Personal Finance

Monday, 7 February 2022 10:20 PM

Types of finances:
- Personal
- Public
- Corporate

Financial system :
- Instruments
- Institutions
- Markets

Instruments:
Capital: stocks, debts, commodities, currency (derivatives)
Money: T bills, Commercial paper, certificate of deposit

Institutions:
Banking: foreign, co-operative, commercial private and public, regions
Non banking: merchant bankers

Markets :
organised: money, capital (primary : IPO, secondary: stock markets)
unorganised:

< 20 000 crores roupies is large cap
5000 cr 20000cr mid cap
> 5000 cr routes is small cap

Nifty 100: nifty 50 (INFOSYS and next 50 (MRF)
Nifty midcap 150: nifty midcap 50 (LOUIS BURGER)nifty midcap 100 (DHFL)
Nifty small cap 250: smallcap 50 (BAJAJ) , small cap 100 BOMBAY DIME

Lifecyle of equity trade
Client onboarding and order
Trade execution
Trade capture
Trade confirmation
Cash management
Settlement
Cash and position reconsideration

Foreign Institutional Investors

Pre trade: RBI
During trade: SEBI
Post trade: NSDL

Global markets:
- NSE
- BSE

USA
- NASDAQ
- S&P
- DOW JONES

ITALY
- FTC
- ITALIA

JAPAN
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Bid: price at which the buyer is willing to pay
Ask: the price at which the seller is willing to sell

Bonds is a debt security
It is debt investment in which an investor loans one to an entity which borrows the funds for a defined period of times at a variable of fixed interest rate.
Bods are used by companies, municipality, states, sovereign government, to raise money and finance projects.

Owner of bonds:
Debt holders or creditors

Fixed income securities:

- Stocks
- Cash
- Bonds

Features of tons:

- par value: dollar amount the holder will receive at bonds' maturity. (Principal value, face value, redemption value, maturity values). Bonds price are portrayed as percentage of par value.
- Maturity
- Coupon rate : interest rate of the bond which its holder will receive.
- Currency denomination: dollar denominated, non dollar denominated

3 basic classies of maturity

- Short term (1 to 5 yrs)
- Intermediate terms (5 to 12 yrs)
- Long term (12 to …)

Risk of bonds:

- Interest rate risk: when interest rate rise, bond price falls.
- Reinvestment risks: when interest rates declines, the investor has to reinvest their insert income and any return on principal to lower the rates.
- Inflation risk: it decrease the value of money. Inflation contributes to higher rates.

Market risk: when world economy decreases, market decreases
Default risk : the possibility that the bon issuer will be unavailable to make interest or principal payment when they are dues.

Call Risk:

- Redemption value can be changed

Liquidity risk :

- Difficult to liquidate

Event risk:

- If some mishap occurs too.

Types of bonds:

- Convertible bonds: flexible financial options for companies. It allows the companies issuing them to lower their borrowing cost.
- Types of convertible bonds:

Vanilla convetrible bonds: it is issues at conversion price. Conversion prices are substantially tier than underline stock price.
Embedded option bonds:c overtible can be embedded with put option and call option or both.
Mandatory convertible bonds:
Companies issues mandatory convertible bonds with specific conversion rate.
Exchangible bonds: feature of this bond that the underlines stock and the bond are forms different issuers.
Contingent convertibles: these bonds must attain a price above the conversion price before they can be converted.
Foreign currency convertible bonds:
These bonds are denominated in a currency other than the one used in issuer's country.

- Municipal bonds: debts securities issued by states cities and counties. These bonds are exempted form interest income from FID. Maturity date is very longterm. Short term bonds matures in 1 to 3 years. Long-term bonds won't mature for more than a decade.
- Types of municipal bonds:
- General obligation bonds: these debts securities issued by states cities and counties. And not secured by any assets. General obligation are backed by full faith and credit.
- Revenue Bonds: these bonds are not backed up by government taxing power but by revenuer from a specific project. Such as highway tolls or lease fees.
- Corporate bonds: debt issued by industrial financial and service company to finance capital investment and operating cash flow.
- Mortgage Back Securities
- Assest BS

Dirty price = includes accured interest.
Clean price = actual bond price.
Acured interest: coupon rate * no of days since the last coupon payment. It excludes the settlement date, but includes the last coupon date

m&m : Modigliani Miller Theorem : This states that a company's capital structure is not a factor in its value. Market value is determined by present value of future earning.

Optimum capital structure: Combination of debt and equity which leads to maximisation for he value of the company.
Higher level of debt finds in capital structure result in greater financial risk and it leads to higher cost of capital and decrease the price of company share.

WACC Weighted average cost of capital:
Minimising the WACC is one way to optmize the for the lowest cost mix of financing.

Net Operating Income: it a valuation method used by real estate professional to determine the precise value of their income producing properties . To calculate this, the propetry operating expense must be substracted from the incomes of property.

NOI = RR - OE

Rental income = 20000
Parking fees: 5000
Laundry : 1000
OE = property management 1000
Property taxes 5000
Repair maintenance 3k
Insurance 1k

Gordon model:

- Company is equity firm
- No external financing is available
- The internal rate of return of the firm is constant.
- The appropriate discount rate is k if constant
- The firm and stream of earning are perpetual.
- The corporate taxes do not exist.
- The Retention ratio is b, once decided is content. Growth rate g is = br is constant. K > br = g
- Gordon's growth model values company stocks using an assumption of constant growth, in e payment a company makes it to a common equity share holder.
- The 3keys inputs;
- Dividend per share:
- Growth rate in DPS:
- Required rate Of Return

Value of share in gordon model:
E = current earning,
B = dividend policy
R = internal profitability
K = all equity cost of capital
Po = determination of value of share.

Walter Model:
Assumptions:

- The firm finances all investment through debt and new equity.
- The firm 's IRR and K are constant.
- All earning are either distributed as divined or reinvested internally immediately.
- P = D/K +r(E-D)/K/K
- D = dividend per share
- K = cost of capital
- R = internal rate of return
- E =. Earning per share