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Chapter 1 : The Reality of Investment Risk | calendrierdelascience.com

The securities' returns were set according to weekly or monthly auctions run by broker-dealers. It was a shallow market, meaning not many investors participated. That made the securities riskier than the bonds themselves.

There are many types of investments and investing styles to choose from. Mutual funds, ETFs, individual stocks and bonds, closed-end mutual funds, real estate, various alternative investments and owning all or part of a business are just a few examples. They also have a higher claim on company assets than holders of common stock. Bonds are issued by corporations, the federal government plus many states, municipalities and governmental agencies. Interest on these bonds are fully taxable, but interest on municipal bonds is exempt from federal taxes and may be exempt from state taxes for residents of the issuing state. Interest on Treasuries are taxed at the federal level only. Bonds can be purchased as new offerings or on the secondary market, just like stocks. Bond prices move inversely with the direction of interest rates. Mutual funds are valued at the end of trading day and any transactions to buy or sell shares are executed after the market close as well. Other mutual funds are actively managed where the manager actively selects the stocks, bonds or other investments held by the fund. Actively managed mutual funds are generally more costly to own. Mutual funds can make distributions in the form of dividends, interest and capital gains. These distributions will be taxable if held in a non-retirement account. Selling a mutual fund can result in a gain or loss on the investment, just as with individual stocks or bonds. For instance, a foreign stock mutual might hold 50 or or more different foreign stocks in the portfolio. Mutual funds are a great way for investors large and small to achieve a level of instant diversification. ETFs ETFs or exchange-traded funds are like mutual funds in many respects, but are traded on the stock exchange during the trading day just like shares of stock. Unlike mutual funds which are valued at the end of each trading day, ETFs are valued constantly while the markets are open. Alternative investments Beyond stocks, bonds, mutual funds and ETFs, there are many other ways to invest. We will discuss a few of these here. Real estate investments can be made by buying a commercial or residential property directly. REITS are traded like stocks. Hedge funds and private equity also fall into the category of alternative investments, although they are only open to those who meet the income and net worth requirements of being an accredited investor. Hedge funds may invest almost anywhere and may hold up better than conventional investment vehicles in turbulent markets. Private equity allows companies to raise capital without going public. There are also private real estate funds that offer shares to investors in a pool of properties. Often alternatives have restrictions in terms of how often investors can have access to their money. In recent years, alternative strategies have been introduced in mutual fund and ETF formats, allowing for lower minimum investments and great liquidity for investors. These vehicles are known as liquid alternatives.

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Chapter 2 : Portfolio Returns and Risks; Covariance and the Coefficient of Correlation

Bonds Grouped under the general category called fixed-income securities, the term bond is commonly used to refer to any securities that are founded on debt. you need to know their.

Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. As more and more first-time investors turn to the markets to help secure their futures, pay for homes, and send children to college, our investor protection mission is more compelling than ever. The world of investing is fascinating and complex, and it can be very fruitful. But unlike the banking world, where deposits are guaranteed by the federal government, stocks, bonds and other securities can lose value. There are no guarantees. By far the best way for investors to protect the money they put into the securities markets is to do research and ask questions. The laws and rules that govern the securities industry in the United States derive from a simple and straightforward concept: To achieve this, the SEC requires public companies to disclose meaningful financial and other information to the public. This provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security. Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions. To insure that this objective is always being met, the SEC continually works with all major market participants, including especially the investors in our securities markets, to listen to their concerns and to learn from their experience. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds. Here the SEC is concerned primarily with promoting the disclosure of important market-related information, maintaining fair dealing, and protecting against fraud. Each year the SEC brings hundreds of civil enforcement actions against individuals and companies for violation of the securities laws. Typical infractions include insider trading, accounting fraud, and providing false or misleading information about securities and the companies that issue them. One of the major sources of information on which the SEC relies to bring enforcement action is investors themselves â€" another reason that educated and careful investors are so critical to the functioning of efficient markets. To help support investor education, the SEC offers the public a wealth of educational information on this Internet website , which also includes the EDGAR database of disclosure documents that public companies are required to file with the Commission. Though it is the primary overseer and regulator of the U. More detailed information about many of these topics is available throughout this website. Before the Great Crash of , there was little support for federal regulation of the securities markets. This was particularly true during the post-World War I surge of securities activity. Proposals that the federal government require financial disclosure and prevent the fraudulent sale of stock were never seriously pursued. Tempted by promises of "rags to riches" transformations and easy credit, most investors gave little thought to the systemic risk that arose from widespread abuse of margin financing and unreliable information about the securities in which they were investing. During the s, approximately 20 million large and small shareholders took advantage of post-war prosperity and set out to make their fortunes in the stock market. Roosevelt Joseph Kennedy When the stock market crashed in October , public confidence in the markets plummeted. Investors large and small, as well as the banks who had loaned to them, lost great sums of money in the ensuing Great Depression. Congress held hearings to identify the problems and search for solutions. Based on the findings in these hearings, Congress â€" during the peak year of the Depression â€" passed the Securities Act of This law, together with the Securities Exchange Act of , which created the SEC, was designed to restore investor confidence in our capital markets by providing investors and the markets with more reliable information and clear rules of honest dealing. The main purposes of these laws can be reduced to two common-sense notions: Companies publicly offering securities for investment dollars must tell the public the truth about their businesses, the securities they are selling, and the risks involved in investing. Monitoring the securities industry requires a highly coordinated effort. Congress established the Securities and Exchange Commission in to enforce the newly-passed securities laws, to promote stability in the markets and, most importantly, to protect investors. Kennedy, President John F. By law, no more than three of the

