

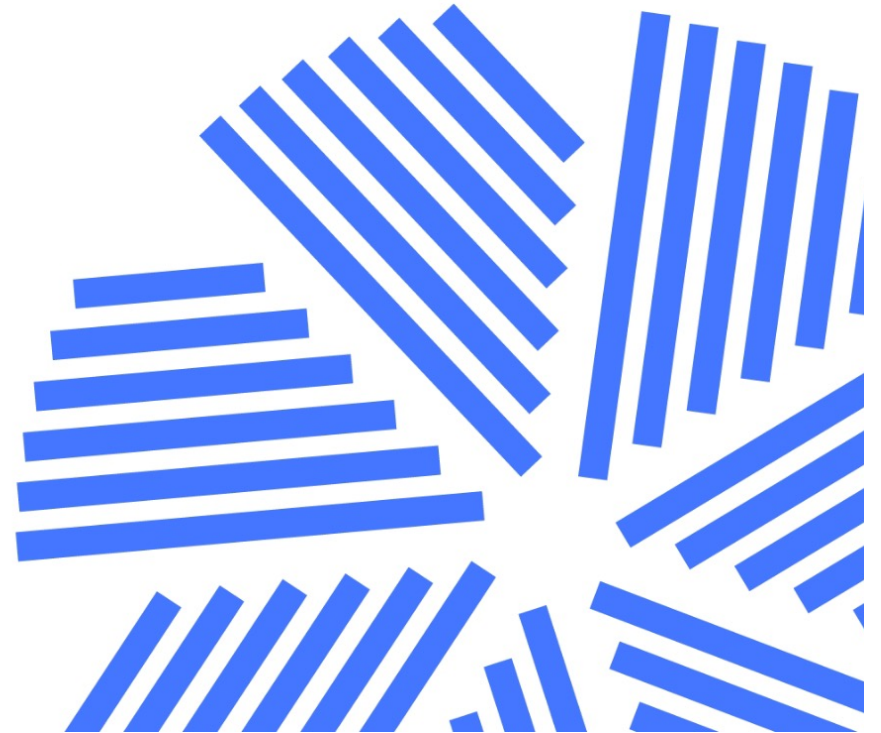


# Introduction to Stocks and Bonds

ORGANIZATION

DATE

PRESENTERS



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# WHO WE ARE

Add speaker biographies





## **CFA Society Boston**

- Non-profit professional society of over 5,800 investment professionals
- New England's largest investment professional membership organization
- Founded in 1946, CFA Society Boston is a founding society of CFA Institute.



## **CFA Institute**

- Global association of investment professionals
- Sets the standard for professional excellence and credentials
- Champions ethical behavior in investment markets
- Respected source of knowledge in the global financial community.



**CFA Society  
Boston**



# Outline for Discussion



*Image by Rawpixel on Freepik*



## Investing Introduction

### Equity

- Equity 101
- Stock Basics
- Stock Mechanics
- Market Dynamics
- Evaluating Buy & Sell Decisions

### Fixed Income

- Fixed Income 101
- Bond Basics
- Bond Mechanics
- Market Dynamics
- Evaluating Buy & Sell Decisions

## Summary Discussion

# Investing Introduction

## Preparing for your Future

### Investing

- Committing money to a purpose with the expectation to gain more profit and income
- Investing is the key to building wealth

# Investing Introduction

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## What is Investing?

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### Equity Investing (Equity Ownership)

- Acquire ownership in the business
- Earn income from the profits of the business
- Earn capital appreciation on the value of the business

### Fixed Income Investing (Debt Obligations)

- Loaning money to a business or individuals through purchase of debt securities (e.g., Bonds)
- Receive interest on this obligation and eventually receive repayment of initial principal (amount invested)



# Investing Introduction

## What is the Market?

### Market structure enables transactions

- Stock Exchanges
- Fixed Income Exchanges
- Trading Networks
- Government Auctions



Image by Gerd Altmann from Pixabay

### Market participants perform transactions

- Retail Investors (High Net Worth, Individuals)
- Institutional Investors (Hedge Funds, Mutual Funds, Pension Plans, 401(k) Plans, 529 College Savings Plans, Foundations, Endowments, Corporations)
- Government Agencies (Federal Reserve, Fannie Mae)

