

Financial Literacy with Mr. 401(k)  
[‘FinLit with Mr. 401(k)’]  
Winter Term 2023-2024  
February 7, 2024

# Investments Class 24: Introduction to Investing Part II



The transfer of value today,  
in exchange for what an  
investor expects to have  
greater value in the future.

**Recap: Investing**

# Recap: Two Broad Categories of Investments

1

## Fixed Income

Investing in  
what others owe –  
their liabilities

Example: **Bonds**

2

## Equity

Investing in  
others' net worth –  
their equity

Example: **Stocks**

# Recap: The Fundamental Financial Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

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$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

When a person, company, or government wants to raise cash, one way is to borrow money – **increase their liabilities and sell the debt to investors**

Companies are unique because they can also raise cash by selling their “net worth” – **selling equity to shareholders.**



## *Class Discussion*

*Why might a company want to “raise cash?”*

# Why Companies Raise Capital

Individuals and small businesses primarily rely on banks for financing. Larger companies often turn to capital markets to sell debt or equity.



## Capital Expenditures (CapEx)

To invest in long-term physical assets like machinery or property



## Expansion and Growth

To finance the expansion of operations, entry into new markets, or increase in production



## Mergers and Acquisitions (M&A)

To fund the acquisition of or merger with other companies



## Obtain Working Capital

To fund day-to-day operations and manage short-term financial obligations



## Refinance Existing Debt

To replace existing debt with new debt under more favorable terms



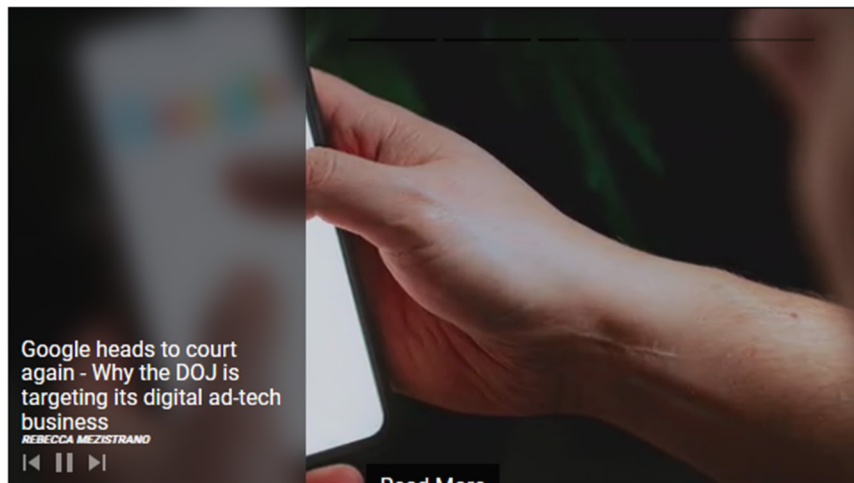
## Research and Development (R&D)

To invest in innovation and development of new products or technologies

# Apple, Sitting on \$57B Cash, Plans Bond Sale Yielding More Than Treasuries

Apple will reportedly raise as much as \$5 billion from a five-part bond sale that will include 30-year paper paying 1.3% more than U.S. Treasury bonds.

Martin Baccardax · Updated: May 8, 2023 12:02 PM EDT



Updated at 12:02 pm EST

Apple ([AAPL](#)) unveiled plans Monday to sell at least five different bonds over the coming weeks, with reports suggesting it could raise as much as \$5 billion, following the tech giant's newly minted \$90 billion share buyback.



WATCH LIVE

TECH

# Tesla to raise up to \$5 billion in share offering, its second in three months

PUBLISHED TUE, DEC 8 2020 6:31 AM EST · UPDATED TUE, DEC 8 2020 8:49 AM EST



Michael Wayland  
@MIKEWAYLAND

WATCH LIVE

## KEY POINTS

- Tesla unveiled a \$5 billion capital raise, its second such move in three months.
- The additional shares will be sold “from time to time” and “at-the-market” prices, Tesla said in a filing with the Securities and Exchange Commission.
- With Tesla’s market capitalization at \$598 billion, the new offering represents less than 1% of the company’s value.