Commissioners may belong to the same political party, ensuring non-partisanship. It is the responsibility of the Commission to: The Commission convenes regularly at meetings that are open to the public and the news media unless the discussion pertains to confidential subjects, such as whether to bring an enforcement action. Divisions Division of Corporation Finance The Division of Corporation Finance assists the Commission in executing its responsibility to oversee corporate disclosure of important information to the investing public. Corporations are required to comply with regulations pertaining to disclosure that must be made when stock is initially sold and then on a continuing and periodic basis. The Division of Corporation Finance reviews documents that publicly-held companies are required to file with the Commission. Corporation Finance provides administrative interpretations of the Securities Act of , the Securities Exchange Act of , and the Trust Indenture Act of , and recommends regulations to implement these statutes. Increasingly, the Division also monitors the use by U. For example, a company might ask whether the offering of a particular security requires registration with the SEC. Corporation Finance would share its interpretation of the relevant securities regulations with the company and give it advice on compliance with the appropriate disclosure requirement. The Division uses no-action letters to issue guidance in a more formal manner. A company seeks a no-action letter from the staff of the SEC when it plans to enter uncharted legal territory in the securities industry. For example, if a company wants to try a new marketing or financial technique, it can ask the staff to write a letter indicating whether it would or would not recommend that the Commission take action against the company for engaging in its new practice. These statutes generally are broadly drafted, establishing basic principles and objectives. To ensure that the intent of Congress is carried out in specific circumstances â€" and as the securities markets evolve technologically, expand in size, and offer new products and services â€" the SEC engages in rulemaking. Rulemaking can involve several steps: The Commission publishes a detailed formal rule proposal for public comment. Unlike a concept release, a rule proposal advances specific objectives and methods for achieving them. Typically the Commission provides between 30 and 90 days for review and comment. Just as with a concept release, the public comment is considered vital to the formulation of a final rule. Finally, the Commissioners consider what they have learned from the public exposure of the proposed rule, and seek to agree on the specifics of a final rule. If a final measure is then adopted by the Commission, it becomes part of the official rules that govern the securities industry. Division of Trading and Markets The Division of Trading and Markets assists the Commission in executing its responsibility for maintaining fair, orderly, and efficient markets. The staff of the Division provide day-to-day oversight of the major securities market participants: The Division also oversees the Securities Investor Protection Corporation SIPC , which is a private, non-profit corporation that insures the securities and cash in the customer accounts of member brokerage firms against the failure of those firms. It is important to remember that SIPC insurance does not cover investor losses arising from market declines or fraud. This important part of the U. Division of Enforcement The Division of Enforcement assists the Commission in executing its law enforcement function by recommending the commencement of investigations of securities law violations, by recommending that the Commission bring civil actions in federal court or as administrative proceedings before an administrative law judge, and by prosecuting these cases on behalf of the Commission. The Division obtains evidence of possible violations of the securities laws from many sources, including market surveillance activities, investor tips and complaints, other Divisions and Offices of the SEC, the self-regulatory organizations and other securities industry sources, and media reports. All SEC investigations are conducted privately. Facts are developed to the fullest extent possible through informal inquiry, interviewing witnesses, examining brokerage records, reviewing trading data, and other methods. Following an investigation, SEC staff present their findings to the Commission for its review. The Commission can authorize the staff to file a case in federal court or bring an administrative action. In many cases, the Commission and the party charged decide to settle a matter without trial. Common conduct that may lead to SEC investigations include: Whether the Commission decides to bring a case in federal court or within the SEC before an administrative law judge may depend upon the type of sanction or relief that is being sought. For example, the Commission may bar someone from the brokerage industry in an administrative proceeding , but an order barring someone from acting as a corporate officer or director must be obtained in federal court. Often, when the misconduct warrants it, the Commission will bring both proceedings. The Commission files a complaint with a U. District Court and asks the court for a sanction or remedy. Often the Commission asks for a court order, called an injunction, that prohibits any further acts or practices that violate the law or Commission rules. An injunction can also require audits, accounting for frauds, or special supervisory arrangements. In addition, the SEC can seek civil monetary penalties, or the return of illegal profits called disgorgement. The court may also bar or suspend an individual from serving as a corporate officer or director. The Commission can seek a variety of sanctions through the administrative proceeding process. Administrative proceedings differ from civil court actions in that they are heard by an administrative law judge ALJ , who is independent of the Commission. The administrative law judge presides over a hearing and considers the evidence presented by the Division staff, as well as any evidence submitted by the subject of the proceeding. Following the hearing the ALJ issues an initial decision that includes findings of fact and legal conclusions. The initial decision also contains a recommended sanction. Both the Division staff and the defendant may appeal all or any portion of the initial decision to the Commission. The Commission may affirm the decision of the ALJ, reverse the decision, or remand it for additional hearings. Administrative sanctions include cease and desist orders, suspension or revocation of broker-dealer and investment advisor registrations, censures, bars from association with the securities industry, civil monetary penalties, and disgorgement. Division of Economic and Risk Analysis The Division of Economic and Risk Analysis assists the Commission in executing its mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation by integrating robust economic analysis and rigorous data analytics into the work of the SEC. There are two main functions for the Division. First, DERA staff provide vital support in the form of economic analyses in support of Commission rulemaking and policy development. Among the functions performed by the Division are: Analyzing the potential economic effects of Commission rulemakings or other Commission actions. In this role, offices within DERA works closely with the other Divisions and Offices to help examine the need for regulatory action, analyze the potential economic effects of rules and other Commission actions, develop data-driven analyses of market activity, and assist in evaluating public comments and studies. Providing quantitative and qualitative research and support related to risk assessment. DERA staff help the Commission to anticipate, identify, and manage risks, focusing on early identification of potential fraud and illegal or questionable activities. Staff collects, analyzes, and disseminates information to the Commission and its Staff about regulated entities and market activity. Assisting the Division of Enforcement by, for example, providing economic and quantitative analysis and support in enforcement proceedings and settlement negotiations. Offices Office of the General Counsel The General Counsel is appointed by the Chairman as the chief legal officer of the Commission, with overall responsibility for the establishment of agency policy on legal matters. The General Counsel serves as the chief legal advisor to the Chairman regarding all legal matters and services performed within, or involving, the agency, and provides legal advice to the Commissioners, the Divisions, the Offices, and other SEC components as appropriate. The General Counsel represents the SEC in civil, private, or appellate proceedings as appropriate, including appeals from the decisions of the federal district courts or the Commission in enforcement matters, and appeals from the denial of requests under the Freedom of Information Act.