# Introduction to Equity



Photo by Harri P on Unsplash

## Equity

### Have you ever heard?

- How about that hot IPO!
- The Dow is up ... The Dow is down
- It's the Economy
- Global Markets were up overnight

# Equity 101

## Where does stock come from?

A private business, independent of size or revenue, decides to:

- Raise more capital (money) to expand the business by selling stock to the public through an Initial Public Offering (IPO)
- Hire an underwriter to determine:
  - How much stock to issue
  - Offering price
  - Date to offer to the market



**IPOs enable new public businesses to:**

- Invest the money raised
- Enhance the value of the business
- Increase the initial IPO stock price (hopefully)

**After the IPO, the shares of stock are traded on a stock exchange and can be bought and sold among the public**



# Equity 101

## IPO Demystified

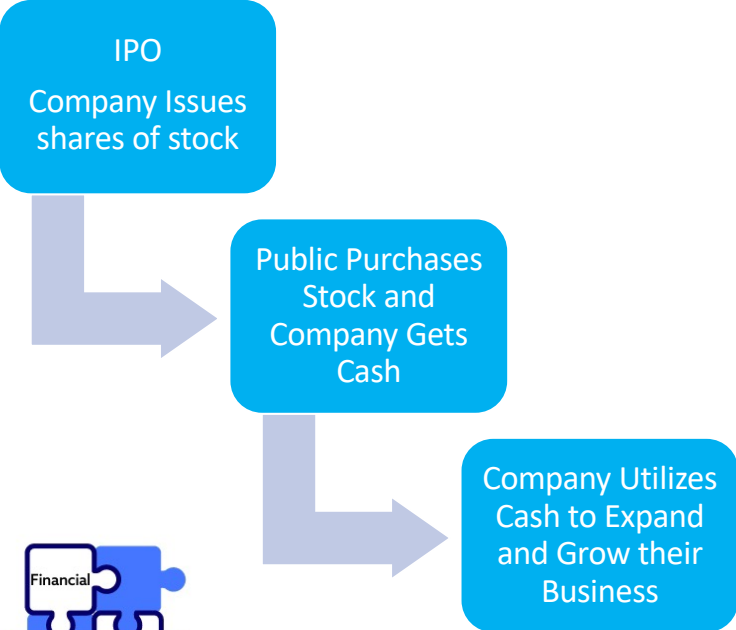


Photo by @Yelp

# Stock Basics

## Why Own Stock?

### Acquire Ownership in a business

- Buying stock = Buying partial ownership in a company

### Earn Income from Dividend Paying Stocks

- As a company earns profits, the owner of a share of stock can receive a portion of those profits in the form of dividends

### Earn Capital Gains from Stock Price Appreciation

- Increases in share price = capital gains
- Stock Price increases/ decreases based on supply and demand

### Vote on Company Issues

- Shares of Stock carry voting rights ... more Shares = more Votes

### Maintain Purchasing Power (Inflation erodes)

- Stock prices have the highest average annual investment return of all investments, especially over long periods over 10 years

# Stock Basics

## Common Stock Classifications

### Growth stocks

- Companies, usually newer, that demonstrate lots of potential for revenue growth and generally a higher risk of failure as well ... stock price can be very volatile and appreciate/ depreciate substantially

### Income stocks

- Generally, more established companies with a more predictable revenue and earnings and which pay a regular dividend ... stock price generally less volatile than growth stocks (e.g., Coca-Cola)

### Value stocks

- Stocks of companies that currently have relatively lower valuation than growth stocks (one measure to determine this could be a low Price/Earnings (P/E) ratio)

### Penny stocks

- Very speculative, low-price stocks of companies that generally do not have much revenue or profits

