

Developing An Entrepreneurial Mindset

Creating Wealth

PhD. Akmal Varisov

Subject Layout

- What is investing?
- How does it work? (Compounding)
- Risk Tolerance: Know Yourself
- Types of Investments
- Portfolios and Diversification



What is Investing?

- Definition: *The act of committing money or capital to an endeavor with the expectation of obtaining an additional income or profit.*
 - Why is this important?
- Letting your money work for you
- Investing is NOT gambling
- Why might it be important for you to invest?



Why Invest?

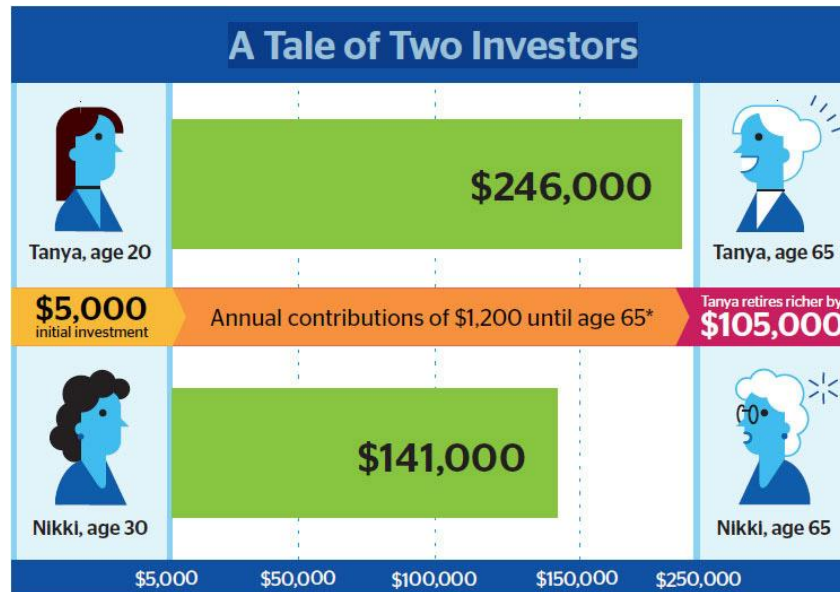
- Retirement – would you like to retire early? At all? At your current lifestyle?
 - Pension programs - employer puts money into a pool of funds that is invested on the employee's behalf
 - Becoming a thing of the past
 - Social security – government program paid for by income tax and given to retirees /disabled
 - funds under pressure due to aging population in the US

What money can you depend on for retirement?



Why Invest?

- Investing money now allows financial flexibility for your future
- The earlier you start investing, the easier it will be to establish a large amount of money



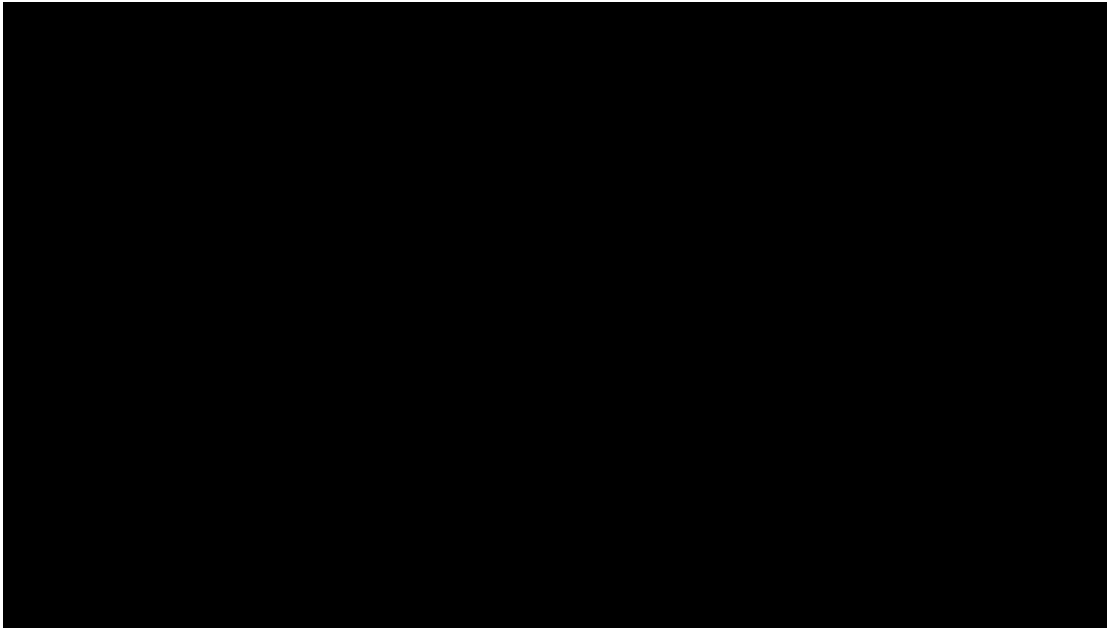
*Assumes a 5% annual rate of return, compounding quarterly. Compounding may vary depending on investments.
<http://www.bankrate.com/calculators/savings/simple-savings-calculator.aspx>

How does investing work? Compounding 101

- Compound interest - interest calculated on the initial principal and also on the accumulated interest of previous periods
 - Allows you to make money on the money you've made
 - For example, you invest \$100.00 at 5% interest, compounded yearly. After the first year, you have \$105.00 (100×1.05). In the second year, you will have \$110.25 (105×1.05). Because of compound interest, you have made \$5.25 in interest, compared to \$5.00 in the first year
- Formula: $P[(1 + i)^n]$, where P = principal, i = interest rate, n = number of compounding periods