Chapter 3 : Learn About Fixed Income Securities | TD Ameritrade

A security is a fungible, negotiable financial instrument that represents some type of financial value, usually in the form of a stock, bond, or option.

Furthermore, suppose that the returns of the two securities are perfectly negatively correlated with. What is the expected return and standard deviation of a portfolio with equal weights in each security? Here we use equation 1 to compute the expected return of the portfolio: Vectors are usually written as a column. Calculate the portfolio variances. Calculate the covariance between the portfolios. The standard deviations can be found by taking the square roots of those variances. The covariances can be found in the V matrix where the covariances between assets j and k will be in row j, column k and also in column j, row k. Solving for the correlation coefficients: Solving for the portfolio variances is easy, if you know how to multiply matrices using the following formula: While matrix multiplication is not difficult, it is also not required for this class. The two asset case can be solved without matrix multiplication using the following formula: Matrix multiplication can be performed in Excel using the mmult command. A sample spreadsheet can be downloaded, and modified to solve this problem. The solution for the first portfolio is: The solution for the second portfolio is: We can use equation 7 to find the covariance between these two portfolios. We could treat each of these portfolios as a separate asset, and create a new portfolio using equal weights. The variance of the new portfolio can be found, because it is just a portfolio of our three original assets. The varainces of the two portfolios can be plugged in to the right hand side of the equation. That leaves the covariance between the two portfolios as the only unknown. Solving for that, we find that the covariance between the two portfolios is 0. Much of what is done in this example is at a more advanced mathematical level than is required for this class. The information is shown here for a few reasons. Some students have the mathematical background, and seeing the multi-asset case will help them understand the material better. Some students will work in portfolio analysis, and will need to find these values. There is some insight that can be gained even by those who do not understand the mathematics. Instead of being scared off by the mathematics, the following should be taken away from this example: A portfolio of two assets which always move in the same direction are riskier than two assets whose returns are less dependent on each other. It is also important to realize that there are solutions to these problems. It is important to understand the formulas for the two asset case 7. This assumption implies that individual asset returns are univariate normally distributed. We make the assumption of normality because it greatly simplifies the portfolio selection problem. Most importantly, we can compare different portfolios on the basis of mean and variance. Our discussion of utility functions and risk aversion provided two conclusions. First, consumers like more to less. In terms of a security or portfolio, consumers prefer more return to less return. Second, consumers prefer less variance to more variance. Remember that the risk averse consumer will always turn down a fair bet. In terms of a security or portfolio, the consumer will prefer a portfolio with less variance to another higher variance portfolio with an equal expected return. These insights lead to two rules of portfolio selection. Any investor who chooses to hold a portfolio with variance will want the portfolio that has the maximum mean possible among those portfolios that have variance. Similarly, any investor who chooses a portfolio with mean E[rp] will want the portfolio with the minimum variance possible among those with mean E[rp]. A portfolio that satisfies these conditions is known as an efficient portfolio. A portfolio is inefficient if there exists another portfolio with: We will now consider an example of the effects of diversification. Previously, we combined securities and looked at the effect on the portfolio variance for different correlation coefficients between the securities. We found that using equal weights in the two portfolios, a lower correlation coefficient led to lower portfolio variance. In this example, we will look at a given correlation and vary the portfolio weights to trace the effect on the portfolio variance. We will trace out the return and standard deviation of a portfolio of common stocks and futures. A number of tables are presented. Table 1 and Table 2 document the cumulative wealth relatives and the year by year rates of return of five portfolios from to Table 3 provides mean returns and standard deviations for these portfolio. Table 4 gives the correlation matrix for the different returns. Table 5 provides returns on selected common stock-commodity futures portfolios. Previously, we showed that combining two portfolios with a zero correlation reduced the variance of the portfolio. This was referred to as diversification. The common stocks and futures have negative correlation. This suggests that holding both in a portfolio will produce a portfolio variance that is less than the variance of the individual components. The two formulas that are relevant are: Also, Asset 2, the commodity futures: We are also given the correlation coefficient and the variances can easily be calculated: The next step is to calculate the portfolio mean and standard deviation for various weights. These calculations verify the numbers presented in Table 5. The following graph shows the risk and return. Note that with the negative correlation between the assets, the amount invested in the component securities has a large effect on the portfolio variance. In order to do this, assume that there are only two securities, q 1 and s 2. The expected return on the portfolio is: Write this in terms of the correlation coefficient. So now we can start to map out the frontier. First, if the correlation between the two securities is one, then the standard deviation on the portfolio is: Eq 8 because This result has a simple geometric interpretation. If we plot the mean and standard deviation of the two securities, then a straight line between the two securities represents the set of portfolios available. Note that diversification when the correlation between the securities is one is ineffective. The standard deviation of the portfolio is: Eq 9 This immediately implies that we can drive the standard deviation of the portfolio to zero by choosing the right weights. Setting the left-hand side equal to zero, we can solve for w: This point corresponds to the point y on the diagram. The expected return of this portfolio will be: Without loss of generality, assume that Asset 2 has lower variance than Asset 1, as depicted in Figures 11 and In this case, two results are possible. If there exists some portfolio of Assets 1 and 2 that has higher expected return and lower variance than Asset 2. That is, in this case there are gains from diversification. The possible portfolios lie on a parabola that has a turning point between Assets 1 and 2, as depicted in Figure Portfolio options with benefits from diversification Alternatively, if there does not exist any portfolio of Assets 1 and 2 that has higher expected return and lower variance than Asset 2. That is, in this case there are no gains from diversification. The possible portfolios lie on a parabola that has no turning point between Assets 1 and 2, as depicted in Figure Portfolio options without benefits from diversification 7. The minimum variance portfolio is found by solving: Eq 10 which has the first order condition Now the portfolio will have less risk than Asset 2 alone whenever: There is no restriction on the sign of w. Therefore, a negative w can be considered a short sale of security q. The dotted line extension of the lines in figure 13 represent short sales. Note that you can change the perfect positive correlation into negative correlation with the short sale provision. Figure 13 More realistically, the correlation between the securities will between positive one and negative one. The curve on the diagram plots the possible portfolios with a correlation between zero and one. Notice that any part of the curve that has a positive slope must be concave. Consider the counter example between u and v on the diagram. With a dashed line, I have drawn a convex segment.

