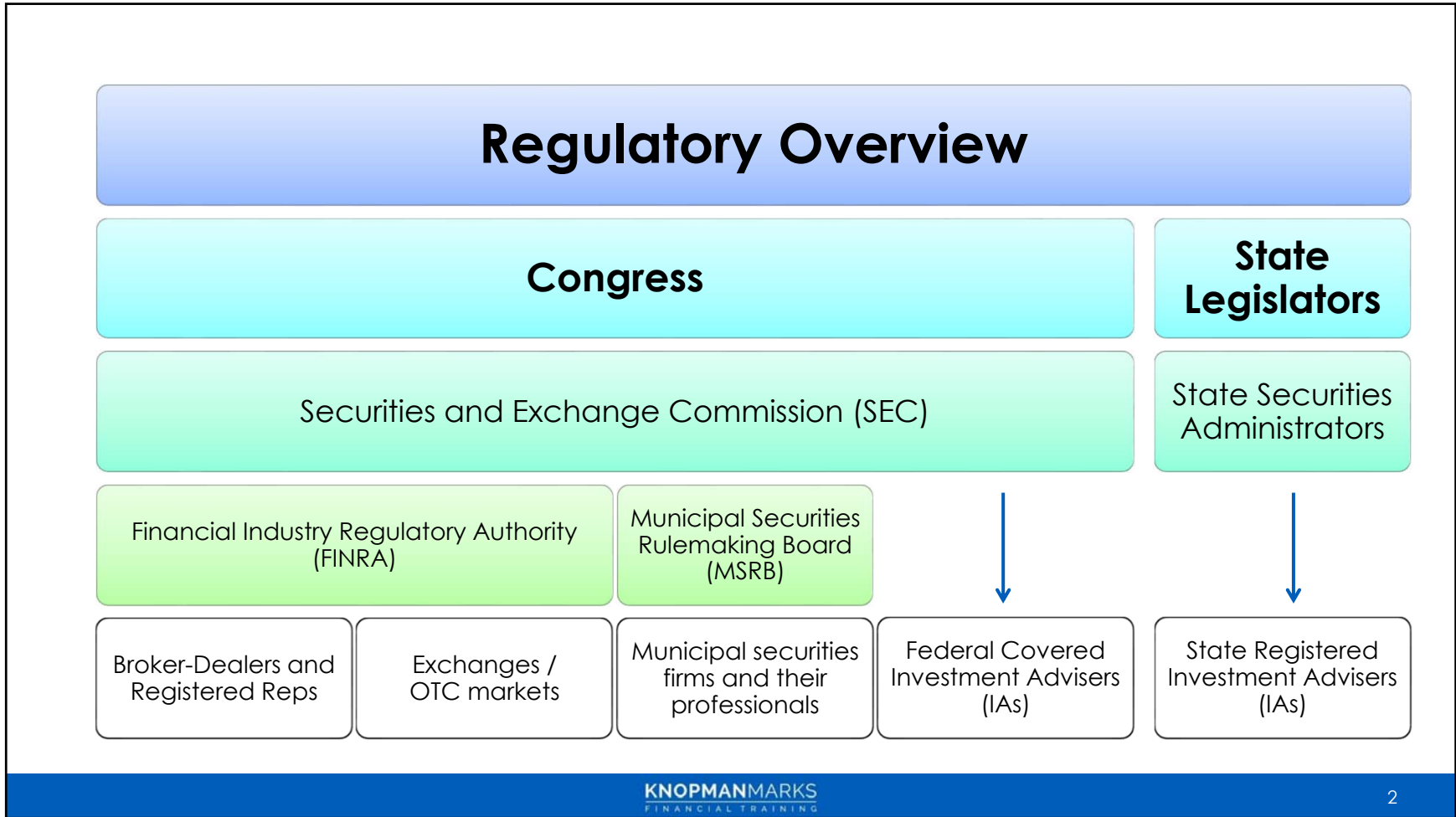


Review Charts

These review charts are best used towards the end of your study process to help you better understand and recall different investment objectives, securities products, and account types.

