



Financial Literacy Course

East High School
Module 10

What will you learn about?

- What is Investing
- In the Stock Exchanges

What is Investing?

- **Risk & Return** – Generally, the higher the risk, the higher the potential return of any money you invest. The lower the risk, the lower the potential return.
 - Example - Depositing money in a savings account versus investing in a stock.
- **Appreciation in Value** – An investment that appreciates gets more valuable over time.
- **Rate of Return (ROR)** – The ratio of the money you gain on an investment in relation to the amount of money that was invested.
 - Example – you invest \$100 and generate a \$25: $\$25 \text{ return} / \$100 \text{ investment} = 25\% \text{ ROR}$
 - ROR is often expressed in terms of the annual ROR on an investment

What is Investing?

- **Capital Gain** – The amount of money you gain from an investment. Basically it describes how much more money your investment is worth compared to the price you paid for it. For example, if you purchased an investment for \$1,000 and it's now worth \$1,500, your capital gains are \$500.
- This term is often seen when discussing capital gains tax. As you might expect, this is simply a tax on capital gains. It's important to note that the tax only applies if the investment is sold at a profit.

What is Investing?

- **Security** – A term referring to a category of investments. Stocks, bonds, mutual funds and many other types of investments are all securities.
- **Stocks** – A share of ownership in a company. Stocks are also called shares, or shares of stocks. Owning stock in a company means you actually own a piece of the company. Someone who owns stock is called a stockholder or shareholder. All the stockholders in a company share in the ownership of the company. Some stocks pay dividends, which are the company's profits divided up and distributed among all shareholders.
 - Stocks are bought and sold on stock exchanges. Stock quotes, published both online and in print, provide information about stocks' performance. The total value of all the stocks held by investors in a company is known as the company's market capitalization

What is Investing?

- **Bonds** – basically a loan – except in this case, you're the lender. When you buy a bond, you loan an amount of money to the organization issuing the bond at a certain interest rate for a certain period of time. You are paid interest from this loan at regular periods, and then, when the bond matures, you get back the initial investment plus any additional interest. Treasury and municipal bonds are specific types of bonds.
- **Mutual Funds** – A collection of investments you can buy as a single package, rather than purchasing individual stocks, bonds, and other investments yourself. Investors purchase shares of the mutual fund. The mutual fund then uses that money to buy the investments that go in the fund.

What is Investing?

Why do companies want you to invest?

- To Raise money

Other Terms

Diversifying – Diversify how your investments are invested.

Portfolio – All of an individuals' investments as a whole

In the Stock Exchanges

- **Stock Exchange** – A place where stocks are bought and sold, or trading stocks.
- **New York Stock Exchange** – NYSE is the largest stock exchange in the world in terms of amount of money traded. It's located in NYC, on Wall Street, the main financial district.
- **NASDAQ** – National Association of Securities Dealers Automated Quotations, was the world's first electronic stock market. NASDAQ trades are made via computer rather than in person or over the phone.
- **Stockbroker** – An individual who has a license to buy and sell stocks and other investments on one or more stock exchanges
- **Stock Market Indices** - Overall performance of the stock market is measured by stock market indices. A stock market uses stock prices of multiple companies to estimate the performance of the stock market as a whole. The most prominent are the Dow Jones Industrial Index, the Standard and Poor 500, and the Wilshire 5000.

In the Stock Exchanges

- **DOW** – The Dow Jones Industrial Index represents the performance of thirty of the largest companies in the United States. The idea is if those big companies are doing well, the stock market is doing well, and if they're doing badly, the stock market is doing badly
- **Standard and Poor**- Usually shortened to S&P 500, this index represents the performance of 500 companies. Most of these companies are American, but not all. Since it includes the performance of a large number of companies, some consider it to be a more accurate representation of the stock market as a whole.
- **Wilshire 5000** – Index includes stock prices from 5,000 companies. That's nearly every company traded in the United States

In the Stock Exchanges

- **Ticker Symbol** – A ticker symbol is a series of letters used to identify a stock or a mutual fund. They vary in length depending on the type of investment and the exchange where it is traded, but the purpose is always to provide a short, easy way to identify investments at a glance when reading a stock ticker
- **Stock Ticker** – A scrolling banner providing stock information, often seen at the bottom of the screen on television news programs and on electronic billboards.
- **Brokerage Account** – A brokerage account is an account you open with a stockbroker in order to trade stock on a stock exchange. The broker uses the money in the account to buy and sell stock on your behalf when you decide you would like to make a trade.