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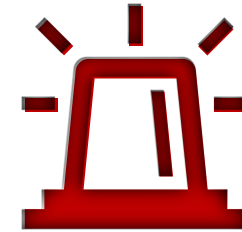
# Recap: Two Categories of Investment Risks



## **Manageable Risk** (Idiosyncratic or Unsystematic risk)

Risks related to an individual investment or very specific group of investments.

**Example:** A major toy retailer goes bankrupt due to excessive debt and online retail competition.



## **Unmanageable Risk** (Systematic or Market Risk)

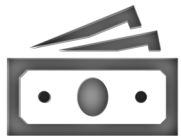
Risks inherent to the entire market – relating to all investments or several groups of investments.

**Example:** A global pandemic shuts down the economy, causing a widespread sell-off in all asset classes.

# Common Idiosyncratic Risks by Investment Types

Low Risk + Lower Potential  
Long-Term Returns

High Risk + Higher Potential  
Long-Term Rewards



**Cash**

- ① Inflation Risk,
- ② Bank Solvency Risk



**Bonds**

- ① Interest Rate Risk,
- ② Default Risk



**Real Estate**

- ① Tenant Risks,
- ② Vacancy Risk,
- ③ Location Risk,
- ④ Liquidity Risk



**Stocks**

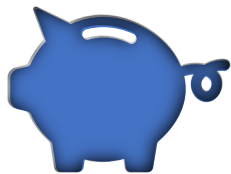
- ① Business Risk,
- ② Operational Risk,
- ③ Financial Risk,
- ④ Legal Risk

# What Young Investors Should Consider **Before** Investing



## Diversification

Manage the effects of single investment risk.



## Investing vs Saving

Investors trade value today for greater expected future value.



## Fees

Know your investment fees and expenses. Nothing is **free**!



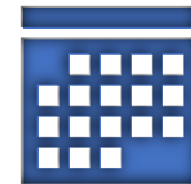
## Set Goals

Write down **exactly** what you are trying to accomplish.



## Risk and Reward

All investments have risk. Even holding cash has inflation risk.

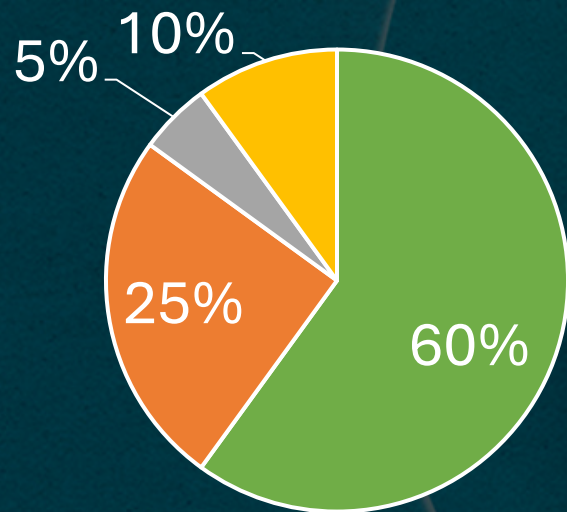


## Start Early

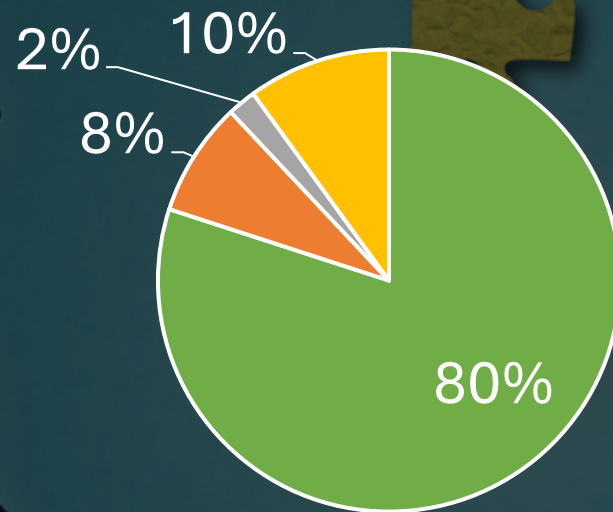
Compound growth most benefits younger investors.