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Chapter 4 : Asset-backed security - Wikipedia

The SEC's regulation of the securities markets facilitates capital formation, which helps entrepreneurs start businesses and companies grow. Last year $ trillion was raised in public and private securities offerings, promoting economic growth and job creation.

The expected return of this portfolio is calculated thus: Standard deviation, as applied to investment returns, is a quantitative statistical measure of the variation of specific returns to the average of those returns. One standard deviation is equal to the average deviation of the sample. Hence, portfolio risk can be reduced by diversificationâ€”choosing individual investments that rise or fall at different times from the other investments in the portfolio. For most portfolios, diversifiable risk declines, quickly at first, then more slowly, reaching a minimum with about 20 - 25 securities. However, how rapidly risk declines depends on the covariance of the assets composing the portfolio. Portfolio risk consists of 2 components: Systemic risks, also known as systematic risks, are risks that affect all assets, such as general economic conditions, and, thus, systemic risk is not reduced by diversification. Diversifiable risks are risks specific to particular assets, such as factors that affect particular businesses and their stocks. Diversifiable risks can be reduced to the extent that the coefficients of correlation of the assets in the portfolio approaches 0. For instance, when interest rates rise, stocks tend to go down as margin interest rises making it more expensive to borrow money to buy stocks, which lowers their demand, and therefore their prices, while higher interest rates also causes investors to move more money into less risky securities, such as bonds, that pay interest. Covariance is a statistical measure of how 1 investment moves in relation to another. If 2 investments tend to be up or down during the same time periods, then they have positive covariance. If the highs and lows of 1 investment move in perfect coincidence to that of another investment, then the 2 investments have perfect positive covariance. If 1 investment tends to be up while the other is down, then they have negative covariance. If the high of 1 investment coincides with the low of the other, then the 2 investments have perfect negative covariance. The risk of a portfolio composed of these assets can be reduced to zero. If there is no discernible pattern to the up and down cycles of 1 investment compared to another, then the 2 investments have no covariance. An uncorrelated investment pair would have a correlation coefficient close to zero. Note that since the correlation coefficient is a statistical measure, a perfectly uncorrelated pair of investments will rarely, if ever, have an exact correlation coefficient of zero. The most diversified portfolio consists of securities with the greatest negative correlation. A diversified portfolio can also be achieved by investing in uncorrelated assets, but there will be times when the investments will be both up or down, and thus, a portfolio of uncorrelated assets will have a greater degree of risk, but it is still significantly less than positively correlated investments. However, even positively correlated investments will be less risky than single assets or investments that are perfectly positively correlated. However, there is no reduction in risk by combining assets that are perfectly correlated. Correlations can change over time and in different economic conditions. Interest rates were lowered to boost the economy, which caused real estate prices to increase significantly from - Hence, real estate prices were increasing while stocks were either declining, or not increasing by nearly the same rate. This reflects the general negative correlation between the stock market and the real estate market. The real estate market was forming a bubble due to the extremely low interest rates at the time. The bubble finally burst in , and especially , leading to the â€” credit crisis. The fast increase in prices was not due to demand, but due to the transfer of money from assets doing poorlyâ€”stocks and real estateâ€”to commodities and future contracts. In other words, it was another bubble. However, as credit dried up, due to the prevalence of many defaults of subprime mortgages, almost every investment came crashing down in September and October of Only United States Treasuries , which are virtually free of credit-default risk, rose significantly in price, driving their yields down proportionately, with the yields of short-term T-bills reaching almost zero. So the corollary of this story is that correlations can and do change, and that investments always have some risk. Calculating the Covariance and Coefficient of Correlation between 2 Assets In this section, we will actually calculate the covariance and the coefficient of correlation between 2 assets, which is the simplest case, based on the following table:

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Chapter 5 : Bonds and Securities

Working as the Security Summit partnership, the IRS, the states and the tax industry are protecting your federal and state tax accounts and making progress against identity theft. Many of Security Summit initiatives are invisible to you but will help us identity and stop fraudulent tax returns filed.

