

Investments

Bernt Arne Ødegaard

University of Stavanger

April 18, 2023



Investments

Investment is the sacrifice of certain present value for (possibly uncertain) future value.

WILLIAM SHARPE, *Investments*, 1985.

Investments

Let us take investment first. In popular usage it is common to mean by this the purchase of an asset, old or new, by an individual or a corporation. Occasionally, the term might be restricted to the purchase of an asset on the Stock Exchange. But we speak just as readily of investing, for example, in a house, or in a machine, or in a stock of finished or unfinished goods; and broadly speaking, new investment, as distinguished from reinvestment, means the purchase of a capital asset of any kind out of income....

JOHN MAYNARD KEYNES, *The General Theory*, 1935

Investments

— *Put not your trust in money, but put your money in trusts*

OLIVER WENDELL HOLMES, *The Autocrat of the Breakfast-Table*, 1857

Investments

A cynic knows the price of everything and the value of nothing

OSCAR WILDE *Lady Windermere's Fan*, 1892

Tools to value: Theories

- ▶ The value of *time*.
- ▶ The quantification of *risk*: Mean variance analysis.
- ▶ *Market equilibrium*: e.g. CAPM.
- ▶ The role of *information* in investing: Efficient markets?

Investments

Finance, n. The art or science of managing revenues and resources for the best advantage of the manager.

AMBROSE BIERCE, *The devils dictionary*, 1902

We all know how the size of sums of money appears to vary in a remarkable way according as they are being paid in or paid out.

JULIAN HUXLEY *Essays of a Biologist*, 1923

Introduction to investments

Course about: Investment in Financial Assets.

Financial assets: Claims on cashflows from real assets.

Three types:

- ▶ Equities
- ▶ Bonds
- ▶ Derivatives

Financial markets

- ▶ Infrastructure for creating and trading financial assets

Investment process

- ▶ **Asset Allocation** – Choice of asset mix. e.g. 70/30
Equities/bonds
- ▶ **Security Selection** – Choice of securities within each asset class

Investment process

Players

- ▶ Households – Offer capital (saving)
- ▶ Corporate sector – want capital
- ▶ Government – borrow, tax, regulate
- ▶ Financial intermediaries – greasing the wheels
 - ▶ Funds
 - ▶ Banks
 - ▶ Venture/PE
 - ▶ Fintech