Chapter 11 Section 1

Savings and Investment

Savings and Investment

- Savings: money you make but don’t spend
- Investment: putting your money to work for your future
- Personal Investment: buying financial assets that will hopefully increase in value over time

Financial Intermediaries

- FI: Brings investors and borrowers together

- Takes money invested or saved and lends it to borrowers

Types of Financial Intermediaries

- Banks
- Stock market

- Mutual Funds: purchased like a stock, but you and all other shareholders invest in assets (likes stocks and bonds) chosen by the mutual fund company

Chapter 11 Section 2

Investing in a Market Economy

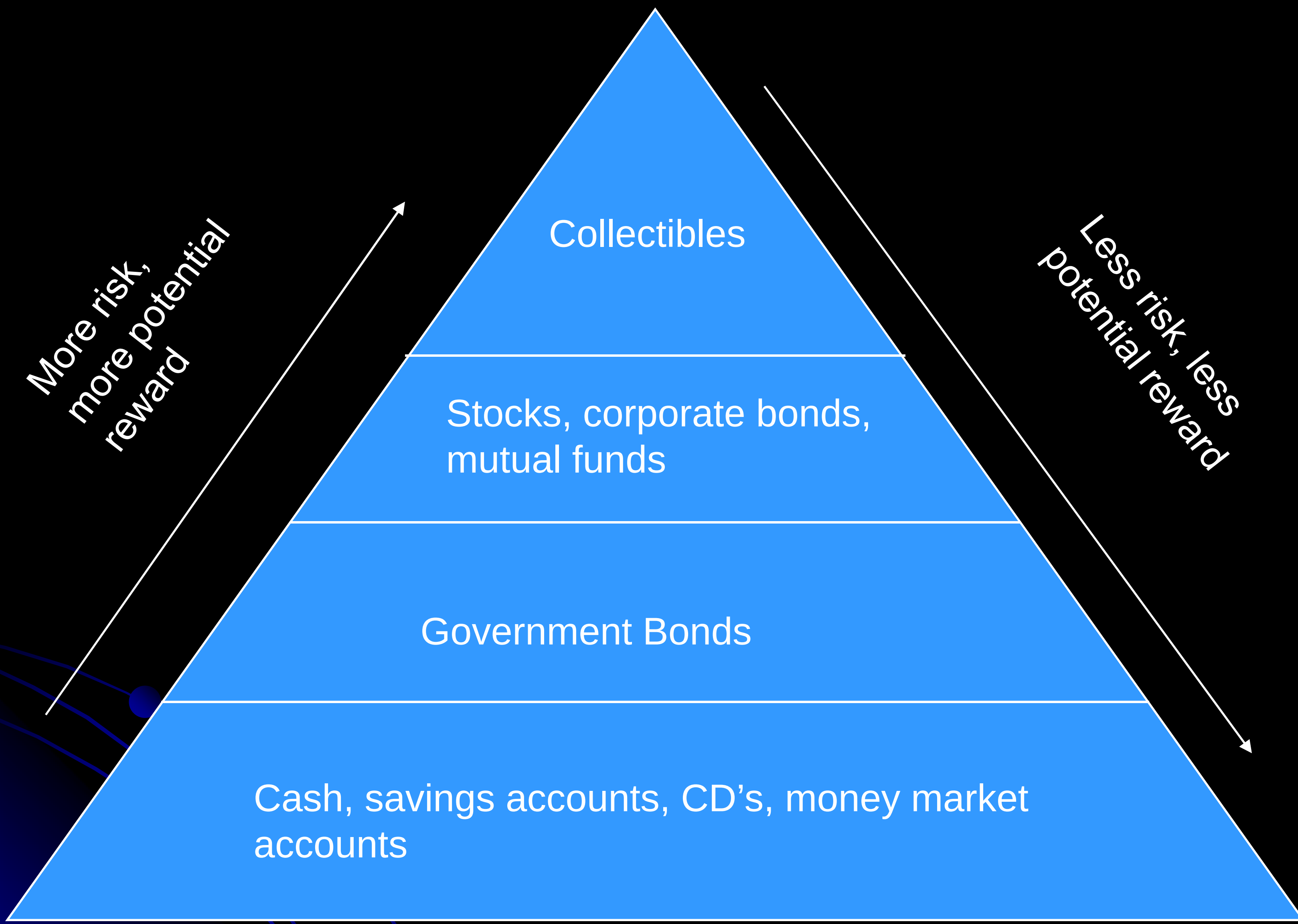
Why are you investing?

