

Financing Corporate Expansion

Securities

Corporate Bonds

- principle (maturity date)
- interest rate (competitive with other securities)(↑ loan period ↑ int. rate)
- risk level
- bondholder not a ownership stake

Ownership Shares

- represent ownership or stake in a company's capital and profits
- asset value – portion of net worth (concerns of dilution)
- book value – original share value at IPO (initial public offering)
- actual value – market value/price on exchange

Securities Markets and Trading (active investment)

- exchanges facilitate capital expansion for companies
- the value of the shares traded determines the size/prestige of exchange
- member brokerage firms hold seats on exchange (trading privileges)
- role of online technology trading and volatility / sophistication
- long term versus short term strategy and market volatility
- trading rules/securities laws and pressure to relax to facilitate ease of investment / trading

- factors affecting demand
 - current profits (ROI) / earnings / dividends
 - degree of confidence in management
 - industry trends
 - general economic climate / outlook
 - political factors
 - undervaluing versus overvaluing stocks based on “good” vs. “bad” news

Mutual Funds (passive investment)

→ expert fund managers aggregate investment funds from multiple investors to purchase a diverse portfolio and manage fund on behalf (low sophistication)

Hedge Funds (passive investment)

→ like mutual funds, a managed portfolio of investments that uses advanced investment strategies (leverage / long / short / derivative positions) in markets

→ goal = generate high returns through high risk / sophisticated investment

→ limited number of investors

→ large minimum initial investment

Derivative – a security (contract) whose price derived (dependent upon) underlying assets (stocks/bonds/commodities/currencies/debt) and their fluctuation in value

e.g., a futures contract

Short – profit if stock goes down in price (i.e. sell at a higher price than current market price)

Commodities Markets (active investment)

- spot = immediate trade
- futures = future delivery on agreed upon price
- element of speculation thus increased risk
- delivery of actual commodity not intention rather trade contracts on market
- call option – contract giving holder right, but not obligation, to buy commodity at fixed price and date
- put option – same as call but on sell side

Stock Market Indicators

- purpose = a general trend indicator that provides base information for analysis, speculation and decision-making
- mirror of general conditions in stock market through sample companies that represent key sectors in economy
- composite index – same key sectors but sample companies weighted in index based on # of shares/company size and trading activity
 - performance of domestic markets as compared to global markets (e.g. S&P or TSX)
- bear market = speculate prices will ...
- bull market = speculate prices will ... (self-fulfilling mentality)