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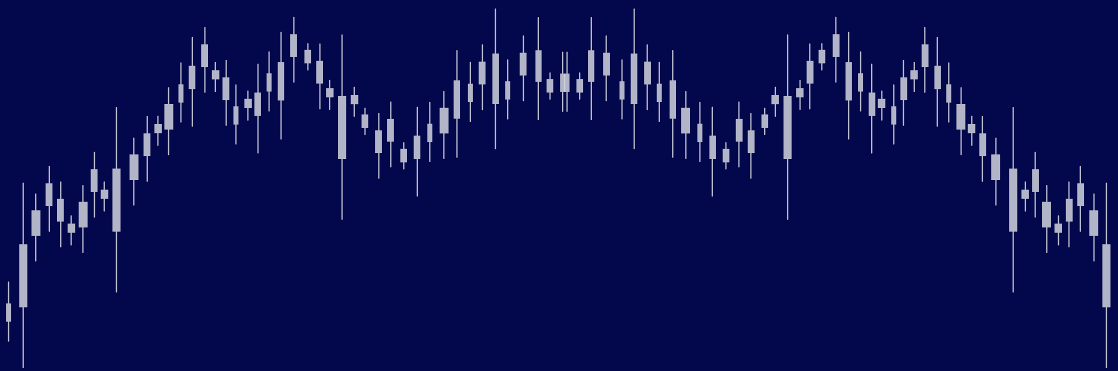
FREE GUIDE

THE INVESTMENT PLAYBOOK

A guide to investing in Stocks, Bonds & other Financial Instruments



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02 | The Investment Playbook

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Before You Begin

WELCOME to a new stage of your education in which you will explore the easy steps you can take for enhancing your financial planning and improving your investment skills.

In this guide, you will learn about the basic steps of investing in the stocks market, directly from your home, through any mobile app.

UInvest has prepared this very handy guide which you can check whenever you plan on making an investment. It's as easy as that.

Can stock prices actually be predicted?

- According to the Random Walk Theory, in an efficient market, a buyer of a stock will take into consideration everything there is to know about the company issuing the stock. But the prices of stocks always' take a walk.'
- Full predictions of price movements are impossible: there are too many factors to consider, which change from day to day.
- Nevertheless, there are multiple safeguards investors can take in order to manage, hedge and predict the evolution of a certain stock, which will be later explained.

History and System of the Stock Markets

- The history of the stock market can be traced back to the 17th century, when the first stock market emerged in Amsterdam, the Netherlands.
- The Amsterdam Stock Exchange was established in 1602 to trade shares of the Dutch East India Company, which was the world's first publicly traded company.
- The idea of trading shares caught on quickly, and by the end of the 17th century, stock exchanges had been established in London and Paris.

The early stock markets were relatively small and lacked the regulation and oversight that exists today. However, they played an important role in financing the growth of new industries, such as railroads and telegraph companies, during the Industrial Revolution.

- **In the United States**, the first stock market was established in Philadelphia in 1790, shortly after the country was founded. The New York Stock Exchange (NYSE) was founded in 1817, and quickly became the largest and most influential stock exchange in the world. The stock market played a significant role in the development of the American economy, helping to finance the growth of industries such as steel, oil, and automobiles.

- **The 20th century saw the rise of new forms of investing**, such as mutual funds and index funds, which allowed individual investors to diversify their portfolios and participate in the stock market with relatively small amounts of money. The growth of technology and the internet in the 1990s led to the emergence of online brokerages, which made it easier and cheaper than ever for individuals to buy and sell stocks.

- **Today**, the stock market is a global phenomenon, with exchanges in every major country and trillions of dollars in trading volume each day. While the stock market has experienced its share of booms and busts over the years, it remains an important tool for companies to raise capital and for investors to grow their wealth over the long term.

The most significant stock market crashes throughout history

1. The Tulip Mania Crash (1637)

This was one of the earliest recorded speculative bubbles in history. At the height of the mania, tulip bulbs in the Netherlands were trading at exorbitant prices, before collapsing in value and causing widespread financial ruin.

2. The South Sea Bubble (1720)

This was a financial bubble in England, fueled by speculation in the shares of the South Sea Company, which was granted a monopoly on trade with the Spanish colonies in South America. The bubble burst in September 1720, causing a stock market crash and widespread financial losses.

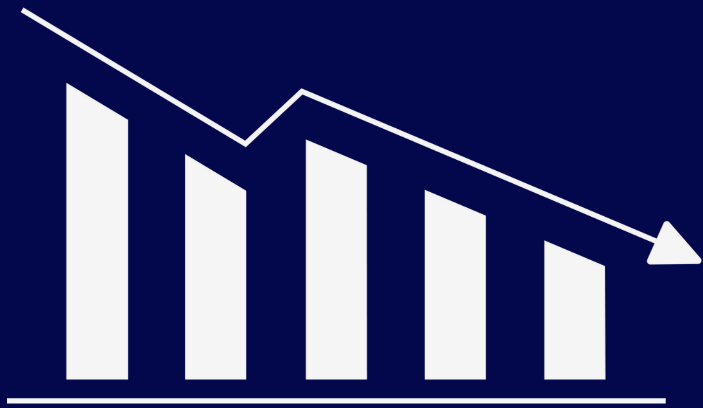
3. The Black Tuesday (1929)

This was the most devastating stock market crash in U.S. history and was the start of the Great Depression. On October 28th and 29th, 1929, the stock market lost 25% of its value in two days, leading to a decade of economic hardship and social upheaval.