- What is your investment objective?
  - Make money quickly
  - Invest for retirement
  - Keep money safe
  - Save for house, vacation, college

  - Depending on your answer, you choose different investments

Investment Tips

- PAY OFF DEBT FIRST!!
- High risk=high POTENTIAL reward
- For long term: riskier, higher rates of return
  - Ex: stocks, mutual funds, bonds, long term CD
- For short term: safe, more liquid
  - Ex: savings account, money market account, short term CD



To invest smart, start at the bottom and work your way up!!!

Diversification

- Very Important!!
- “Don’t put all of your eggs in one basket”
- Hold different types of investments to minimize risk

If you hold one stock and it tanks, life is bad. If you hold 100 stocks and one tanks, life is not so rough.

Also, diversify between stocks, bonds, mutual funds

Chapter 11 Section 3

Buying and Selling Stocks

Buying and Selling Stocks

- Stock exchange: a secondary market where stocks and bonds are sold.

Buying and Selling Stocks

How do stocks make money?

Dividends: portion of profits paid to shareholders

Capital Gains: The difference between price paid and price sold.

- Be careful!!
  - You could experience a **capital loss** if you sell for less than you paid

Types of Stock

- Common: you get a vote and share of profits (after preferred is paid). Mostly purchased for capital gains. Known as growth stocks.
- Preferred: no vote, but likelier dividends. Mostly purchased for dividends. Known as income stocks.

Trading Stock

- Stock exchange: a market where securities are bought and sold
  - NYSE (New York Stock Exchange) oldest and largest in US
  - NASDAQ: trades securities electronically. Mostly technology stocks (Apple, Google, etc)
  - Others located in Chicago, Boston, Philadelphia
  - A stock is traded on a particular exchange

Futures and Options

- Options: contract to have the right (but not obligation) to buy or sell a stock on a future date for a preset price.

- Futures: contract to buy or sell a stock on a future date for a preset price.

Futures and Options

- Buyer wants to lock in a low price
- Seller wants to lock in a high price

- Stock options are often benefits for high-ranking employees.