Why do people buy bonds? Investors buy bonds because: They provide a predictable income stream. Typically, bonds pay interest twice a year. If the bonds are held to maturity, bondholders get back the entire principal, so bonds are a way to preserve capital while investing. Bonds can help offset exposure to more volatile stock holdings. Companies, governments and municipalities issue bonds to get money for various things, which may include: Providing operating cash flow Funding capital investments in schools, highways, hospitals, and other projects What types of bonds are there? There are three main types of bonds: Corporate bonds are debt securities issued by private and public corporations. These bonds have a higher credit rating, implying less credit risk, than high-yield corporate bonds. These bonds have a lower credit rating, implying higher credit risk, than investment-grade bonds and, therefore, offer higher interest rates in return for the increased risk. Instead of taxes, these bonds are backed by revenues from a specific project or source, such as highway tolls or lease fees. Governments sometimes issue municipal bonds on behalf of private entities such as non-profit colleges or hospitals. If the conduit borrower fails to make a payment, the issuer usually is not required to pay the bondholders. Treasuries are issued by the U. Department of the Treasury on behalf of the federal government. They carry the full faith and credit of the U. Short-term securities maturing in a few days to 52 weeks Notes. Longer-term securities maturing within ten years Bonds. Long-term securities that typically mature in 30 years and pay interest every six months TIPS. Treasury Inflation-Protected Securities are notes and bonds whose principal is adjusted based on changes in the Consumer Price Index. TIPS pay interest every six months and are issued with maturities of five, ten, and 30 years. What are the benefits and risks of bonds? Bonds can provide a means of preserving capital and earning a predictable return. Bond investments provide steady streams of income from interest payments prior to maturity. The interest from municipal bonds generally is exempt from federal income tax and also may be exempt from state and local taxes for residents in the states where the bond is issued. As with any investment, bonds have risks. The issuer may fail to timely make interest or principal payments and thus default on its bonds. If bonds are held to maturity the investor will receive the face value, plus interest. If sold before maturity, the bond may be worth more or less than the face value. Rising interest rates will make newly issued bonds more appealing to investors because the newer bonds will have a higher rate of interest than older ones. To sell an older bond with a lower interest rate, you might have to sell it at a discount. Inflation is a general upward movement in prices. Inflation reduces purchasing power, which is a risk for investors receiving a fixed rate of interest. The possibility that a bond issuer retires a bond before its maturity date, something an issuer might do if interest rates decline, much like a homeowner might refinance a mortgage to benefit from lower interest rates. Be wary of any person who attempts to sell non-registered bonds. Most municipal securities issued after July 3, are required to file annual financial information, operating data, and notices of certain events with the Municipal Securities Rulemaking Board MSRB. This information is available free of charge online at www. If the municipal bond is not filed with MSRB, this could be a red flag.

Chapter 6 : Investing Types Of Investments

Hedging (buying a security to offset a potential loss on another investment) and insurance can provide additional ways to manage risk. However, both strategies typically add (often significantly) to the costs of your investment, which eats away any returns.