4. The Dot-com Bubble (2000)

This was a speculative bubble in technology stocks in the late 1990s and early 2000s, driven by the belief that internet companies would revolutionise the economy.

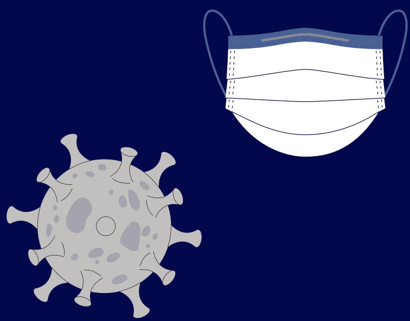
However, many of these companies had no clear path to profitability, and the bubble burst in 2000, causing a sharp decline in the stock market and widespread financial losses.



5. The Global Financial Crisis (2008)

This was a widespread financial crisis that was triggered by the collapse of the U.S. housing market and resulted in a global recession. The crisis was caused by a combination of factors, including lax regulation, risky lending practices and excessive debt. The stock market lost more than 50% of its value during the crisis, and many banks and financial institutions collapsed or required government bailouts.

6. The 2020 Covid Pandemic



REMEMBER: *These crashes serve as a reminder of the risks inherent in investing and the importance of diversification and risk management. While they can be devastating for investors and the wider economy, they provide opportunities for those who are able to navigate the turbulence and capitalise on opportunities. Stock market crashes can be caused by a variety of factors, including economic, political, and social factors.*

Common causes of stock market crashes

- **Economic Factors:** Economic downturns, such as recessions or depressions, can cause stock market crashes. This can occur due to factors such as rising interest rates, inflation, or economic imbalances.

- S**peculative Bubbles:** Speculative bubbles can cause stock market crashes when investors bid up the prices of assets to unsustainable levels, leading to a sudden collapse in prices when the bubble bursts. Examples include the Tulip Mania in the 1600s and the Dot-com Bubble in the late 1990s.

- **Financial Crises:** Financial crises, such as the Global Financial Crisis of 2008, can cause stock market crashes when banks and financial institutions experience significant losses and investors lose confidence in the market.

- **Geopolitical Events:** Geopolitical events, such as wars, political instability or terrorist attacks, can cause uncertainty and volatility in the markets, leading to stock market crashes.

- **Black Swan Events:** Unpredictable, rare and catastrophic events, such as natural disasters or pandemics, can cause stock market crashes by disrupting supply chains, causing widespread economic uncertainty, and leading to a sudden sell-off in stocks.

**It's important to note that stock market crashes can also be triggered by a combination of these factors, and that market crashes are often unpredictable and difficult to anticipate. It is essential for investors to diversify their portfolios and practice risk management to minimise the impact of stock market crashes.*

Fighting the Risk

Do not get nervous! It is possible to fight against potential risk and to keep your investments safe! **As Benjamin Graham said, *a true investment is a method of creating wealth, in which the profit is as high as possible, and the risk as low as possible.*** Therefore, it is very important to remember the difference between investments and speculation.

Speculation = investment in stocks, property, etc. in the hope of gain but with the risk of loss (Oxford Dictionary)

In order to keep your money safe and invest smart, always consider the risk. Yet, with stocks just as with businesses, risk is forever present.

There are multiple mechanisms which help investors avoid damage to their investments and increase profit:

- **Defensive investments**
- **Limit and stop selling orders**
- **Value investments**
- **Portfolio diversification**

Later on, the strategy behind safe investments and fighting risk will be detailed. Keep up!

Industries to invest in

Just like people, stock market sectors seem to have their own personalities, with some sectors exhibiting much more volatility than others.

Some sectors bounce around over the short term, with prices fluctuating rapidly up and down like a yo-yo. Other sectors are relatively docile and move more slowly, with small changes in prices at a steady pace over long periods of time.

Volatility may be caused by a variety of factors among them are trader emotions like fear and panic. Sometimes referred to as “*noise trader risk*", this is the risk associated with trend-following traders who succumb to their emotions, causing massive selloffs or buying sprees.

In a jittery, uncertain market with nervous investors, major news events, both positive and negative, can cause big price moves, either down or up. Wars, revolutions, famines, droughts, strikes, political unrest, recessions, depressions, inflation, deflation, bankruptcies of major industries, and fluctuations in supply and demand can all cause stock prices to drop precipitously.

1. The Food Industry

Businesses associated with food like grains, cereals, beverages, and associated functions like food processing and food packaging, constitute the food industry. As the food industry is essential for human life, it will likely continue to flourish. Most countries have regulations and measures for efficient production, purchase, and the supply of food items. All this makes the food industry one of the safest industries for investment.

2. Fast-Moving Consumer Goods (FMCG)

FMCG include a wide variety of daily-use products like soaps and toiletries, detergents, cosmetics, dental hygiene products, batteries, and paper products. Consumers put less thought into purchasing these, as these are daily essentials, which makes FMCG a safe investment sector. Profit margins are low for such products due to fierce competition in the sector. However, the volume is high, which makes up for the low-profit margins. FMCG companies usually also pay regular dividends, which offers the benefit of regular income potential.

3. Textile Industry

Fashion trends may come and go, but people will continue to need clothes. Excluding the dynamic stream of the fashion industry, the overall textile sector offers a safe investment destination for your money. Textiles include the production and processing of raw materials like cotton, linen and silk.

