

INVESTING:

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Vocabulary :

1. Loss Aversion - Our Tendency To Prefer Avoiding Losses To Acquiring Equivalent Gains.
2. Brokerage Firm - a middleman who connects buyers and sellers to complete a transaction for stock shares, bonds, options, and other financial instruments.
3. Time Horizon - Save money starting early so you can invest money later on.
4. Economy - All the transactions that occur across all the different markets.
5. Compound interest: - interest on a deposit or loan that is calculated using the initial principal amount and the accumulated interest from the other periods.
6. Black Testing - Suggest that specific movement of the stock price or trading volume will be repeated in the future.
7. Moving Average - Constantly updating average price or trading volume of a stock.
8. Crossover strategy - looks for share price to fall below or climb above the moving average used to buy or sell out of their position.
9. Stock Split - is a multiplying or dividing of a company's outstanding share count that doesn't change its overall market value or capitalization.
10. Forward Split - Which means a company increases its share count by issuing new shares to existing investors.
11. Reverse Split - Shares owned by existing investors are replaced.
12. Stock Split Ratio - Number of New Shares Created after a forward stock split or Share count will be divided in a reverse stock split.
13. Derivative Investments - Investments that are derived or created from an underlying asset.

14. GDP (Gross Domestic Product) - the total value of all the finished goods and services produced in a country over a certain period of time.
15. Inflation - An increase in the prices of goods and services across many markets in the economy.
16. Unemployment rate - The unemployment rate is the percentage of people who currently don't have jobs but are looking for work.
17. Business Cycle - The business cycle is the natural rise and fall in GDP.
18. Hyperinflation - Prices for goods and services skyrocket and money quickly loses its value, causing economic activity to collapse.
19. Entrepreneurs - people who start a new business. Their business idea may come from a similar business or it may be something completely new and innovative.
20. Bootstrapping - when an entrepreneur starts a business with their own money.
21. Debt Financing - when a company borrows money that will be paid back at a set date with interest. Debt financing is also called a loan.
22. Equity Financing - finding someone that wants to invest in your company, in exchange for a piece of ownership in your company.
23. Angel Investor - invest money in startups.
24. Venture Capitalist - Invest pooled money from other investors.
25. Initial Public Offering (IPO) - The very first stocks issued from a company.
26. Securities and Exchange Commission (SEC) - Financial advisors who work at the company have to meet certain requirements before they can give you advice.
27. Capital Appreciation - If you purchase stocks of [insert company name] and their stock price goes up, your investment value goes up too.

28. Asset Allocation - The amount of each type of asset (stocks, bonds and cash equivalents) in your portfolio
29. Diversification - choosing investments that come from different categories rather than investing all of your money in one company, industry, or country. Diversification is important to help you protect your money.
30. Market Cap - How much all the company's stock is worth. Can be used to measure the size of a company.
31. Active Funds - are managed by a team of analysts and traders
32. Passive funds - like cooks who follow the cookbook.
33. 401 k - A retirement saving plan sponsored by an employer that typically includes mutual funds.
34. Index Funds - An investment that tracks a market index, typically made up of stocks or bonds.
35. ETF - is a fund that trades like a stock.
36. Bond rating - A measurement of the likelihood that a bondholder will be paid back.
37. Micro-Investing Platform - An application that allows users to regularly save small sums of money
38. Municipal Bond - A bond, often having tax advantages for individual investors, issued by a state or local government which typically uses the loan to pay for public works to benefit its citizens.