# Stock Mechanics

## Common Stock Facts

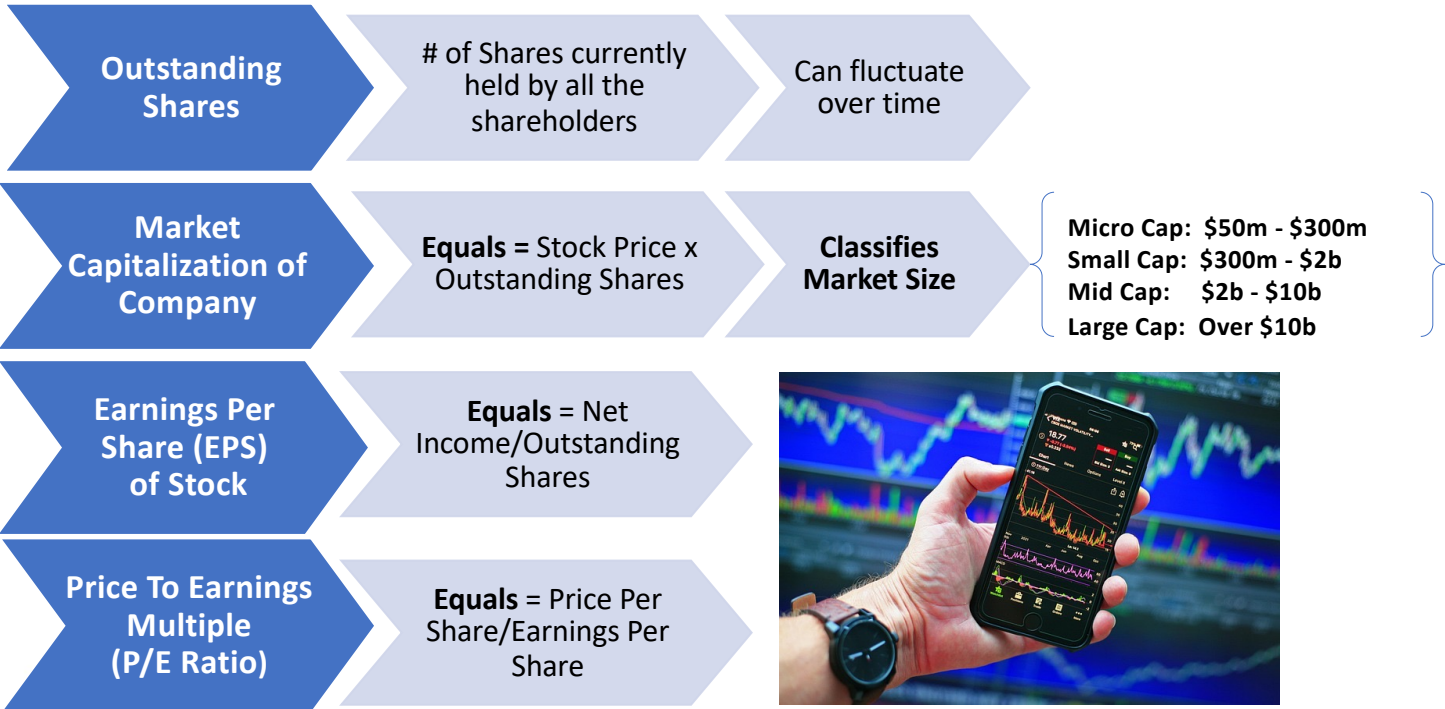


Image by Sergei Tokmakov, Esq. from Pixabay

# Stock Mechanics

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## Common Stock Example

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- Company issues 100m shares of stock
- Stock price = \$5
- Market capitalization = \$500m (100m x \$5)
- If the company had \$50m in net income, the EPS = \$0.50 (\$50m/100m)
- The P/E ratio is thus 10 (5/\$0.50)



# Market Dynamics

## Stock Market Structure

### Exchanges

- Marketplace where securities are traded
- NYSE, NASDAQ, London Stock Exchange (LSE), Tokyo Stock Exchange (TSE)

### Indexes

- Indexes are an aggregation of certain stocks
- Dow Jones Industrial Average (DJIA, "The Dow", S&P 500)
- NASDAQ Composite ... comprised of 3000 stocks
- Russell 2000 ... comprised of 2000 small cap U.S stocks

