Stocks

You have probably heard people talk about the **stock market**. **Stocks** are actually a way to own a small piece of a big company. When you invest in the **stock market**, you become a shareholder. Imagine owning a small piece of a company that makes something you like!

So how does this work? Let's consider an imaginary company: New Company Limited. The **stock** of the company will be listed using a symbol, which is most often an abbreviation of the name. In this case, NCL would be the symbol. A single **stock** in NCL is called a share and is considered a piece of the company. Share prices rise and fall depending on demand. For example, people will pay money for a **stock** if they think it will be successful and the **stock** will increase in value.

Dividends: If you participate in the **stock market**, when you invest, the company may also pay shareholders a part of its profits: a **dividend**. However, you only receive a **dividend** when the **stock** grows and increases in value. Furthermore, if you sell a **stock** at a higher price than you paid, you make a profit or a capital gain. However, if you sell at a lower price, you make a capital loss!

Stock Listing: You can keep track of a **stock** price in the newspaper or online. People usually look at the Dow Jones and the NasDAQ **stock** indexes. In order to read these listings, consider the definitions below the chart.

Stock Symbol	DIV	LAST	CHG
NCL	1.65	14.62	+.50
ABCZ	0	23.37	+1.25
ZZZ	2.35	44.25	-4.00
AAAZ	3.56	8.35	+2.35
ZZZZ	3.05	32.50	+1.23
YPA	1	65.90	+.65

Adapted from sample listing on http://www.handsonbanking.org/financial-education/teens/stock-listing/

Stock symbol: The symbol is an abbreviation of the company name. It is usually up to four letters long.

DIV: Dividends or the part of earnings that companies pay to their shareholders.

LAST: Most recent share price of the **stock**.

CHG: Change in the share price from the previous day.

Consider the sample **stock** listing chart above and answer these questions:

1. Which **stock** paid the most dividends?____________________
2. Which **stock** had the greatest share price?____________________
3. Which **stock** changed the most?____________Did it go up or down?____________
4. Based on the changes, what were the share prices of each **stock** the day before?

____

Stocks and Risk

Do you consider yourself a risk-taker? What are some of the consequences of taking a risk? Investing is a risk. As stated previously, if a company is successful, the share price will go up; however, if the company does poorly, the **stock** can lose value. And you can lose the money you invested!

Many risk factors exist:

- World events,
- Government,
- Investor optimism or not,
- Consumer confidence or lack thereof.

Consider how what is happening in the world can affect the company you invested in. What if there was a hurricane and the factory or offices were damaged? What if there is political unrest or war in the area where the company gets resources?

Conduct some research online to discover how some of these risk factors might influence the prices of **stocks**. Consider your search terms. For example, in the search box, type "natural disasters" and "how could it affect **stock** prices" as key phrases. What did you discover?

Risk Factor	How could it affect stock prices?
World events: natural disasters, war, political unrest	
Government: regulations	
Investor optimism or pessimism	
Consumer confidence or lack of confidence	

Although some people make a lot of money investing in the **stock market**, it is risky business. If you invest, it is also wise to consider other options, like **mutual funds**.

Mutual Funds

When a group of people combine money and pay a manager to buy **stocks** from a variety of different companies, that is called a **mutual fund**. When you buy a **mutual fund**, you invest in many companies. The idea of a **mutual fund** is that it spreads your risk because even though one of the companies may lose money, another may gain money, so you might not lose! Not all **mutual funds** gain money. If you don't want to risk losses, you can grow money safely in savings accounts, **certificates of deposit**, and **money market accounts**.