4. Legal and Compliance Industry

No matter how many presidents or prime ministers are elected, and new laws are passed, the world will continue to be full of conflicts, challenges, and legal troubles. The service oriented legal and compliance sector hence qualifies as one of the safest investment sectors. Barring a complete breakdown of law and order and the reversion of society to a primitive state, legal and compliance businesses will continue to flourish for decades to come.

5. Water Industry

This includes the transport, treatment and packaging of water. Some pundits even predict that the next major wars will be fought over water. Requirements for drinkable water and for industrial consumption is expected to increase and businesses operating in water treatment, transport, and packaging are expected to benefit. Water, even more than food, is essential for human life (you need water to grow food). This makes water a safe sector for investment.

6. Technology

Computers, phones, IT, and social networking are all daily parts of our lives and will continue to be more so in the future as the world becomes more networked. There are ever-growing technology companies looking to further advance our society in meaningful and creative ways. This sector will always exist in various forms as humanity continues to move forward. The technology sector ranked fourth in S&P Global's list of sectors with the most volatility, coming in with a standard deviation of 14.8%. The technology sector includes a wide range of goods and services. On the consumer side, it includes goods like personal computers, mobile phones, televisions, and household appliances. For businesses, the sector provides hardware, enterprise software, cloud-based computing, and logistics systems. Well-known companies in this sector include Apple, Amazon Google, and Microsoft.

7. Healthcare Industry

There have been significant advancements in the healthcare sector, enabling humans to live healthier lives with increased lifespans. However, the regular outbreak of global epidemics (like Ebola or Coronavirus) or seasonal recurrences of the flu and colds, reminds us of our dependence on the healthcare sector. Despite preventative measures including vaccinations, the world will keep seeing new diseases requiring healthcare pharmaceuticals. Healthcare will be a relatively safe sector for decades.

8. Energy

Industries in this sector include oil, gas, coal and renewable energy technologies such as biomass, geothermal, hydrogen, hydro-electric power, ocean energy, solar, and wind energies. During the 2010s, this sector had the highest standard deviation of 20.3% based on returns from the Energy Select Sector Index (XLE). This sector saw peak volatility in oil prices during the decade with the spot price for crude oil plummeting from $113.93 per barrel on April 29, 2011, to $88.19 on Sept. 12, 2011.

9. Commodities

Coming in with the second-highest standard deviation of 18.6% for the decade is the commodities sector. Commodities are a range of physical goods including natural resources, precious metals, and agricultural goods. If you were to invest in this sector through an ETF, your holdings might include exposure to such products as gold, silver, oil, gas, grains, or beef.

10. Financial Industry

Banks, investment firms, financial service providers, insurance companies, credit card issuers, financial planners, securities exchanges, and commodity exchanges form the bulk of this sector. This sector experienced tremendous volatility during the 2007-2008 financial crisis and the Great Recession that followed. For the 2010s, the financial sector's standard deviation came in third highest at 16.8%.

11. Consumer Discretionary

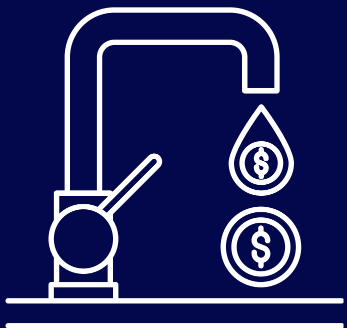
The consumer discretionary sector came in close behind the technology sector with a standard deviation of 14.6%.1 Included within this sector are retailing, media, consumer services, consumer durables, luxury goods, apparel, automobiles, and auto parts. Additional industries in the consumer discretionary system include hotels, restaurants and leisure.

12. Communication Services

The communication services sector ranks next with a standard deviation of 14.1% in the 2010s. The major companies in this sector include phone services, wireless communications services, cable providers, data services, Internet services, equipment manufacturers, media and entertainment. Companies in the Communication Services Select Sector Index (XLC) include Meta (META), formerly Facebook; Alphabet (GOOG); Netflix (NFLX); The Walt Disney Company (DIS) and AT&T (T).

13. Utilities

Last on our list is the utilities sector, which experienced a standard deviation of 11.8% in the 2010s. Companies in this sector provide public services such as water, sewage services, electricity, dams, and natural gas. Utilities are generally considered a less volatile sector compared to the others on this list. The companies in this sector are heavily regulated and generally provide investors with dividends. Long-term investors will purchase utility stocks for their overall stability and income stream.



Financial Instruments

Stocks

=security representing a certain fraction of a stock issuing company;

Characteristics:

- **Free to transfer**
- **Negotiable**
- **Fractions equal to the capital of a company**
- **Stocks offer their owners the same category equal rights** —> stocks can be divided into more categories (A and B for instance), which offer investors more rights in the Annual General Meeting of Shareholders (AGM)
- **Fungible** —> stocks have the same characteristics, regardless of their date of issuance

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Types of Stocks

- **Materialised** = on physical paper (rarely used nowadays)
- **Dematerialised** = in electronic evidence (most common nowadays)
- **Nominative** (can be claimed based on the name, personal identification number etc. of owner)
- **Bearer shares** (very rare nowadays, but means that who holds the stock certificate owns the stock)
- **Ordinary**
  - Dividends (out of net profit/reserves)
  - Voting right in AGM
- **Preferred**
  - Priorities right to dividends
  - Can help companies which are in a rough patch —> Goldman Sachs was financed by Warren Buffet this way —> Berkshire Hathaway received preferred dividends, while the other shareholders did not receive dividend at all
  - They usually come with the condition of being eventually redeemed to the company or becoming ordinary stock
  - No right to vote in AGM

