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What is an Asset?
An asset is anything of economic value that can be converted into cash.

How Are Assets Classified?
Financial professionals categorize assets into five main groups:
1. **Cash**
2. **Stocks (Equities)**
3. **Bonds (Fixed Income Securities)**
4. **Real Estate Investment Trusts (REITs)**
5. **Commodities**

#1 CASH
Cash is crucial for daily expenses and emergencies.

How Much Cash Should You Keep?
Individuals should aim to keep the following:
- **1–2 months** of expenses in a **checking account** for daily spending.
- **3–9 months** of expenses in a **savings account** as an emergency fund.
  - Those with **unstable jobs, retirees, or entrepreneurs** should aim for **9 months**.
  - Those with **steady employment** may need less.

To determine the right amount, create a **Cash Flow Statement (budget)**—refer to handouts 3.00 and 3.01.

Can You Have Too Much Cash?
Yes. Holding too much cash can mean missing out on potential earnings from investments like stocks and bonds. While cash earns interest, it often **fails to keep up with inflation**.

Are there different ways to hold Cash?
Cash can be stored in different types of accounts:
- **Checking Account** – Immediate access to funds.
- **Savings Account** – Earns interest, which is used for short-term savings.
- **Money Market Account** – Combines checking and savings features with better interest rates.
- **Certificate of Deposit (CD)** – Requires money to be locked in for a set time (e.g., 3 months, 1 year, 5 years). Breaking a CD early may result in penalties.

What does it mean to be FDIC-insured?
Being **FDIC-insured** means the **Federal Deposit Insurance Corporation (FDIC)** protects your money if a bank fails. If a bank is **FDIC-insured**, deposits are covered up to **$250,000 per depositor, per insured bank, per ownership category** (such as individual accounts, joint accounts, or retirement accounts).

What Does FDIC Insurance Cover?

✅ Checking accounts
✅ Savings accounts
✅ Money market deposit accounts
✅ Certificates of deposit (CDs)

What Is NOT Covered? FDIC insurance does **not** cover:

❌ Stocks, bonds, or mutual funds
❌ Cryptocurrency
❌ Life insurance policies
❌ Safe deposit box contents

If a bank fails, the FDIC ensures that depositors receive their insured funds by transferring them to another insured bank or by issuing a check for the insured amount.

Should all my Cash Be in an FDIC-Insured Bank?

Yes. Emergency funds and daily cash should be in **FDIC-insured** institutions. FDIC insurance protects deposits **up to $250,000 per depositor per bank, and joint accounts** are insured up to **$500,000**.

Is a Money Market Fund the same thing as a Money Market Account

A **Money Market Fund (MMF)** and a **Money Market Account (MMA)** may sound similar, but they differ in structure, risk, and insurance. Here's how they compare:

Money Market Account (MMA)	Money Market Fund (MMF)
Bank deposit account	Investment
Banks and credit unions	Mutual fund companies, brokerage firms
✅ *FDIC-insured (up to $250,000 per depositor, per bank)*	❌ *Not FDIC-insured*
Earns interest, typically at a fixed or tiered rate	Earns interest based on short-term securities
Very low risk, as funds are insured	Low risk, but still subject to market fluctuations
Funds are easily accessible, similar to a savings account	Can be sold anytime, but price may fluctuate slightly
Safe place to store cash while earning interest	Investment for slightly higher returns than savings
Cash held in a bank, possibly invested in government securities	Treasury bills, commercial paper, certificates of deposit

Key Takeaways:

- **Money Market Accounts** are **bank deposit accounts** that earn interest and are **FDIC-insured** for safety.
- **Money Market Funds** are **investment products** that aim to provide stability and liquidity but are **not insured by the FDIC**.

#2 STOCKS (Equities)

What is a Stock?

A stock represents **ownership** in a company. Each unit of ownership is called a **share**. By owning shares, investors own a **portion of the company's assets and profits**.

When a company is started, what are the different stages of finding investors?

1. Bootstrapping (Self-Funding)

The founders use their savings or revenue from early operations.
Some may take out personal loans or rely on **friends and family** for initial funding.
This stage is high-risk but allows the founders to control the company completely.

