

Investing lecture series

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3 Part 3: How to think about Investing

3.1 What foundations do we need before investing our hard-earned money?

- Try not to get yourself into any of the following debt:
 - Mortgage debt (you must be able to afford mortgage)
 - Student Debt (Try to avoid if you can, most circumstances)
 - Credit debt (don't spend recklessly)
- Set up an emergency fund
 - Most people live paycheck to paycheck, but you must prepare for the scenario of no paycheck
 - Money can cover your expenses in case of emergency

3.2 Should we worry about inflation or deflation?

- Why not keep excess cash under your bed?
 - Inflation causes the value of money to decrease over time
 - Ex: The price of a tall mocha went up 2.4x in 16 years
 - Ex: Rent for 1 bedroom apartment is up 2.8x in 16 years
 - The examples above are examples of inflation

- The money's purchasing power got reduced
- Technology is an example of deflation
 - EX: If you wait for some time the value of a tech product goes down
 - iPhones now are cheaper and more powerful than computers in the 1920
- You must balance inflation and deflation to have a stable economy too much of either can lead to economic collapse.
 - Inflation : price going up prompts the users to buy goods at the time they can afford them
 - Deflation: no one wants to buy and price continuously goes down
- Inflation is increasing especially in the US, so it's good to invest as soon as possible

3.3 What kind of assets do US households own?

- Financial assets: backed by a company, derives value from contractual claim (EX: stocks, cash, funds) NonFinancial assets: not backed by company, derives value from physical state
- American households invest mostly in equities and corporate fund shares
- with assets, if safety is high the duration, return and volatility is low
- when companies fail financially shareholders get hit the hardest
- shareholders vs bondholders:
- You get more interest out of unsafe financial assets

3.4 what kind of assets do US households have

- The best investment to make is one in yourself

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