FULL COLOR INTERIOR

180 ESSENTIAL INVESTING BASICS

THE KEY DEFINITIONS, CONCEPTS, IDEAS, AND FOUNDATIONS FOR NEW INVESTOR SUCCESS

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WHAT'S INSIDE HERE

This detailed book of clear, concise, short-form explanations is designed to create a basic understanding of the important Investing terms, concepts, and ideas for New and Beginner investors. The goal is to educate the reader so that they can have solid basis from which to begin their Investing journey in financial markets.

The book consists of three independent sections emphasizing essential vocabulary and concepts.

SECTION 1:

BUSINESS BASICS FOR INVESTING

- General Finance
- Accounting
- Economics
- Management

SECTION 2:

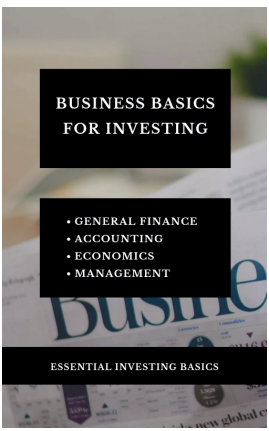
INVESTING VOCABULARY

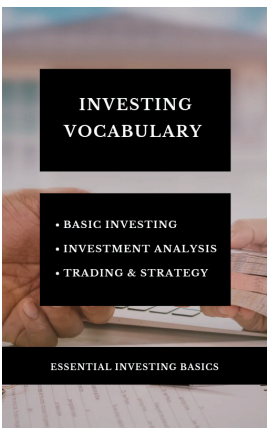
- Basic Investments
- Investment Analysis
- Trading & Strategy

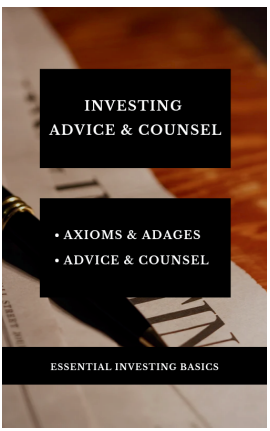
SECTION 3:

PEARLS OF WISDOM

- Axioms & Adages
- Advice & Counsel







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BUSINESS BASICS FOR INVESTING

- GENERAL FINANCE
- ACCOUNTING
- ECONOMICS
- MANAGEMENT

ESSENTIAL INVESTING BASICS

BUSINESS BASICS

1.

"TIME VALUE OF MONEY"

This is an important concept in the valuation of assets. Put simply, a dollar received today is worth more than a dollar received a year from now. Because if I receive a dollar today, I can invest it and receive interest on it for a year. Therefore, in a year I will have my dollar plus some interest more. This is the Time Value of Money.

In business, even more options exist. A dollar received today can be invested in high-returning projects or could pay off high-rate credit card debts.

So when discussing terms with both vendors and customers, remember the maxim that a dollar today is worth more than a dollar tomorrow and use it to make decisions accordingly.

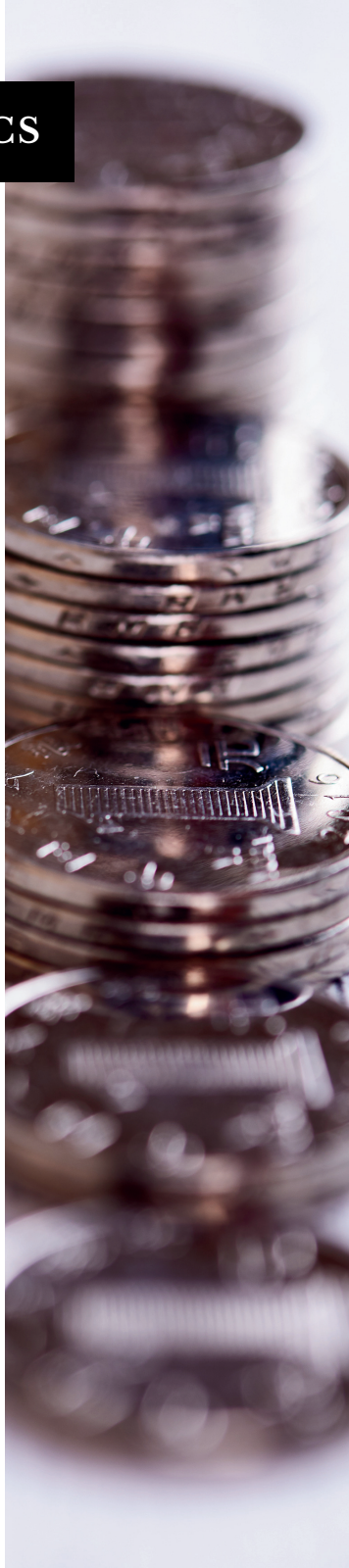
2.