He has built a highly profitable securities firm, Bernard L. Madoff Investment Securities, which siphons a huge volume of stock trades away from the Big Board. Order flow is an issue that attracted a lot of attention but is grossly overrated. If he was not making real investments, at that rate the principal would last 20 years. By targeting charities, Madoff could avoid the threat of sudden or unexpected withdrawals. Sales methods[edit] Rather than offer high returns to all comers, Madoff offered modest but steady returns to an exclusive clientele. The investment method was marketed as "too complicated for outsiders to understand". Even at the end of November , amid a general market collapse, the same fund reported that it was up 5. The investigation concluded in Then, he became a partner in the accounting firm Alpern, Avellino and Bienes. In , the firm began advising its clients about investing all of their money with a mystery man, a highly successful and controversial figure on Wall Streetâ€”but until this episode, not known as an ace money managerâ€"Madoff. However, the SEC did not look any more deeply into the matter, and never publicly referred to Madoff. Avellino complained to the presiding Federal Judge, John E. Regulators feared it all might be just a huge scam. They took in nearly a half a billion dollars in investor money, totally outside the system that we can monitor and regulate. In a interview after the scam had been exposed, he said, "Doubt Bernie Madoff? He had that aura about him. Madoff was registered as a broker-dealer , but doing business as an asset manager. In September Madoff agreed to register his business, but the SEC kept its findings confidential. This investigation resulted in neither a finding of fraud, nor a referral to the SEC Commissioners for legal action. A year earlier, Rampart had found out that Access International Advisors , one of its trading partners, had significant investments with Madoff. In his view, there were only two ways to explain the figuresâ€"either Madoff was front running his order flow, or his wealth management business was a massive Ponzi scheme. This submission, along with three others, passed with no substantive action from the SEC. The biggest red flag was that Madoff reported only seven losing months during this time, and those losses were statistically insignificant. This produced a return stream that rose steadily upward at a nearly-perfect degree angle. Markopolos argued that the markets were far too volatile even under the best of conditions for this to be possible, a fact that would have been clear to anyone who understood the underlying math. If this is not a regulatory dodge, I do not know what is. Friehling , a close Madoff family friend. This arrangement allows outside investigators to verify the holdings. In , Joe Aaron, a hedge-fund professional, also found the structure suspicious and warned a colleague to avoid investing in the fund, "Why would a good businessman work his magic for pennies on the dollar? And only if Madoff was assumed to be responsible for all the options traded in the most liquid strike price. Madoff had previously come close to collapse in the second half of after Bayou Group , a group of hedge funds, was exposed as a Ponzi scheme that used a bogus accounting firm to misrepresent its performance. By then, at least two major banks were no longer willing to lend money to their customers to invest it with Madoff. The trickle became a flood with when Lehman Brothers was forced into bankruptcy in September, as well as the near-collapse of American International Group at the same time. To pay off those investors, Madoff needed new money from other investors. However, in November, the balance in the account dropped to dangerously low levels. He had just barely enough in the account to meet his redemption payroll on November MSIL had neither customers nor clients, and there is no evidence that it conducted any trades on behalf of third parties. Judge Lifland ruled that Rosenman was "indistinguishable" from any other Madoff client, so there was no basis for giving him special treatment to recover funds. However, it was far too little and far too late. With banks having all but stopped lending to anyone, he knew he could not even begin to borrow enough money to meet the outstanding redemption requests. He directed DiPascali to use the remaining balance in the Chase account to cash out the accounts of relatives and favored investors. On December 9, he told Peter that he was on the brink of collapse. At that point, Madoff asked his sons to follow him to his apartment, where he admitted that he was "finished", and that the asset management arm of the firm was in fact a Ponzi scheme â€” as he put it, "one big lie". Mark and Andrew then reported him to the authorities. Instead, Mark and Andrew immediately called lawyers. Madoff was arrested the following morning. He would have had to nurture the Ponzi scheme daily. What happened when he was gone? You would need office and support personnel, people who actually knew what the market prices were for the securities that were being traded. You would need accountants so that the internal documents reconcile with the documents being sent to customers at least on a superficial basis," said Tom Dewey, a securities lawyer. Its chairman, Maurice J. Jaffe , a broker at the firm, are accused by the SEC of 4 counts of civil fraud , "knowingly or recklessly disregarding facts indicating that Madoff was operating a fraud". Jaffe has requested the Court dismiss the charges in both cases. On May 1, , Picard filed a lawsuit against Stanley Chais, The SEC filed a similar civil suit mirroring these claims. He was never in the finance business. Shapiro sold his business, Kay Windsor, Inc. He agreed to proceed without having the evidence in the criminal case against him reviewed by a grand jury at a hearing before U. District Judge Alvin Hellerstein in Manhattan. Friehling was charged on March 18, , with securities fraud , aiding and abetting investment adviser fraud, and four counts of filing false audit reports with the SEC. Madoff, 63, chief compliance officer, worked with his brother Bernie for more than 40 years, and ran the daily operations for the past 20 years. He helped create the computerized trading system. Peter Madoff and daughter Shana are also defendants. He was 48, and had reconciled with his mother prior to his death. Frank DiPascali , 52, who referred to himself as "director of options trading" and as " chief financial officer " at Madoff Securities, pled guilty on August 11, , to 10 counts: He agreed to "connect the dots" and to "name names", with sentencing originally scheduled for May The SEC has removed the statements from its website. On April 1, , the Commonwealth of Massachusetts filed a civil action charging Fairfield Greenwich with fraud and breaching its fiduciary duty to clients by failing to provide promised due diligence on its investments. The complaint seeks a fine and restitution to Massachusetts investors for losses and disgorgement of performance fees paid to Fairfield by those investors. It alleges that, in , Mr. Ezra Merkin , a prominent investment advisor and philanthropist, has been sued for his role in running a "feeder fund" for Madoff. He promised he would actively manage the money, but instead, he misguided investors about his Madoff investments in quarterly reports, in investor presentations, and in conversations with investors. In reality, Merkin was but a master marketer. He was a lawyer, accountant, and investor who led buyouts of health-care and technology companies. Manzke, founder of Maxam Capital, had her assets temporarily frozen by the same Connecticut court. They allege she oversaw the fabrication of documents", according to the Associated Press. David Kotz , who was conducting an investigation into how regulators failed to detect the fraud despite numerous red flags. Williams of the U. Postal Service was brought in to conduct an independent outside review. It is unclear exactly how much investors deposited into the firm. The year-old financier paused, then said:

Chapter 7 : calendrierdelascience.com | What We Do

securities' returns relative to their mean returns. The standard deviation of a two-asset portfolio is a linear function of the assets' weights when the assets have a correlation coefficient equal to one.