<i>Page</i>	<i>Chart Title</i>	<i>Page</i>	<i>Chart Title</i>
2.	Regulatory Overview	12.	Options Positions
3.	Investment Objectives	13.	Money Market Instruments & Insured Deposits
4.	US Equity Market Structure	14.	Exempt Transactions
5.	Types of Preferred Stock	15.	Economic Factors
6.	Fixed-Income (Bonds)	16.	Federal Reserve and Economic Policy
7.	Fixed-Income (Bonds) Features	17.	Individual & Joint (JTIC & JTWROS) Accounts
8.	Bond Risks	18.	Minor & Trust Accounts
9.	Investment Companies (Investment Co. Act of 1940)	19.	Tax-Advantaged Accounts
10.	Types of Mutual Funds	20.	Traditional IRA Timeline
11.	Investment Company Comparison	21.	Corporate Retirement Plans
		22.	Individual Retirement Plans



Investment Objectives

Speculation objective

Goal of outsized investment returns in exchange for taking on much higher risk.

Growth

Goal of long-term portfolio appreciation, with less focus on generating current cash

Current income

Goal of generating current cash for the investor with less focus on growth and long term appreciation

Tax-free income

Goal of generating tax-free income by investing in municipal bonds.

Liquidity objective

Goal of immediate access to funds and cash in order to meet a short-term goal

Preservation of capital

Goal of zero decline in the value of the investment or portfolio

Higher risk

Lower risk

- **Asset allocation** → Mixing investments across asset classes—stocks, bonds, and cash—in order to reduce risk
- **Diversification** → Mixing investments in different sectors within a portfolio so that the positive performance of some investments neutralize the negative performance of others

US Equity Market Structure

Stock Exchanges (Listed)

New York Stock Exchange (NYSE)

- Auction exchange
- Physical floor (+ electronic trading)
- Designated market maker (DMM) (one per stock)

Nasdaq

- Negotiated marketplace
- Electronic exchange
- Multiple market makers per stock

Over-the-Counter (Unlisted)

OTC Bulletin Board (OTCBB)

- FINRA-operated quotation service (not an exchange)
- No listing requirements

OTC Markets (OTC Pink)

- Private company quotation service (not an exchange)
- No listing requirements
- Does not require quoted companies make SEC filings (i.e. less disclosure)

Types of Preferred Stock

Benefits Investor
(Rate down; lower yield)

Market neutral

Benefits Issuer
(Rate up; higher yield)

