

# Basics of Investing



# Presenter Information



Ryan Nelson, CFA  
Co-Founder and Portfolio Manager  
RedTree Investment Group  
Ryan@redtreeinv.com  
888-596-2293  
513-758-8494



# Topics to Cover

- Update on markets
- Review of all investment options for Ohio public entities
- Best practices when investing
- Investing in today's markets





# Market Considerations

- State of the economy
- Employment outlook
- Inflation concerns
- Global view
- Current Federal Reserve policy



# Review of ORC 135 Investment Options



# Ohio Investment Laws

- ORC 135.14: Schools, Townships, Cities, etc
- ORC 135.35: Counties or other agencies
- Charter City: Can write own investment guidelines



# Investing Funds

- Reread your investment policy
- Understand cash flows and potential changes
- Remember the objectives
  - Safety of Principal
  - Liquidity
  - Market Rate of Return
- Communicate
  - Governing Board
  - Investment professionals





# Investing Funds - Considerations

- **Investment Policy**

- Must be filed with Auditor of State – upload to eServices>Document Manager tab
- Not required if annual average portfolio of investments is \$100,000 or less
- Investment services providers must acknowledge

- **Investment Risks**

- Market
- Liquidity
- Credit
- Reinvestment
- Political



# Types of Service Providers

Banks	Investment Advisors	Brokers
Work with banks you know and trust	Serve as a fiduciary in the client's best interest	Follows suitability standards
Make sure they understand the requirements of collateral	Ask who they work with?	Who do they sell securities to?
Do they assist other public entities?	What are their credentials?	Do they have experience in public fund investing?
Understand fee structure	How are they compensated?	What is their compensation on trades?
Visit <a href="http://www.fdic.gov">www.fdic.gov</a> for more information on bank	Visit <a href="http://www.investor.gov">www.investor.gov</a> for more information on firm	Visit <a href="http://www.finra.org">www.finra.org</a> for more information on broker



# Bank Deposit Accounts

## Types

- Payroll account(s)
- Checking account(s)
- Savings account(s)
- Money market accounts/ICS accounts

## Security of Account

- Collateral
- FDIC Insurance



# Bank Accounts - Considerations

- Rates on accounts
  - Rate is specific for your entity
  - Understand earnings credit value
- Security
  - Collateral
    - Pooled – Ohio Pooled Collateral System
      - What is your agreed collateral? 50% or 102%
      - Pledged- 105%
  - FDIC
    - Keep track of FDIC coverage



# STAR Ohio

- Money market program
- State administered
- Daily liquidity
- Daily interest income



# STAR Ohio - Considerations

- Not guaranteed by State of Ohio
- Not FDIC insured
  
- Review investment policy of STAR
- Review investment holdings  
<http://tos.ohio.gov/investor-data/>



# Certificates of Deposit

- **Traditional Certificate of Deposit (CD)**
  - Possibly backed by FDIC insurance up to \$250,000
  - Backed by collateral
- **CDAR**
  - Backed by FDIC insurance
  - Multiple banks will be involved
- **Brokered or Marketable CD**
  - Purchased from broker
  - FDIC insured up to \$250,000 *per Tax ID*



# FDIC Insurance

- Review FDIC insurance
- \$250,000 per FDIC number of banking institutions
  - Keep direct purchases less than \$250,000 to include accrued interest
- Banks do fail, understand the process
- <https://research2.fdic.gov/bankfind/>

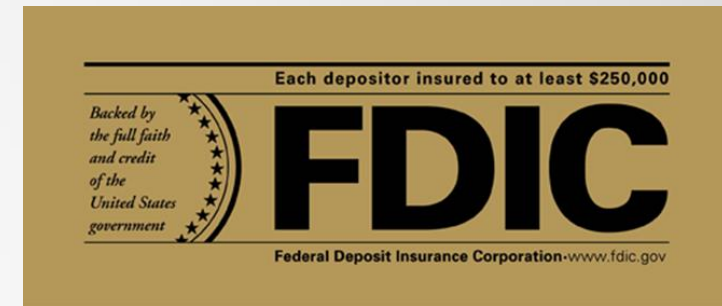
**Since 1933, no depositor has lost a penny of FDIC-insured funds**





# FDIC Insurance - Considerations

- Review all FDIC exposure
  - Local banks
  - ICS money markets
  - Traditional CD's
  - CDARs
  - Brokered CD's
- \$250,000 per FDIC number of banking institutions
- Have a process to track and cross reference FDIC numbers
- Communicate any new purchases to investment professionals



# US Treasuries

- Full faith and credit of the U.S. Government
- Typically is a very liquid security
- Offered in:
  - Treasury Bills- Up to one year
    - Offered a discount rate to par
    - Pays income at maturity
  - Treasury Notes – Up to 5 years
    - Set coupon rate
    - Non- callable
    - Pays interest semi-annually



# US Treasuries - Considerations

- Since typically offers the most liquidity = lowest yield of all options
- Can buy in increments as low as \$1,000



# US Government Agencies

- Full faith and credit or implied backing by the US Government
- Examples include:
  - **FHLB** – Federal Home Loan Bank
  - **FNMA** – Federal National Mortgage Association (Fannie Mae)
  - **FHLMC**- Federal Home Loan Mortgage Association (Freddie Mac)
  - **FFCB**- Federal Farm Credit Bank
- Offered in:
  - Discount notes up to one year
    - Pays interest at maturity
  - Customized structures
    - Up to 5 years in maturity
    - Bullet or no call structure
    - Multiple call structures
    - Typically pays interest semi-annually



# US Gov't Agency - Considerations

- Have thorough understanding of markets and structures
- Market risk- Value will fluctuate over life of security
- Understand different call structures:
  - Issuer can redeem at par before maturity
    - One time
    - Monthly
    - Quarterly
    - Continuous
- Coupon:
  - Fixed
  - Step-up
  - Floating
- More options = more research!!



