

Chapter 6

Section 2

Investing: Taking Risks With Your Savings

Stocks



What are they?	What does the company get?	What does the investor get?
Each share gives part ownership in the company	Funds for use is expanding its business	Entitled to a part of the future profits & assets.

Stocks are also known as *securities*

As proof of ownership, you get a stock certificate

Stock Returns

- Stockholders-People who have invested in a corporation and own some of its shares of stock.
- Stockholders benefit in 2 ways:
 - Dividend ~ return on each share when company has a profit
 - Selling the stock for more than they paid for it

Capital Gains and Losses

- Capital gain: increase in value of an asset from the time it was bought to the time it was sold.
- Capital loss: decrease in value of an asset from the time it was bought to the time it was sold

Capital Gain & Loss *Examples*

- You buy a stock for \$20 and sell it for \$30, you make a profit of \$ **10** which is called a ***Capital gain***
- You buy 10 stocks for \$15 and sell them for \$7, you lose \$ **80** which is called a ***Capital loss***

Reading a Stock Table

- Overhead
- Worksheet
- Need to know for tomorrow when we go to the lab
- Tomorrow: Picking Stocks

Bonds

- A certificate issued by a company or the government in exchange for borrowed funds.
- It promises to pay a stated rate of interest over a specific period of time plus the original amount
- This date is called maturity
- Bondholder is NOT part owner in company (or government)
 - Bondholder is sometimes called creditor b/c the company or govt is in debt to them

Tax Exempt Bonds

- Bonds sold by local and state governments
- Interest is NOT taxed by federal gov't.
- Good investment for wealthier people who would otherwise pay taxes on investments

Savings Bonds

- Bonds issued by the Federal Gov't as a way of borrowing money; they are purchased at half the face value and increase every 6 months until full face value is reached.
- *Example:* Buying a \$50 savings bond for \$25. It increases in value every 6 months until maturity.

T-Bills, T-Notes, and T-Bonds

■ Similarities

- All are certificates issue by the Treasury Dept. of the Federal Government
- Minimum amount is \$1000

■ Differences:

- T-Bills mature in a few days up to 26 weeks
- T-Notes mature in 2 – 10 years
- T-Bonds mature in 30 years

Stocks Summary

1. All corporations issue or offer to sell stock. That act is what makes them corporations
2. Stocks represent ownership
3. Most stocks do not have a fixed dividend rate
4. Dividends on stock are paid only if the corporation makes a profit.

Stock Summary Continued...

5. Stocks do not have a maturity date. The corporation issuing the stock does not repay the stockholder.
6. Stockholders usually elect a board of directors who control the corporation.
7. Stockholders have a claim against the property and income of a corporation only after the claims of all creditors (including bondholders and holders of preferred stock) have been met.

Bonds Summary

1. Corporations are not required to issue bonds
2. Bonds represent debt
3. Bonds pay a fixed rate of interest
4. Interest on bonds normally must always be paid, whether or not the corporation earns a profit.

Bonds Continued...

5. Bonds have a maturity date. The bondholder is to be repaid the value of the bond, although if the corporation goes out of business, it does not normally repay the bondholder in full.
6. Bondholders usually have no voice in or control over how the corporation is run.
7. Bondholders have a claim against the property and income of a corporation that must be met before the claims of any stockholders, including those holding preferred stock.

STOCK & BOND MARKETS

- *Main Idea: Ownership of stocks and bonds can be transferred on centralized exchanges or in decentralized markets.*
- Broker: person who acts as a go-between for buyers and sellers of stocks and bonds.
 - Could be a firm (real person)
 - Could be online Internet brokerage firm
 - Fees range



36380 DJ MARKET TALK:
36300 DJ INTERBANK FOR
INDU -195.14 VOLU 1.13
INDP 9646.26 UVOL 288.7
UTIL +1.90 DVOL 823.
TRAN -84.10

Stock Exchanges

- Largest—New York Stock Exchange (NYSE)
 - Company must prove they are in good financial condition
 - Most are among the largest, most profitable corps. in the country.
- Over-the-Counter Markets – for stocks not listed on the organized exchanges
 - Largest – NASDAQ (National Association of Securities Dealers Automated Quotations)



Stock Market Indexes

- Measures of what is happening to a given set of stock prices for a specified list of companies
- The most well known is the Dow Jones Industrial Average – “The Dow”
 - Tracks 30 major industrial companies
- Standard & Poor’s 500 (S&P 500)
 - Tracks stock prices of 500 companies

Bull & Bear Market



- Bull Market – refers to when stock prices move up steadily
- Bear Market – refers to when stock prices have been dropping for a period of time.



Bond Markets

- Two largest:
 - NY Exchange Bond Market
 - American Exchange Bond Market
- Also sold over-the-counter and on the internet
- Probably should consult a financial adviser if interest in bonds

Mutual Funds

- Investment company that pools the funds of many individuals to buy stocks, bonds, or other investments.
- Most hold a variety of stocks or bonds
- Losses in one area are likely made up for by gains in another area
- Medium Interest rates, Medium risk involved
- Not insured by Federal Government

Money Market Funds

- Type of Mutual fund that uses investors' funds to make short-term loans to businesses and banks.
- Must be above \$500
- Not insured by Federal Government

Government Regulations

- Regulated to protect investors at both state & federal levels
- Securities and Exchange Commission (SEC)
 - Administers all federal securities laws
 - Investigates and dealings among corporations, such as mergers (that could effect the value of stocks)
- States laws are designed to prevent schemes that would take advantage of small investors