5 questions to ask yourself before investing :

1. How much money are you willing to lose?
 - a. You need to know your personal threshold for this loss/pain process in investing. Don't sell yourself at the lowest point just because everyone else is doing that. That would be DUMB.
2. What is the goal or purpose of this investment?
 - a. If you have a long term goal (10 years) - More Aggressive (Risky) ex. Stocks
 - b. If you have a short term goal (3 years) - More conservative (safe) ex. Bonds, Mutual funds
3. Why would I sell this investment?
 - a. If you reached your goal
4. How much will this investment cost you?
 - a. If you go to a broker



- i.
 - b. Opportunity cost
 - i. You put your money with the bank. They re - invest so the can pocket the difference
5. Am I Diversified
 - a. Are your investments spreading the risk?
 - b. Put your money id different investment
 - c. Spreading your assets out and avoiding over - concentration can help ensure that your fate isn't in the hands of any single company, sector, or industry
 - d. Balance is Key
 - e. Invest in companies from different regions around the world

- f. To be well diversified, your portfolio should have between 25 and 30 stocks (and might also contain other types of investments, such as bonds and cash equivalents). It can be very expensive to keep that many stocks. It's also hard to follow how each of those investments is doing.
- g. Another way to diversify is to invest in companies of different **market capitalization (market cap)**.
 - i. Large-cap and mid-cap companies are usually large and established; they may have slower growth, but they're usually less risky.
 - ii. Small-cap and micro-cap companies are usually newer; they often have more risk, but also more growth potential.

Investment Vehicles for Diversification

1. Instead of buying individual stocks or bonds, you can invest in a **mutual fund, index fund, or exchange-traded fund**. These investments track the performance of a group of investments and can make diversifying your portfolio easier.
2. Mutual Fund
 - a. Uses money from many investors to invest in a diverse collection of stocks, bonds, and other assets.
 - b. You can buy a mutual fund through a financial broker.
 - c. The funds will be actively managed by professional money managers
3. Index Fund
 - a. An index fund is designed to match major market indexes, such as the S&P 500 (which has good rates of returns).
 - b. You can buy index funds through a financial broker
 - c. The fund is passively managed (not run by financial professionals), so there are fewer fees than mutual funds
 - d. An index is a selection of stocks
 - e. Index funds typically invest in all the components that are included in the index
 - f. You track S&P 500
 - i. Profitability
 - ii. Amount of trading volume
 - iii. Market capitalizations
 - g. You invest in an index fund because ...
 - i. Minimize your time spent researching individual stocks.
 - ii. You can invest with less risk
 - iii. Index funds are available for a wide variety of investment
 - iv. A lot less expensive

- v. You will pay less in taxes
- vi. Easier to stick with your investing plans
- h. Some down sides
 - i. You will never beat the market - always match the market
 - ii. You won't always own the stocks you like
- 4. Exchange - traded fund
 - a. An exchange-traded fund (ETF) is an investment that tracks an index (like an index fund) or basket of assets.
 - b. You can buy ETFs directly on a stock exchange instead of through a broker.
 - c. With ETFs, you can purchase as little as one share and they often have lower fees than mutual funds.

I = investing

S = Saving



Saving Versus Investing

- a. Saving is short term

b. Investing is long term













Investing Advice

- a. Invest in low cost index funds

- b. Don't bet on individual stocks
- c. Pay attention to fees
- d. Start early
- e. Do your own research
- f. Keep a long term view

Investing Versus Trading

a. Trader

- i. Buy stock at low price and sell them at a certain point hoping to gain money
- ii. Usually short term
- iii. Traders look at the market to see quick short term gains
- iv. Analyze price charts and other signals to see when to buy and sell stocks
- v. Use stop loss orders, or exit points and price targets to create trades
- vi. Like buying and selling stocks
- vii. Buy on price movement
- viii. No interest in company beyond its stock price

b. Investor

- i. They see portfolios
- ii. Investors generally buy stock and hold them with expectation that they will grow in value and for the purpose of generating income via dividends, which are regular payments of profit to shareholders
- iii. They don't tend to sell good stock even when times are bad
- iv. Since investors want to consider dividend, they hold on to their stocks longer
- v. They look at the company's overall health
 - 1. Earning reports
 - 2. Balance sheet
 - 3. Income statements
 - 4. Financial reports
- vi. Long term growth
- vii. Uncomfortable with jumping in and out

c. Time frame, activity and risk management are the three key differences

Why should I invest:



Different types of economy:

1. You and the Economy

- a. Every time you buy something, you are completing a **transaction**. Whether it's buying a new pair of shoes, picking up some food from your favorite restaurant, or purchasing the latest phone model, you are completing a transaction because you are exchanging something to receive something else.

2. Everyone and the Economy

- a. Every day, millions of other people complete similar transactions. All of the transactions for the same thing creates a market. Markets like the footwear, restaurant, and technology markets - plus thousands of other markets - create the economy.

3. The Global Economy

- a. Each country in the world has its own economy. These economies are made up of thousands of connected markets. This means that the markets you interact with in your own country's economy have connections to different markets around the world.

Investing tips:

1. Start investing early

Stock market explained:



Trends in the Stock Market:

- a. Bear Market – Meh market
 - i. Decline in the stock market
 - ii. A recession can be looming
 - iii. A stock market crash
 - iv. When things get bad and then get even worse

- v. The market value keeps on falling and falling
- b. Bull Market - Good Market
 - i. Everything is great
 - ii. Economy is booming
 - iii. People are finding jobs
 - iv. Stock prices are going up
- c. Trends can be short term, intermediate term, or long term

How to analyze a single stock

- a. 2 major categories
 - i. Fundamental Analysis
 - 1. Focus on the overall strength and financial stability of a company
 - 2. They ask questions like
 - a. How profitable were the company last year
 - b. Are they in a strong position to weather an economic down term
 - c. Are they currently undervalued
 - 3. Some special formulas they use:
 - a. If you do a search for any company stock... you would come across 2 fundamental things:
 - i. EPS - Earnings per share
 - 1. EPS is found by taking the company's net income - preferred dividends, if any, then dividing that number by the number of shares outstanding
 - 2. The higher EPS, the more profitable the company
 - ii. P/E - Price to earnings
 - 1. You take the Current stock share price and divide it by the EPS to get the P/E
 - 2. Lower P/E ratio means that it cost less money

iii. Higher EPS and lower P/E ratio means that the company is more profitable and costs less to buy stocks.

ii. Technical Analysis

1. Focuses on tracking price movement and trading volume
2. They are looking at historical patterns
3. Patterns are discovered through something called Black Testing.
 - a. Different types
 - b. Cup and Handle
 - c. Candle Stick
 - d. Pennants
 - e. Flags
 - f. Triangles
4. Moving Average:
 - a. Crossover strategy

iii. They both have the same goal but different tactics

b. If it is neither fundamental nor technical then it is Qualitative

- i. Does the company have a durable competitive advantage
- ii. How is the management at the top
- iii. What is their turnover like
- iv. What direction does the company's industry seem to be heading?

c. All three complement each other

3 important things to know when you want to invest in a good company - Warren Buffet Tips -

- a. They must earn good returns on the net tangible capital required in their operation
- b. They must be run by able and honest managers
- c. They must be available at a sensible price

Bonds:

- a. What is a stock split
 - i. The increase liquidity that comes with a smaller per share price could unlock interest

- ii. Ex. If a company doubles its share count by giving investors one additional share of stock for every share they own, each shareholder will own twice as many shares of stock. However, shares won't change since no additional capital will have been paid into the company

- iii. Most Common Types

- 1. Forward Split

- a. Ex. 3 - for - 1 forward split
 - i. **10 shares** of company of **XYZ** before it split, you'd own **30 shares** after the split took effect
 - b. Forward split results in more outstanding shares, but a lower price for each share, with no net gain or loss in the company's overall market value.

- 2. Reverse Split

- a. Ex. 1 - for - 3 reverse split
 - i. Replaces **3** shares with a **single share** stock
 - ii. If you owned **30 shares** of a company's stock before a reverse split you **own 10 shares** afterwards.
 - b. The reverse split happens for negative reasons but not always.

- 3. Stock Split Ratio

- a. 3 - for - 1 stock split means (+2) for every 1 **total: 3**
 - i. If the first number is **larger** for 3 - for - 1 = Forward Split
 - ii. If it is **smaller** = reverse split
 - b. It's important to note that derivative investment such as options will in turn
 - c. Stock split does not have any effect on your overall investment
 - d. Higher stock split - Cause a spike in demand that pushed the stock into higher price.
 - e. What should you expect when a stock splits
 - i. 3 key dates

4. Announcement dates

a. Announce the plans for split. Important details investors need to know

- i. Stock Split ratio
- ii. When it will happen
- iii. Record Date

1. When existing shareholders need to **own** the stock to be eligible to receive new shares created by a stock split.

2. If you buy or sell shares between the **Record date** and the **Effective Date** the write to new shares

iv. Effective Date

1. The date when the new shares show up in investors brokerage accounts and the shares traded on a split adjusted basis.

The markets around the world are categorized under three main markets:

- a. Goods and services market
- b. Labor market
- c. Financial market

What is a mutual fund:

- a. They are an important option in saving for retirement.
- b. A mutual fund is like a Bowl of investment stew
- c. Thousands or even million of investors pool their money to by a variety of investments such as
 - i. Stocks
 - ii. Currencies
 - iii. Bonds
- d. Which are blended together and then divided amongst the participate
- e. Some funds focus on a specific sector of the economy, like
 - i. Technology
 - ii. Retail
 - iii. Agriculture
- f. Others focus on geography like "emerging markets" refer to developing nations
- g. Some focus on the size of the company
 - i. Large - cap
 - ii. Micro - cap

- h. And they can get a lot more customized than that
- i. Mutual funds are diversified and inexpensive
- j. Every mutual fund has a upkeep fee called ANNUAL EXPENSE RATIO, which ranges from around 0.1 % to 2% of the value per year
- k. Some funds also charge an extra fee called a LOAD when you buy or sell your shares. Usually between 1% to 5.75% of the sale price
 - i. You can think of these fees as payment as to the chef who whipped up your dinner
- l. Who are these "chefs" and why do they decide on what to put
 - i. This depends on whether your mutual fund is Actively or Passively funded
 - ii. Actively Funds
 - 1. They try to outperform the market
 - 2. The fees are higher
 - iii. Passive funds
 - 1. They try to be the same as the market
 - 2. They are cheaper to own
- m. Mutual funds are also easy to use and are personalized

Financial Market

- a. Capital Market
 - i. The capital market is made up of two submarkets
 - 1. **stock market**
 - a. The stock market is the market where you can trade **stocks**. A stock is a piece of ownership in a company.
 - 2. **bond market**
 - a. The bond market is the market where you can trade **bonds**. A bond is a loan where you give money to a borrower and expect to get the money back later.
 - ii. The government, companies, and individuals all participate in the capital market.
- b. Money Market
 - i. The money market is the market where you can trade short-term **money market investments**.
 - ii. Some of these short-term investments include marketable securities, money market funds, and short-term government bonds.

- iii. Investors usually buy money market investments when they are looking for a low-risk place to store their money since these investments are typically less risky than stocks and bonds.

c. Derivatives Market

- i. The derivatives market is the market where you can trade **derivative products**.
- ii. A derivative is a contract that is priced based on the value of the good or investment being sold.
- iii. If you've ever heard the terms like futures, forwards, and options, then you're likely hearing about derivative products.
- iv. If derivatives sound confusing, it's because they are. For the most part, only professional investors participate in the derivatives market since it is highly complex.

d. Foreign Exchange and Interbank Market

- i. The foreign exchange interbank market is the market for trading **currencies**.
- ii. People in this market trade currencies because they can make a **profit** from the differences in the exchange rate between the two currencies.
- iii. Banks, financial institutions, and corporations are the main participants in the foreign exchange interbank market.
- iv. However, technological improvements have let average investors participate in this market.

Different types of economy

1. The Economy and Employment

- a. You may already have a job, but if you're looking for one or plan to in the future, you'll notice there are times when it's easier to find a job and times when it's harder.

2. The Economy and Innovation

- a. The economy doesn't only affect individuals; it also affects businesses.

Measuring the Economy

1. 3 main things

a. GDP

- i. You can think of these goods and services as all of the things individuals, companies, and governments buy (clothing, food, electronics, aircrafts) or do with their money.
- ii. GDP can be used to measure the health of the economy.
- iii. If GDP in your country this year is \$10 trillion and it goes up to \$12 trillion next year, then your country's economy is growing.
- iv. If your country GDP's is \$10 trillion this year and goes down to \$8 trillion, then your economy is declining

b. Inflation

- i. We can expect inflation to happen in a growing economy.
- ii. As people are willing to spend more money, businesses raise their prices to make sure they have enough supply to keep up with demand, which causes inflation.
- iii. Let's say a meal at your favorite restaurant is \$10 today.
- iv. When you go back one year later, the price has been raised to \$10.50.
- v. In this example, inflation has decreased the purchasing power of your \$10, since it can no longer buy the same meal it once used to be able to buy.

c. Unemployment Rate

- i. When the unemployment rate is high, it's harder for people to find the job they want.
- ii. When the economy is doing well and the unemployment rate is low, people have an easier time finding a job they want.

2. When you put GDP, unemployment, and inflation together, you get a better picture of how the overall economy is doing.
3. When GDP is growing at a steady rate, inflation also tends to grow at a steady rate. As a result, the unemployment rate is expected to go down over time. These changes show a growing economy.
4. When GDP starts to decrease, inflation also tends to decrease. As a result, the unemployment rate is expected to go up over time. These changes show a declining economy.
5. GDP can tell us how well a country has been doing.

Business Cycle"

1. The business cycle can be broken up into four phases.

a. Expansion Phase

- i. When economy is doing well and GDP is growing
- ii. People tend to be confident it will continue to do well so they spend more money

- b. Peak
 - i. The highest point in the business cycle
 - ii. When the economy is "overheating" and about to turn
 - iii. It is hard to tell when the expansion phase becomes the peak phase.
 - iv. People tend to be optimistic and continue spending money
- c. Contraction Phase
 - i. When economy falls and GDP is decreasing
 - ii. If it continues to fall, the economy goes into recessions
 - iii. People tend to save more money than they spend in this phase.
- d. Trough
 - i. The lowest point in the business cycle
 - ii. Troughs occur when the economy is about to turn around toward expansion again
 - iii. People tend to be pessimistic at this stage, even when things are about to turn around.

Fiscal Policy and Monetary Policy:

1. Fiscal Policy

- a. Fiscal policy is set by the government to influence the economy.
- b. Using fiscal policy, the government can adjust government spending on expenses such as:
 - i. Public education
 - ii. Welfare benefits
- c. The government can also adjust tax policies on taxes such as:
 - i. Income tax
 - ii. Sales tax

2. Monetary Policy

- a. Monetary policy is set by the Central Bank to influence the economy.
- b. Under monetary policy, the Central bank can adjust:
 - i. The amount of money in the economy
 - ii. Credit available in the economy
- c. One way the Central Bank does this is by adjusting the interest rate banks charge each other for short-term loans.
 - i. This interest rate influences how much money individuals and businesses are willing to borrow from banks.
- a. The government and Central Bank play an important role in influencing the business cycle through fiscal policy and monetary policy.
- b. These policies are important because they help keep the economy in check.
- c. Without these policies, the economy can quickly become unstable.

Savings vs. Investing

1. Savings

- a. You can open a **savings account** at a bank or credit union. Savings accounts are considered very safe because the federal government protects your money (up to a certain amount) if the bank loses it.
- b. You grow your money by earning **interest** on the money you deposit into your savings account. Savings accounts are best for people who want to maintain the value of their money with a little bit of growth.

Long term and Short term Goals

- a. Knowing your short- and long-term goals is an important first step before deciding what you want to do with your money.
- b. For short-term goals, it's wise to focus on slow and steady growth of your money, so you know it's safe and will be there when you need it.
- c. For long-term goals, you can take more risk with your money if you want to see bigger growth over a longer period of time since you'll have time to recover any short-term losses.

Why do people invest in the financial market

1. Time Value of money

- a. If you were offered \$100 today or \$100 in one year, what would you choose?
- b. The better choice is to take the \$100 today because you can start growing your money immediately through saving or investing.
- c. This principle is called the **time value of money**.
- d. The time value of money means that the money you have now is worth more than the same amount of money in the future because it has the potential to grow.
- e. By earning interest or capital appreciation on your \$100 today, you would end up with more than \$100 in one year.

2. Potential for growth

- a. Investing in the financial market gives you the best chance at growing your money.
- b. Most savings accounts today pay less than 1% interest, but the average annual return on the stock market comes out to 10%.
- c. That means if you invested \$1,000 in the stock market, on average, you would earn \$100 in the stock market but only \$10 in a savings account.
- d. But unlike a savings account, investing has no guarantee that you won't lose money instead.

3. Benefit from company profits.

- a. When you invest in stocks, you're helping fund the growth of companies. In return, you get to share in the profits those companies make.
- b. When companies have profits, they can use the money to pay out a **dividend** to shareholders or reinvest the earnings back into the company for future growth.
- c. To demonstrate how a dividend works, let's say a company has 1,000 shares held by shareholders and decides to issue a \$5,000 dividend.
- d. This means that each shareholder would get an additional \$5 for every share they own.

Investing Long Term

- a. The stock market might appear risky when you see how it moves up and down over a day, week, or even a year. But historically, long-term returns of the stock market have been positive. This means as long as you let your money sit in the market, the more likely you are to earn a positive return over time, even if you have some losses from year to year.

Investment Portfolio has 3 main assets

1. Stocks

- a. Stocks are shares of ownership in a company. When you purchase a stock of a public company, you own a percentage of the company itself.
- b. Let's say you buy 10 shares of Pixel Co. If they have 1,000 total shares in the stock market, you now own 1% of the entire company.
- c. When you purchase a stock
 - i. You get to vote in shareholder meetings
 - ii. You share in company profits in dividends, if the company gives you one
 - iii. You have the right to sell your shares to somebody else

2. Bonds

- a. Bonds are a **fixed income** investment, which means you get payments on a regular schedule. When you buy a bond, you're loaning money to a corporation or the government in return for interest.
- b. If you buy a 10-year bond priced at \$1,000 that pays 2% interest, you will get \$20 in interest each year for ten years. At the end of ten years, you'll then get your \$1,000 back.
- c. When you purchase a bond
 - i. You are letting the borrower to keep your money for a predetermined amount of time
 - ii. You earn interest until the bond maturity date, which is when the loan ends.
 - iii. You get your money back once the bond reaches its maturity date.

3. Cash Equivalents

- a. Cash equivalents are short-term investments that are considered liquid, which means investors can exchange them for money quickly without a big change in value.

- b. When you purchase Cash Equivalents
 - i. You have different options, including money market funds, and short term government bonds.
 - ii. You usually earn slightly more interest than a savings account
 - iii. You get your money back when your investment matures, usually in 3 months or less.

How to determine Asset Allocations

1. Age is just one factor in determining Asset Allocation. Your personal financial health, time, horizon, and risk tolerance are important when deciding your allocation.
2. Risk Tolerance
 - a. Your **risk tolerance** is how comfortable you feel taking the risk of losing your money.
 - b. Bonds and cash equivalents have less growth potential, but are safer, so they're good options if your risk tolerance is lower.
 - c. Stocks have more growth potential, but are less safe, so they're a good option if your risk tolerance is higher.
3. Personal Financial Health
 - a. Your **personal financial health** is how much money you have after counting what you own and what you owe others.
 - b. Bonds and cash equivalents are good investments if you have weaker financial health, because they're less risky.
 - c. Stocks are a good option if you have stronger financial health, because while they are riskier, you'll still be financially stable if you lose some money on your investment.
4. Time Horizon
 - a. Your **time horizon** is how long you plan to keep your investments.
 - b. You may have a short time horizon if you need your investment funds to make a big purchase soon or retirement is near.
 - c. If you have a long time horizon, you won't need your money back for several years.
 - d. This gives you time to make up for short-term losses with long-term gains.