"COMPOUNDING"

Compounding in business is the mathematical result that occurs when something happens repeatedly over many periods of time. If something happens again and again over many years, the end result is exponentially grown as a function of the continued string of events.

An example: If we have $1,000 and we earn 10% each year. The first year, we received $100 in interest. When we add this to our initial money, we have $1,100. When we receive interest in the 2nd year, it will be $110, giving us a total of $1,210. In the 3rd year, we receive interest of $121 giving us $1,331.

This increasing interest effect, from $100 to $121 over two years is compounding.



BUSINESS BASICS

3.

"INTEREST / INTEREST RATE"

Interest is a financial element of a loan agreement, in essence, the price one pays for being able to take a loan. Interest is the rate of payment made for the pleasure of having that loan.

As an example, we can have a loan for $10,000 with an interest of 10%. Most loans come with an interest payment requirement, which means the borrower must pay a fee based on a declared rate multiplied timed the total principle amount. In our scenario, 10% of $10,000 or doing the math, $1,000.

So in this scenario the total payments of Principal and Interest from borrower to lender is $11,000.

BUSINESS BASICS

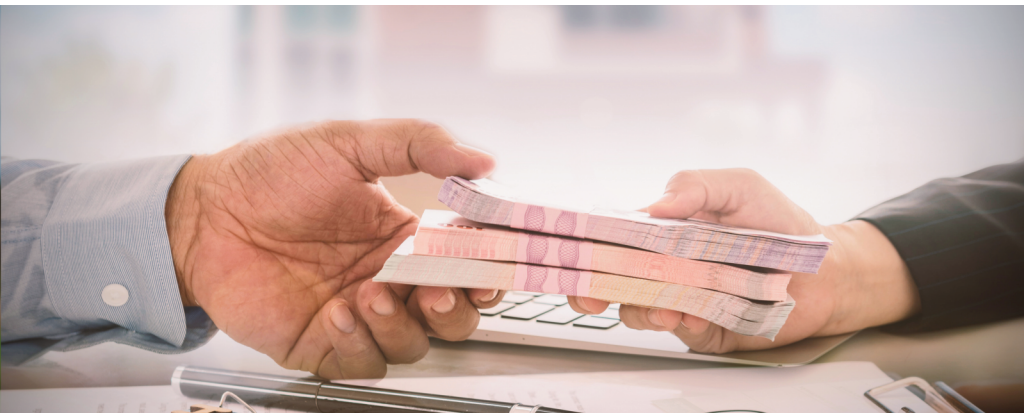
4.

"PRINCIPAL"

Principal is the total amount of money that is borrowed in the loan, thus it represents the money, not including interest, that needs to be paid back. It is important to remember that one will ultimately pay more than the Principal when one repays the loan.

As an example, we take a loan for $10,000 with an interest of 10%. Here the Principal amount is the $10,000, and that is the total amount that needs to be repaid. Additionally, most loans come with an interest payment requirement, which means the borrower must pay a fee based on a rate times the total principle amount.

So in this scenario the total payments of Principal and Interest from borrower to lender is $11,000.



5.

"OPPORTUNITY COST"

In business we have limitations on certain assets such as Cash and Time. As such we need to make decisions on where to invest these most precious of assets. Since generally we cannot bet on all things at once, that means that certain opportunities will be pursued while others will not. From this state of affairs comes the idea of an Opportunity cost.

Opportunity cost is the price we pay for pursuing one activity while not pursing another. In theory, doing one activity precludes us from doing something else with our limited assets. So in business, we think of an opportunity lost and recognize that we want the activity we chose to create a greater return than the one we chose not to attempt.

6.

"LIQUID / ILLIQUID"

In Business, Liquid means how easy an asset can be turned into cash that can be used. Obviously that means that cash is the most liquid of assets. But other assets can be made liquid relatively quickly like public-traded stocks or a business's Accounts Receivable.

Illiquid assets are those that cannot be easily turned into cash for use. A Picasso painting for instance is a valuable asset, but not very liquid.

Liquidity is also a measurement of how liquid a person's or a business's assets are. One is said to be liquid when the have a sufficient level of liquid assets and the converse is true with illiquidity.

BUSINESS BASICS

7.

"PRESENT VALUE"

When Finance people consider investments and the price they are willing to pay for some asset, they usually are evaluating the cashflows that the asset will bring over time. The concept of the Time Value of Money tells us that future cashflows are worth less than the cash received today.

So often potential investors or purchasers of assets will analyze the future cashflows in their Present Value. This is calculated by “discounting” future cash flows into their value today, or Present Value. The calculation is a bit complex and depends on the rate of discounting and the time over which the discount occurs but the concept is important in evaluating investments. So remember, $1,000 received five years from now is worth less in today’s dollars.