2. Pre-Seed Funding

Small investments from **angel investors** or early-stage venture capital (VC) firms.
Sometimes, accelerators or incubators provide small amounts of funding in exchange for equity.
Helps cover product development and initial business expenses.

3. Seed Funding

The first major investment round is typically from **angel investors, early-stage VCs, or crowdfunding**. It is used to develop the product, conduct market research, and grow the initial customer base. Investment amounts can range from a few hundred thousand to a few million dollars.

4. Series A Funding

Larger investments from **venture capital firms** that see strong growth potential.
Used to scale the company—expanding the team, marketing efforts, and product development.
Investors look for companies with a **proven business model** and early revenue.

5. Series B, C, and Later Rounds

Funding rounds from **larger VC firms, private equity, or strategic investors**.
Used for **rapid expansion**, international growth, acquisitions, or improving infrastructure.
Companies at this stage typically have a solid customer base and strong revenue.

6. IPO (Initial Public Offering) or Acquisition

If a company chooses to go public, it **sells shares on the stock market** through an IPO.
Alternatively, the company may be **acquired by a more prominent firm**, providing an exit for investors.
Early investors (VCs, angel investors) often **cash out** their shares at this stage.

What are the Rights of a Stockholder?

Stockholders in public companies have the right to:

1. **Vote** on the Board of Directors, which oversees company management.
2. **Receive Dividends** if the company distributes profits (not all companies pay dividends).
3. **Sell Shares** to realize gains (or losses) based on the company's performance.

How Are Stocks Classified?

Stocks are categorized based on **location, size, outlook, and industry**.

- **Location (Domicile):**
    - **U.S. Companies** (~4,000 public companies).
    - **International Companies** (~43,000 public companies).
    - **Emerging Markets** – a subset of International – focus on fast-growing economies like Brazil, China, India, and Mexico.
- **Size (Market Capitalization):**
    - **Mega Cap:** $200B+
    - **Large Cap:** $10B – $200B
    - **Mid Cap:** $2B – $10B
    - **Small Cap:** $30M – $2B
    - **Micro Cap:** $50M – $300M
- **Outlook (Growth vs. Value):**
    - **Growth Stocks** – Companies reinvesting earnings for rapid expansion (e.g., Amazon, Tesla).
    - **Value Stocks** – Companies with stable earnings, often paying dividends (e.g., Johnson & Johnson, Berkshire Hathaway).
    - **Blend** – A mix of both growth and value characteristics.
- **Industry (Sector):**
    - Stocks fall into **11 sectors**, i.e., Technology, Healthcare, Financial Services, and Energy.

A simple analogy:

- **Growth Stocks** are like a **Hare**—fast-moving but unpredictable.
- **Value Stocks** are like a **Tortoise**—slower but steady over time.

What Are the Benefits of Owning Stocks?

1. **Voting – A shareholder can vote for the Board of Directors**
2. **Dividend Distributions** – A portion of a company's profits paid to shareholders, provided the company is profitable and chooses to distribute earnings.
3. **Increase in Market Value** – If investors believe a company is worth more than its original issue price, demand for its shares may rise, increasing its market value. Shareholders can then sell their stocks for more than they originally paid, a gain known as **capital appreciation**. The financial industry considers dividend distributions and market value appreciation when discussing stock value growth.

#3 REAL ESTATE INVESTMENT TRUSTS (REIT)

What Is a Real Estate Investment Trust (REIT)?

A REIT is a corporation, trust, or association that invests in income-generating real estate and trades like a stock.

REITs can own various types of properties, including shopping centers, strip malls, restaurants leased to chains, and even single-family homes rented to tenants.

How Are REITs Classified?

REITs are commonly categorized by **domicile**, meaning they can be **U.S.-based REITs** or **international REITs**.

What are the Benefits of Owning a REIT?

- **Hassle-Free Real Estate Investment** – Investors can gain exposure to the real estate market without the responsibilities of being a landlord or managing tenants.
- **Diversification** – REITs allow investors to spread their risk by owning multiple properties in different geographic areas and economic sectors.
- **Professional Management** – REITs employ professional managers to handle property maintenance, tenant management, rent collection, and capital improvements.
- **Liquidity** – Unlike directly owned properties, REIT shares are easy to buy and sell, providing greater flexibility in converting assets to cash

When an Investor mentions their stock/bond ratio, REITs are counted as stocks

#4 BONDS (Fixed Income Securities)

What Is a Bond?