# Practical Application

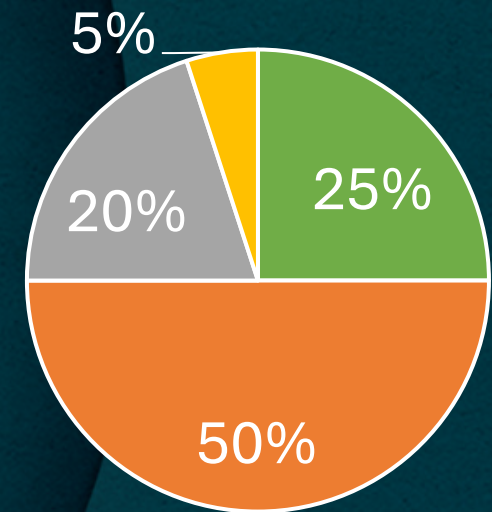
Evaluate the following portfolio allocations. Which do you think has the highest risk of losing money over a short-term period?



Stocks Bonds  
Cash Real Estate



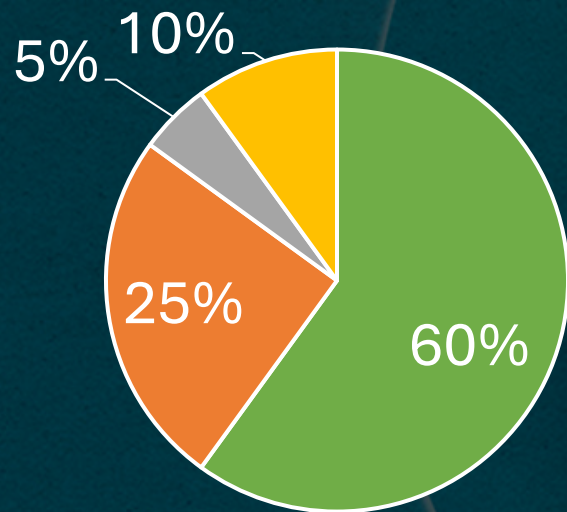
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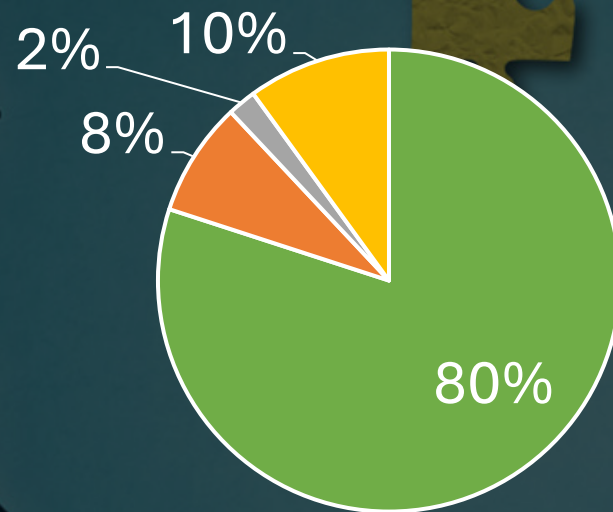
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# Practical Application

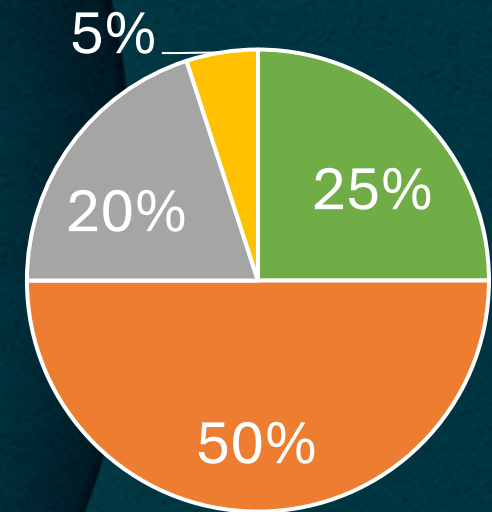
Evaluate the following portfolio allocations. Which do you think is most at risk to the effects of inflation over a long-term period?



