

# Investment Risk Management

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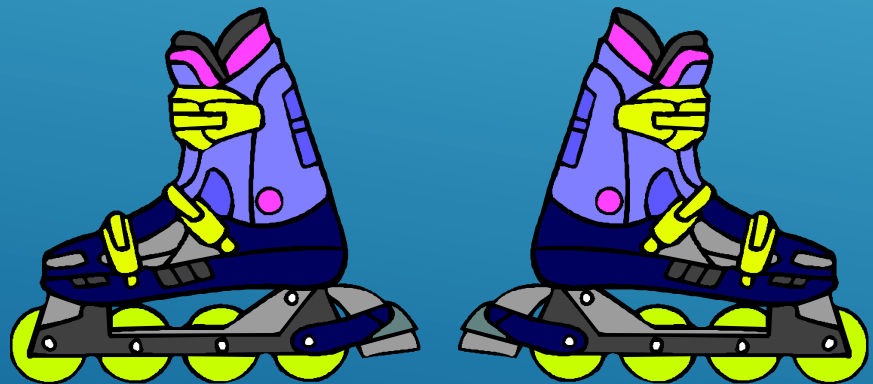
# SHORT-TERM INVESTMENT STRATEGIES

- ▶ **Buying on margin** is where an investor borrows part of the money needed to invest in a stock from a brokerage firm.
  - ▶ There is a 50% margin requirement.
  - ▶ If you want to purchase \$2,000 worth of stock you can borrow up to \$1,000 to make the purchase.

# SHORT-TERM INVESTMENT STRATEGIES

- ▶ **Short selling** is where an investor sells shares of stock that they don't own with the intent to buy them back later at a lower price.
  - ▶ Let's use rollerblades as an example.

- Your friend buys new rollerblades for \$80.
- You borrow them and sell them for \$80.
- The price at the stores has been lowered to \$45.
- You buy a new pair for \$45 and give them to your friend.
- You made \$35!!!



# LONG-TERM INVESTMENT STRATEGIES

- ▶ **Diversification** is spreading your assets among different types of investments to reduce risk.
  - ▶ Don't put all your eggs in one basket.

# LONG-TERM INVESTMENT STRATEGIES

- ▶ **Dollar Cost Averaging** is buying an equal amount of the same stock at equal intervals.
  - ▶ Invest \$100 in e-bay every month. The price you pay for the stock averages out over time.



# LONG-TERM INVESTMENT STRATEGIES

- ▶ **Buy and hold technique** is where an investor buys stock and holds on to it for a number of years.
  - ▶ During that time you are paid dividends and the price of the stock may go up.

# HOW CAN GOVERNMENT REGULATIONS PROTECT INVESTORS?

- ▶ **Regulatory Pyramid**

- ▶ A network of safeguards that surrounds the securities industry - from individual brokerages all the way up to the U.S. Congress.

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# SOURCES OF INVESTMENT INFORMATION

- ▶ **Prospectus**

- ▶ A formal written offer to sell securities that sets forth a plan for a proposed business enterprise. A prospectus should contain the facts that an investor needs to make an informed decision.

# SOURCES OF INVESTMENT INFORMATION

- ▶ **Annual report**

- ▶ A document detailing the business activity of a company over the previous year, and containing an income statement, cash flow statement, and balance sheet.

# SOURCES OF INVESTMENT INFORMATION

- ▶ Financial publications
  - ▶ Wall Street Journal
  - ▶ Fortune
  - ▶ Kiplingers Personal Finance
- ▶ Online information
  - ▶ <http://finance.yahoo.com>
  - ▶ <http://moneycentral.msn.com>

# HOW DO YOU BUY AND SELL INVESTMENTS?

- ▶ Full-service broker
- ▶ Discount broker
- ▶ Online broker
- ▶ Investment advisors