Stock Indexes

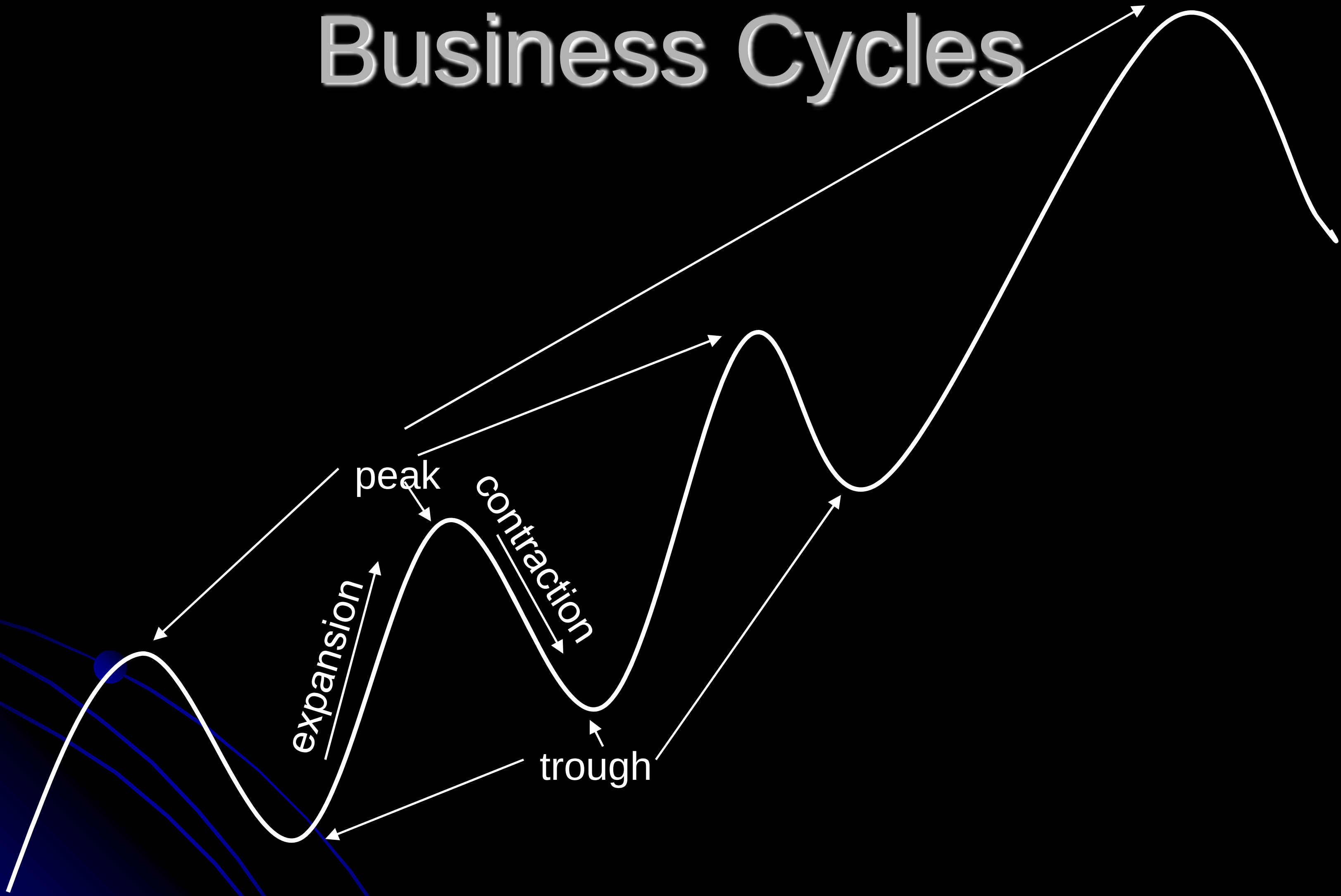
- Stock index: group of stocks reported upon as one unit. Gives an overall picture of stock market
  - S&P 500: 500 mostly American stocks
  - The Dow: 30 stocks representing most important sectors of economy
  - FTSE 100 (Britain)

Trends in the market

- Bull market: good times. Increasing stock prices over a long period.

- Bear market: bad times. Decreasing stock prices over a long period.

Business Cycles



Chapter 11 Section 4

Bonds and Other Financial Instruments

Bonds

- A loan you make to a business or govt

Why buy them?

coupon rate: interest received yearly until maturity. You collect $$ every year

yield: annual rate of return

Bonds

- What is par value?

  - Depending on demand, a bond could be purchased for more or less than par value

  - If you buy a $100 bond for $100 you are paying par value
    - Pay $90, less than par value
    - Pay $110, more than par value

Bonds

- Par value: the “face price” of the bond
  - Depending on demand, a bond could be purchased for more or less than par value

  - If you buy a $100 bond for $100 you are paying par value
    - Pay $90, less than par value
    - Pay $110, more than par value

Types of bonds

- US govt:
  - Treasury bonds: maturity of over 10 years
  - Treasury bills: maturity of one year or less
  - Other types also available

Types of bonds

- Municipal or “muni” bonds
  - Issued by state or local govts
  - Used to finance local projects like roads, schools, bridges, pools

Types of bonds

- Corporate Bonds: issued by companies. Usually pay a higher coupon rate than govt.

- Junk Bonds: risky corporate bonds, with high coupon rates.

Certificates of Deposit

- What is a CD?

What is the relationship between time and interest rate with regard to CD's?

Certificates of Deposit

- What is a CD? A deposit offered mostly by banks, with a maturity date. At the maturity date, principal (the amount you invested) is paid back + a fixed rate of interest.

What is the relationship between time and interest rate with regard to CD's? Longer the maturity date, higher the interest rate

Certificates of Deposit

- What is the main risk associated with CD’s?
- Interest rate risk: rates go up while your money is tied into a low-rate CD

Money Market Mutual Funds

- What types of assets do MMMFs invest in?
- Treasury bills, municipal bonds, CD's, corporate bonds.

- Why would someone invest in MMMF's?
- Very liquid, shares can be redeemed easily. Considered safe, higher yield than savings account.