

Investing

Chapter Objectives

After completing this chapter, you will be able to:

▶ Section 31.1 Bonds

- **Discuss** two goals to set before you start making investments.
- **Name** five characteristics of bonds.
- **Differentiate** between types of federal, municipal government, and corporate bonds.
- **Describe** the advantages and disadvantages of investing in bonds.

▶ Section 31.2 Stocks

- **Discuss** stocks and stock markets.
- **Identify** the advantages and disadvantages of owning stocks.

Ask

STANDARD & POOR'S

Corporate Financial Performance and the Effect on Credit Quality

Q: Are sectors of the U.S. economy that generate strong earnings for shareholders also a good choice for bondholders?

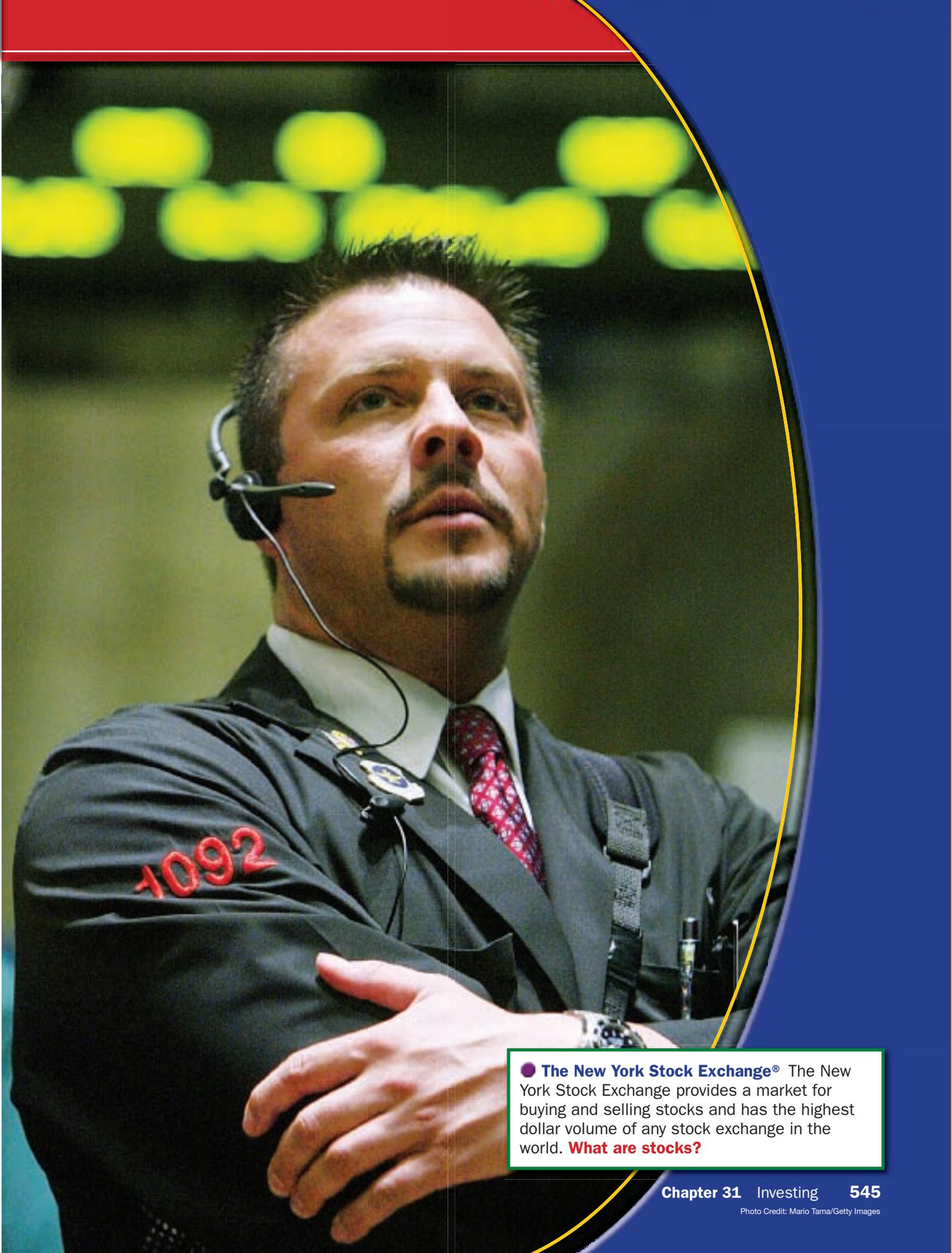
A: There is not always a direct correlation between what is good for shareholders and what is good for bondholders. Bonds represent the ownership of debt, and stocks represent the ownership of equity. A company may do well for its shareholders while leaving its bondholders less satisfied because acquisitions or divestures end up damaging its creditworthiness. Creditworthiness is important because bondholders assume credit risk, the chance that the bond issuer will default on its debt.

Mathematics Express the current yield of a bond as a percentage by dividing the price of the bond into the amount of the annual coupon, the interest rate stated on a bond when it is issued. What is the current yield for a \$95 bond with a \$6 annual coupon? Replace the variables in the algebraic expression and evaluate the expression.

Evaluate x if $x = 6 \div 95$

CONCEPT

Algebra: Variables and Expressions A variable is a symbol, usually a letter, used to represent a number. Algebraic expressions are combinations of variables, numbers, and at least one operation. Once the variables have been replaced with numbers, you can evaluate, or find the value of, the expression.



● **The New York Stock Exchange®** The New York Stock Exchange provides a market for buying and selling stocks and has the highest dollar volume of any stock exchange in the world. **What are stocks?**

Bonds

Reading Guide

Before You Read

Think about the different ways that governments and corporations use large sums of money.