# Market Dynamics

## What affects my share price?

### Change in Supply or Demand - Factors

- Company Specific – Revenue, Earnings, Profitability
- Macro Environment – Economy, Geopolitical
- Industry – VHS anyone?
- Good News and Not So Good News
- Government Regulations
- Psychology – P/E rises: investors grow bullish; P/E falls: investors are grow bearish

### Fluctuation of Outstanding Shares “Supply”

- $\downarrow$  Shares =  $\uparrow$  Value Per Share
- Companies can “buy back” stock from public markets, which reduces the shares and increases value per share
- $\uparrow$  Shares =  $\downarrow$  Value Per Share
- Companies can raise more capital (money) by issuing more shares after the IPO in a “secondary offering” (increases shares and decreases per share value)

# Evaluate Buy Decisions

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## How can I buy stocks?

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### Multiple Ways to Invest in Stocks

- Individual Stocks of Companies
- Mutual Funds (Pooled Money to buy Stocks)
- Exchange Traded Funds (ETFs – Basket of Stocks bought as 1 share)

### Purchase stocks via a brokerage account

- Do you have the time and skills to determine purchases and monitor your investments?
- **Do It Yourself** - Open a brokerage account through a discount brokerage (e.g., Fidelity, Charles Schwab, E\*Trade)
- **Use a Financial Advisor** - Open a brokerage account and he/she will advise and transact for you (e.g., Merrill Lynch, Edward Jones, UBS, Wells Fargo)

### Purchase stocks directly from a corporation

- Corporate Stock Purchase Plan



# Evaluate Buy Decisions

## Stock Purchase Considerations

### What Investment Goals am I trying to achieve?

- Growth
- Income
- Preserve Capital

### What is my Risk Tolerance?

- % of your \$ to invest in stocks (Asset Allocation)
- Diversification of stocks by market cap, sector
- Risk vs. Return (Higher Risk = Higher Probability of Gain or Loss)

### What is my Time Horizon to invest?

- How long can you hold the investment?



# Evaluate Buy Decisions

## What types of stocks should I buy?

### For Growth and Long Time Horizons

- Non-Dividend Paying Stocks
- Small and Mid Cap
- Growth Industries

### For Income and Short Time Horizons

- Dividend Paying Stocks

### For Safety and Preservation of Capital

- Only Large Cap Dividend Paying Stocks

# Evaluate Sell Decisions

## When should I think about selling?

- Company or stock price is not performing well
- Company industry outlook worsens
- Overall economy is slowing
- Attractiveness of other investments
- Tax considerations
- Achieved your investment goals
- Your investment goals changed!

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"Our company is facing financial ruin unless we take immediate action. Larry has suggested a bake sale."



The good news, sir, is that Harris was able to sell off our losing stocks. The bad news is that Simpson here bought them from Harris.

# Fixed Income

## Helping You Understand



Photo by Harri P on Unsplash

### Have you ever heard?

- The Fed raised rates ... or lowered rates
- Inflation ... or was that deflation
- The 10-year yield
- Mortgage rates are up ... they're down!

## Fixed Income



# Fixed Income 101

## What classifies as Fixed Income?

- Fixed income is a debt instrument
- A business or government issues debt instruments (bonds, notes, bills)
- Represents an investor providing a loan to a business or government (federal, state, or local)
- The investor receives regular interest payments on the loan until the bond matures or is called away by the issuer
  - A bond is called away when the issuer repays the principal early
  - Generally, the riskier fixed-income investments will pay higher interest rates to entice investors to buy



# Bond Basics

## What does owning a bond mean?

Buying a bond is like loaning \$ and then the issuer pays you regular interest until paying back your principal later

- Bonds and Notes pay a fixed rate of interest every 6 months until maturity (payback of principal)

Callable bonds allow the issuer to repay the bond before maturity

- Example: If you pay off your mortgage early by paying the full amount of principal remaining

Zero-coupon bonds

- Purchased at a deep discount and pays all the accumulated interest at once at maturity (no semiannual interest payments)



# Bond Basics

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## What are some benefits of owning bonds?