Stocks Bonds  
Cash Real Estate



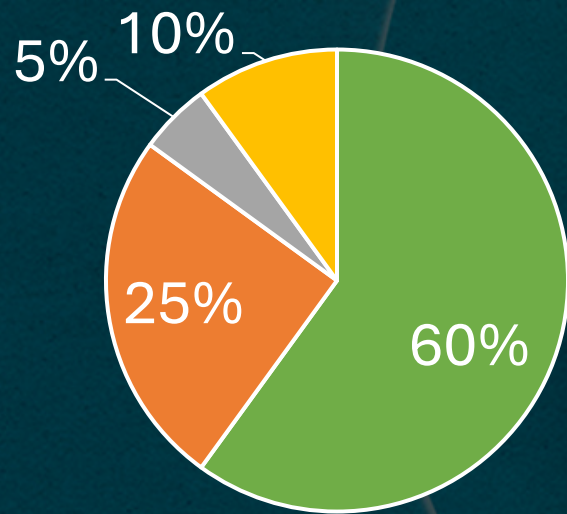
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Cash Real Estate



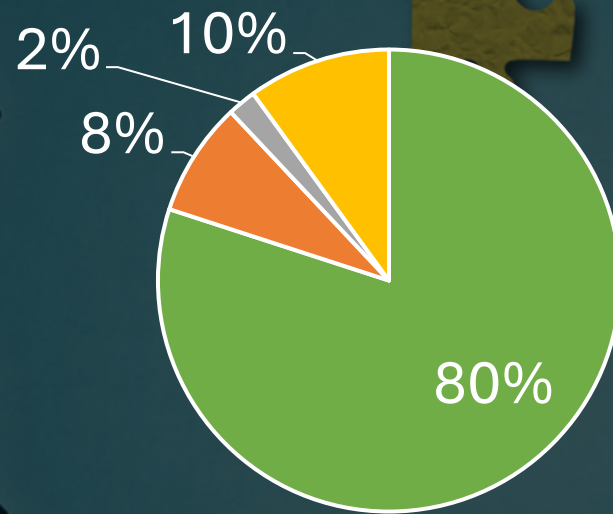
Stocks Bonds  
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# Practical Application

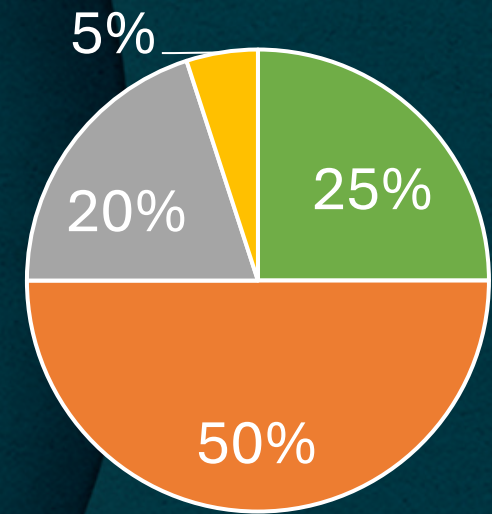
Evaluate the following portfolio allocations. Which do you think is likely to appreciate the most over a long-term period?