Cumulative

Convertible

Participating

Adjustable-rate Preferred

Callable

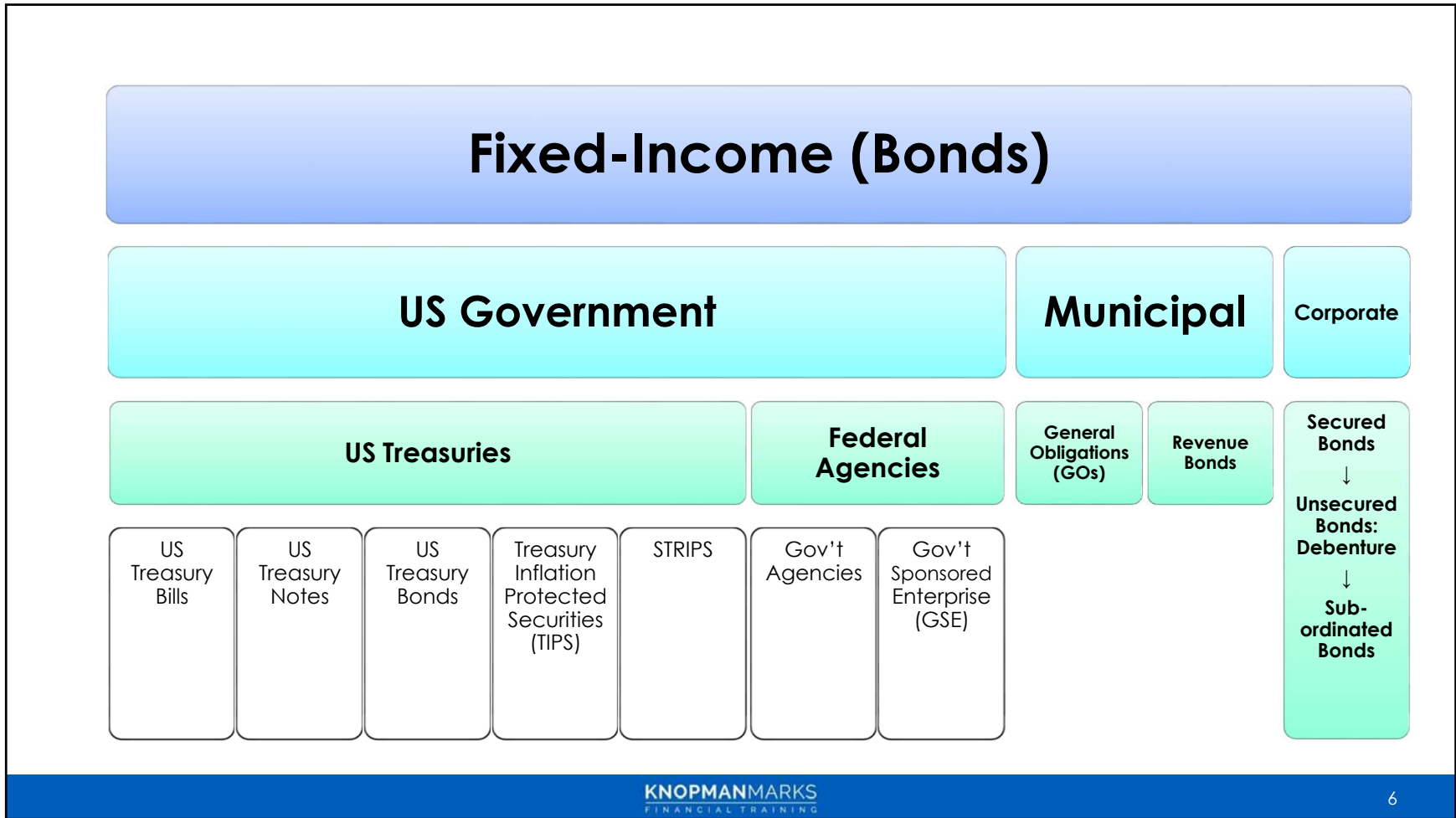
Any skipped, missed, or **accrued dividends** must be paid before a dividend is paid to common.

Investor can **convert** the preferred share into a fixed number of common shares.

Investors receive an **additional (special) dividend** in certain circumstance. *E.g. sale of the company.*

Dividends rate is **adjusted** based on a pre-determined benchmark (e.g. 3-month Treasury).

Issuer can **"call"** or redeem the preferred at a set price (typically par) before maturity.



Fixed-Income (Bonds) Features

Benefits Issuer

Callable

Higher coupon for investor

Issuer can "**call**" or redeem the bond at a set price (typically par) before maturity.

Benefits Investor

Puttable

Lower coupon for investor

The investor can demand early repayment of principal

Convertible

Lower coupon for investor

Investor can **convert** the bond into a fixed number of common shares.

Bond Risks

Interest Rate Risk

The **price** of a bond will change due to changes in prevailing interest rates.

Call Risk

A bond is **redeemed before its maturity**. Once called interest payments stop.

Bonds are called when interest rates are low.

Reinvestment Rate Risk

An investor is **unable to reinvestment capital** at a previously earned rate of return.

The investable capital could be interest payments or the return of principal from a called bond.

Inflationary Risk

An investment's returns provide **reduced purchasing power** because the return is fixed (a coupon), but costs are rising. Also applies to preferred stock.

Credit Risk

The risk of **default**. That an issuer cannot make interest principal payments.

Ratings help investors evaluate credit risk.

