

Common stock

- ✓ Equity security representing ownership
- ✓ Benefits
 - Capital appreciation / growth
 - Dividends (only paid by some issuers)
- ✓ Systematic risks
 - Market risk
 - Inflation risk (short term only)
- ✓ Non-systematic risks
 - Business risk
 - Regulatory risk
 - Financial risk
 - Political risk (foreign only)
 - Legislative risk
 - Liquidity risk
- ✓ Typical investor
 - Young, more aggressive
 - Seeks capital appreciation
 - May seek dividend income from value stocks
- ✓ Growth stocks
 - Growing companies
 - May be minimally profitable or unprofitable
 - Low or no dividend payouts, high P/E ratios
- ✓ Value (undervalued) stocks
 - Large, well-established companies
 - Typically pay dividends
 - High dividend payout ratios, low P/E ratios

Preferred stock

- ✓ Equity security representing ownership
- ✓ Pays fixed dividend rate based on par value (usually \$100)
- ✓ Potential features:
 - Cumulative — skipped dividends carry forward; straight — they are lost
 - Callable — may be bought back by issuer
 - Convertible — into common stock of same issuer
 - Participating — extra dividends if company performs
- ✓ Benefits
 - Dividend income
 - Lower tax rates on income
- ✓ Systematic risks
 - Interest rate risk
 - Inflation risk
 - Reinvestment risk
- ✓ Non-systematic risks
 - Business or financial risk (threatens dividend payments)
 - Liquidity risk

Debt securities

- ✓ Represent debt obligations of issuers
- ✓ Pays fixed interest rate based on par value (\$1,000)
- ✓ Potential features:
 - Callable — may be bought back by issuer
 - Call premium = amount above par to be paid if called
 - Call protection = amount of time before callable
 - Convertible — into common stock of same issuer
 - Zero coupon — sold at discount, matures at par
- ✓ Benefits
 - Interest income
 - Variety of choices in the market
 - Capital appreciation if convertible
- ✓ Systematic risks
 - Interest rate risk (long maturity and low coupon)
 - Inflation risk (long maturity)
 - Reinvestment risk (except zero coupon)
- ✓ Non-systematic risks
 - Default (credit) risk
 - Investment grade = BBB or above
 - Speculative (junk) = BB or below
 - Liquidity risk
 - Legislative risk
 - Regulatory risk
 - Political risk (foreign only)
- ✓ Typical investor
 - Older, more conservative (unless junk bond)
 - Seeks income, especially in retirement

Corporate debt securities

- ✓ Commercial paper
 - short term (270 days or fewer), zero coupon
- ✓ Mortgage bond
 - secured by real estate or property
- ✓ Debenture
 - long term, unsecured bond
- ✓ Collateral trust certificate
 - secured by securities or subsidiary

US government securities

- ✓ Treasury bill — 1 year or less, zero coupon
- ✓ Treasury note — 2–10 years, pays semi-annual interest
- ✓ Treasury bond — up to 30 years, pays semi-annual interest
- ✓ STRIPS — long term (up to 30 years), zero coupon
- ✓ TIPS — long term, pays semi-annual interest
 - Par value adjusts to inflation rate every 6 months
 - Greater of original or adjusted par paid at maturity