Stocks Bonds  
Cash Real Estate



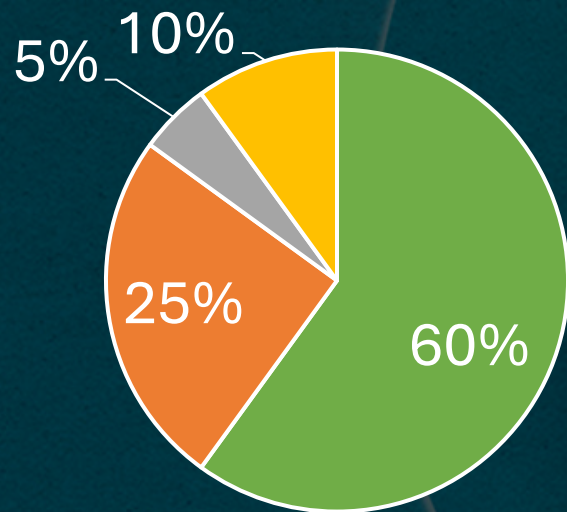
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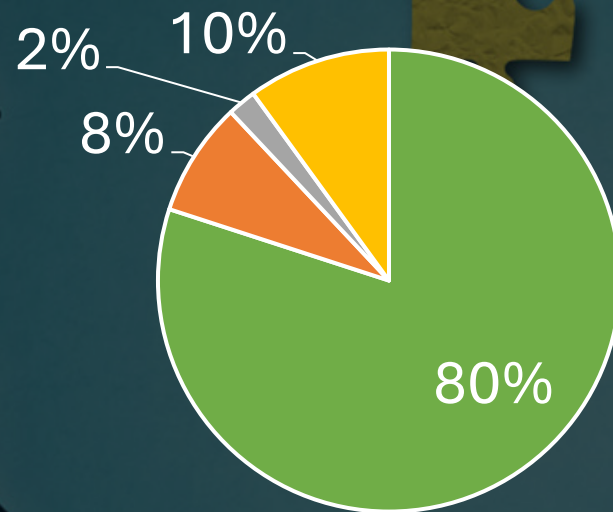
Stocks Bonds  
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# Practical Application

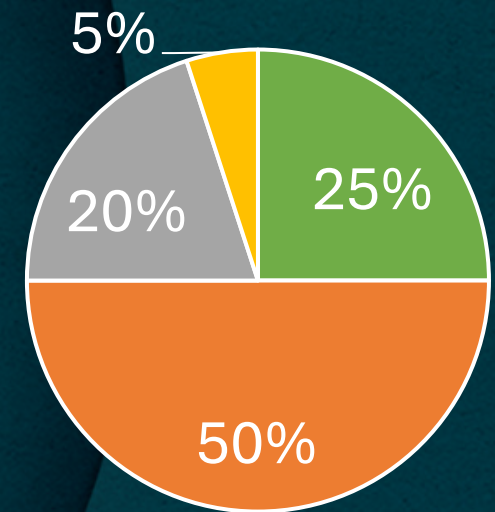
Evaluate the following portfolio allocations. Which do you think is most appropriate for a teenage investor?



Stocks Bonds  
Cash Real Estate



Stocks Bonds  
Cash Real Estate



Stocks Bonds  
Cash Real Estate

# Money Mavericks

**Objective:** Develop an investment allocation plan using **Stocks**, **Bonds**, Cash, and **Real Estate**, based on the investor's objectives in the following Practical Applications Slide. Be ready to defend your thoughts perspective.





