



INVESTING

Stocks are sometimes called equities. Equity means ownership. If you own a stock, you have equity in, or own, a portion of the company that issued the stock. You become a shareholder in the company.

People buy stock because they expect to earn a return; however, there is no guarantee. The main disadvantage of owning stock is the risk of losing part or all of your investment. One way people can earn money from stocks is by selling the stock for a higher price than they paid for the stock. When people buy stock on a stock market, the people selling the stock receive the money.

A stock dividend is a share of the company's net profits paid to the shareholders. In a stock table, "Div" stands for dividend. An ownership share in a corporation with a guaranteed dividend is a preferred stock.

In a stock table "Yield" represents the dividend as a percentage of the price. When the P/E ratio of a company is high for its industry, investors expect the company to earn higher profits in the future.

The use of basic information about a company—size, sales, earnings, and stock price—to make investment decisions is called fundamental analysis. Fundamental analysts use the P/E ratio in researching the company's stock.

Choosing little-known companies with strong prospects for growth is an acceptable method of selecting stocks to buy.

If you purchased 85 shares of Nike stock and the price was \$75 per share, you'd spend \$6,375 ($85 \times \$75 = \$6,375$)

In general, stocks are a more risky investment than bonds, and thus stocks have the potential for higher rates of returns than bonds do.



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When shares of stock are first issued, they are sold to investment banks. The investment banks pay the corporation for the stocks. The primary market is when an investment bank buys a corporation's stock.

Investors trade stocks in the secondary markets. The New York Stock Exchange is an example of a secondary market. It is the largest stock market in terms of total value of shares traded. The NASDAQ Stock Market is another secondary market. It is considered the home of tech stocks. Unlike other types of "markets," stock markets are not always in a physical location.

Buying stock "on margin" means the investor buys stock on credit or with borrowed money. An investor who buys stock on margin thinks the price of the stock will increase quickly. Bullish stock buyers increase their gains by buying stock on margin.

Selling stock short means selling stock you don't own. An investor who sells a stock short thinks the price of the stock will decrease quickly.

A bond is a certificate representing a loan from an investor to a corporation or government entity. A bond that pays all of its interest and principal at the bond's maturity date is called a zero-coupon bond.

The type of bond that is the least risky for investors is a treasury bond. The bondholder of a municipal bond does not have to pay federal tax on the interest.

The "yield to maturity" in a bond table represents the return a bondholder would get by buying a bond at current prices and holding it until all interest and principal repayments had been made.

Generally speaking, as the bond rating improves, the coupon rate declines.



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A mutual fund is a pool of money used by an investment company to buy a variety of stocks and bonds. If you invest in a mutual fund, you become a shareholder in the fund. An advantage of investing in mutual funds is diversification. With investments, diversification means spreading investment funds out over various investment options in an effort to reduce risk.

One of the advantages of a no-load mutual fund is that investors do not pay a sales commission. Some mutual funds have what is known as a 12b-1 fee associated with them. This is a fee to pay for advertising the fund.

In a mutual fund, the price per share that investors pay is called the net asset value.

A good reason for investors to invest in foreign markets is to diversify their investment portfolio.

A capital gain is when an investor buys an investment at one price, and then sells it for a higher price. Example: an investor buys Green Energy company's stock for \$25 a share, and then sells it for \$30 per share.

If the Dow Jones Industrial Average was at 10,000 at the beginning of the year and it gains seven percent (7%) in the first quarter of the year, it becomes 10,700. ($10,000 \times .07 = 700$. $10,000 + 700 = 10,700$)