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**Bonds provide a predictable stream of income**

**Generally less volatile than stocks**

**The principal is returned at maturity if the issuer is still in business**

- Bonds issued by more stable companies will offer a lower interest rate than the bonds issued by more risky companies



# Bond Mechanics

## Bond Information

### Bond Components

#### Face Value (Par Value)

- Value of the bond as given on the certificate
- Value the bond holder will receive at maturity

#### Coupon Rate

- Annual rate of interest payable on the bond, based on face value.

#### Maturity

- Date when the issuer pays back the face value of the bond

### Bond Ratings ... Credit Rating Agencies

#### Moody's, Standard & Poor's (S&P), Fitch

- Research the financial health of each bond issuer and assign ratings to the bonds
- Assess bond's credit quality compared to other bonds

	Moody's	Standard & Poor's	
Highest Quality	Aaa	AAA	Investment Grade
High Quality	Aa	AA	
Upper Medium	A-1, A	A	
Medium	Baa-1, Baa	BBB	
Speculative	Ba	BB	Not Investment Grade
Highly Speculative	B, Caa	B, CCC, CC	
Default	Ca, C	D	



# Market Dynamics

## Where do bonds come from?

### Government (U.S. Treasury)

- Issue bonds to pay for government activities /deficit and to pay off the national debt
- Low yield and low risk “if held until maturity”
- Exempt from State and Local Taxes

### U.S. Government Agency (GSE, e.g., Fannie Mae)

- Issue bonds to support their mandates to ensure that constituencies (farmers, students, homeowners) have access to sufficient credit at affordable rates
- Slightly higher yield, low risk
- Freddie Mac, Fannie Mae



Photo by Aditya Vyas on Unsplash

# Market Dynamics

## Bonds are issued by several sources

### Municipalities (“Munis”)

- Issued by states, cities, counties and towns to pay for public projects/deficits
- Exempt from Federal, State and Local Taxes
- Subject to credit ratings

### Corporations

- Issue bonds to expand, modernize, cover expenses and finance other activities
- Higher yield and risk than Government and Municipalities
- Subject to credit rating
- Fully taxable

### Mortgage Backed Securities (MBS)

- Banks and other lending institutions pool mortgages to offer MBS to investors
- Raises money so can offer more mortgages (Fannie Mae, Freddie Mac)



# Evaluate Buy Decisions

## Bonds purchase considerations

### What are my income needs?

- Interest rates of bonds vary

### When do I need my principal back?

- Maturity dates
- Can invest in various maturity dates to diversify and reduce effects of interest rate changes

### What degree of safety (lower risk) do I require?

U.S. Treasuries can be purchased directly from the Treasury website (<http://www.treasurydirect.gov>)

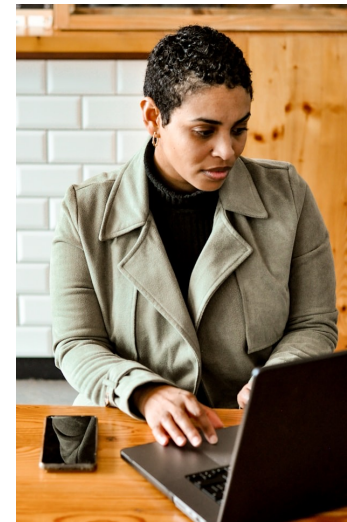


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# Evaluate Buy Decisions

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## What primarily affects bond prices?

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Inflation



Why?

Credit worthiness of the issuer

Interest rates

- Interest rates and bond prices move in opposite directions
- Interest rates  $\uparrow$  means bond prices  $\downarrow$
- Seesaw

# Evaluate Sell Decisions

## When should I think about selling?

Generally, you invested in fixed income for the predictable income and selling is not common especially for shorter maturity investments

### Interest Rates Rising

- Increases in Rates will decrease your Bond Price and result in a capital loss if you were to sell the bond before maturity

### Company in decline

- If there is a question regarding the company staying in business, you would want to consider ending the investment

### Inflation expected to rise

- This erodes the purchasing power of the income you are receiving

### Attractiveness of other investments



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# Equity and Fixed Income

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## Helping You Understand

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## Summary Discussion

### Think about:

- Portfolio considerations
- Income considerations
- Investment goals
- Questions and answers

# Summary Discussion

## Things to think about

How long until I retire? How many working years left?