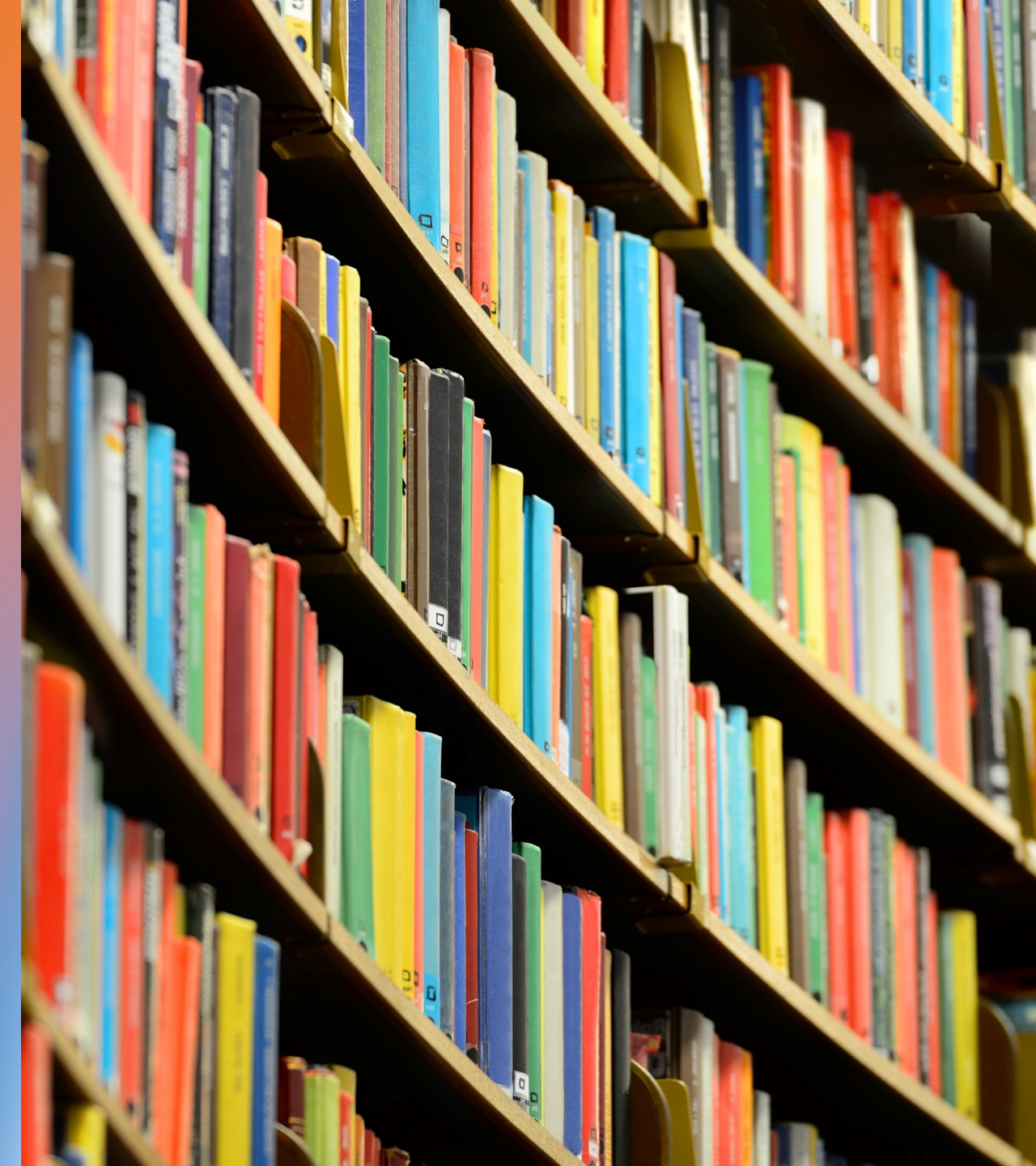
# Practical Application

A family with two children, ages 10 and 7, is looking to save for post-high school education expenses. The family is concerned about the rising costs of education and the possibility of losing money on their investments. They plan to start using the funds in the investment account after their oldest child finishes high school. The family seeks advice on the best way to allocate the investment account among stocks, bonds, cash, and real estate. What does your Money Mavericks Workgroup think is the right initial investment allocation for this family?



# Three Key Takeaways

1. Investing early takes advantage of compound interest, significantly increasing potential returns over time.
2. Diversification is crucial in managing investment risks, balancing between different asset types to reduce the impact of individual investment failures.
3. Understanding the relationship between risk and return is essential for making informed investment decisions, as higher prudent risk might offer higher potential returns over long time periods.



## Where to Learn More

- [Rich Dad Poor Dad: What the Rich Teach Their Kids About Money That the Poor and Middle Class Do Not!](#) By Robert T. Kiyosaki
- [Financial Literacy for Young Adults Simplified: Discover How to Manage, Save, and Invest Money to Build a Secure & Independent Future](#) by Raman Keane
- [What is Investing? A Simple Explanation for Kids and Teens \(easypeasyfinance.com\)](#) via Easy Peasy Finance