

Quantitative finance

Lecture 7

Preferred Stock (Equity)

- Hybrid security
- Fixed dividends
- Dividend obligations are not legally binding, but must be voted on by the board of directors to be paid
- Most preferred stock is cumulative
- Credit implications of missing dividends

International Bond Investing

- Eurobonds
 - An international bond denominated in a currency other than the country where it is issued
 - Example: Eurodollar bond is issued in USD but sold outside of the U.S. to non-U.S. investors

International Bond Investing

- Maple bonds
 - A Canadian dollar denominated bond sold in Canada by a foreign corporation or government
 - Interest payments are made in CAD\$
 - Example: Maple bond issued by British Airways in Canada to Canadian investors

International Bond Investing

- Yankee bonds
 - Sold in the United States and denominated in US\$, but issued by foreign corporations or governments
 - Eliminates exchange risk to U.S. investors

International Bond Investing

- International domestic bonds
 - Sold by issuer within its own country in that country's currency
 - Example: bond sold by Nippon Steel, denominated in yen. A Canadian investor could purchase this bond by exchanging Canadian dollars for yen and then purchase the bond. However, the Canadian investor would be exposed to foreign exchange rate risk.

Equity Instruments

- Common Stock
 - Represents ownership of a firm
 - Investor's return tied to the performance of the company and may result in loss or gain

Equity Instruments

- Common Stock Classifications
 - Industrial: manufacturers of automobiles, machinery, chemicals, beverages
 - Utilities: electrical power companies, gas suppliers, water industry
 - Transportation: airlines, truck lines, railroads
 - Financial: banks, savings and loans, credit unions

Buying Foreign Equities

- American Depository Receipts (ADRs)
 - Easiest way to directly acquire foreign shares
 - Certificates of ownership issued by a U.S. bank that represents indirect ownership of a certain number of shares of a specific foreign firm on deposit in a U.S. bank in the firm's home country

Buying Foreign Equities

- Buy and sell in U.S. dollars
- Dividends in U.S. dollars
- May represent multiple shares
- Listed on U.S. exchanges

Buying Foreign Equities

- Global Mutual Funds or ETFs
 - Global funds: Invest in both U.S. and foreign stocks
 - International funds: Invest mostly outside the U.S.

Buying Foreign Equities

- Funds can specialize
 - Diversification across many countries
 - Concentrate in a segment of the world
 - Concentrate in a specific country
 - Concentrate in types of markets
- Exchange-traded funds (ETFs) are a recent innovation in the world of index products