How much risk can I take?

When do I need the money I will invest?

What are my income needs from my investments?

What are my investment goals?

What % of stocks and bonds should I invest in?



# Resources

## General Financial News and Stock Charts

- <http://finance.yahoo.com/>
- <http://www.marketwatch.com/> (paywall)

## Company and Financial News

- <http://online.wsj.com/home-page> (paywall)

## Stock and Bond Market Real Time Commentary

- <http://www.cnbc.com/>

## Purchase U.S Treasury Securities Direct from U.S Government

- <http://www.treasurydirect.gov/>

## Bureau of Labor Statistics

- <http://www.bls.gov/>

## The Federal Reserve

- <http://www.federalreserve.gov/>



# CFA Society Financial Literacy Resources

**Contact US!**

Email: [finlit@cfaboston.org](mailto:finlit@cfaboston.org)

[www.CFABoston.org](http://www.CFABoston.org)

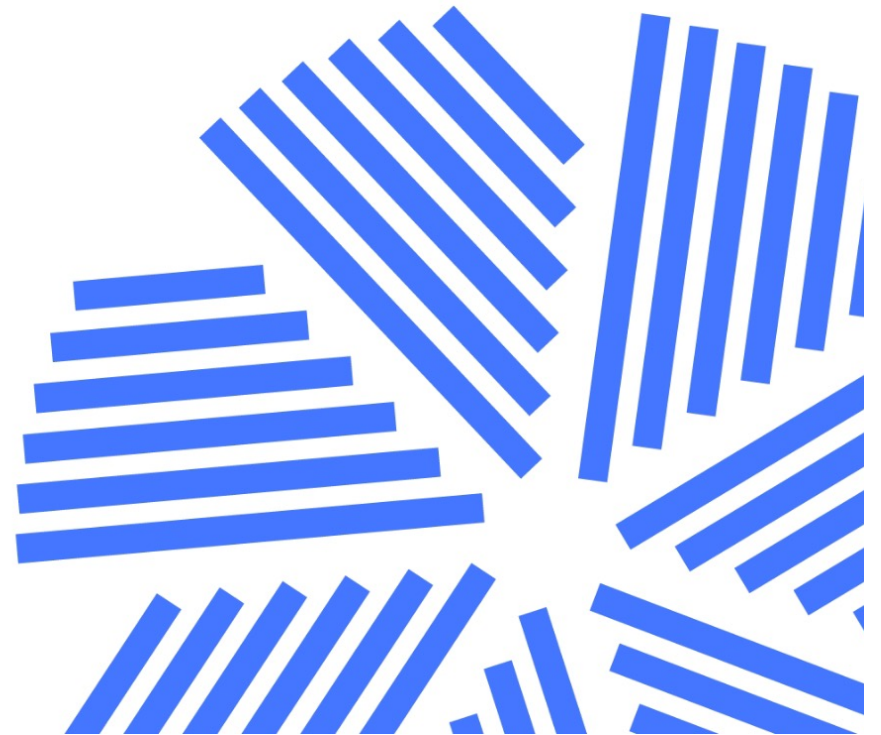
The screenshot shows the CFA Society Boston website with a navigation bar containing: CFA Society Boston, Get Involved, Resources, Programs and Events, Financial Literacy, About, and Connect. A red arrow points to the 'Financial Literacy' link. Below the navigation bar is a cityscape image. The main content area features several cards: 'Education for Investment Professionals By Investment Professionals' with a 'Learn More' link; 'Diversity, Equity and Inclusion (DEI)' with a 'Learn More' link; 'Your Local Investment Community Network' with an 'Become A Member' button; 'CFA® Designation' with a 'Get Started' button; and 'Member Resources' with a 'View Resources' button.