How does investing work? Compounding 101



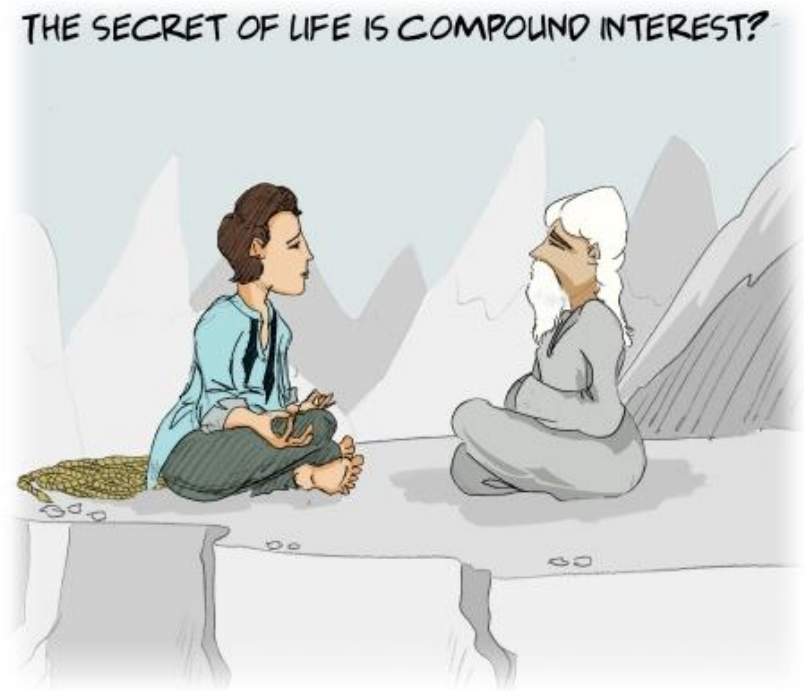
Time and Compounding

- The more time you have, the more money you can make
- Example: Jim invests \$15,000.00 at age 20, and Sally invests \$15,000.00 at age 35. They both earn 5% interest, compounded yearly, and both plan on taking this money out at age 65.
 - Jim earns $P[(1 + i)^n]$, $15000[(1 + .05)^{45}] = \$134,775.12$
 - Sally earns $15000[(1 + .05)^{30}] = \$64,829.14$
 - That is \$69,945.98 difference!!!



Time and Compounding

- Compounding accelerates your earning power
- Compounding maximizes your earning potential of your investments
- You must leave the initial investment and interest earned alone for this to happen



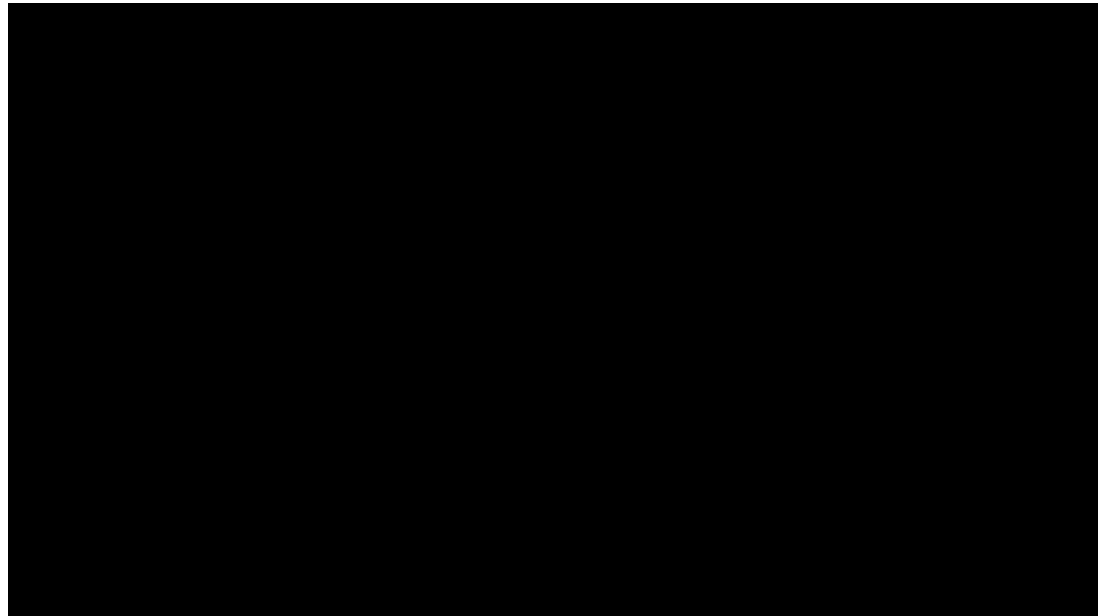
Knowing Yourself: Risk Tolerance

- A measure of how much risk you can handle as an investor
- Factors which determine your risk tolerance?
 - Amount of money you have to lose
 - Your time frame
 - Emotional ability to handle risk
- Determines what kinds of investments you should pursue
- There is no right or wrong way to invest



