Investment Fundamentals
Including
Their Effects on Pensions

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Specfab Industries Ltd.

Edmonton, Alberta

2013

ISBN 978-0-9916849-2-2

Publisher: Specfab Industries Ltd.
13559 - 123A Avenue
Edmonton, Alberta, Canada
T5L 2Z1
Telephone: 780-454-6396

Printer: PageMaster Publication Services Inc.
11434 - 120 Street
Edmonton, Alberta, Canada
T5G 2Y2
Telephone: 780-425-9303

Cover Designs: Front: Graph depicting Investment Choices
Back: Poem from *Exposed to Winds*

Preface

Thousands of good books have been written about investments, and we certainly do not need another one. However, some of my readers expressed the wish to have the scattered comments about investments in my books consolidated in one separate booklet. I decided to comply, and assembled the relevant excerpts for this publication. For example, the excerpts for the Subsection *Phil's Valuable Lessons* in Section *1* came from the book *Anecdotes of Would-be Experts.*

I also added a few parts from my notes for a future book I intend to publish.

Arthur O.R. Thormann
February 2013

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Some Fundamentals

Phil's Valuable Lessons: Phil and Les both worked for the Midwest division of Belvue Industrial Constructors. Phil looked after sales, and Les looked after operations. Phil was in the habit of starting early – reading the news papers, for the most part.

Les had to fight the weather and slow traffic on his way to the office. Snow and rain were coming down together, and his windshield was soon covered with a sheet of ice. He pulled over, turned his defroster to full blast, and waited for the ice to melt.

When Les got to the office, Phil was hiding behind *The Wall Street Journal*. Les poured himself a steaming cup of coffee and went back to join Phil.

"Find any good investments?" he asked Phil.

"I'm reading the journal for business purposes, Les. It would take much more time to find good investments. In fact, I've decided to do just *that* – spend more time looking for good investments. Up till now, I've spent more than half my day in the assuming the shareholders put up insufficient capital to finance the company's operations.

Investors are, or should be, quite concerned about a company's debt-to-equity ratio. The higher this ratio, the more likely the company will experience financial problems eventually, especially with rising interest rates. High interest rates can easily swallow a company's profits, at the shareholders' expense, and may even result in losses. The debt-to-equity ratio is one of the most important ratios investors must determine before deciding to invest in a company.

Selecting Stocks or Bonds: Investors would be far better off to take some precautions when selecting stocks or bonds. These precautions do not have to be elaborate. We can find some published data on almost all companies, and we can reach sound conclusions on the true value of a company with very little effort. To help investors, I have decided to list three considerations that investors can follow when selecting company stocks and bonds:

The first consideration should be to pick the type of industries and/or products of interest. Example: do you want to invest in the energy and materials industries, and, if so, what kind of energy (oil, gas, coal, etc.) and what kind of materials (gold, copper, nickel, etc.)?

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