Definition[edit] An "asset-backed security" is sometimes used as an umbrella term for a type of security backed by a pool of assets, [1] and sometimes for a particular type of that security â€” one backed by consumer loans [2] or loans, leases or receivables other than real estate. In the second case, an "asset-backed security" â€” or at least the abbreviation "ABS" â€” refers to just one of the subsets, one backed by consumer-backed products, and is distinct from a MBS or CDO, example: The term "asset-backed security" is currently defined in Form S-3 to mean a security that is primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite time period plus any rights or other assets designed to assure the servicing or timely distribution of proceeds to the security holders. The SEC has interpreted the phrase "convert into cash by their terms" to exclude most assets that require active behavior to acquire cash â€” such as the selling of non-performing assets and physical property. It has also interpreted the phrase "discrete pool" to exclude those that can change in composition over time. Delinquent and Non-performing Assets. An asset is considered to be non-performing if it satisfies the charge-off policies of the sponsor or applicable bank regulatory agencies or if it would be considered a charged-off asset under the terms of the applicable transaction documents. Exceptions to the "Discrete Pool" Requirement. However, the new rules establish the following exceptions to address market practices. In the case of revolving assets such as credit cards, dealer floorplan and home equity lines of credit, there is no limit to the length of the revolving period or the amount of new assets that can be purchased during that time. For securities backed by receivables or other financial assets that do not arise under revolving accounts, such as automobile loans and mortgage loans, an unlimited revolving period will be permitted for up to three years. However, the new assets added to the pool during the revolving period must be of the same general character as the original pool assets. USD billion 1, issues Investors typically refer to HELs as any nonagency loans that do not fit into either the jumbo or alt-A loan categories. While early HELs were mostly second lien subprime mortgages, first-lien loans now make up the majority of issuance. Subprime mortgage borrowers have a less than perfect credit history and are required to pay interest rates higher than what would be available to a typical agency borrower. In addition to first and second-lien loans, other HE loans can consist of high loan to value LTV loans, re-performing loans , scratch and dent loans, or open-ended home equity lines of credit HELOC ,which homeowners use as a method to consolidate debt. Auto finance companies issue securities backed by underlying pools of auto-related loans. Auto ABS are classified into three categories: Prime auto ABS are collaterized by loans made to borrowers with strong credit histories. Nonprime auto ABS consist of loans made to lesser credit quality consumers, which may have higher cumulative losses. Subprime borrowers will typically have lower incomes, tainted credited histories, or both. Owner trusts are the most common structure used when issuing auto loans and allow investors to receive interest and principal on sequential basis. Deals can also be structured to pay on a pro-rata or combination of the two. Credit card holders may borrow funds on a revolving basis up to an assigned credit limit. The borrowers then pay principal and interest as desired, along with the required minimum monthly payments. Because principal repayment is not scheduled, credit card debt does not have an actual maturity date and is considered a nonamortizing loan. A master trust has the advantage of offering multiple deals out of the same trust as the number of receivables grows, each of which is entitled to a pro-rata share of all of the receivables. The delinked structures allow the issuer to separate the senior and subordinate series within a trust and issue them at different points in time. The latter two structures allow investors to benefit from a larger pool of loans made over time rather than one static pool. A second, and faster growing, portion of the student loan market consists of non-FFELP or private student loans. Though borrowing limits on certain types of FFELP loans were slightly increased by the student loan bill referenced above, essentially static borrowing limits for FFELP loans and increasing tuition are driving students to search for alternative lenders. Students utilize private loans to bridge the gap between amounts that can be borrowed through federal programs and the remaining costs of education. Although to a few[to whom? Stranded cost utilities[edit] Rate reduction bonds RRBs came about as the result of the Energy Policy Act of , which was designed to increase competition in the US electricity market. To avoid any disruptions while moving from a non-competitive to a competitive market, regulators have allowed utilities to recover certain "transition costs" over a period of time. These costs are considered nonbypassable and are added to all customer bills. Since consumers usually pay utility bills before any other, chargeoffs have historically been low. RRBs offerings are typically large enough to create reasonable liquidity in the aftermarket, and average life extension is limited by a "true up" mechanism. Publicly issued asset-backed securities have to satisfy standard SEC registration and disclosure requirements, and have to file periodic financial statements. Most of the trading is done in over-the-counter markets, with telephone quotes on a security basis. There appear to be no publicly available measures of trading volume, or of number of dealers trading in these securities. This is partly because asset-backed securities are not as standardized as Treasury securities, or even mortgage-backed securities, and investors have to evaluate the different structures, maturity profiles, credit enhancements, and other features of an asset-backed security before trading it. For example, the price of a credit card-backed, AAA rated security with a two-year maturity by a benchmark issuer might be quoted at 5 basis points or less to the two-year swap rate.

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Chapter 8 : Madoff investment scandal - Wikipedia

Steven Terner Mnuchin was sworn in as the 77th Secretary of the Treasury on February 13, As Secretary of the Treasury, Mr. Mnuchin is responsible for the executive branch agency whose mission is to maintain a strong economy, foster economic growth, and create job opportunities by promoting the conditions that enable prosperity and stability at home and abroad.

