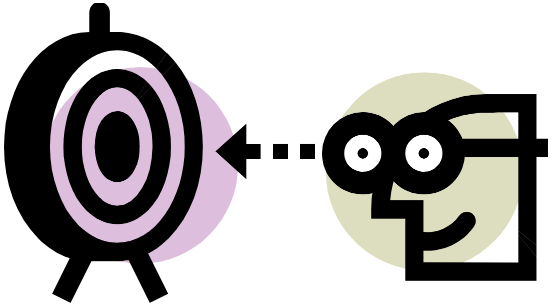
Asset Classes

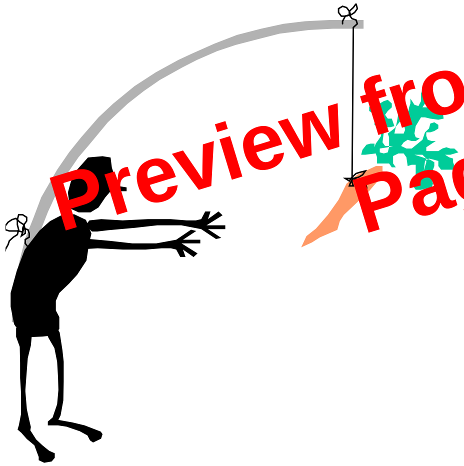
- Cash Reserves
  - i.e., short-term money market instruments
  - U.S. Treasury bills, Savings deposits, CDs
  - Commercial Paper
- Bonds
  - Debt obligations over one year
  - Treasury Notes, Treasury Bonds, Municipal Bonds
  - Corporate Bonds
- Stocks
  - Common stock is ownership of a public corporation

Investment Objectives

- Why are you investing?
  - Retirement, down payment, vacation, …
- Investment objectives are important.
  - Matching goal characteristics with investment characteristics.
  - Risk, return, time



Behavior is important too



- Incentives
  - Stockbroker and commissions
  - Mutual fund incentives

- Psychology
  - The higher the degree of uncertainty in a decision, the more emotions and psychological biases are used to help make the decision.

Objectives of the course and text

- Develop a clear understanding of the many useful and practical implications of financial theory.
- Understand how the incentives of various market participants influence investor decisions and also highlight the impact of a person’s own psychology.
- Acquire a framework for understanding the returns on all financial assets, including stocks, bonds and financial derivatives.
- Gain familiarity with the institutions and language of Wall Street so as to facilitate the development of an effective personal investment strategy.