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Advantages and Disadvantages of Less Risky Investments

Generally, low-risk **investments** allow you to earn interest while having access to your cash. These **investments** are considered to have lower risks; however, they also have lower potential returns than higher-risk **investments** like **stocks.** In the *Savings* chapter we covered some of the advantages of savings accounts. For the mostpart, the best advantage of a savings account is that it is easy to access your money. The disadvantage is that it probably has one of the lowest interest rates of all other low-risk **investment** opportunities. Common examples of other low-risk investments include **Certificates of Deposit (CDs)** and **Money Market Deposit Accounts (MMDA)**:

1) Certificates of Deposit (CD): This is a specific amount of money that you deposit in the bank for a specific amount of time. For example, you might put $1000 in a CD for 6 months or one year. Generally, the longer the time you agree to, the higher the rate of interest.

   ADVANTAGES:

   - Banks pay a higher interest rate for money invested in CDs than they do on traditional savings accounts because they know you will not withdraw your money for a certain period of time.

   DISADVANTAGES:

   - You will pay a penalty for early withdrawal. This means you can't access your money without forfeiting part or all of the interest earned.

2) Money Market Deposit Accounts (MMDA): Money market accounts are similar to checking accounts because you can write a limited number of checks on a money market account each month.

   ADVANTAGES:

   - Money market accounts usually pay a higher rate of interest than CDs or savings accounts
   - You can withdraw your money at any time.

   DISADVANTAGES:

   - Money market accounts require a significant minimum balance, often $1000 or higher.

Bonds

A **bond** is another form of **financial asset.** It is like an IOU. Borrowers (government, municipalities, corporation issue **bonds** to raise money from investors who are willing to lend them money for a specific period of time When you buy a **bond**, you are actually lending the money to the government, municipality, or corporation wh issued the **bond**.

Say you buy a **bond** for $1,000.00 from the government. In reality, you loaned the government $1,000.00 You receive something extra for allowing the government to use your money: interest payments. The date th issuer has to repay the amount they borrowed from you is called the maturity date. **Bonds** are fixed-incom securities because you know the amount you will get back if you hold the **bond** until the maturity date; that i the interest rate remains the same. For example, if you buy a **bond** with a face value of $1,000.00, an intere rate of 5%, and a maturity of 10 years:

- You will receive a total of ($1,000*5%) = $50 of interest per year over 10 years.
- That means you will receive (10 years * $50) or $500 in interest after 10 years
- When the **bond** matures after the 10 years, you will get your money back with interest ($1000 + $50 = a total of $1500.

Activity: Search for some **bonds** online. Find the face values, interest rates, and maturity dates. Use the formu above to calculate the amount you would have when the **bond** matures.

Other Financial Assets

Other **financial assets** include such like real estate, collectibles, and starting your own business. Interview three friends and/or family members about their experiences with these types of assets. Did they have success with these types of **investments**? What advice did they give you?

People	Type of **Financial Asset**	Advice
Person 1		
Person 2		
Person 3		

Diversification

You may hear that it is less risky to diversity in your investments. What do you think diversification means?

Consider the following example to compare the risk between two investors.

1. Investor 1 owns a suntan lotion business and a rain umbrella business.
2. Investor 2 owns two suntan lotion businesses.

Who has taken the least amount of risk? Why?

If you said Investor 1, you are correct. Investor 1 owns two types of businesses. If it is sunny, he sells sunt lotion. If it is rainy, he sells umbrellas. If people don't like his suntan lotion, there is a chance they might like umbrellas. On the other hand, if they don't like his umbrellas, there is a chance they might like his suntan loti Additionally, if they buy his suntan lotion and like it, there is a chance they will trust his other products and b his umbrellas. On the other hand, Investor 2 only sells suntan lotion. He has only one chance to convince peo to like his product. If nobody likes his suntan lotion, he needs to close both businesses!

Diversification means investing in different types of **financial assets** because you will lower your risk if c **investment** doesn't do as well.

Activity: Interview some people who have invested and ask them questions about **investments.** What type **investments** did they think were a good or bad idea? Ask them about diversification. What are their thougt

After gathering your information, what are your thoughts on diversification? To diversity or not to diver that is the question! What is your answer?

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