Assets and investments

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Learning objectives

- Classify major types of investments
- Distinguish between debt and equity
- Explain public securities markets
- Calculate investment value under compound returns
- Describe importance of living below means, saving early

Investment types

Debt

- Money invested in exchange for relatively fixed return
- Higher safety: first in line to get paid
- Lower upside: most you can get is promised rate

Equity

- Part ownership of business
- Lower safety: your fortune goes with the business
- Higher upside: you get to keep a share of everything

Stuff

- Any old stuff you hope will appreciate in value

Investment universe

	Equity	Debt	Stuff
Private	Invest money directly in a business	Lend money directly to a borrower	Buy stuff you expect to appreciate
Public	Buy shares of stock in public markets	Buy bonds in public markets	Buy claims on stuff you expect to appreciate

Securities certificates

Pros and cons of public markets

Pros:

- Liquidity: quick and easy to buy and sell securities
- Affordable denominations
- Ease of diversification

Cons:

- Associated fees
- Competitive, hard to find a "good deal"

Investment returns

Quiz 1

In what year does your dollar investment return outpace your annual contributions to your investment assets?

Quiz 2

If you are currently 20 and invest 5K at 5% per year for 40 years, you will have ~640K at age 60.

What if you delay your savings for 10 years. How much in assets will you have by the time you are 60?

Additional reading

The Richest Man in Babylon

by George S. Clason

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