

The Handbook of Traditional and Alternative Investment Vehicles .J1

Investment Characteristics and Strategies

MARK J. P. ANSON
FRANK J. FABOZZI
FRANK J. JONES

m UNIVERSITÄT
• LIECHTENSTEIN
Bibliothek



WILEY

John Wiley & Sons, Inc. .

Contents

Preface	xiii
About the Authors	xv
CHAPTER 1	
Introduction	1
Risks Associated with Investing	1
Asset Classes	7
Super Asset Classes	J 11
Strategic vs. Tactical Allocations	13
Efficient vs. Inefficient Asset Classes	14
Beta and Alpha Drivers	15
Financial Instruments and Concepts Introduced in this Chapter	16
CHAPTER 2	
Investing in Common Stock	17
Earnings	18
Dividends	• 22
Stock Repurchases	28
The U.S. Equity Markets	29
Trading Mechanics	• 31
Trading Costs	37
Financial Instruments and Concepts Introduced in this Chapter	38
CHAPTER 3	
More on Common Stock	41
Pricing Efficiency of the Stock Market	41
Stock Market Indicators	42
Risk Factors	, 46
Tracking Error	49
Common Stock Investment Strategies	54
Financial Instruments and Concepts Introduced in this Chapter	67

CHAPTER 4

Bond Basics	69
Features of Bonds	69
Yield Measures and Their Limitations	77
Interest Rate Risk	83
Call and Prepayment Risk	86
Credit Risk	87
Financial Instruments and Concepts Introduced in this Chapter	95

CHAPTER 5

U.S. Treasury and Federal Agency Securities	97
Treasury Securities	97
Federal Agency Securities	104
Financial Instruments and Concepts Introduced in this Chapter	109

CHAPTER 8

Municipal Securities	111
Tax-Exempt and Taxable Municipal Securities	111
Types of Municipal Securities	114
Tax-Exempt Municipal Bond Yields	123
Risks Associated with Investing in Municipal Bonds	125
Build America Bonds	125
Financial Instruments and Concepts Introduced in this Chapter	126

CHAPTER 7

Corporate Rxed Income Securities	127
Corporate Bonds	127
Medium-Term Notes	132
Commercial Paper	134
Preferred Stock	135
Convertible Security	138
Financial Instruments and Concepts Introduced in this Chapter	145

CHAPTER 8

Agency Mortgage Passthrough Securities	147
Mortgages	147
Mortgage Passthrough Securities	151
Types of Agency Mortgage Passthrough Securities	152
Prepayment Conventions and Cash Flows	153
Factors Affecting Prepayment Behavior	159
Prepayment Models	162

Yield	162
A Closer Look at Prepayment Risk	164
Trading and Settlement Procedures for Agency Passthroughs	165
Stripped Mortgage-Backed Securities	167
Financial Instruments and Concepts Introduced in this Chapter	170
CHAPTER 9	
Agency Collateralized Mortgage Obligations	173
The Basic Principle of CMOs	173
Agency CMOs	174
CMO Structures	174
Yields	199
Financial Instruments and Concepts Introduced in this Chapter	200
CHAPTER 10	
Structured Credit Products	201
Private Label Residential MBS	202
Commercial Mortgage-Backed Securities	206
Nonmortgage Asset-Backed Securities	209
Auto Loan-Backed Securities	210
Collateralized Debt Obligations	215
Financial Instruments and Concepts Introduced in this Chapter	222
CHAPTER 11	
Investment-Oriented Life Insurance	223
Cash Value Life Insurance	223
Stock and Mutual Insurance Companies	224
General Account vs. Separate Account Products	226
Overview of Cash Value Whole Life Insurance	227
Taxability of Life Insurance	229
Products	230
Financial Instruments and Concepts Introduced in this Chapter	242
CHAPTER 12	
Investment Companies	243
Types of Investment Companies	243
Fund Sales Charges and Annual Operating Expenses	248
Advantages of Investing in Mutual Funds	253
Types of Funds by Investment Objective	254
The Concept of a Family of Funds	256
Taxation of Mutual Funds	259