# Municipal Bonds - 135.14



- Can purchase **general obligations** of the State of Ohio or other political subdivisions of the State
- Parameters under ORC 135.14
  - Can own up to 20% of interim funds
  - Must be rated in three highest categories of at least one rating agency
  - Cannot be sole owner of the entire issue
    - IE- Cannot buy an entire note issue
  - Bonds can mature within 10 years of purchase
- Must complete one-time training through Treasurer of State



# Municipal Bonds – 135.35

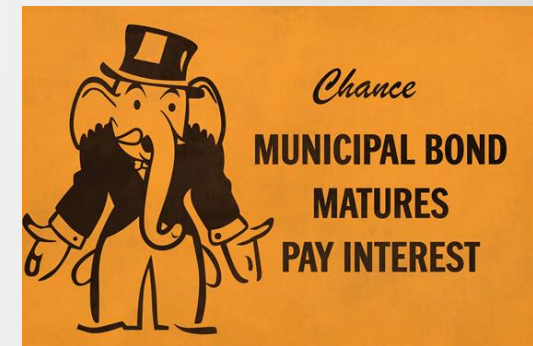


- Can purchase obligations of the State of Ohio or other political subdivisions of the State
- No set limitation on allowable percentage of total investments
- No specific additional training required
- Mature within ten years from date of settlement



# Municipal Bonds - Considerations

- Have an understanding of the issuer and credit
- Supply of bonds not high
- Municipal bonds are typically a buy and hold to maturity
  - Liquidity is not great
- Risk tolerance of entity
- Bonds typically are issued at premium to par
  - Understand accounting of premium





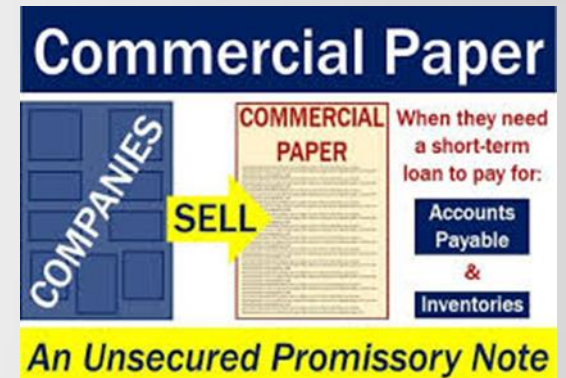
# Commercial Paper

- Short-term debt obligation of a company/financial institution
- Not guaranteed by the company
- Parameters under ORC 135.14 and ORC 135.35
  - To purchase must have additional one-time training through Treasurer of State
  - Own up to 40% of interim funds (135.14) or total average portfolio (135.35)
  - Must be rated in highest category from two rating agencies (Moody's and S&P)
  - Maximum of 5% of total interim funds in any one issuer at time of purchase



# Commercial Paper - Considerations

- Risk tolerance of the entity
- Thorough understanding of credit risk
- Typically offers high liquidity, but recent market disruptions have led to lessened liquidity
- No two issuers the same
  - Have knowledge of issuer
  - Retrieve comparative rates for multiple issuers
- Keep excellent records of 40% of investments calculation and 5% issuer calculation



# Corporate Securities

- ORC 135.35 permits up to 15% total average portfolio in corporate securities
- Must be rated A or better and have a three-year maximum maturity
- Understand what you are buying and the risk associated
  - Credit risk
  - Liquidity risk



# Accrued Interest

- Accrued interest may occur when:
  - Purchasing Treasury notes, Agency notes or brokered CD's
  - If purchased between scheduled coupon dates- will have purchased accrued interest
- Will pay the accrued interest and receive back at scheduled coupon date
- Accounting for accrued:
  - Can show as negative interest in month of purchase
  - Communicate



# Premium

- Premium on a bond purchase may occur:
  - When purchasing Treasuries, Agencies, Muni's or CD's
  - Bond offered is greater than par value (100)
  - The coupon rate is greater than the yield
  - Prevalent in today's markets as yields have dropped
- Accounting for premium
  - If bond offered at \$102.00, means at premium
  - If purchased \$500,000 will pay \$510,000 ----will mature at \$500,000
- The \$10,000 difference can be amortized down over life of bond or show as lump sum loss at maturity



# Investing Today

- Follow the ever-changing markets
- Update interest income expectations
- Review cash flow forecast
- Understand risk of investing
- Communicate
- Inform investment professionals



**Thank You**



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