Types of Investments

- Bonds
- Stocks
- Mutual Funds
- Alternative Investments



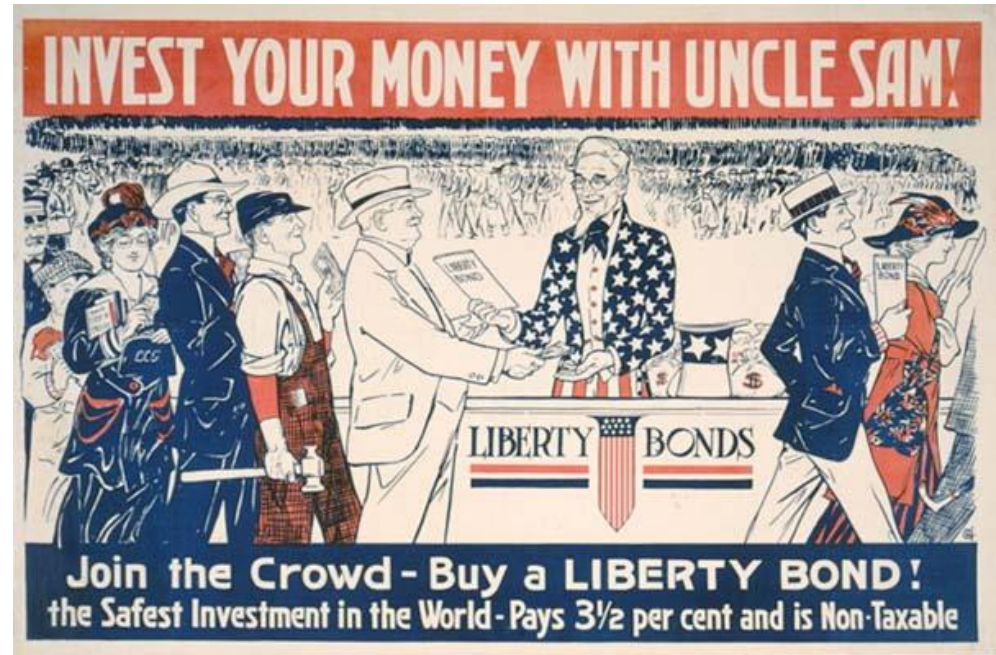
Types of Investments - Bonds

- Definition: an interest-bearing security that obligates the issuer to pay the bondholder a specified sum of money, usually at specific intervals (known as a coupon), and to repay the principal amount of the loan at maturity
 - Wait, what? A bond is basically a loan given by you to another entity which is paid back with interest over the life of the bond.
 - Interest is paid throughout the bond life
 - Principal is paid back at the end of the life of the bond



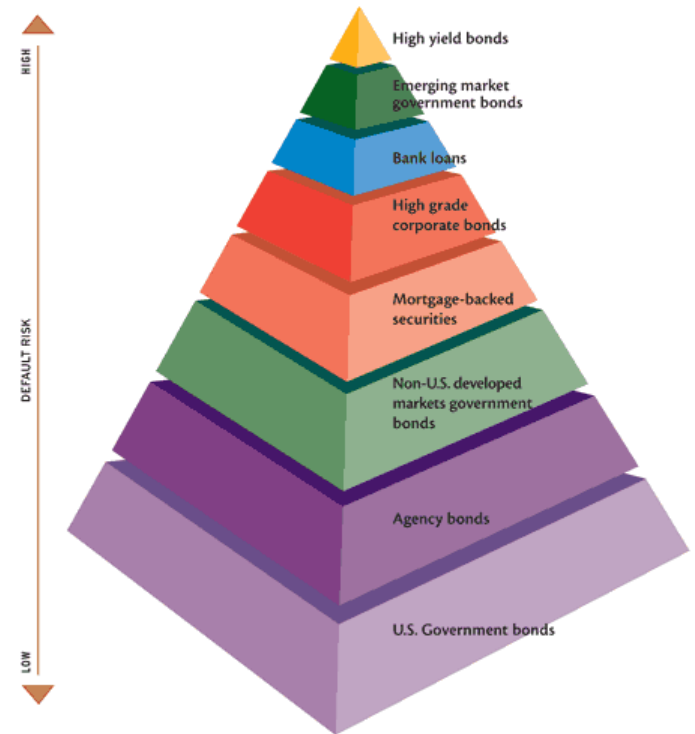
Types of Investments - Bonds

- For Example:
 - Your hometown decides to issue municipal bonds with a \$100 face value to be paid back in ten years. This bond will pay 2.5% per year.
 - $\$100 * .025 = \2.50
 - $\$2.50 * 10 = \25.00
 - Total paid back to you:
 $\$100 + \$25 = \$125$



Types of Investments - Bonds

- There are many different types of bonds:
 - U.S. Treasury Bonds – issued by the U.S. government, considered a safe investment
 - Agency Bonds – issued by agencies of the U.S. government or government sponsored enterprises
 - Municipal Bonds – issued by states, cities, counties, etc. to fund public projects
 - Corporate Bonds – issued by corporations
 - High Yield Bonds – issued by entities that have a low investment grade (they have a weaker ability to pay back the bond); generally results in a higher interest rate and higher yields



Types of Investments - Bonds

- Bond Ratings
 - Definition – a grade given to a particular bond that indicates its credit quality
 - Range from AAA (the highest rating) to C or D (called “junk” bonds, the lowest ratings)
 - Private, independent services provide ratings, so indications may vary for the same rating
 - Major rating agencies in the U.S.: Moody’s, Standard & Poor’s, and Fitch

Types of Investments - Bonds

Bond Rating		Grade	Risk
Moody's	S&P/Fitch		
Aaa	AAA	Investment	Highest Quality
Aa	AA	Investment	Strong Quality
A	A	Investment	Strong
Baa	BBB	Investment	Medium Grade
Ba, B	BB, B	Junk	Speculative
Caa/Ca/C	CCC/CC/C	Junk	Highly Speculative
C	D	Junk	In Default