Structure of a Fund	260
Financial Instruments and Concepts Introduced in this Chapter	260
CHAPTER 13	
Exchange-Traded Funds	263
Review of Mutual Funds and Closed-End Funds	263
Basics of Exchange-Traded Funds	264
ETF Mechanics: The ETF Creation/Redemption Process	267
ETF Sponsors	270
Mutual Funds vs. ETFs: Relative Advantages	272
Uses of ETFs	274
The New Generation of Mutual Funds	274
Financial Instruments and Concepts Introduced in this Chapter	276
CHAPTER 14	
Investing in Real Estate	277
The Benefits of Real Estate Investing	277
Real Estate Performance	278
Real Estate Risk Profile	280
Real Estate as Part of a Diversified Portfolio	282
Core, Value-Added, and Opportunistic Real Estate	285
Financial Instruments and Concepts Introduced in this Chapter	298
CHAPTER 15	
Investing in Real Estate Investment Trusts	299
Advantages and Disadvantages of REITs	299
Different Types of REITs	302
REIT Rules	304
Economics of REITs	306
Financial Instruments and Concepts Introduced in this Chapter	312
CHAPTER 16	
Introduction to Hedge Funds	313
Hedge Funds vs. Mutual Funds	313
Growth of the Hedge Fund Industry	315
Categories of Hedge Funds	316
Hedge Fund Strategies	318
Financial Instruments and Concepts Introduced in this Chapter	342
CHAPTER 17	
Considerations in Investing in Hedge Funds	343
Hedge Fund Performance	343

Is Hedge Fund Performance Persistent?	345
A Hedge Fund Investment Strategy	347
Selecting a Hedge Fund Manager	354
Financial Instruments and Concepts Introduced in this Chapter	360
CHAPTER 18	
Investing in Capital Venture Funds	361
The Role of a Venture Capitalist	362
The Business Plan	367
Venture Capital Investment Vehicles	374
The Life Cycle of a Venture Capital Fund	378
Specialization within the Venture Capital Industry	380
Stage of Financing	382
Historical Performance	386
Financial Instruments and Concepts Introduced in this Chapter	388
CHAPTER 19	
Investing in Leveraged Buyouts	389
A Theoretical Example of a Leveraged Buyout	389
How LBOs Create Value	392
LBO Fund Structures	402
Profile of an LBO Candidate	406
Venture Capital vs. Leveraged Buyouts	408
Risks of LBOs	410
Financial Instruments and Concepts Introduced in this Chapter	411
CHAPTER 20	
Investing in Mezzanine Debt	413
Overview of Mezzanine Debt	413
Examples of Mezzanine Financing	418
Mezzanine Funds	421
Venture Capital and the Distinction Between Mezzanine Financing and Different Forms of Private Equity	423
Advantages of Mezzanine Debt to the Investor	424
Advantages to the Company/Borrower	425
Negotiations with Senior Creditors	426
Market Performance	428
Financial Instruments and Concepts Introduced in this Chapter	429
CHAPTER 21	
Investing in Distressed Debt	431
Vulture Investors and Hedge Fund Managers	432

Distressed Debt Is an Inefficient and Segmented Market	432
Distressed Debt and Bankruptcy	434
Distressed Debt Investment Strategies	438
Risks of Distressed Debt Investing	450
Market Performance	452
Financial Instruments and Concepts Introduced in this Chapter	453
CHAPTER 22	
Investing in Commodities	455
Gaining Exposure to Commodities	457
Commodity Prices Compared to Financial Asset Prices	462
Economic Rationale	463
Commodity Futures Indexes	471
Financial Instruments and Concepts Introduced in this Chapter	485
APPENDIX A	
Arithmetic Mean vs. Geometric Mean	487
APPENDIX B	
Measures of Risk	491
Range and Location	491
Moments of the Distribution	494
INDEX	499