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# About CFA Society Boston Financial Literacy Program

## Who We Are

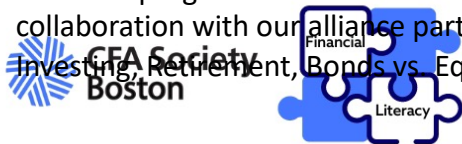
CFA Society Boston is dedicated to putting investors first and raising ethical standards within the investment profession. We unite Boston's investment community and provide a forum for collaboration, education, and innovation. Originally called the Boston Security Analysts Society, Inc., we are a non-profit professional society founded in 1946. In 2017, we became CFA Society Boston. More than 6,000 investment professionals locally and globally are members of CFA Boston, representing over 650 investment firms. 96 percent of CFA Boston members hold the Chartered Financial Analyst designation from CFA Institute.

## Our Financial Literacy Mission

This community outreach program aligns with non-profit groups to reach a wide variety of audiences, from late high school onward. Since its inception in 2014, the initiative has touched thousands of people, partnered with over 30 organizations, and currently has over 30 active volunteers. This community outreach program makes valuable financial literacy content available to the general investing public through collaboration with our alliance partners. The initiative addresses issues such as Personal Finance, Basics of Investing, Retirement, Bonds vs. Equities, Choosing a Bank, and more.

## How it Works

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## How to Partner with the CFA Society Boston Financial Literacy Program

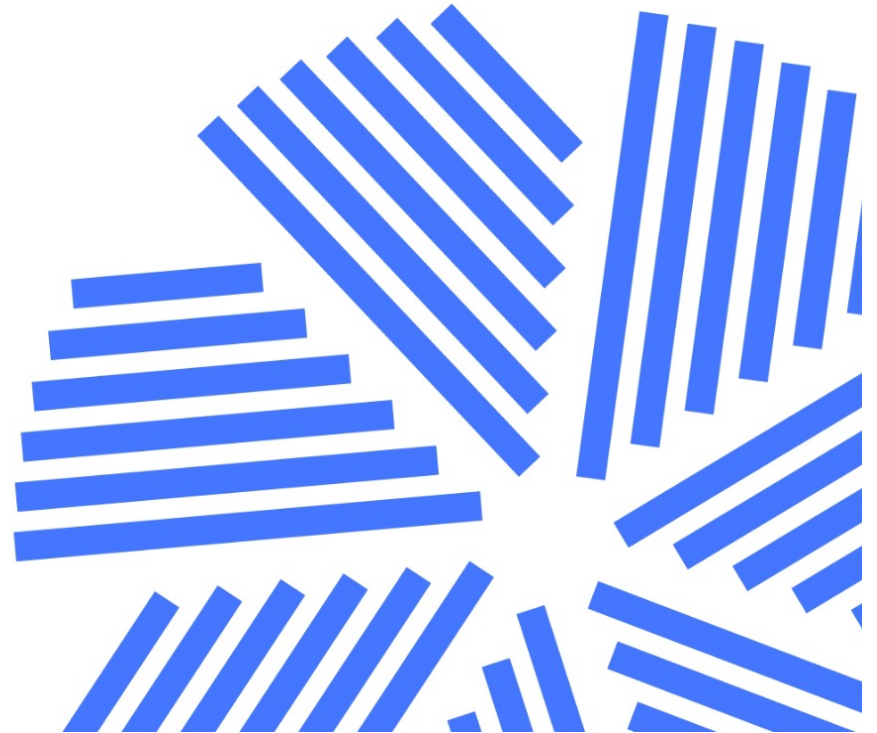
### What CFA Society Boston Commits To

- Provide neutral, expert presenters
- Set up and present topics
- Supply the presentation / activity
- Bring a laptop and materials
- Be experienced in presenting in-person and in a virtual setting

### What Your Organization Commits To

- Provide the audience and venue, either in-person or virtual
- Promote the event onsite, local newspapers and website
- Make a projector or USB connection available
- Briefly introduce presenter(s) Complete a post offering survey

For more information on how CFA Society Boston can partner with you visit [www.cfaboston.org/financialliteracy](http://www.cfaboston.org/financialliteracy) or email [finlit@cfaboston.org](mailto:finlit@cfaboston.org).



# Slide Information

Alliance Leader Name:

Date of Offering:

