Securities Management

by Sophia

WHAT'S COVERED

In this lesson, you will learn about debt securities, equity securities, and derivatives. Specifically, this lesson will cover:

1. Marketable Securities

Marketable securities is a broad term that encompasses investments a business may make within the securities market. The advantages of these types of securities can vary depending on the business, but generally, they are valuable investments with reasonably high returns that are still easily translated into cash. It is also worth noting that these types of investments can be used to hedge various types of risks.

These types of investments are reported on a balance sheet as cash and cash equivalents due to their liquidity, as well as short-term investments and, in some instances, long-term investments, and can provide businesses with rapid access to capital.

The Procter & Gamble Company (PG) - NYSE Add to Portfolio

80.45 ↓0.09(0.11%) 23 Jun 1:30AM

Balance Sheet Get Balance Sheet for: GO

View: **Annual Data** | Quarterly Data All numbers in thousands

Period Ending	30-Jun-2014	30-Jun-2013	30-Jun-2012
Assets			
Current Assets			
Cash And Cash Equivalents	8,558,000	5,947,000	4,436,000
Short Term Investments	2,128,000	-	-
Net Receivables	7,478,000	7,456,000	7,069,000
Inventory	6,759,000	6,909,000	6,721,000
Other Current Assets	6,694,000	3,678,000	3,684,000
Total Current Assets	**31,617,000**	**23,990,000**	**21,910,000**
Long Term Investments	-	-	-
Property Plant and Equipment	22,304,000	21,666,000	20,377,000
Goodwill	53,704,000	55,188,000	53,773,000
Intangible Assets	30,843,000	31,572,000	30,988,000
Accumulated Amortization	-	-	-
Other Assets	5,798,000	6,847,000	5,196,000
Deferred Long Term Asset Charges	-	-	-
Total Assets	**144,266,000**	**139,263,000**	**132,244,000**

This image above depicts a balance sheet from Proctor & Gamble, where the cash and cash equivalents, short-term investments, and long-term investments underline the various line items that may depict marketable securities.

TERM TO KNOW

Market Securities

An investment option for organizations with strong liquidity and some potential strategic purposes in risk aversion.

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2. Types of Marketable Securities

Marketable securities can include a variety of business investments, most of which are easily exchanged via a public exchange. These include debt securities, equity securities, and derivatives. Each of these investment types have different degrees of risk (and respective return), as well as relatively different functions from a strategic investing point of view.

2a. Debt Securities

The most common types of debt securities are corporate bonds, government bonds, and money market instruments. Bonds function on fixed-term contracts, generally long-term, offering a fixed rate of return at an extremely low level of risk. The reason the risk is so low on these particular instruments is due to the fact that in the circumstance of a bankruptcy or default on payments on behalf of the representing organization (in commercial bonds, the company who issued it, and on government bonds, the government that issued it), the holder of a debt security will be among the first stakeholders paid out when assets are liquidated.

2b. Equity Securities

Another common instrument of investment for organizations investing in cash equivalents is common and preferred stock. Buying equity in other organizations can provide a variety of benefits, depending on the scale of the investment being made. Equity investments tend to yield higher returns (at higher risk), while also granting shareholders a percentage of ownership over the organization being invested in.

2c. Derivatives

Perhaps the most interesting marketable securities, and often the highest risk, are derivatives. As the name implies, **derivatives** derive their value from the performance of an underlying asset. These underlying entities can be indexes, assets, interest rates, or a variety of other financial devices. The reason they can be so dangerous is due to the fact that, as derivatives of another asset, they can be subjected to an amplification of the risk the underlying asset is subjected to.

> ↪ EXAMPLE The 2008 economic recessions are largely due to the irresponsible utilization of derivatives – in that case, primarily those reliant upon debts, such as home mortgages.

However, at the business level, derivatives have unique value due to the ability to hedge against various risks. Hedging is the process of purchasing derivatives counter to business risks being experienced, in order to offset any fluctuation in the external environment which may adversely affect profitability. This sounds confusing but is actually much simpler than it seems.

Types of Hedging	Example
Hedging against	When operating in a global market different than that of the home office, it is common to encounter the risk of fluctuating currencies. Let’s say that a company operating in both the United States and Australia (headquartered in the United States) is worried about exposure to

foreign currency risk	the Australian dollar. They obtain 50% of their revenue in Australian dollars and therefore have a great deal of short-term assets in Australian dollars. By purchasing derivatives, the organization can profit from a decrease in value for the Australian dollar to offset what would have been lost in the valuation of their short-term assets.
Hedging against commodity prices	This type of hedging can relate to inventory. You own a coffee shop, so naturally, you're buying a lot of coffee beans. You budget $500,000 for the purchase of coffee beans over a given quarter for all of your many successful locations. However, you buy them in batches over time. If the price of coffee beans spikes up, your $500,000 won't buy you nearly as many coffee beans as you projected you would need. As a clever investor, you purchased derivatives in coffee beans to make sure you would offset this loss with profits in the exchange market.

TERM TO KNOW

Derivatives
An investment option valued at the performance of an underlying asset.

SUMMARY

In this lesson, you learned that **marketable securities** are highly liquid investments that a business can make to generate returns and hedge against risk while preserving easy access to capital. You also learned about the differences between three different **types of marketable securities: debt securities, equity securities, and derivatives**.

Best of luck in your learning!

TERMS TO KNOW

Derivatives
An investment option valued at the performance of an underlying asset.

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An investment option for organizations with strong liquidity and some potential strategic purposes in risk aversion.