Investment Companies
(Investment Co. Act of 1940)

Management Companies

**Unit
Investment
Trusts (UITs)**

**Face Amount
Certificates
(FAC)**

Open-End Funds
(Mutual Funds)

Closed-End Funds

Exchange-Traded
Funds
(UIT ETFs)

Types of Mutual Funds (Investment Co. Act of 1940)

Money Market

Money market Fund

- Low risk
- Very liquid
- Cash equivalent
- Target NAV \$1.00
- No-load

Bond Funds

US Gov't Bond Fund

- Low income & risk
- Taxable at federal level

Corp. Bond Fund

- Moderate income & risk
- Taxable at all levels

High-yield bond fund

- Higher income & risk
- Taxable at all levels

Municipal Bond Fund

- Moderate income & risk
- tax-free interest (best for high-income earners)

Stock Funds

Growth Fund

- higher risk / return
- less income
- small-cap / mid-cap

Value Fund

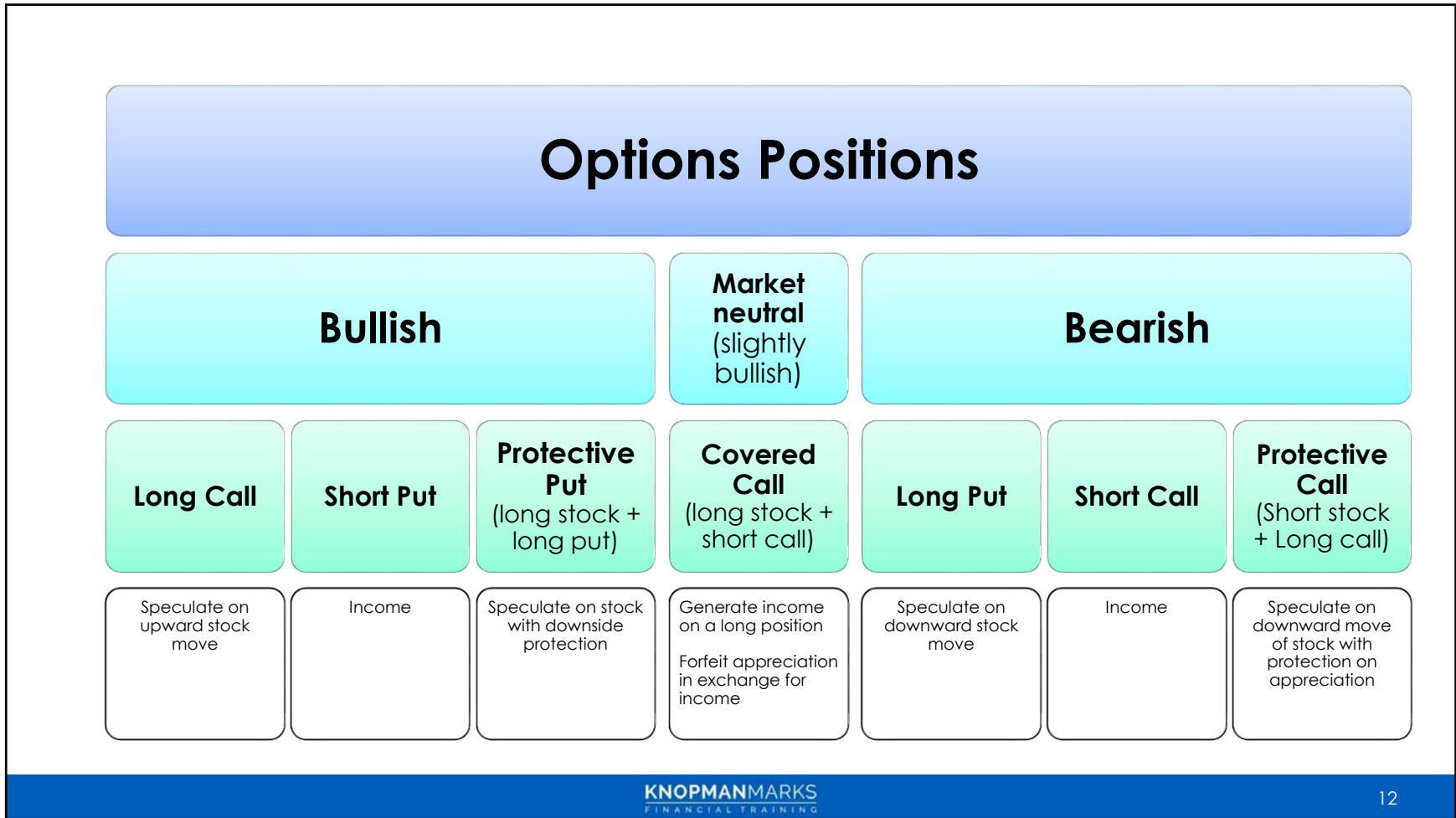
- Lower risk / return (but still risky)
- Under valued stocks (low P/E ratio)
- More income (dividends)

Income Fund

- Income producing equities (dividends)
- Less tax efficient
- preferred stocks, blue chip stocks, and utility stocks

Investment Company Comparison

Feature	Mutual Fund	Closed-End Fund	UIT	ETF
Continuous offering (C) or fixed share count (F)	C	F	F	F
Redeemable with sponsor	Yes	No	Yes	No
Trading: Intra-day or End of Day	End	Intra	End	Intra
Can sell short	N	Y	N	Y
Management: Active (A) or Passive (P)	A	A	P	P
Maturity date	N	N	Y	N
Distribute to investors A) Capital gains, B) Dividends, and C) Interest	Y	Y	Y	Y



Money Market Instruments & Insured Deposits

	Issuer	Return Mechanism	Credit Risk
Treasury Bills	US gov't	Issued at discount; mature at par	No (Backed by US gov't)
Commercial Paper	Unsecured corp. debt	Issued at discount; mature at par	Yes
Negotiable CDs (Jumbo CDs)	Bank (Face > \$100K)	Semi-annual interest	No (FDIC up to \$250,000)
Non-Negotiable CDs (time deposit)	Bank	Interest paid at maturity	No (FDIC up to \$250,000)
Banker's acceptance	Bank	Issued at discount; mature at par	Yes (but very safe)

Exempt Transactions

Reg D

Private Placements

Deal Terms

- Disclosures in Private Placement Memorandum

506(b) and 506(c)

- Unlimited capital
- Mostly accredited investors

504 → up to \$5M

- Anyone can invest

Rule 144

Restricted and Control Stock

Deal Terms

Restricted Stock:
six month holding period

Control stock Volume limits
(greater of)

- 1% of outstanding shares *or*
- average weekly trading volume over prior 4 weeks

Rule 144A

Qualified Institutional Buyers

Deal Terms

Buyer must be QIB

QIB: greater than \$100M in *discretionary* assets under management

Examples of 144A transactions:

- high-yield debt
- pre-IPO shares

Rule 147

Local deals (intrastate)

Deal Terms

- Principal place of business is in-state

- Meet one 80% test (revenue, assets, use of proceeds, or employees) are in the state

- Purchasers must be in-state

- Resale out-of-state after six months

Economic Factors

Consumer Spending

Interest rates
Cost of capital

Inflation / Deflation
A change in the general level of the prices of goods and services.

Measured by CPI

Unemployment
The percentage of those in the labor force who are without work.

Gross Domestic Product (GDP) & Gross National Product (GNP)

Gross domestic product (GDP)
The total market value of goods and services produced within a country, regardless of the nationality of those who produce them
The primary metric for measuring US economic growth.

Gross national product (GNP)
The total market value of goods and services produced by the residents of a country, even if they're living abroad.

The Business Cycle

Economic Cycle
A recurring pattern and fluctuation in economic activity:
1) Expansion
2) Peak
3) Contraction
4) Trough

Economic Indicators

Leading Indicators
Change before the economy changes (Stock market)

Lagging Indicators
Change after the economy has begun changing (Interest rates)

Coincident indicators
Economic factors that vary simultaneously with the business cycle. (Industrial production index)

Federal Reserve and Economic Policy

Classical Economics

Laissez-faire economics

- No Gov't interference with the market

Keynesian Theory (Fiscal Policy / Congress)

Use Gov't tools to affect the economy

Contractionary

- Spending is fully funded by tax revenue
- Less Gov't spending
- More taxes

↓
Slow growth
(budget surplus)

Neutral

- Balanced government budget
- Spending equals tax revenue

Expansionary

- Spending exceeds tax revenue
- More Gov't spending
- Less taxes

↓
Drive growth
(increased deficits)

Monetarist Theory (Federal Reserve)

Use money supply to affect the economy

Discount Rate

Ease → Lower
(add cash to economy)

Tighten → Raise
(remove cash from economy)

Open Market Operations

Ease → Buy Gov't Bonds
(add cash to economy)

Tighten → Sell Gov't Bonds
(remove cash from economy)

Bank Reserve Requirement

Ease → Lower
(add cash to economy)

Tighten → Raise
(remove cash from economy)

Customer Account Titles

Individual Account

Single ownership



Total account authority

100%
Death



Joint Tenants in Common (JTIC)

Divided ownership



40%

Death



40%



25%



35%

Assets pass to named beneficiary

Joint Tenants with Rights of Survivorship (JTWROS)

Undivided ownership



100%

Death



0%



100%



100%

Assets remain in the account

Customer Account Titles

Minor Account

UTMA / UGMA



Custodian

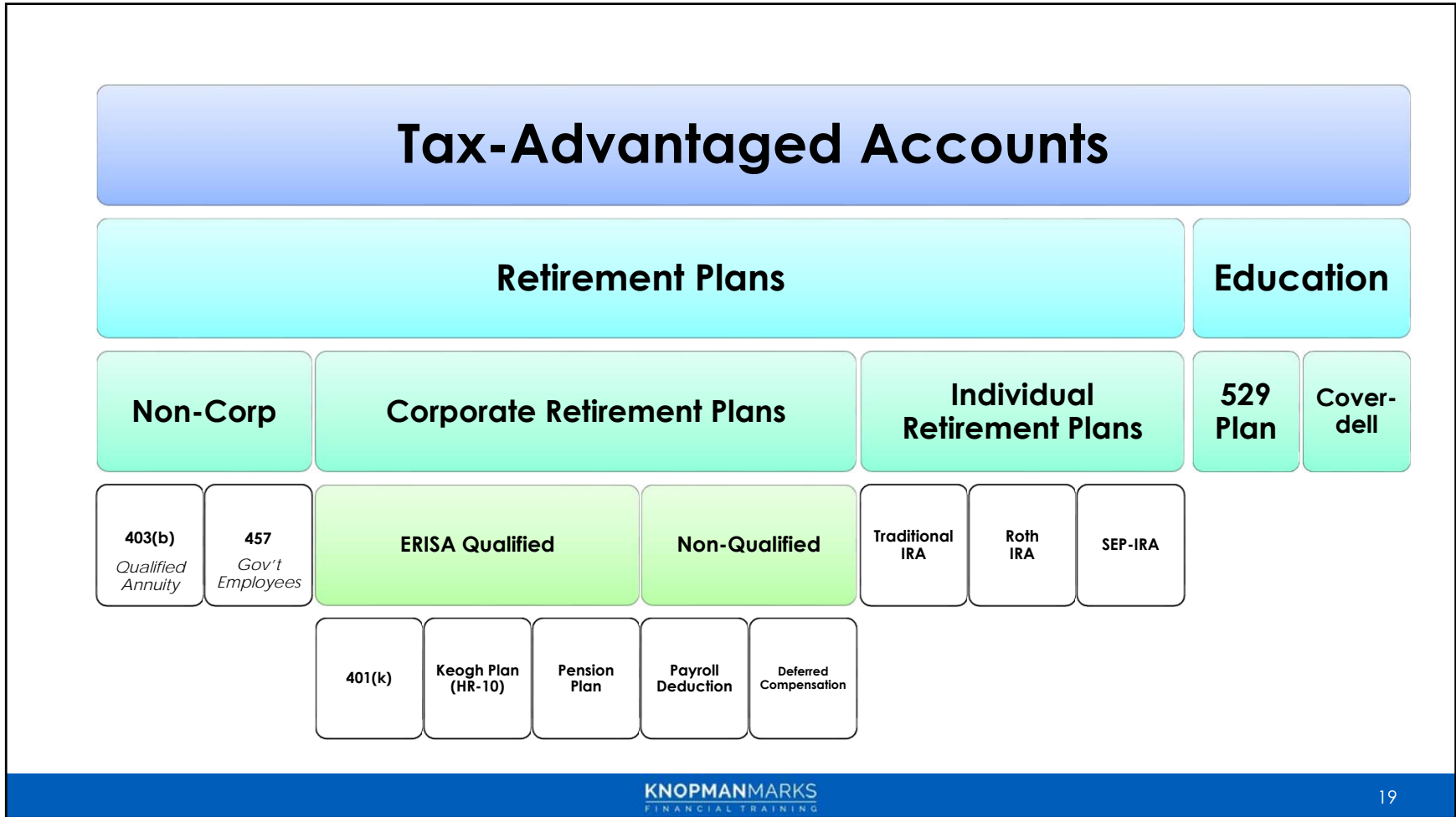
- Fiduciary to minor
- Manages account
- Low risk tolerance