Types of Investments - Bonds

- Bonds are generally a very safe investment. What is the drawback?
 - Payback on bonds is usually lower than other types of investments
- Bonds are a great investment for people who are risk averse
 - An investor who prefers an investment with lower risk.
- Pay attention to grades; bonds can be as risky/riskier than stocks



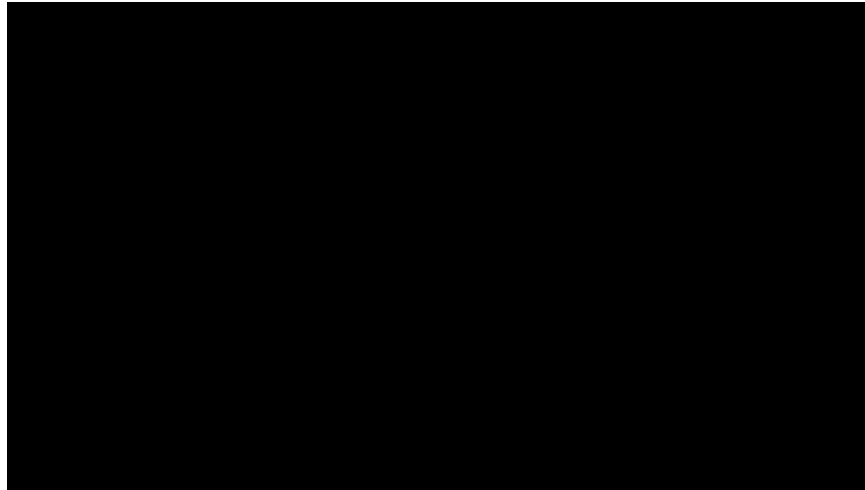
Types of Investments - Stocks

- Definition: A term used to describe the ownership certificates of any company
 - Also called: equities, shares
- Stocks are volatile; their value fluctuates frequently (on a daily basis)



Types of Investments - Stocks

- Why do companies issue stocks?
 - To raise money
 - Sell part of the company (AKA issuing stocks) – equity financing
 - Do not have to pay money back or make interest payments
 - Shareholders make money when the stock is worth more than they paid



Types of Investments - Stocks

- Why do stocks make money?
 - You (as an owner) are entitled to a portion of the company's profits
 - Paid out in the form of dividends
 - A sum of money paid regularly by a company to its shareholders out of profits (or reserves).
- Where is the risk?
 - If the company goes bankrupt, there are no assets to claim



Types of Investments - Stocks

- Risk
 - Shareholders are not guaranteed any return if the company goes bankrupt
 - No guarantee that shareholders will receive dividend payments
 - With no dividends, investors make money only through an increase in stock price
- The bright side?
 - Stocks generally outperform other investments due to their higher risk
 - Historically, stocks average 10-12% returns



Types of Investments - Stocks

- Two Main Types of Stock: Common and Preferred
 - Common stock – most commonly referred to
 - Represent ownership in a company and claim on profits
 - One vote per share
 - Higher Yields



Types of Investments - Stocks

- Preferred Stock
 - Guaranteed a fixed dividend
 - In the event of liquidation, preferred shareholders are paid first
 - Do not have the same voting rights as common stockholders
 - May be callable (company can purchase shares from shareholders at any time for any reason)

Common stock vs Preferred Stock

	Common Stock	Preferred Stock
Voting rights	YES	NO
Priority over liquidation	NO	YES
Obligation to pay dividends	NO	YES

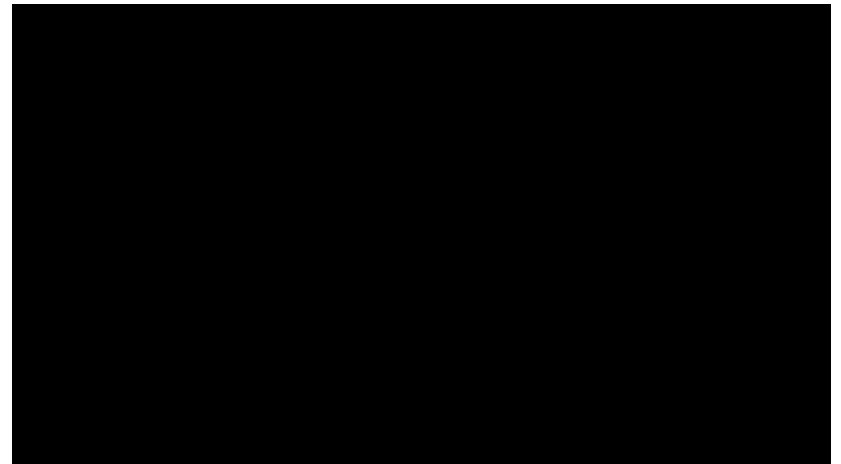
Types of Investments - Stocks

- Companies can also customize different classes of stock in any way they would like
 - Reasons for this may include wanting voting power to remain with certain people
 - Traditionally noted as Class A, Class B, etc.