A bond is a debt instrument where an investor lends money to an entity (such as a government or corporation), which promises to repay the loan with interest on a predetermined date.

What are the Benefits of Being a Bondholder?

1. **Regular Interest Payments** – Investors earn interest throughout the bond's term.
2. **Resale Opportunity** – Bonds can be sold to third parties, but their price will fluctuate based on changes in interest rates since the bond was issued.

Who Issues Bonds?

Bonds are typically issued by:

- Governments (federal, municipal, or local)
- Corporations

What are the Key Characteristics of Bonds?

- **Term Length** – Short-term (under 3 years), mid-term (3-7 years), and long-term (over 7 years).
- **Tax Status** – Some federal, state, or municipal bonds are tax-exempt.
- **Interest Rate Structure** – Fixed market rate vs. inflation-linked rates.
- **Face Value** – The amount borrowed, which must be repaid at maturity.

What is the relationship between Bond Price and Interest Rates?

A key principle to remember:
"When interest rates rise, bond prices fall, and when interest rates fall, bond prices rise."

#5 COMMODITIES

What Is a Commodity?

A commodity is a tangible good that can be bought, sold, or exchanged in open markets. Prices fluctuate based on supply and demand. Examples include:

- **Precious Metals** – Gold, silver
- **Agricultural Products** – Wheat, corn
- **Currencies** – Foreign exchange and cryptocurrencies

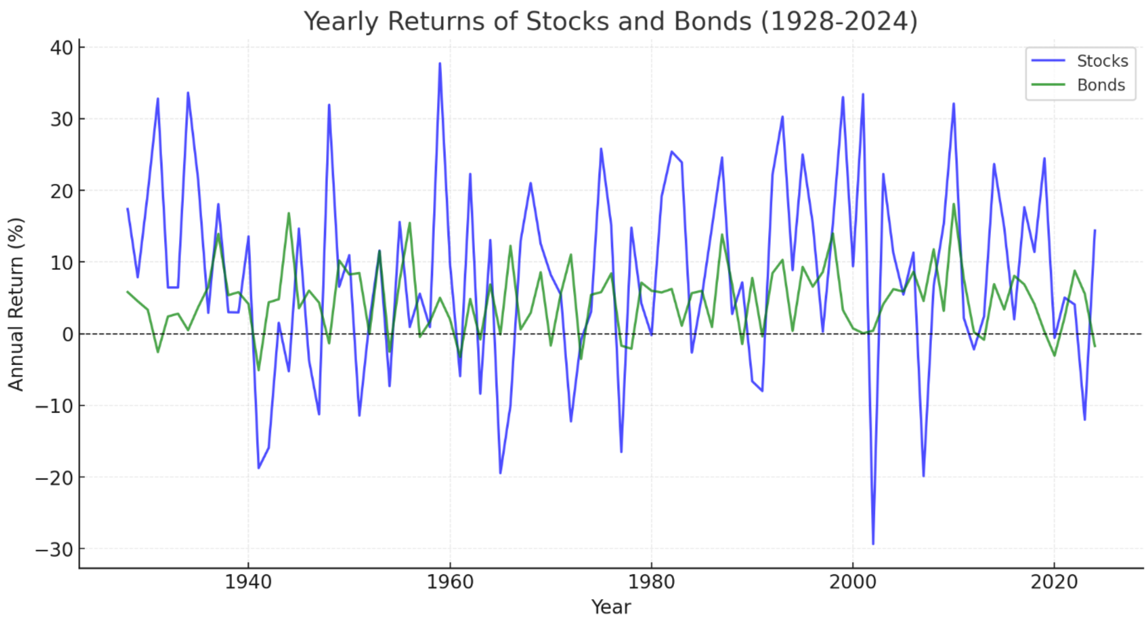
What is unique about Owning Commodities?

- Unlike stocks or bonds, commodities do not generate income through dividends or interest.
- Investors seek capital appreciation by selling commodities at a higher price than they paid.
- Some investors use commodities, particularly gold, to hedge against economic instability.