Trust Account

A trust is a legal entity created to benefit another person(s)



- The **settlor** contributes the property (assets) into the trust (AKA maker, grantor, trustor, donor)
- The **trustee** holds legal title to the property in the trust
- The property is held in trust for the trust's **beneficiaries**



Traditional IRA Timeline

	0 - 49	50 to 59 ½	59 ½ - 72	72...
Contributions	\$6,000	\$6,000 + \$1,000 <u>\$7,000</u>	\$6,000 + \$1,000 <u>\$7,000</u>	\$6,000 + \$1,000 <u>\$7,000</u> <i>No age limit on contributions</i>
Withdrawal	<ul style="list-style-type: none"> • Ordinary income tax + • 10% tax penalty (<i>limited exceptions</i>) 	<ul style="list-style-type: none"> • Ordinary income tax 	<ul style="list-style-type: none"> • Ordinary income tax 	<p>Required Minimum Distributions (RMD)</p> <ul style="list-style-type: none"> • Ordinary income tax • If no RMD → 50% tax penalty

Note: The SECURE ACT changed the RMD age to 72 (from 70.5) as of Jan 1, 2020. Distributions must begin by the April 1st of the year following the 72nd birthday.

Corporate Retirement Plans

	Contribution	Earnings & Growth	Distributions	Notes
Qualified Corp. Plans				
401(k)	Pre-tax	Tax-deferred	Taxed as ordinary income	Employee and employer can contribute
Roth 401(k)	Post-tax	Tax-free	Tax-free	Only employee contributions are post-tax
Pension Plan	Pre-tax	Tax-deferred	Taxed as ordinary income	Defined benefit plan
Keogh Plan	Pre-tax	Tax-deferred	Taxed as ordinary income	Only contribute self-employed income
Non-Qualified Corp. Plans				
Deferred Comp	Post-tax	Tax-deferred	Earnings & growth taxed as ordinary income	May be discriminatory

Individual Retirement Plans

	Contribution	Earnings & Growth	Distributions	Notes
Individual Retirement Account				
IRA	Pre-tax	Tax-deferred	Taxed as ordinary income	Contribute earned income only (spousal income OK)
Roth IRA	Post-tax	Tax-deferred	Tax-free	Contribute earned income only (spousal income OK)
Qualified annuities	Pre-tax	Tax-deferred	Taxed as ordinary income	Offered as a part of 403(b) or 457 plan
Non-qualified annuities	Post-tax	Tax-deferred	Gains taxed as ordinary income	Available to anyone.
Tax-Advantaged Education Accounts				
529 Plans	Post-tax	Tax-deferred	Tax-free	Tax-advantaged account for educational expenses
Coverdell	Post-tax (\$2,000)	Tax-deferred	Tax-free	Tax-advantaged account for educational expenses (limited)