Pass the 65© Studysheet

- Growth stocks trade at higher price-to-earnings and price-to-book ratios than value stocks. Growth is more volatile, requires higher risk tolerance.
- Value stocks are cheaper, trading at lower P/E and price-to-book multiples. Higher dividend yields found here. Companies “currently out of favor trading below their estimated intrinsic value.”
- If an investment compounds at 5% for 5 years, multiply the investment by 1.05 five times in a row. If it compounds at 7% for six years, multiply by 1.07 six times in a row, etc.
- Time horizon, age, and asset allocation are more important factors in determining long-term investment results than is the skill of the portfolio manager or the particular securities selected.
- The “rule of 72” tells me how long it takes to double my money at a given rate of return, or it tells me the rate of return I need to double my money in a given number of years. Just divide the number “72” by the rate of return, or divide 72 by the number of years in which you want the money to double. For example, if you want your money to double in 10 years, you need 7.2% compounded. If you got 36% returns, your money would double every two years.
- A bond’s duration measures its volatility to changes in interest rates. Bonds with high coupon rates/nominal yields have a shorter duration and, therefore, less volatility. Zero-coupon bonds have a duration equal to their maturity, as there is no cash flow paid out to reduce volatility.
- Correlation tracks how closely two investments move together. It ranges from 1 (perfect correlation) to -1 (negative correlation). If two stocks have a correlation of “.5,” when one rises 10%, the other rises 5%.
- Under Modern Portfolio Theory, the optimal portfolio is one that has the most return for a given amount of risk. Investments that lie along the efficient frontier are optimized for the amount of risk taken.
- The Sharpe ratio and beta are used to measure risk-adjusted returns.
- Black-Scholes is the most well-known method for valuing options.
- A market is considered “secular” when it has moved in the same general direction, (up or down), for a long period of time.
- Russell 2,000 and S & P 600 track small-cap stocks.
- S & P 400 tracks mid-cap stocks.
- S & P 500 tracks the overall market.
- Dow Jones Industrial Average tracks 30 large-cap, mostly industrial stocks.
- Revenues, costs, and earnings/profits are shown on the income statement.
- Assets, liabilities, and net worth are shown on the balance sheet.
• Paying down your mortgage balance by $10,000 does not immediately raise your net worth—you simply took a $10,000 asset (cash) and removed it as you removed the $10,000 liability. Your net worth rises when the value of your home or investment portfolio increases.
• Working capital is a measure of a company’s liquidity. It equals current assets minus current liabilities.
• Current ratio also measures liquidity. It equals current assets divided by current liabilities.
• The “quick ratio” excludes inventory from current assets and then compares that to current liabilities—a more stringent measure than current ratio.
• Profit margins are found on the income statement.
• Gross profit is found by taking Revenues – Cost of Goods Sold. Divide the result into Revenue to find the gross profit margin.
• Net profit is found by subtracting everything from revenue. Divide the net profit into Revenue to find the net profit margin.
• Add depreciation/amortization back to figure “cash flow” from the income statement.
• ERISA has “safe harbor” provisions (404-c) to protect fiduciaries. These provisions require the plan to offer participants enough choices to protect their retirement assets and enough information to make informed decisions. If they do that, the company is relieved of responsibility for investment losses made at the direction of employees/participants.
• The Uniform Securities Act gives each state Administrator jurisdiction over offers to buy or sell when the offers originate in the Administrator’s state, are directed to, or are accepted in that state.
• The Administrator is powerful. He may issue a stop order to revoke the effectiveness of a registration, and he may issue a cease and desist order without a prior hearing. An Administrator may also revoke a previously allowed exemption.
• If it fits the definition of a "security," it is subject to anti-fraud rules. And, it is subject to registration unless it is exempt or sold in an exempt transaction.
• Registration by qualification becomes effective only with an active review of registration information and an order of the Administrator.
• Registration by coordination and registration by filing/notification do not require an active review by or specific response from the Administrator.
• Exempt securities do not have to be registered at the state level. Exempt securities include US Government securities, Municipal securities, Canadian government securities, bank and other financial institution securities, and federal covered securities.
• Federal covered securities are registered with the SEC. Federal covered securities include stocks listed on NYSE, AMEX, NASDAQ and those companies’ senior securities, plus investment company securities such as mutual funds and variable annuities.
• If the security is not exempted, it must be registered with the state unless sold in an exempt transaction. Exempt transactions include private placements,
transactions with financial institutions, transactions by fiduciaries such as executors, unsolicited non-issuer transactions effected through a broker-dealer.

- An exempt security or a security that escapes registration via an exempt transaction is still a security and still subject to anti-fraud rules. It just doesn’t have to register, and that’s all that “exempt” ever means.
- Rescission is the return of the buyer’s money, plus interest, less any income received from the investment. It is used when a security is sold in violation of the Uniform Securities Act, typically because it wasn’t registered properly, or the seller was not properly registered.
- Neither the SEC nor any state regulators approve securities or “pass upon” the adequacy or accuracy of the prospectus. To indicate otherwise is a criminal offense. This caveat is placed on the prospectus and preliminary prospectus.
- Under the Uniform Securities Act, when an agent leaves a broker/dealer; the agent, the former employer, and the new employer must notify the Administrator. Effectively, the firm he’s leaving files a U-5 and the firm who’s hiring him files a U-4.
- All registrations of persons (agent, B/D, IA, IAR) expire on December 31st.
- Registrations of securities are effective for one year from the registration date.
- The definition of a person does not include a minor, dead person, or someone declared mentally incompetent.
- If a broker/dealer has an office in a state; it must register in that state.
- If an individual represents the broker-dealer selling securities to non-institutional clients, the individual must register as an agent of the broker-dealer.
- A person representing an issuer in an exempt transaction does not have to register as an agent as long as there is no compensation.
- If an investment adviser has an office in a state, they register in that state unless they are federal covered.
- If an investment adviser does not have an office in a state, they only register in that state if they have more than 5 non-institutional clients in that state. The number of institutional clients would be irrelevant in that case.
- Federal covered advisers do notice filings with the states where they have an office or more than 5 non-institutional clients. They are still subject to the state's anti-fraud authority.
- A notice filing involves paying a fee, telling the SEC to send a copy of Form ADV plus any amendments to the state, and providing a U-4 on each adviser rep to the state.
- An advisory firm can be federal covered, but the IAR’s must register with the states.
- Lawyers, accountants, teachers, and engineers (LATE) are not considered investment advisers if their advice is incidental to their professions.
- European style options are exercised only at expiration. American-style are exercised any time up through expiration.
- To open a margin account, you need to put down ½ the purchase price or at least $2,000.
- Regulation T margin requirements are set by the Federal Reserve Board.
• An irrevocable trust is one in which the grantor gives up all control--so he's not taxed on any of that income any more, and when he dies, these assets are NOT counted as part of the estate for estate taxes, unless it's property transferred into the trust within 3 years of his death.

• A revocable trust means the grantor still has some economic control over the assets--so he's still subject to taxation on the income generated by the trust, and these assets will count as part of the estate when he dies.

• Partnerships file federal taxes on Form 1065
  o Partner’s share of income and expenses on Schedule K-1

• Trusts and estates file federal taxes on Form 1041

• Corporations file federal taxes on Form 1120

• Sole proprietors file federal taxes on Form 1040

• A durable power of attorney gives someone else control of financial decisions in the event that the individual becomes incompetent/incapacitated