Financial Economics
Economics 104

About your teacher ...

• Parsons 1261
• garyrevans@gmail.com or evans@g.hmc.edu
• www2.hmc.edu/~evans/index.html
  – course material here!!
• Office TuTh 2:45-4:00
  – and appointments
• My qualifications to teach this
• Twitter: PITraders
General Modular Structure of Econ 104

Module 1 - Introduction to Equities
.. markets, indexes, quotations

Module 2 - Equity Performance
... stock selection, historical market performance, trading

Module 3 - Mutual Funds, ETFs, Retirement
.. structure, portfolios, how traded, fees, 401Ks, IRAs, ESOPs, ISOPs

Module 4 – Put and Call Options (derivatives)
.. put and call options, warrants, trading strategies

Modular Structure (cont).

Module 5 - Yield-bearing Financial Assets (Bonds)
.. Treasuries, corporates, municipals, zero-coupons, yields and prices, mortgage-backed, money market ..

Module 6 - Futures Contracts
.. Commodity and futures markets, foreign exchange

Module 7 - Real Estate
.. Financing, fees, connection to MBS market, strategy

Module 8 - Investment Strategy
... review Course Outline and discuss grading
Assignments for this module

- For links to all assignments for any module always go to the course calendar at http://www2.hmc.edu/~evans/e104cc.html and find the relevant link.
- For this module the link goes to http://www2.hmc.edu/~evans/e104m1.html
- There you will see the reading and homework assignments for this module:
  - Intro to the World of Equities Chapter 1
  - Video about FaceBook IPO

About the reading and homework ...

- All reading (except book) is local or internet-based
  - In my articles, terms in purple bold must be remembered and may be on exams.
- Learn how to organize/use digital files!
- Become familiar with course sites
- Color copies of lecture slides are found at http://www2.hmc.edu/~evans/e104ls.htm
- Some homework assignments are detailed and long, are not collected or graded, but important for the exams (not to mention learning something).
- Organization, organization, organization!!!
Course Objectives

- Personal financial preparation
- Professional preparation
- Extensive overview of finance markets
- To encourage entrepreneurship
  - and to discuss means of finance
- A means of reviewing theory
  - although not substantial theory content in this course ... that's in Econ 136.

Investment Objectives

- Intermediate and long-term targets
  - Low double-digit is realistic
  - I do talk a lot about short term trading in this class, but the emphasis is in intermediate and long-term goals.
- Adjusted by attitude about risk
  - Avoid catastrophic loss
- Consider tax consequences
- Diversification
  - Mix equities and YBFAs
## Major Securities Markets

- **Equities (stocks)**
  - NYSE Euronext, NASDAQ, BATS, Direct Edge, Electronic Clearing Networks (ECNs), global EXs
- **Yield-bearing Bills, Notes and Bonds (YBFAs)**
  - U.S. Treasuries, Corporates, Municipals, exotics
  - Money Market Financial Assets (MMFA)
- **Real Estate**
- **Derivatives**
  - Options and Futures
- **Foreign Exchange (FOREX) markets**

### The essential features and differences

- **Equities (stocks)**
  - The buyer will legally own a very small percentage of a publicly-traded corporation.
  - Performance is determined by rises (capital gains) and declines (capital losses) in the price of the stock.
  - Some stocks pay dividends.
- **Yield-Bearing Financial Assets (YBFAs)**
  - Bonds, notes, bills, etc. These are debt instruments. You are legally making a loan to the issuer and are promised an interest yield in return.
  - You may also suffer modest capital gains or losses with YBFAs.
The essential features (cont)

- **Derivatives**
  - A financial asset that is contractually linked to an underlying primary financial asset or commodity.
  - Examples: An call option on AMD that is linked to AMD stock or a Crude Oil futures contract that is linked to the price of crude oil.
  - Performance is determined by gains and losses in the price of the derivative.

- **Real Estate**
  - From a strictly financial perspective, performance is determined by gains or losses in the price of the real estate owned.

Composite Diversified Investments

- **Mutual funds, ETFs and ETNs**
  - MF: Hugely popular diversified investment funds that pool investors money to purchase large quantities of many stocks (equity funds), many YBFAs (yield-bearing funds), or both (mixed funds).
  - ETF/ETN: Pool assets like mutual funds, but traded like stocks, can invest in just about anything, including short and leveraged.

- **Hedge funds**
  - Investments are restricted by income and wealth requirements.
  - Can invest in absolutely anything, including derivatives.
  - Relatively unregulated.
How much of this is accessible to you?

By opening a brokerage account (online recommended), nearly every financial asset discussed in this class is accessible to you, typically easily, conveniently, and at very low transactions costs (if done online).

Mutual funds can be easily accessed by opening an account at one or more of the many mutual fund families or through brokerage accounts.

YBFAs are little harder to buy and sell and fees are a little higher, but brokers will handle these as well (not always online though). U.S. Treasuries can be bought and redeemed through Treasury Direct (including online).

Most online brokers and mutual funds accept very small initial accounts.

About markets today ...

You can either view this as a disaster or an opportunity. (Alas, for many who were unprepared, it was nothing but a disaster).

For you, being so young, it is an opportunity.