Bonds

=securities issued in exchange for borrowed sums of money which incorporate the obligation of the issuer to repay these sums and to pay the related interest;

- Also known as a method of financing
- Similar to a long-term loan
- Issuers: state, municipalities, corporations etc.
- Long maturity
- Negotiable

Characteristics:

- **Nominal value**: for example, 10 EUR, 100 EUR, 1000 EUR, etc.
- **Issue value**: the face value, which is the amount repaid to the bondholder at maturity. Corporate, municipal, and government bonds typically have face values of $1,000, $5,000, and $10,000
- **Cashback Value**: Cash You Get Back + Coupon Value (Annual)
- **Market value**: the bond moves according to the market (if listed, otherwise no market value)
- **Interest (coupon)**: depends on market and inflation!! Can vary from 2.5% to 15%
- **Maturity**: generally, one time, but there are also gradual ones
- **Yield**: the return an investor expects to receive each year over its term to maturity

Types of bonds

- **Nominative** = identifiable according to the owner's data

- **To the bearer** = identifiable according to the person in possession of the certificate

- **Guaranteed** = generally all bonds are UNGUARANTEED, unless we are explicitly told so. And government bonds are a risk —> this is because even countries can go bankrupt: Argentina, Greece, Venezuela. Corporate bonds are almost always unsecured.

- **Mortgage/general/insured/state guaranteed**

- **Options at maturity or to maturity** = generally at the investor's initiative, but can also be at the company's

- **Callable (CALL option)** = issuer that borrows from the investor for 5/7 years and says that at some point, under certain conditions, it will redeem those bonds earlier (=CALL).

- **Convertibles** = I, the investor, lend the company a sum of money. At maturity, either my share is bought back or I become a shareholder depending on the money borrowed. Or at the company's initiative

- **PUT option** = The investor asks the company before maturity to redeem the bond for various reasons (the company's progress, for example).

Bonds by features

Standard

- The coupon value is fixed
- Annual coupon
- Fixed maturity
- Face value = issue value = redemption value
- Features cannot be modified

With different clauses, of which present on the stock exchange:

- floating/indexed variable coupon rate bonds
- bonds with a 0 coupon rate (discounted)
- annuity bonds
- equity bonds
- bonds with options —> obl. Call, put, conversion
- semi-annual/quarterly coupon bonds
- bonds with special redemption clauses
- bonds with warrants

Corporate bonds

- Issuer = joint stock company
- AGM decision
- Minimum nominal value = 2.5 RON
- Equal value and equal rights
- The possibility of issuing bonds convertible into share

REMEMBER: *For further reading, keep in mind that there are more financial instruments available to invest in. For instance, option contracts, future contracts, swap contract, forward contracts, forex, treasury bonds etc.*

New Financial Instruments

Market indexes such as the S&P 500 and the Dow Jones Industrial Average are used to provide a benchmark for the overall performance of the stock market. Index funds, which are mutual funds or ETFs that track a market index, are used to provide investors with exposure to a diversified portfolio of stocks at a low cost. **Market indexes are tools used to measure the performance of a specific group of stocks or the overall stock market.**

I. Structured products

a) **Index certificates**: winning and loss are 1:1; DAX, Gold, Brent Crude OIL, ROTX EUR, S&P 500, Eurostoxx 50 etc.
b) **Turbo certificates**: riskier, instruments with leverage
c) **Bonus certificates**: only available in certain time frames
d) **Protected capital certificates**

Some noteworthy examples:

- **Dow Jones Industrial Average (DJIA)**: The Dow Jones Industrial Average, or simply the Dow, is a stock market index that tracks the performance of 30 large-cap U.S. stocks across various industries. It is one of the oldest and most widely recognized market indexes.

- **NASDAQ Composite**: The NASDAQ Composite is a stock market index that tracks the performance of more than 3,000 U.S. stocks listed on the NASDAQ exchange. It is often associated with technology and growth stocks.

- **NYSE Composite**

- **Russel 1000**

- **Barron's 400 ETF**

- **Willshire 5000**

- **Russell 2000**: The Russell 2000 is a stock market index that tracks the performance of 2,000 small-cap U.S. stocks across various industries. It is often used as a benchmark for small-cap stocks.

- **MSCI EAFE**: The MSCI EAFE is a stock market index that tracks the performance of stocks from developed markets outside of North America, including Europe, Australia and Asia

- **CAC 40** is a benchmark French stock market index. The index represents a capitalisation-weighted measure of the 40 most significant stocks among the 100 largest market caps on the Euronext Paris.

- **DAX** is a stock market index consisting of the 40 major German blue chip companies trading on the Frankfurt Stock Exchange.

II. ETFs

=an exchange-traded fund is a type of investment fund and exchange-traded product, i.e. they are traded on stock exchanges. ETFs own financial assets such as stocks, bonds, currencies, futures contracts and/or commodities such as gold bars;

Characteristics:

- Very liquid
- Low risk
- Cost efficient
- Simple
- Accessed also through secondary markets, not just primary
- Passive investments

S&P 500

The S&P 500 is a stock market index that tracks the performance of 500 large-cap U.S. stocks across different industries. It is considered one of the most representative measures of the overall U.S. stock market.

How to read a Stock Chart

Reading a stocks chart is like reading the history of a person. It is important to consider and understand the history of the movement of a stock, in order to determine its future performances. In this picture, you can find the chart of Adidas (ADS) stock. The price at the time of a share of that stock was 180.77 EUR (registering a 189.23% increase since it was listed on the market). As you can see, the stock is listed in Germany (DE) and the chart line shows how the value of shares have fluctuated throughout the years.

