Achievable

Product Characteristics and BRTI

FINRA / NASAA SERIES 6 / 7 / 65 / 66 DUMP SHEET

Common stock

- Equity security representing ownership
- Benefits
  - Capital appreciation / growth
  - Dividends (only paid by some issuers)
- Systemic risks
  - Market risk
  - Inflation risk (short term only)
- Non-systematic risks
  - Business risk
  - Financial risk
  - Legislative risk
  - Regulatory risk
  - Political risk (foreign only)
  - Liquidity risk
- Typical investor
  - Young, more aggressive
  - Seeks capital appreciation
  - May seek dividend income from value stocks
- Growth stocks
  - Growing companies
  - May be minimally 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 vs. straight — skipped dividends
  - 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
- Non-systematic risks
  - Par value adjusts to inflation rate every 6 months
  - Greater of original or adjusted par paid at maturity