Diversification

- a. Once you decide how you want to allocate, or distribute, your money, you need to pick specific investments to add to your portfolio. It's a good idea to diversify your investments so that you can minimize your risk and maximize your rewards.

Contractionary Policy vs. Expansionary Policy

- a. Contractionary Policy

- i. Contractionary policy is used to fight rapid inflation in the economy. This policy discourages individuals and businesses from spending in the economy. It may also temporarily increase the unemployment rate.
 - ii. The government can use fiscal policy to decrease government spending or increase taxes. Fiscal policy is rarely used as part of contractionary policy.
 - iii. Monetary policy is used more often for contractionary policy. The Central Bank can increase the interest rate banks charge each other on short-term loans. This action encourages banks to increase the interest rates they charge on consumer and business loans. High interest rates discourage borrowing which helps slow down inflation and growth in the economy.
- b. Expansionary Policy
- i. Expansionary policy is used to stimulate growth in the economy. This policy encourages individuals and businesses to spend more in the economy and works to lower the unemployment rate.
 - ii. Under fiscal policy, the government can increase government spending or decrease taxes.
 - iii. Under monetary policy, the Central Bank can decrease the interest rate banks charge each other on short-term loans. This action encourages banks to decrease the interest rates they charge on consumer and business loans. Low interest rates encourage borrowing which helps boost growth in the economy.

Companies and the Financial Market

- a. What do Netflix, Apple, and Chipotle all have in common? They might be companies with products and services that you use, but they're also companies that you can invest in on the financial market.
- b. For hundreds of years, companies have been using the financial market to get the money they need to innovate and grow. As a consultant, you'll review a few financing options and decide which ones are best for each phase of [insert name of company].

The Traits of an Entrepreneur

- a. When an entrepreneur starts a new business, they take on **calculated risk**. This means they have carefully weighed the pros and cons of starting a new business.
 - i. Entrepreneurs take risks, find opportunities, and accept challenges.
 - ii. Entrepreneurs try to solve problems by developing and marketing new or improved products and processes.
 - iii. Entrepreneurs find the best way to use resources to get their goods and services to buyers so they can earn a profit.
- b. Entrepreneurs are an important part of our economy.

2. Investments

- a. You can invest your money by purchasing **stocks, bonds, mutual funds**, or other investments in the **financial market**. Investing is riskier than a savings account because you can gain or lose money with no guarantee that you'll get it back.
- b. You grow your money when the price of your investment goes up, giving you a chance to earn a **return**, or profit.

Financing a Business

- a. Since companies need money to grow and innovate, entrepreneurs need to build capital (or raise money). They can do this in many ways.
 - i. Bootstrap Financing
 1. When an entrepreneur is first starting out, they often finance their company through bootstrapping. This money helps them test out their ideas. Hopefully, this gets the entrepreneur just enough money to create a product that people are willing to buy, even if it's not perfect.

Debt Financing

- a. Basically a loan
- b. Paying Interest on Your Loan
 - i. When you take out a loan, it isn't free. You pay interest, or a percentage of what you borrowed each year, on top of paying back the loan. Banks can charge higher interest rates on loans that are considered risky.
- c. Where Can You Get Debt Financing
 - i. Companies can get debt financing from banks or other commercial lenders. Banks and other lenders usually prefer loaning money to businesses that have done well in the past because they are considered less risky. They hesitate to loan money to startups that are testing new ideas because they are considered more risky.

Equity Financing

1. Angel Investors
 - a. They usually invest in the early-stages of a business. Often, they are family or friends of the entrepreneur, but they can also be other investors who meet certain requirements.
 - b. Angel investors typically use their own money and have a high risk tolerance. For them, startups can be an appealing investment because they're hoping to get in early on a company that takes off and has mega-success – giving them a share of the profits.

