

Traditional Investments

Conventional, traditional investments (e.g. shares, bonds, also hybrid instruments or cash) are - other than alternative investments – publicly traded as well as strictly regulated.

Holders of common stocks, representing ownership capital, may claim a share in a corporate's assets (in case of liquidation) as well as profits through dividends, once preferred shareholders and bondholders have been compensated. However, common shareholders have no legal right to be paid a dividend, thereby depending on the discretion of management. In event of liquidation, shareholders' claim to a company's assets ranks after that of creditors and preferred shareholders. – Common shareholders exercise control over the entity by electing the board of directors and by voting on strategic corporate objectives, policies and stock splits. – Corporates may issue classes of common stock, such as ones with and others without or with less voting power. Such is by times applied to preserve control over a company. - American Depository Receipts (ADRs) are certificates of ownership issued in the name of a foreign company by an American bank, with the company's shares deposited in that bank. They often represent a combination of foreign shares (e.g. lots of 100 shares) with associated share price and dividends denominated in US\$. - Global Depository Receipts (GDRs) are negotiable receipts issued against shares of foreign companies by financial institutions situated in developed countries and denominated in the respective, local currency.

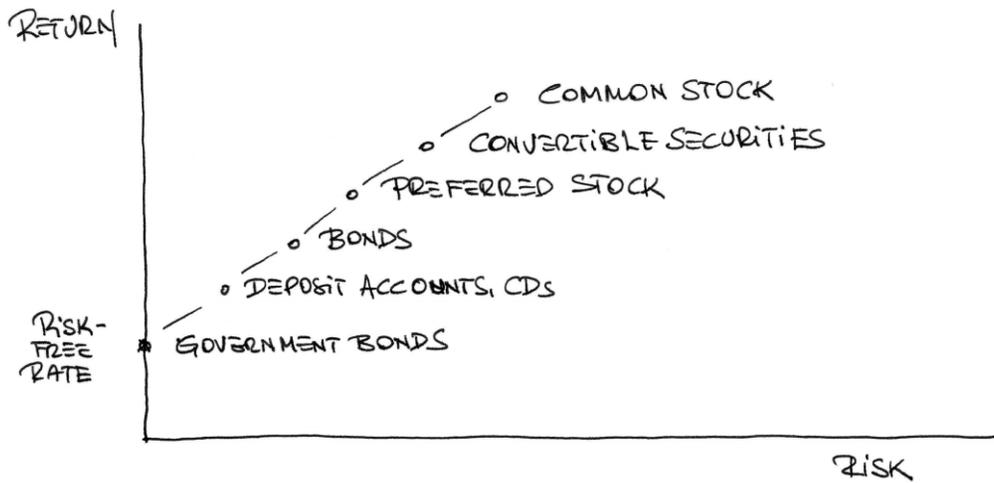
Preferred shares are hybrid securities, combining features of debentures and common equity. They benefit from a priority claim over common shares on fixed/stated dividends as well as a company's assets, ranking junior relative to bonds, though. Generally, preferred shares do not assign voting rights to their holders, but may allow those in extraordinary events. – The category of preferred stocks is a quite flexible type of security, which can be, among others: **Convertible** (into a predetermined number of common shares), **cumulative** (missed dividend payments are added to the next dividend payment), **exchangeable** (for some other type of security) or **perpetual** (no fixed maturity).

A convertible bond is also hybrid security, providing an investor with a right (sometimes an obligation) to

exchange the bond for a predetermined number of shares in the issuing corporate at certain times. As a bond, the security comes with a maturity date and pays interest. If not converted to equity, investors will receive the bond's face value at maturity. Otherwise, the bond loses all debt features and converts into equity. Amid its embedded option, convertible bonds are attractive for issuers due to relatively lower interest payable, and for investors due to the upside potential of future capital appreciation driven by an issuer's increasing share price. – Convertibles can be, among others, plain vanilla or mandatory convertible, or be equipped with features such as calls (benefits the issuer, if underlying price exceeds a threshold) or puts.

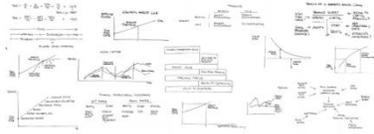
Bonds are fixed-income securities, whereby bond issuers (corporates, governments) borrow capital from bondholders for fixed payments at a fixed or variable, floating interest rate over a specified period. Basis of a bond is the indenture, a binding contract between the bond issuer and bondholder that defines a bond's characteristics: Date of maturity, interest payment dates, perhaps additional features (e.g. convertible, callable, puttable). Callable bonds, for example, may be redeemed (called in) by the issuer prior maturity date, typically at a premium. The call feature is beneficial for an issuer along falling interest rates, as new bonds can be re-issued at lower yield. – Also, bond terms include, among others, the case of default (creditor not being paid as per obligation): Then, the debtholder can claim assets for repayment as well as set conditions for a process of restructuring. – Often, bonds come along with credit ratings, assessing the probability of default: Investment grade bonds are those with a credit rating of BBB- or better, else categorized as non-investment grade or high yield bonds (also: junk bonds). - In the United States, government bonds are referred to as Treasury bills (maturity < 1 year), Treasury notes (1-10 years) and Treasury bonds (> 10 years). In a Corporate Finance context they are deemed to be of zero risk, their yields defined as the respective maturity's risk-free rate. - Zero-coupon bonds, issued by corporates or governments, make no coupon payments, are issued at discount instead.

NOTE: Traditional investment strategies are deemed those where conventional investment instruments are held long only. Shortening such, for instance via derivatives, would be considered – among others – an alternative investment strategy.



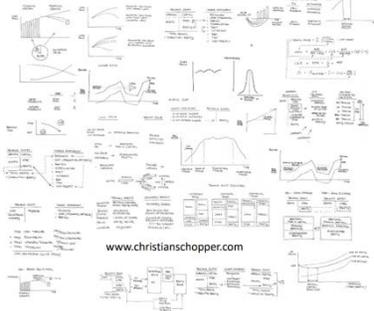
	<u>TRADITIONAL INVESTMENTS</u>	<u>ALTERNATIVE INVESTMENTS</u>
LIQUIDITY	HIGH	LOW/NONE
INVESTORS	PASSIVE	ACTIVE
REGULATION	HIGH	LESS
MARKET CORRELATION	HIGH	LOW
USE OF LEVERAGE	RATHER NO	USUALLY YES
POSITIONS HELD	TYPICALLY LONG	FREQUENTLY ALSO SHORT
REQUIRED AMOUNT OF INVESTMENT	LOW	HIGH
AVAILABILITY	PUBLIC & ACCREDITED INVESTORS	ACCREDITED INVESTORS ONLY

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