

Basic Concepts ↴ ↵

$$\text{Returns} = (\text{Cash Flow}) + (\text{Capital Gain/Loss})$$

Risk = Volatility / Variation of Returns  
 ↳ Tied to Credit/Default Risk  
 and Liquidity of Investments

Types of Investments (Classes)

↑ High Risk / High Return: Derivatives → Hedging

\$100 Trillion → Equities / Stocks  
 Alternative Assets / Instruments

\$200 Trillion → Bonds / Fixed Income / Credit Market  
 Debt Markets / Instruments

↓ Low Risk / Low Return Cash / Bank Deposits  
 - Certification of Deposit

Modern Portfolio Theory

1. Asset Allocation (Select Class Breakdown)

2A Security Selection → Active Portfolio Strategy

2B No Security Selection → Passive

Market Markets

Market  
Direct Search  
(Craigslist)

Broker

↳ Do the Search

↳ Don't hold Inst

Dealer

↳ Hold Inst

↳ E.g. Bond Markets

Exchange

· ICE (Intercontinental Exchange)

· CME

↳ Price Transparency

↳ Low Transaction Costs

Market  
Micro  
structure

ASK

: Lowest Price Someone  
is willing to Sell

Spread

↳ Measure

& Liquidity

BID

: Highest Price Someone  
is willing to Pay