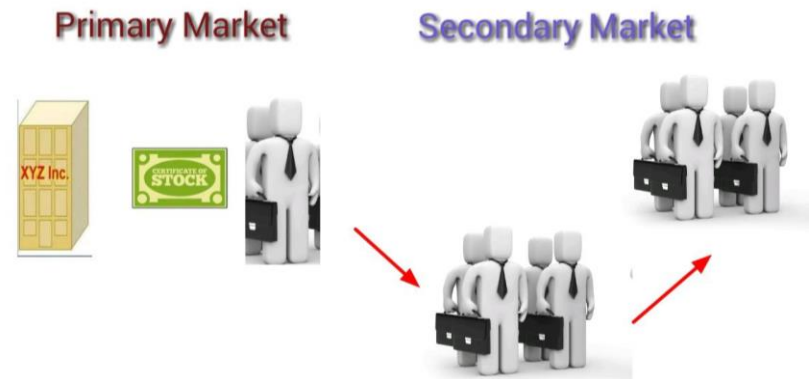
Types of Investments - Stocks

- Most stocks are traded on exchanges
 - Physical – trades are carried out on a trading floor
 - Virtual – composed of a network of computers
- Purpose of the stock market – facilitate the exchange of securities between buyers and sellers
 - Reduces risk of investing because it brings buyers and sellers together



Types of Investments - Stocks

- Different markets: Primary and Secondary
 - Primary market – securities are created and stocks are initially issued through IPO
 - Secondary Market – investors trade previously-issued stocks
 - What people refer to when talking about the stock market
 - Trading of a company's stock does not directly involve that company
 - Examples: NYSE, Nasdaq, AMEX



Types of Investments - Stocks

- Why do stock prices change?
 - Stocks are volatile and can change in price rapidly
 - Fundamentally, supply and demand determine the price of stocks
 - Earnings predominately affect investor evaluation of stocks, but there are other factors
 - There is no one theory that can explain stock prices



Types of Investments - Stocks

- There are two ways to buy stocks:
 - Through a brokerage
 - Most common
 - Full-service brokers - expensive but manage your account
 - Discount brokerages - less expensive and provide less assistance
 - DRIPs & DIPs
 - Dividend reinvestment plans (DRIPs) and direct investment plans (DIPs) allow shareholders to purchase stock directly from the company



"We're expecting stocks to rally, but we don't know which ones and when."

Types of Investments - Stocks

- Buying stocks through a brokerage:
 - Step 1: Obtain a stock quote. This shows the bid (buy) price and the offer or ask (sell) price.
 - Step 2: If you are interested in buying a stock, you make a bid. If you are interesting in selling a stock, you would submit an offer or an ask.
 - Step 3: When a bid and offer match, a trade occurs.



Types of Investments - Stocks

- How to read a stock table or stock quote

52W high	52W low	Stock	Ticker	Yield Div %	P/E	Vol 00s	High	Low	Close	Net chg	
s45.39	19.75	ResMed	RMD		52.5	3831	42.00	39.51	41.50	-1.90	
11.63	3.55	Revlon A	REV			162	6.09	5.90	6.09	+0.12	
77.25	55.13	RioTinto	RTP	2.30	3.2	168	72.75	71.84	72.74	+0.03	
31.31	16.63	RitchieBr	RBA		20.9	15	24.49	24.29	24.49	-0.01	
8.44	1.75	RiteAid	RAD			31028	4.50	4.20	4.31	+0.21	
s38.63	18.81	RobtHalf	RHI		26.5	6517	27.15	26.50	26.50	+0.14	
51.25	27.69	Rockwell	ROK	1.02	2.1	14.5	6412	47.99	47.00	47.54	+0.24

Week high and low price: highest and lowest prices stock has traded at in 52 weeks

Ticker: Alphabetic name unique to the stock that identifies it on exchanges

Company name and type of stock: with no symbols following company name, stock is common stock.

Types of Investments - Stocks

- How to read a stock table or stock quote

52W high	52W low	Stock	Ticker	Div	Yield %	P/E	Vol 00s	High	Low	Close	Net chg
s45.39	19.75	ResMed	RMD			52.5	3831	42.00	39.51	41.50	-1.90
11.63	3.55	Revlon A	REV				162	6.09	5.90	6.09	+0.12
77.25	55.13	RioTinto	RTP	2.30	3.2		168	72.75	71.84	72.74	+0.03
31.31	16.63	RitchieBr	RBA			20.9	15	24.49	24.29	24.49	-0.01
8.44	1.75	RiteAid	RAD				31028	4.50	4.20	4.31	+0.21
s38.63	18.81	RobtHalf	RHI			26.5	6517	27.15	26.50	26.50	+0.14
51.25	27.69	Rockwell	ROK	1.02	2.1	14.5	6412	47.99	47.00	47.54	+0.24

Dividend per share:
Annual dividend payment per share

Price to Earning Ratio:
Current stock price divided by earnings per share from the last four quarters

Dividend Yield:
Annual dividends per share divided by price per share

Types of Investments - Stocks

- How to read a stock table or stock quote

52W high	52W low	Stock	Ticker	Div	Yield %	P/E	Vol 00s	High	Low	Close	Net chg
s45.39	19.75	ResMed	RMD			52.5	3831	42.00	39.51	41.50	-1.90
11.63	3.55	Revlon A	REV				162	6.09	5.90	6.09	+0.12
77.25	55.13	RioTinto	RTP	2.30	3.2		168	72.75	71.84	72.74	+0.03
31.31	16.63	RitchieBr	RBA			20.9	15	24.49	24.29	24.49	-0.01
8.44	1.75	RiteAid	RAD				31028	4.50	4.20	4.31	+0.21
s38.63	18.81	RobtHalf	RHI			26.5	6517	27.15	26.50	26.50	+0.14
51.25	27.69	Rockwell	ROK	1.02	2.1	14.5	6412	47.99	47.00	47.54	+0.24

