HOW INVESTORS BUY SECURITIES

Stockbroker

A registered representative who works as a market intermediary to buy and sell securities for clients. Stockbrokers place an order when the stock or bond is traded and negotiate a price. After the transaction is completed, the trade is reported to your broker, who notifies you.

5 KEY OPTIONS TO CONSIDER WHEN SELECTING INVESTMENT OPTIONS

1. ***Investment Risk:*** The chance that an investment will be worth less at some future time than it's worth now.
2. ***Yield:*** The expected rate of return of an investment, such as interest or dividends, usually over a period of one year.
3. ***Duration:*** The length of time you money is committed to an investment.
4. ***Liquidity:*** How quickly you can get back your invested funds if you want or need them.
5. ***Tax consequences:*** How the investment will affect your tax situation.

DIVERSIFICATION

Buying several different investment alternatives to spread the risk of investing.

Ex. You grandmother has given you a $1000 for your high school graduation present. Your decision is to invest it, however, not all in one company. Right below you have picked 4 companies that you thought are good to invest in and allocated different amounts of money for your total of a $1000 investment.

McDonalds: $300 (30%)
Microsoft: $200 (20%)
Procter and Gamble: $400 (40%)
Pandora: $100(10%)
Total=$1000
Thank you Grandma☺

INVESTING IN STOCKS

Capital Gains	Stock Splits	Buying stock on Margin
The positive difference between the purchase price of a stock and its sales price. *Ex. Purchased 100 shares of McDonald's stock at $20 a share on Jan 2010, which is a $2,000 investment. On Jan 2013 that stock is valued at $30 a share and you have 100 shares. The value of your investment now is $3,000. If you sold your stock on Jan 2013, you capital gains is $1,000 ($3,000-$2,000)*	An action by a company that gives stock holders two or more shares of stock for each one they own. *Ex. You buy 10 shares of stocks of McDonalds at $20 a share. McDonalds has decided to split their stock, thus you own 20 shares of stock at $10 a share.*	Purchasing stocks by borrowing some of the purchase cost from the brokerage firm. *Ex. You want to buy 100 shares of McDonald's stock at $20 a share, which is a $2,000 investment. If you only had a $1000 to spend you can borrow the other half $1,000 (50%) from the brokerage firm with a promise to pay the amount later plus interest.*

INVESTING IN BONDS

- Investors, looking for guaranteed income and limited risk, often turn to U.S. government bonds for a secure investment.
- If investors decide to sell their bonds before the maturity date, they may not get their face value. If that bond does not have any features that make it attractive to other investors, like a high interest rate or early maturity, the bond may have to sell for a discount--less than the bond's face value.
- As interest rate go up, bond prices fall and vice versa.
- Investors that tend to invest in bonds that are high-risk, high reward may considered investing in **Junk bonds,** which are high-risk, high-interest bonds**.** These types of bonds pay investors as long as the company's assets remain high and its cash flow stays strong.

Mutual funds

An organization that buys stocks and bonds and then sells shares in those securities to the public. This type of fund pools investors' money and then buys stocks or bonds in many companies in accordance with the fund's specific purpose. Mutual funds managers are specialists who pick what they consider to be the best stocks and bonds available.

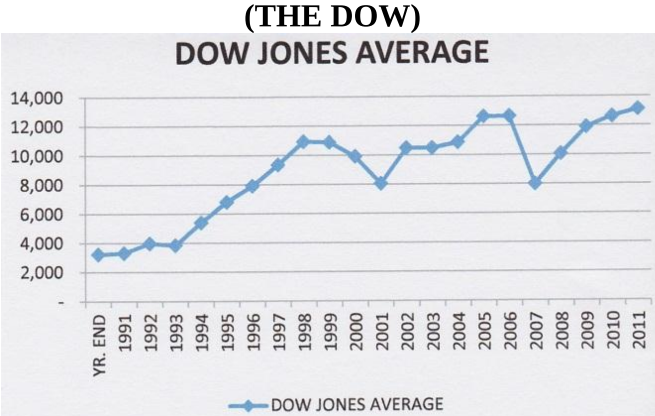
Ex. You give $5,000 to a mutual fund for a fee of $100. The mutual fund company will invest your money into different stocks and bonds with the intention of making you money on your investment.

Exchange-traded funds (ETFs)

Collections of stocks and bonds that are traded on exchanges but are traded more like individual stocks than like mutual funds. ETF's are treated differently than mutual funds because ETF's let investors buy and sell shares at any time during the trading day, as opposed to only buying and selling shares at the close of the trading day.

UNDERSTANDING STOCK MARKET INDICATORS

DOW JONES INDUSTRIAL AVERAGE (THE DOW)



The average cost of 30 selected industrial stocks, used to give an indication of the direction (up or down) of the stock market over time.

PROGRAM TRADING

Giving instructions to computers to automatically sell if the price of a stock dips to a certain point to avoid potential losses.