.

2. Types of Investment Assets

Asset Class	Typical Characteristics	Common Instruments
Equities (Stocks)	Ownership in a company; potential for high capital gains & dividends; high volatility.	Common shares, preferred shares, ADRs, ETFs.
Fixed-Income (Bonds)	Debt securities; regular interest payments; lower volatility than equities.	Government bonds, corporate bonds, municipal bonds, bond funds.
Cash & Cash Equivalents	Highly liquid, minimal price fluctuation; low return.	Money-market funds, Treasury bills, certificates of deposit (CDs).
Real Assets	Tangible property that can generate income or appreciate.	Real estate, commodities (gold, oil), infrastructure.
Alternative Investments	Often less correlated with traditional markets; may involve higher complexity.	Hedge funds, private equity, venture capital, collectibles.
Hybrid Products	Combine features of two or more asset classes.	Convertible bonds, asset-backed securities, balanced mutual funds.

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3. Core Investment Concepts

Concept	Explanation
Return	Gain or loss on an investment, expressed as a percentage of the original amount. Includes capital appreciation and income (dividends, interest).
Risk	Probability that actual returns will differ from expected returns. Measured by volatility, standard deviation, beta, etc.
Diversification	Spreading capital across different assets to reduce unsystematic risk. "Don't put all your eggs in one basket."
Asset Allocation	Strategic distribution of portfolio among major asset classes (e.g., 60% equities, 30% bonds, 10% cash). Determines overall risk profile.
Time Value of Money (TVM)	Money today is worth more than the same amount in the future because it can earn interest. Core to valuation and planning.
Compounding	Earnings on an investment generate their own earnings. The longer the horizon, the more powerful the effect.
Liquidity	Ease with which an asset can be converted to cash without significantly affecting its price.
Tax Efficiency	Structuring investments to minimize tax liability (e.g., using tax-advantaged accounts, selecting tax-efficient funds).

4. Investment Vehicles

Vehicle	Structure	Typical Investor	Advantages	Disadvantages
Mutual Funds	Pooled money managed by a professional; shares bought/sold at NAV.	Retail investors, retirement plans.	Professional management, diversification, automatic reinvestment.	Management fees, possible load charges, less control.
Exchange-Traded Funds (ETFs)	Basket of securities traded on exchanges like a stock.	Retail & institutional investors.	Low expense ratios, intraday trading, tax efficiency.	Brokerage commissions (though often low), bid-ask spreads.

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Vehicle	Structure	Typical Investor	Advantages	Disadvantages
Individual Stocks/Bonds	Direct ownership of			