Total number of shares traded for the day (in hundreds)

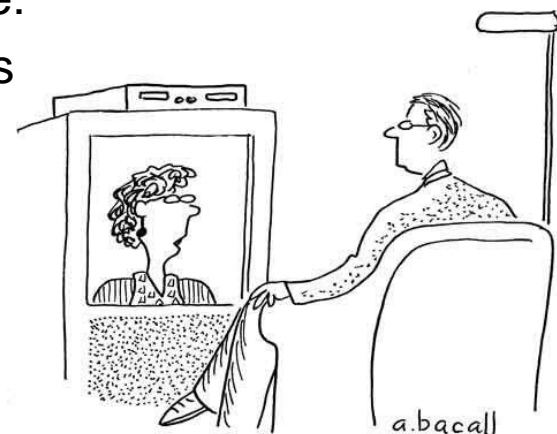
Close – last price traded at upon market closing for the day

Daily High and Low: range of prices that stock has traded at throughout the day

Net change – change in stock price in dollars from previous day's close

Types of Investments - Stocks

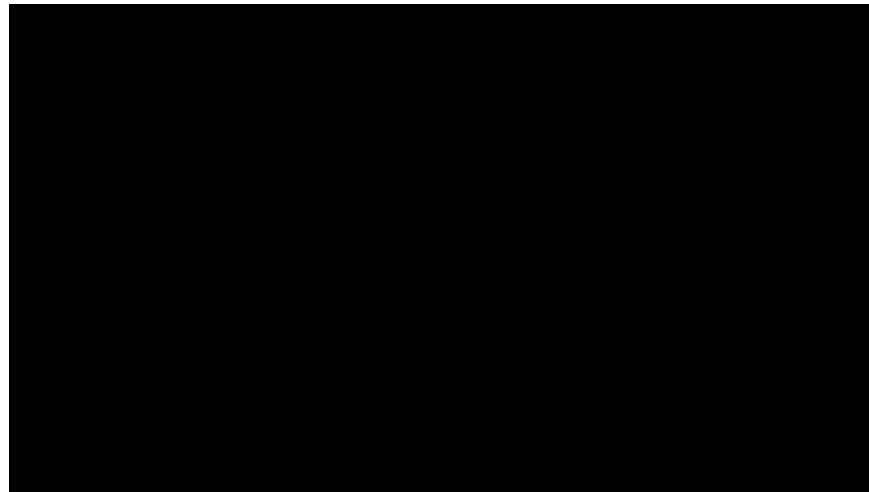
- How to value a stock: very complicated and differs from person to person. Four principles impact value:
 - Supply and demand determine the price of stocks from moment to moment
 - Do not compare the value of individual stocks; rather, compare values of companies
 - Multiply the value of a stock by the shares outstanding to
 - Earnings are a major factor, but they are not the only factor
 - There is no one theory that can explain how stocks are valued.



"The market moved higher today on rumors that the market would move higher today."

Types of Investments – Mutual Funds

- What is a mutual fund?
 - An investment vehicle that consists of a 'pool' of funds contributed by many investors in order to invest in stocks, bonds, and other assets.
 - These funds are managed by money managers



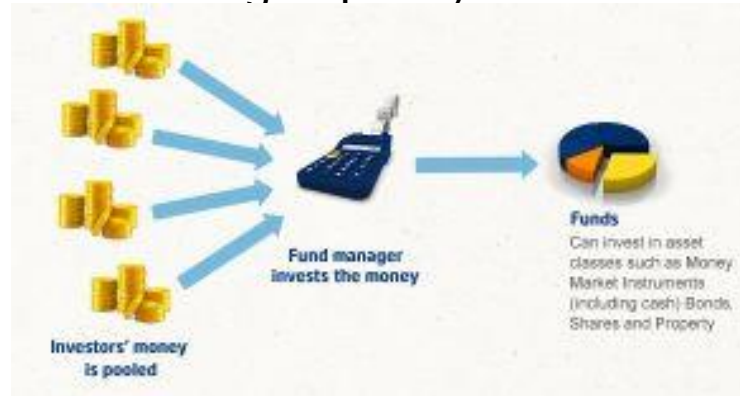
Types of Investments – Mutual Funds

- Advantage of mutual funds:
 - Give small investors access to professional investment help by allowing them to invest in diversified portfolios
- Disadvantage of mutual funds
 - Fees, which can limit profit



Types of Investments – Mutual Funds

- Pooled Funds:
 - Aggregated investment from many individuals
 - Examples: mutual funds, pension funds
 - Advantages: Economies of scale - lower trading costs and professional management
 - Disadvantages: management fees/capital gains are spread evenly among investors, what is best for the group may not be what is best for an individual



Types of Investments - ETFs

- Definition: exchange-traded funds (ETFs) are an alternative to mutual funds that allow for more flexibility.
 - Trade on exchanges
 - Priced and available for trading throughout the business day
 - Generally have a slightly lower expense ratio than their mutual fund equal



Types of Investments - Alternative

- Several other types of investment vehicles available
 - Options, futures, FOREX, commodities, etc.
- Usually very high risk and require specialized knowledge to be successful
- First, create a good financial platform in lower-risk investments