An equity security represents ownership interest held by shareholders in an entity a company, partnership or trust , realized in the form of shares of capital stock , which includes shares of both common and preferred stock. Equity securities do entitle the holder to some control of the company on a pro rata basis , via voting rights. In the case of bankruptcy, they share only in residual interest after all obligations have been paid out to creditors. A debt security represents money that is borrowed and must be repaid, with terms that stipulates the size of the loan, interest rate and maturity or renewal date. They are typically issued for a fixed term, at the end of which they can be redeemed by the issuer. Debt securities can be secured backed by collateral or unsecured, and, if unsecured, may be contractually prioritized over other unsecured, subordinated debt in the case of a bankruptcy. Hybrid securities , as the name suggests, combine some of the characteristics of both debt and equity securities. It offers a fixed dividend rate and is a popular instrument for income-seeking investors. It is essentially fixed-income security. What is the Role of Securities? The entity that creates the securities for sale is known as the issuer, and those that buy them are, of course, investors. Generally, securities represent an investment and a means by which municipalities, companies and other commercial enterprises can raise new capital. Companies can generate a lot of money when they go public, selling stock in an initial public offering IPO , for example. City, state or county governments can raise funds for a particular project by floating a municipal bond issue. On the other hand, purchasing securities with borrowed money, an act known as buying on a margin , is a popular investment technique. In essence, a company may deliver property rights, in the form of cash or other securities, either at inception or in default, to pay its debt or other obligation to another entity. These collateral arrangements have been growing of late, especially among institutional investors. Informal electronic trading systems have become more common in recent years, and securities are now often traded " over-the-counter ," or directly among investors either online or over the phone. Following an IPO, any newly issued stock, while still sold in the primary market , is referred to as a secondary offering. Sometimes companies sell stock in a combination of public and private placement. In the secondary market , also known as the aftermarket, securities are simply transferred as assets from one investor to another: The secondary market thus supplements the primary. The secondary market is less liquid for privately-placed securities, since they are not publicly tradable and can only be transferred among qualified investors. Other Types of Securities Certificated securities are those that are represented in physical, paper form. Securities may also be held in the direct registration system, which records shares of stock in book-entry form. Modern technologies and policies have, in some cases, eliminated the need for certificates and for the issuer to maintain a complete security register. A system has developed wherein issuers can deposit a single global certificate representing all outstanding securities into a universal depository known as the Depository Trust Company DTC. All securities traded through DTC are held in electronic form. It is important to note that certificated and un-certificated securities do not differ in terms of the rights or privileges of the shareholder or issuer. Bearer securities are those that are negotiable and entitle the shareholder to the rights under the security. They are transferred from investor to investor, in certain cases by endorsement and delivery. In terms of proprietary nature, pre-electronic bearer securities were always divided, meaning each security constituted a separate asset, legally distinct from others in the same issue. Depending on market practice, divided security assets can be fungible or less commonly non-fungible, meaning that upon lending, the borrower can return assets equivalent either to the original asset or to a specific identical asset at the end of the loan. In some cases, bearer securities may be used to aid tax evasion, and thus can sometimes be viewed negatively by issuers, shareholders and fiscal regulatory bodies alike. They are therefore rare in the United States. Registered securities bear the name of the holder and other necessary details maintained in a register by the issuer. Transfers of registered securities occur through amendments to the register. Registered debt securities are always undivided, meaning the entire issue makes up one single asset, with each security being a part of the whole. Undivided securities are fungible by nature. Secondary market shares are also always undivided. Letter securities are not registered with the SEC, and therefore cannot be sold publicly in the marketplace. The term is derived from the SEC requirement for an "investment letter" from the purchaser, stating that the purchase is for investment purposes and is not intended for resale. Cabinet securities are listed under a major financial exchange, such as the NYSE , but are not actively traded. The "cabinet" refers to the physical place where bond orders were historically stored off of the trading floor. The cabinets would typically hold limit orders, and the orders were kept on hand until they expired or were executed. A convertible bond, for example, would be a residual security because it allows the bond holder to convert the security into common shares. Preferred stock may also have a convertible feature. Corporations may offer residual securities to attract investment capital when competition for funds is highly competitive. When the residual security is converted, or exercised, it increases the number of current outstanding common shares. This can dilute the share pool, and their price as well. In contrast, if a publicly traded company takes measures to reduce the total number of its outstanding shares, the company is said to have consolidated them. The net effect of this action is to increase the value of each individual share. This is often done to attract more or larger investors, such as mutual funds. Public offerings, sales and trades of U. Self Regulatory Organizations SROs within the brokerage industry often take on regulatory positions as well.

Chapter 9 : Securities lending boom sparks concerns on returns and voting | Reuters

The mission of the U.S. Securities and Exchange Commission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. As more and more first-time investors turn to the markets to help secure their futures, pay for homes, and send children to college, our investor protection mission is more.

Fixed income investments are those that generate a specific rate of return on a regular basis until the maturity date. What exactly are bonds and CDs? These are loans to corporations, governments or municipalities that are used as investment vehicles. They generally pay a fixed interest rate and return the principal at maturity. Bonds may be subject to liquidity or market risk, interest rate risk bonds ordinarily decline in price when interest rates rise and rise in price when interest rates fall , financial or credit risk, inflation or purchasing power risk and special tax liabilities. Since these are not as flexible as, say a regular savings account, interest rates do tend to be higher. They are similar to CDs purchased directly from a bank, except they can be traded on the open market. Brokered CDs that you choose to sell prior to maturity in a secondary market may result in loss of principal due to fluctuation of interest rates, lack of liquidity, or transaction costs. Types of Bonds Here is a further breakdown of some of the main types of bonds. Treasury bonds are issued by the U. They have tax advantages but, because their risk is considered low, the bonds usually earn lower interest than other kinds of fixed-income securities. These bonds usually earn higher interest than CDs or government-backed bonds with the same maturity, but can experience greater price volatility. There are two main categories of municipal bonds: Agency bonds are issued by federally-sponsored agencies, though these investments are not guaranteed by the U. The risk of investing in these bonds varies based on the credit rating of the agency that issued them. Zero coupon bonds are issued by the federal government or by a municipal government. Most bonds and CDs are issued with a set interest payment the coupon and a maturity date on which the original face value will be repaid. They can help provide a steady stream of income. This can be helpful for budgeting and may be indispensable for investors who are retired or otherwise require a steady income stream. They can help provide stability in a portfolio. A portfolio that contains both stocks and bonds tends to be less volatile than one that contains only one of these asset classes. View a Diversifying Your Portfolio with Bonds video for more information. Looking at credit ratings should be part of your research. All of the different types of bonds carry their own risk, with Treasury bonds being the least risky. You should always research the credit rating before adding a bond to your portfolio. These tools not only help you better understand how bonds work, but show you how fixed income can be used to help you pursue your goals. You can also sign up to receive bond ratings alerts and new issue alerts. Back to Top Determine Your Maturities Whether bonds are a way to diversify your portfolio, preserve capital, or provide a steady stream of income for retirement or living expenses, you should continually reassess your goals and holdings appropriately. Longer-term bonds, which can be twelve years or more until maturity, provide greater overall returns, but come with price fluctuation and market risks. There are also intermediate-term bonds that vary from five to twelve years in maturity, and generally provide moderate returns and risk. Add bonds to your portfolio with a maturity and expected return and risk that correlate to your specific income or capital preservation needs. With the wide variety of different bonds types and maturities, as well as CDs, you have more choices than ever so you can find a fixed income investment for your portfolio. For more information on bonds and CDs, explore our educational and research resources.