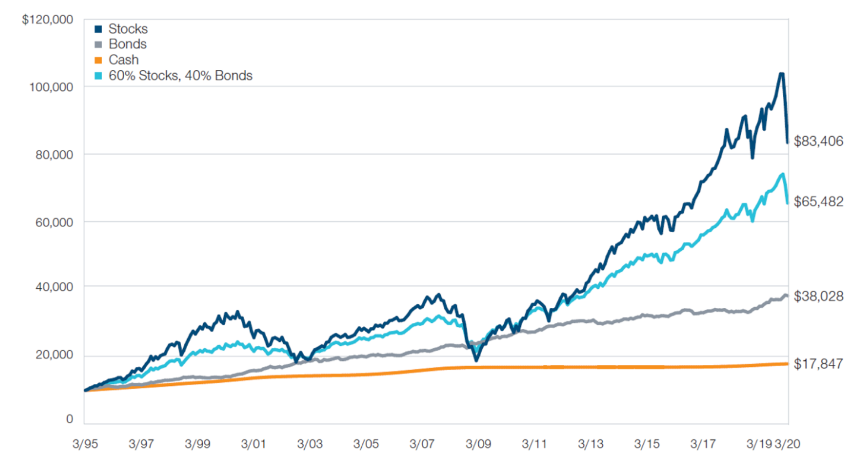
How do the investment returns compare?

Historically, stocks have provided higher returns but with greater price fluctuations, whereas bonds offer more stable, lower returns. A well-balanced portfolio considers asset classes based on an investor's goals and risk tolerance.

The chart below shows the RETURN and VOLATILITY of stocks (blue) and bonds (red) over time. Its primary purpose is to show that stocks' volatility is far greater than that of bonds.



The chart below illustrates how $10,000 would have risen over 25 years if invested in different asset classes and is NOT inflation-adjusted.



For more charts and analysis, see: https://www.longtermtrends.net/stocks-vs-bonds/
https://personal.vanguard.com/us/insights/saving-investing/model-portfolio-allocations

SUMMARY – What steps should investors take to act prudently?

1. Establish a Cash Reserve – Ensure enough cash for daily expenses and emergencies.
2. Determine when they will need the money, they are considering investing
    - 3 years or under – consider keeping all in cash
    - Over three years, review diversification charts and choose an appropriate ratio.
        - 12.02a for Retirement Savings
        - 12.02b for College Savings Plans
        - 12.02c for Life Enhancement (regular savings)
3. Balance Risk and Return –
    - Stocks offer higher long-term returns but are more volatile.
    - Bonds provide lower returns but greater stability.

    Your diversification percentage should be based on your Investment Horizon –
    - Long-term investors can allocate more funds to stocks.
    - Short-term investors should favor bonds for stability.

An investor's most important decision is their allocation between stocks and bonds.

The decision should be based on when the investor will need their money.

VOCABULARY:

1. Asset Class
2. Investment Portfolio = basket of assets that hold cash, stocks, bonds
3. Cash = (checking, savings, money market, certificate of deposit)
4. FDIC = Federal Deposit Insurance Corporation = $250,000 insurance per depositor per bank
5. Money Market Account vs Money Market Fund
6. Stocks = Equities
7. Public vs. Private Companies
8. Shares
9. Initial Public Offering = IPO
10. REITs = Real Estate Investment Trust
11. Commodities = Metals, Grains, Foreign Currencies
12. Dividends = Distributions = profit returned to shareholders in cash
13. Initial Public Offering (IPO)
14. Market Capitalization
15. Giant-Cap, Large-Cap, Mid-Cap, Small-Cap, Micro-Cap
16. Volatility
17. Bond = Fixed Income Security = a promise to pay (a debt)
18. Bond Issuer = entity borrowing the money
19. Treasury Bonds = bonds issued by the federal government
20. Municipal (Munis) Bonds = issued by a municipality, i.e., state, county, or city
21. Corporate Bonds = type of bond issued by a corporation
22. Bond Interest Income
23. Bond Term = length of time before full repayment of principal is required
24. Bond Face Value = Original Issue = Par Value = amount borrowed
25. Bond Discount = difference between the face value and market value