Portfolios and Diversification

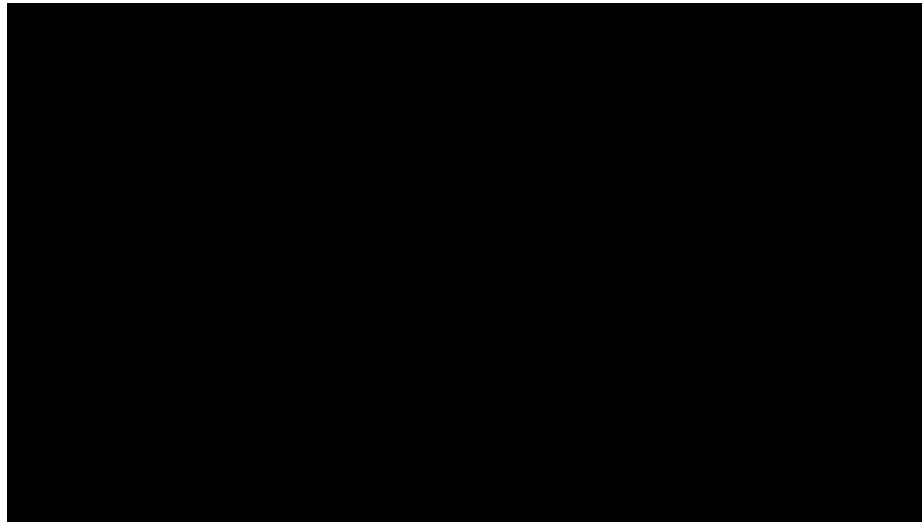
- Important for long-term goals such as retirement
- Portfolio: a conglomerate of different financial assets which balances risk and return
- Diversification: a risk management tool that mixes a large amount of investment mediums within a portfolio
- Portfolios and diversification go hand-in-hand



"I have a diversified retirement portfolio: 40% in bones, 30% in squeaky toys and 30% in stuff I stole from the cat."

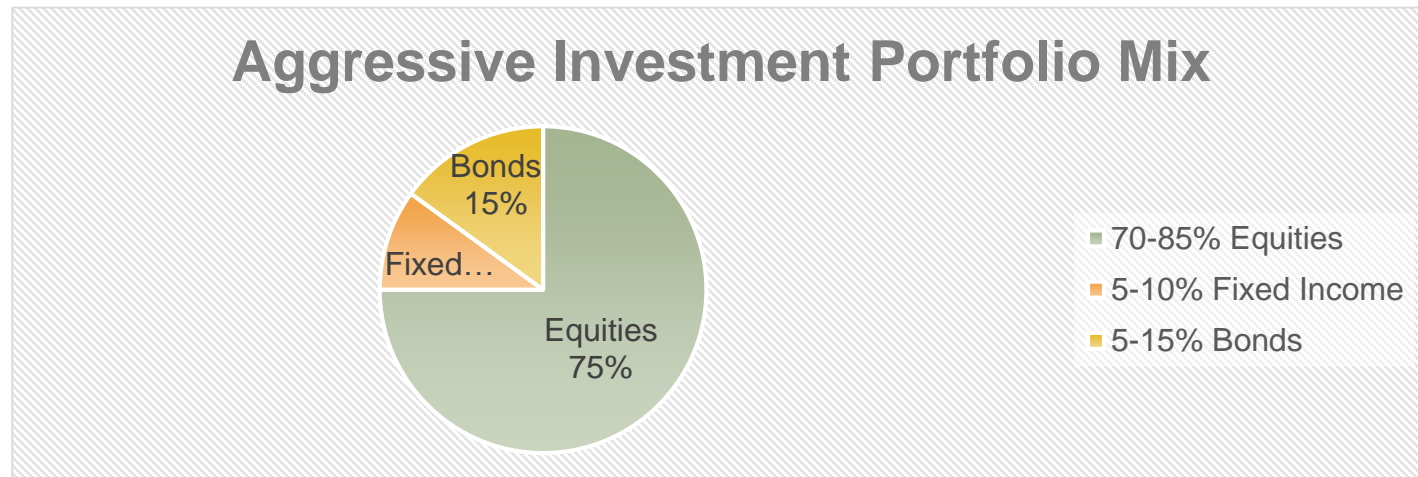
Portfolios

- What do portfolios include?
 - Any asset you own: tangible assets, equities, bonds, etc.
- Think of like a pie chart
- The asset mix should meet your risk tolerance and time horizon



Portfolios

- Aggressive investment strategies: aim to make the highest returns
 - Investor should have high risk tolerance
 - Investor should have a longer time horizon
 - Generally have many equities



Portfolios

- Conservative investment strategies: puts safety over returns
 - Investors should be risk averse
 - Investors should have a shorter time horizon
 - Consists mainly of cash and cash equivalents
 - Goal is to combat inflation to protect the value of the portfolio

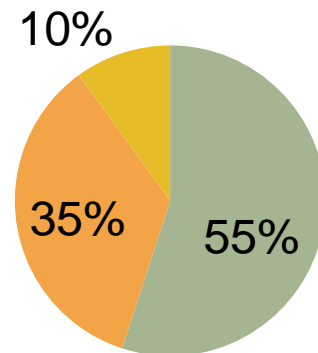
Conservative Investment Portfolio Mix



Portfolios

- Moderately Aggressive Portfolio: Balances risk and return
 - Investor should have an average risk tolerance
 - Investor should have a longer time horizon
 - Moderate amounts of equities, bonds, and cash and cash equivalents