- c. If the startup fails, angel investors often lose everything they invested. However, some angel investors may require an **exit strategy** for getting their money back if the startup fails. For example, an angel investor may require the company to sell company property to pay them back

2. Venture Capitalists

- a. Venture capital (or VC) comes from investors, investment banks and other financial institutions. They invest in companies they think will be successful in the long-term.
- b. Companies that want venture capital must submit a business plan that outlines their company goals and objectives. The venture capital firm will then do background research on every part of the business. If the company passes, the firm will advise and monitor the company while providing money over time.
- c. Venture capitalists tend to focus on particular types of companies that they know a lot about or that they are interested in. This helps them evaluate what will be a good return on the firm's investment.

Going Public

- a. When a company "goes public", it means that the company offers stock on the stock market for investors to buy and sell. Each stock is a piece of ownership in the company. For a company looking to greatly expand its operations, going public is the best way to raise the most money in the financial market.
- b. An Initial Public Offering (IPO) is the most effective way to raise the largest amount of money. When companies go public, they often receive attention and prestige—which can help boost company sales and profits.
- c. An IPO is not for every company though. There are significant regulations companies must follow to go public. Only companies that can afford to follow these requirements should consider going public.
- d. Going public is expensive! There are a lot of new requirements for public companies which means additional costs to meet those requirements. Some of the requirements are:
 - i. Forming a Board of Directors that represent investor interests.
 - ii. Sharing financial information with investors.
 - iii. Reporting to the Securities and Exchange Commission (SEC) – a government agency that protects investors and ensures the securities markets are fair.
- e. Investment banks help companies complete tasks such as figuring out how much money to raise, writing a registration statement for the SEC, and creating a prospectus.
- f. Investment banks will also work with companies to come up with a ticker symbol which is a few letters assigned to a company trading on the stock market. For instance, if you search SNAP on the stock market, you'll see the shares for Snapchat.
- g. The IPO stage is the only time the company has a direct say in choosing the price of stocks. Once stocks are on the stock market, supply and demand for the stock will determine its price.
- h. The initial public offering (IPO) of a company usually has several stages.

- i. When a company is trying to go public, it's important for the investment bank to build excitement for the company stock. The level of excitement and interest in a company's IPO will help determine the initial stock price.
- j. Finding the right balance can be tricky. A low price attracts more investors, but raises less money per share for the company. A high price may scare away some investors but raises more money per share for the company. Offering fewer stocks might signal to investors that it's a limited opportunity and they should buy now, but those stocks would have to be priced higher to raise a lot of capital. Offering more stocks means prices per stock can come down, which could help get more investors, but also means ownership is shared by more people.

4 factors of production:

1. Land

- a. Sometimes, literally land
- b. They usually mean "all the natural resources found on the planet."
- c. Some examples are...
 - i. Fertile Land
 - ii. Oil
 - iii. Water
 - iv. Timber

2. Labor

- a. Is the actual, physical effort put into making goods/providing services
- b. Examples
 - i. Nurse taking care of the patients
 - ii. Artist creating a painting
 - iii. A mechanic who is fixing a car
 - iv. Or a youtuber making educational videos

3. Capital

- a. Any human created resource used to produce other goods and services.
- b. 2 types of capital - physical capital and human capital
 - i. Physical capital is physical/human made stuff
 - 1. Ex. tractor since it helps the farmer plow lands
 - ii. Human capital is the knowledge and skills the person gains
 - 1. Ex. The farmer knows how to plow because they have done it for many years.
- c. Economy needs physical and human capital
 - i. Ex. It is nice if the farmer owns a tractor, but if they don't know how to use it then it is useless.

4. Entrepreneurship

- a. The process of launching and running a business in order to make money

- b. Takes on financial risk in hope of making profits, new ideas, new industries and new markets.
- c. Factors of production - resources we need to make all goods and services.