Since now you know that there are moments of economic crisis which affect companies, you can already figure out why the downs in this stock: for instance, in 2020, the pandemic made ADS stock fall significantly; in 2023, the Kanye West scandal affected Adidas due to its backlash and registered another fall in price. Now, ADS stock is back on track.

REMEMBER: ***TIME IN THE MARKET BEATS TIMING THE MARKET*** *—> do not get scared of a fall in stock, especially when it comes to big companies. The market will most likely bounce back on a track, it is all a matter of time. Even though chart analysis is an inherent component of investing, there are a multiple of factors to consider before buying stocks, which are known as methods of financial evaluation.*

Time in the market

>

Timing the market

Fundamental Financial Analysis

✦ Evaluation Methods

Stock prices are influenced by a variety of factors, including supply and demand, company earnings and macroeconomic factors such as interest rates and inflation.

Fundamental analysis involves looking at a variety of factors, such as earnings growth, revenue growth, and balance sheet metrics, to determine whether a stock is a good investment.

Below, you can find the most relevant evaluation methods which can help you decide if a certain stock is a good investment, based on your preferences.

Warning, new vocabulary incoming:

Stock = name of the company and type of stock.

Symbol (ticker) = shortened name of a company's stock: AAPL, ADS, KO etc.

The 52-week high/low range is a tool used by investors and traders to understand a stock's performance over the past year. The range represents the highest and lowest price at which a stock has traded during the previous 52 weeks, or one year.

The 52-week high/low range can provide several insights into a stock's performance:

- **Identify potential support and resistance levels:** The range can help investors identify potential support and resistance levels for a stock. If the stock price approaches the 52-week high, it may encounter resistance, as some investors may view the price as overvalued. Conversely, if the stock price approaches the 52-week low, it may find support, as some investors may view the price as undervalued.

- **Evaluate a stock's momentum:** The 52-week high/low range can also provide insight into a stock's momentum. If a stock is trading close to its 52-week high, it may be an indication that investors are bullish on the stock and that its momentum is positive. Conversely, if a stock is trading close to its 52-week low, it may be an indication that investors are bearish on the stock and that its momentum is negative.

- **Compare a stock's performance to its peers:** The 52-week high/low range can be used to compare a stock's performance to that of its peers. If a stock is trading near its 52-week high while its peers are trading near their 52-week lows, it may be an indication that the stock is outperforming its peers.

Hi = maximum price of that day
Lo = minimum price of that day
Close = price at closing of market
Net Change = closing price of the day compared to yesterday
Dividend = companies usually pay dividends every trimester (four times/year)

Although this is not a legal obligation for dividend paying companies, it is common practice.

Dividend Yield%

- Financial ratio that shows the amount of dividend paid by a company relative to its stock price. It is calculated by dividing the annual dividend paid per share by the current market price of the stock.

- For example, if a company pays an annual dividend of $2 per share and its stock is trading at $50 per share, its dividend yield would be 4% ($2/$50).

- Dividend yield is often used as a measure of the income generated by a stock investment. A higher dividend yield generally indicates that a company is paying out a larger portion of its earnings as dividends, which can be attractive to income-seeking investors.

- However, it's important to note that a high dividend yield does not necessarily mean that a stock is a good investment. Companies with high dividend yields may be experiencing financial difficulties or may not be investing in growth opportunities.

Earnings per Share (EPS)

=a company's net profit divided by the number of common shares it has outstanding;

- EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value.

- A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price.

- EPS can be arrived at in several forms, such as excluding extraordinary items or discontinued operations, or on a diluted basis.

- Like other financial metrics, earnings per share is most valuable when compared against competitor metrics, companies of the same industry, or across a period of time.

Price to Earnings Ratio (P/E ratio)

- The P/E ratio shows how much investors are willing to pay for each dollar of earnings generated by the company.

- For example, if a company's stock is trading at $50 per share and its EPS is $5, its P/E ratio would be 10.

- A higher P/E ratio generally indicates that investors are willing to pay a premium for the company's earnings, which could be due to expectations of future growth or strong performance in the past. Conversely, a lower P/E ratio suggests that investors are not willing to pay as much for the company's earnings, which could be due to concerns about the company's growth prospects or recent financial performance.

- A high P/E ratio could mean that a company's stock is overvalued, or that investors are expecting high growth rates in the future.

- Companies that have no earnings or that are losing money do not have a P/E ratio because there is nothing to put in the denominator.

- A P/E ratio holds the most value to an analyst when compared against similar companies in the same industry or for a single company across a period of time.

Market Capitalisation (Market Cap.)

- The total dollar market value of a company's outstanding shares of stock. The investment community uses this figure to determine a company's size instead of sales or total asset figures. In an acquisition, the market cap is used to determine whether a takeover candidate represents a good value or not to the acquire.

- Market capitalisation refers to how much a company is worth as determined by the stock market. It is defined as the total market value of all outstanding shares.

- To calculate a company's market cap, multiply the number of outstanding shares by the current market value of one share.

- Companies are typically divided according to market capitalisation: large-cap ($10 billion or more), mid-cap ($2 billion to $10 billion), and small-cap ($300 million to $2 billion).

- Market cap is often used to determine a company's size, then evaluate the company's financial performance to other companies of various sizes.

- In investing, companies with larger market capitalisation are often safer investments as they represent more established companies with generally longer history in business.

Required return (r)

Cost of equity = r =cost of shareholders money

Weighted average cost of capital (WACC)= the return that lenders and shareholders expect to receive in return for providing capital to a company

EV/EBITDA = Enterprise Value/EBITDA

Remember! Enterprise value is not Market Cap.

EV = cap. + debt - cash

Debt to equity ratio (D/E ratio)

=financial ratio that compares a company's total liabilities to its total shareholders' equity;

- It is a measure of a company's financial leverage and indicates how much of a company's financing is coming from debt compared to equity.

- The D/E ratio is calculated by dividing a company's total liabilities by its total shareholders' equity.

- For example, if a company has $1 million in total liabilities and $500,000 in total shareholders' equity, its D/E ratio would be 2:1 ($1 million / $500,000).

- A high D/E ratio generally indicates that a company is financing its operations primarily through debt, which can be risky if the company experiences financial difficulties or economic downturns.

- A low D/E ratio, on the other hand, indicates that a company is financing its operations primarily through equity, which can be less risky but may limit the company's ability to invest in growth opportunities.

- The appropriate D/E ratio varies by industry and can depend on a company's growth prospects, cash flow, and other factors. Generally, a D/E ratio below 1 is considered conservative, while a ratio above 2 is considered risky.

Beta

=a measure of a stock's volatility in relation to the overall market;

By definition, the market, such as the S&P 500 Index, has a beta of 1.0 and individual stocks are ranked according to how much they deviate from the market. A stock that swings more than the market over time has a beta above 1.0. If a stock moves less than the market, the stock's beta is less than 1.0. High-Beta stocks are supposed to be riskier but provide higher return potential; low-beta stocks pose less risk but also lower returns.

- Beta is a concept that measures the expected move in a stock relative to movements in the overall market.

- A beta greater than 1.0 suggests that the stock is more volatile than the broader market, and a beta less than 1.0 indicates a stock with lower volatility.

- Beta is a component of the Capital Asset Pricing Model, which calculates the cost of equity funding and can help determine the rate of return to expect relative to perceived risk.

- Critics argue that beta does not give enough information about the fundamentals of a company and is of limited value when making stock selections.

- Beta is probably a better indicator of short-term rather than long-term risk.

Bid and Ask Prices

- The term "bid" refers to the highest price a buyer will pay to buy a specified number of shares of a stock at any given time.

- The term “ask” refers to the lowest price at which a seller will sell the stock.

- The term "bid and ask" (also known as "bid and offer") refers to a two-way price quotation that indicates the best potential price at which a security can be sold and bought at a given point in time. The bid price represents the maximum price that a buyer is willing to pay for a share of stock or other security. The ask price represents the minimum price that a seller is willing to take for that same security. A trade or transaction occurs when a buyer in the market is willing to pay the best offer available— or is willing to sell at the highest bid.

- The difference between bid and ask prices, or the spread, is a key indicator of the liquidity of the asset. In general, the smaller the spread, the better the liquidity.

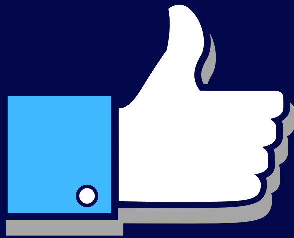
- The bid price will almost always be lower than the ask or “offer,” price. The difference between the bid price and the ask price is called the “spread."

- The average investor contends with the bid and ask spread as an implied cost of trading. Most investors and retail traders are "market takers," meaning that they usually will have to sell on the bid (where someone else is willing to buy) and buy at the offer (where someone else is willing to sell).

- For example, if the current price quotation for the stock of ABC Corp. is $10.50 / $10.55, investor X, who is looking to buy A at the current market price, would pay $10.55, while investor Y, who wishes to sell ABC shares at the current market price, would receive $10.50.

- The bid-ask spread works to the advantage of the market maker. Continuing with the above example, a market maker who is quoting a price of $10.50 / $10.55 for ABC stock is indicating a willingness to buy A at $10.50 (the bid price) and sell it at $10.55 (the asked price). The spread represents the market maker's profit.

It is very important to remember that it is not 100% possible to determine the future performance of a stock (at least not short term). That is why it necessary to analyse all of the above-mentioned factors, together with other social, political, management etc. components related to the stock in which you are interested before taking a decision.



You’ve made it so far, you’re definitely on a streak!

Let’s dive into a personalised approach to your portfolio now. This is the framework which we are using and has proved successful:

Investment Strategies

Value investing

- Is an investment strategy that involves identifying stocks that are undervalued by the market, with the goal of purchasing these stocks at a lower price and holding them for the long term until their true value is recognised by the market.

- Value investors typically look for stocks that have low price-to-earnings ratios (P/E ratios), low price-to-book ratios (P/B ratios), and high dividend yields. These are often considered indicators of undervaluation.

- Value investors also look for companies with strong fundamentals, such as a solid balance sheet, steady cash flow, and a history of consistent earnings growth. The idea is to invest in companies that are financially stable and have the potential for long-term growth.

- Value investing is often contrasted with growth investing, which involves investing in companies that have high potential for future growth but may not yet be profitable or have a history of consistent earnings growth.

- One of the most well-known value investors is Warren Buffett, who is known for his long-term approach to investing and his focus on companies with strong fundamentals and a competitive advantage in their industry.

Momentum investing

- Is an investment strategy that involves buying stocks that have shown a strong positive trend in price movement, with the expectation that this trend will continue in the future. The idea behind momentum investing is that stocks that have been performing well in the past are more likely to continue performing well in the future.

- Momentum investors typically use technical analysis to identify stocks that are trending upwards, looking at factors such as price momentum, trading volume, and relative strength. They may also use fundamental analysis to evaluate a company's financial health and growth potential.

- One of the key advantages of momentum investing is that it can generate higher returns in a shorter period of time compared to other investment strategies, such as value investing. However, momentum investing can also be associated with higher risk, as it relies on the assumption that past performance is a good predictor of future performance. There is always the risk that a stock's price may suddenly reverse direction, causing losses for the investor.

- Momentum investing is often used in conjunction with other investment strategies, such as diversification and risk management techniques, to minimise risk and maximise returns.

Portfolio diversification (Harry Markowitz Theory)

The idea behind it is that by investing in a variety of assets, you can reduce the impact of any one asset's poor performance on your overall portfolio.

- For example, if you invest all your money in one stock or sector, and that stock or sector experiences a downturn, your entire portfolio could suffer significant losses.

- However, by investing in multiple stocks and sectors, you can reduce the impact of any one stock or sector's poor performance. Here are some tips for diversifying your stock portfolio:

- *Invest in a variety of industries and sectors:* By investing in a mix of industries and sectors, you can spread your risk across different areas of the economy. For example, you could invest in stocks from the technology, healthcare, and financial sectors.
- *Invest in different types of stocks:* Consider investing in a mix of large-cap, midcap and small-cap stocks, as well as value and growth stocks.
- *Use exchange-traded funds (ETFs) and mutual funds:* These funds provide exposure to a diversified range of stocks and sectors, allowing you to invest in multiple assets with a single investment.

Mutual funds = investment vehicles that pool money from multiple investors to buy a diversified portfolio of stocks, bonds, or other securities.

ETF stands for Exchange-Traded Fund. An ETF is a type of investment fund that is traded on stock exchanges, just like individual stocks. ETFs are designed to track the performance of a particular index, such as the S&P 500, or a specific sector, such as technology or healthcare. ETFs are created when an asset manager pools together a group of securities, such as stocks, bonds, or commodities, and issues shares that represent an ownership interest in the underlying assets. These shares can then be traded on the stock exchange, allowing investors to buy and sell them like stocks.

Rebalance your portfolio regularly

As the performance of different assets changes over time, it's important to periodically review and rebalance your portfolio to ensure that you're maintaining a diversified mix of assets.

Consider international stocks

Investing in stocks from different countries can further diversify your portfolio and reduce the impact of any one country's economic performance on your investments.

Short selling

=is a trading strategy in which an investor borrows shares of stock from a broker and sells them with the hope that the stock price will fall, allowing them to buy back the shares at a lower price and return them to the broker, pocketing the difference as profit;

- Short selling is essentially the opposite of buying a stock, where an investor buys a stock with the hope that the price will rise, and they can sell it at a higher price for a profit.

- The process of short selling involves borrowing shares from a broker and immediately selling them on the market.

- The investor is required to maintain a margin account with the broker and must provide collateral to cover the value of the borrowed shares.

- If the stock price goes up instead of down, the investor may be required to deposit additional funds to maintain the required collateral, or the broker may force the investor to buy back the shares to limit their losses.

- On the other hand, if the stock price goes down as expected, the investor can buy back the shares at a lower price, return them to the broker, and pocket the difference as profit.

- *John Bear thinks that stock X is overvalued bat 89$/share and that a fall in the stock is expected. Therefore, he sells the stock at a high price, waits for the stock to hopefully) decrease in price, and buys it again at, let's say 76$/share.*

- Short selling can be a risky strategy because there is no limit to how high the stock price can go, and the potential losses can be substantial if the stock price rises instead of falling. Additionally, short selling can lead to a situation called a "short squeeze" if many investors are short selling the same stock, causing a sudden rise in the stock price as they rush to buy back the shares to cover their positions.

- Short selling is often used by hedge funds and other professional investors as a way to profit from market declines or to hedge against long positions in their portfolios.

- However, it is important to note that short selling is not suitable for all investors and should only be considered by experienced traders who have a solid understanding of the risks involved.

CFD (Contract For Difference)

Another famous strategy is also known as CFD (Contract For Difference), where investors trade long and short term with leverage: basically, investors loan shares from brokers, which they then try to sell at a higher price, making profit and paying back the loans. Using credit for investments.

Day Trading

=buying and selling of assets within one market day, trying make profit within the opening hours of the market. ***More of a controversial trading option...***

- It requires more capital for a significant profit.

- Based on market analysis and speculation Some investors compare it to gambling.

Investment Plans

Some of the common mistakes discussed include failing to diversify, investing based on emotions rather than rational analysis, and trading too frequently. The chapter also provides tips for avoiding these mistakes and developing a successful investment strategy.

-> Develop a plan: Have a clear investment plan that aligns with your financial goals and risk tolerance.

-> Keep a long-term perspective: Successful investing requires patience and discipline. Dalton encourages investors to focus on long-term goals rather than short-term gains.

-> Diversify your portfolio: As we discussed earlier, diversification can help reduce risk and improve returns. It is advisable for investors to spread their investments across different stocks, sectors, and asset classes.

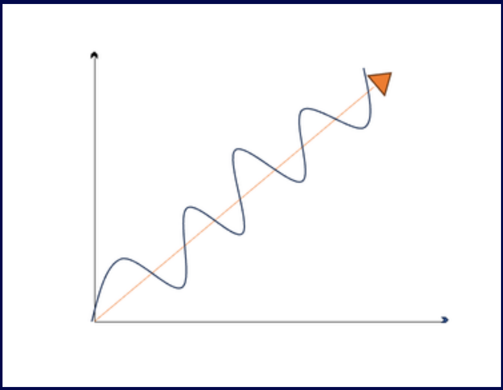
-> Monitor your investments regularly: Regularly monitoring your investments can help you identify potential risks and opportunities. Review your portfolio at least once a year.

-> **Ignore market noise**: The media often reports on short-term market fluctuations, but these fluctuations do not necessarily reflect long-term trends. Investors should focus on the big picture and avoid getting caught up in short-term noise.

-> Don't try to time the market: Timing the market is difficult and risky. It is suggested that investors focus on buying and holding quality stocks over the long term.

-> Consider Dollar Cost Averaging: Dollar-cost averaging involves investing a fixed amount of money at regular intervals. This approach can help smooth out the impact of market volatility over time.

History has shown that even after tougher times, the value of a stock will most probably go up again (if the company stays successful).



Therefore, buying when the stock price is down and selling when the stock price is up is not necessarily the best strategy.

Dollar Cost Averaging suggests buying at all times when you want to buy, as the stock will still go up. It is only a matter of time, and whether or not you want a long term investment.

- **Be aware of fees and expenses:** Fees and expenses can eat into your investment returns over time. Investors should carefully review fees and expenses associated with their investments.

- **Understand the tax implications:** Taxes can have a significant impact on your investment returns. Consultation with a tax advisor to understand the tax implications of your investments is advisable.

- **Seek professional advice**: Investing can be complex, and it can be helpful to seek professional advice. Find a trusted financial advisor who can provide personalised investment advice (like us).

In the context of stock investing, a "**safe margin**" refers to the difference between the current market price of a stock and its intrinsic value, which is the price at which the stock is truly worth based on its underlying fundamentals.

The idea behind a safe margin is that an investor should only buy a stock when it is trading at a significant discount to its intrinsic value, providing a margin of safety against potential losses. This means that the investor has room for error in their valuation and that even if they are wrong, the stock still has a buffer to protect their investment.

The exact amount of safe margin that an investor should aim for depends on various factors, including the specific stock being evaluated, the level of market risk, and the investor's individual risk tolerance.

However, many investors aim for a safe margin of at least 30%, meaning that the stock's current market price is at least 30% lower than its intrinsic value. It’s important to note that a safe margin is not a guarantee against losses, and there is always the risk that the stock may decline further or that the investor's valuation may be incorrect.

Trading psychology is the study of the emotional and mental factors that influence a trader's behaviour and decision-making process in the stock market. It is an important aspect of successful trading because emotions such as fear, greed, and overconfidence can lead to poor investment decisions, impulsive trading, and ultimately, losses.

Here are a few key concepts in trading psychology:

->Emotional control: Emotions such as fear and greed can lead to impulsive trading and poor decision-making. Traders need to develop emotional control and discipline to stay focused on their strategy and avoid making impulsive trades based on their emotions.

->Risk management: Successful traders understand the importance of risk management and use strategies such as stop-loss orders and position sizing to limit their potential losses.

->Mindset: Traders need to develop a positive and disciplined mindset to stay focused on their goals and avoid getting distracted by short-term market fluctuations. This includes setting realistic expectations, developing a long-term perspective, and maintaining a positive attitude.

->**Trading plan:** A well-defined trading plan can help traders stay focused on their goals and avoid making impulsive trades based on their emotions. The plan should include specific entry and exit points, risk management strategies, and criteria for selecting trades.

->Continuous learning: Successful traders are always learning and adapting to changing market conditions. This includes staying up to date on market news and trends, learning from past mistakes, and continually refining their trading strategies.

Now, another special gift from UInvest for you! We're happy to share some of the stocks which are part of our portfolios and have had a great return. Check them out:

Examples of Stocks and ETFs

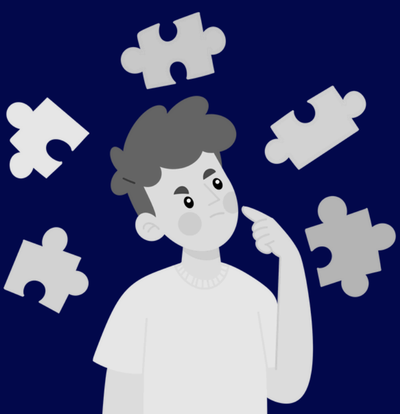
Even though this document does not constitute financial advice or consulting, we have decided to give some pointers in regard to certain stocks which might be of interest to investors. **These are the stocks we always keep an eye on:**

Stocks INTL:

AAPL	**SNOW**	**GOLD**
ADS	**UBER**	**MCD**
BRK	**DAI**	**XOM**
BA	**ABN**	**WMT**
KO	**INGA**	**YUM**
F	**RBI**	**HMLV**
TSL (very volatile)	**AMZN**	**VOW**
NFLX	**NEM**	**BARC**

ETFs:

iShares Core Dax	**VWRL**	**VHYL**
VUKE FTSE 100	**VFEM**	**UKDV**
VUSA S&P 500	**INRG**	**IUKP**



Thank you for taking the time to read my Investment Playbook. I hope the insights, strategies and resources shared here have provided you with valuable tools to approach your financial goals with confidence.
Investing is a journey and I'm grateful to be part of yours. Remember, success in investing comes from learning, patience and persistence!

-UInvest Founder, Mihai Coca-Constantinescu

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