Moderately Aggressive Portfolio Mix



■ 50-55% Equities

■ 35-40% Fixed Income Securities

■ 5-10% Cash and Cash Equivalents

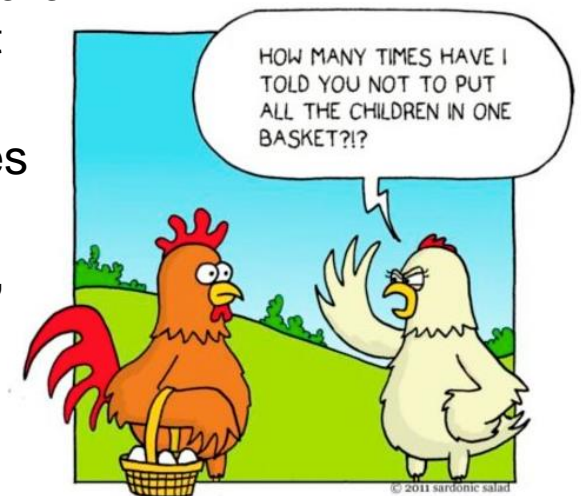
Diversification

- Two categories of risk affect investments:
 - Systematic Risk: inherent to a market that is unpredictable; impossible to avoid
 - The Great Recession
 - Measured by a security's beta:
 - >1 - more risk than the market
 - <1 - less risk than the market
 - Unsystematic Risk: company- or industry-specific risk inherent in all investments
 - Reduced by DIVERSIFICATION



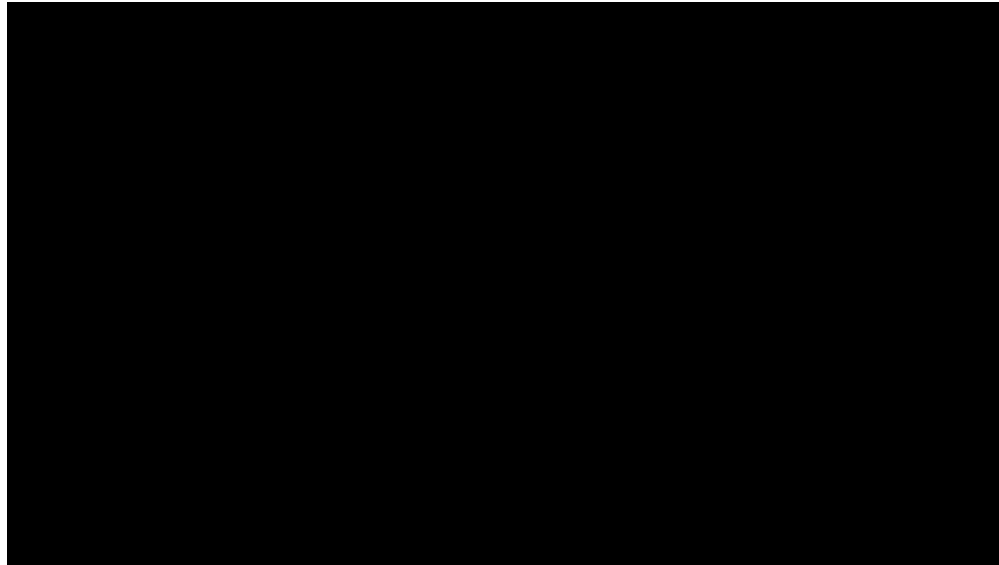
Diversification

- Using diversification to combat unsystematic risk
 - Portfolios include investments in unrelated industries
 - EXAMPLE: as an employee of United Airlines, you receive company stock every year. You realize that your portfolio is susceptible to risk if the airline company fails. What investments might you use to balance this risk?
 - Avoid investing in the airline industry or companies that do business with airline industries. Instead, invest in healthcare, clothing companies, or other, non-related industries.



Diversification

- There are a lot of complicated ratios and opinions that allow for portfolios to be diversified
- Understanding the basics of diversification is enough to invest safely



Conclusion

- Compounding allows your money to make money
- There is no wrong way to invest
- Risk tolerance is a measure of how much risk you can withstand as an investor, and should be considered when choosing an investment



Conclusion

- Bonds: a loan paid by you to a company that will be paid back with interest
- Stocks: ownership in a company and rise in value with the company
- Mutual funds: shared access of diversified investment mediums, may include fees
- Portfolios should be diversified to combat risk



Reference

- DEVELOPING AN ENTREPRENEURIAL MINDSET (Ultradatum E-Illuminations Series Book 1) by Ron Lanning | Oct 26, 2011
- 1 Habit™ for Entrepreneurial Success: 300 Life-Changing Habits to Turbo-Charge Business Book 6 of 7: 1 Habit | by Steven Samblis, Forbes Riley, et al
- The Kingdom Driven Entrepreneur's Guide: Doing Business God's Way by Shae Bynes and Kingdom Driven Publishing
- New to Big: How Companies Can Create Like Entrepreneurs, Invest Like VCs, and Install a Permanent Operating System for Growth by David Kidder and Christina Wallace | Apr 2, 2019
- Dream Toolbox: Building an Entrepreneurial Mind and Financial Abundance by Kenneth C. Aldrich | Apr 25, 2019
- Capacity Building in Developing and Emerging Countries: From Mindset Transformation to Promoting Entrepreneurship and Diaspora Involvement (Contributions to Management Science) Part of: Contributions to Management Science (154 Books) | by Elie Chrysostome | Jul 16, 2019
- Entrepreneurial Leadership: The Art of Launching New Ventures, Inspiring Others, and Running Stuff by Joel Peterson, Josh Childs, et al.