Read to Learn

- Discuss two goals to set before you start making investments.
- Name five characteristics of bonds.
- Differentiate between types of federal, municipal government, and corporate bonds.
- Describe the advantages and disadvantages of investing in bonds.

The Main Idea

Investing is using money to participate in a business enterprise that offers the possibility of profit. Bonds provide income opportunities for investors. They also generate money to help governments and corporations operate.

Key Concepts

- Setting Investment Goals
- Investing in Bonds
- Government and Corporate Bonds and Securities
- Advantages and Disadvantages of Investing in Bonds



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Vocabulary

Key Terms

- | | |
|-------------|-----------------|
| investing | bond discount |
| security | savings bonds |
| yield | municipal bonds |
| bond | corporate bonds |
| coupon rate | |

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

- | | |
|-------------|------------|
| participate | commission |
| eliminate | matures |

Graphic Organizer

On a figure like the one below, write notes about the advantages and disadvantages of bond ownership.

Bond Ownership

Advantages	Disadvantages

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

Mathematics

Algebra Represent and analyze mathematical situations and structures using algebraic symbols

Setting Investment Goals

To some people, investing is an unpredictable world of formulas, symbols, and terms. Others think it is just a matter of luck and timing. Although these perceptions are generally incorrect, they are reasons some people do not invest their money. However, investing presents opportunities for people and businesses to increase their income. **Investing** is using money to **participate** in an enterprise that offers the possibility of profit. It usually involves careful planning and goal setting.

It is wise to use a practical approach when investing. You can spend money on some things that you enjoy and still save enough for an investment program. Even a small amount invested regularly can add up to a large amount over time.

As you set your investment goals, ask yourself these questions:

- How do I want to spend my money?
- How much money do I need to satisfy my goals?
- How will I get it?
- How long will it take to save it?
- How much risk am I willing to take when I invest?
- What conditions could change my investment goals?
- Are my goals reasonable, considering my circumstances?
- What will happen if I do not meet my goals?

Most people have more than one financial goal. A short-term goal might be to save enough money to pay for a vacation. A mid-term goal could be to buy a business or home. A long-term goal might be to plan for retirement. There are two goals that everyone should set before starting to invest. First, you should limit your credit card charges and reduce or **eliminate** credit card debt. In most cases, this debt generates interest charges that are higher than the investment returns you can expect to receive. Second, start an emergency fund and add to it as your income increases. It is recommended that people save enough money to cover at least six months of expenses. Once you achieve these two goals, start looking at the different investment options that are available to you.

The goals you establish when you begin to make investment plans are likely to change. It is a good idea to meet with a financial adviser annually to review your portfolio and goals.

Types of Securities

Investment options include securities. A **security** is a tradable document that shows evidence of debt or ownership. Securities include bonds, shares of stock and mutual funds, and stock options. The return on an investment is the amount of money the investment earns, or the **yield**.

As You Read

Think about how entrepreneurs and investors both face risk.

Investing in Bonds

When corporations or governments need to borrow large amounts of money, they often issue bonds. A **bond** is a certificate issued by a government or company in which it promises to pay back borrowed money at a fixed rate of interest on a specified date (the *maturity date*). It is a debt, and the buyer of a bond is the creditor (or lender) to the company or government that issued it, the debtor (or borrower).

 **Reading Check** Define What is a bond?

Characteristics of Bonds

Investing in bonds is similar to putting money into a savings account. Both act as a source of funds to be used for business and personal loans. Both generate interest for consumers. There are several differences, though. Bonds have specific characteristics.

The rate of interest on a bond is referred to as the **coupon rate**. (This rate is also referred to as the yield.) Interest is usually paid once or twice a year. For example, a \$1,000 bond with a 6 percent coupon rate will pay \$60 once a year or \$30 twice a year. Bonds may be sold at a discount, or below their face value. *Face value* is the value of a security that is set by the company or government that is issuing it. It is usually shown on the front of a bond. Bonds accrue interest until they reach their full value. The difference between the amount you pay for the bond and its face value is the **bond discount**. There are two types of bonds you can buy: government bonds and corporate bonds.

Government and Corporate Bonds and Securities

Federal, state, and local governments issue bonds to help raise the money to fund their regular activities. Government securities are considered almost risk-free because they are backed by our tax dollars. Because they are low risk, government bonds offer lower interest rates than other bonds. The interest paid on a bond can be higher than the interest paid on a savings account.

Federal Bonds and Securities

The U.S. Treasury Department issues four basic types of securities: Treasury bills (or T-bills), notes, bonds, and savings bonds. Investors can buy these securities through banks or brokerages, which charge a **commission**. **Figure 31.1** shows TreasuryDirect, a financial services Web site that lets investors buy and redeem securities directly from the U.S. Treasury Department without paying a commission.



Bond Prices Bonds are rated according to their risk by several agencies, including Standard & Poor's and Moody's®. They are usually rated from *secure* (the highest rating) to *speculative* (the lowest rating). Those with more risk carry a higher interest rate than those that are more secure. Most bonds are considered safe investments. *Would you invest in a bond rated as speculative? Why?*

Figure 31.1 – **Buying Treasury Bonds**



● **Direct from the Treasury Department** Individuals, institutions, and government agencies can buy U.S. bonds over the Internet. **Why might a government agency want to buy bonds?**

Treasury Bills Treasury bills are sold in units of \$1,000. They may reach maturity in four, 13, or 26 weeks. T-bills are discounted securities, which means the purchase price that investors pay is less than the face value of the T-bill. On the maturity date, the investor receives the full face value of the T-bill.

To figure out the dollar amount of return on a T-bill, subtract the purchase price of the T-bill from the face value. For example, suppose you buy a 26-week T-bill for \$950. On the day the bond matures, you receive the face value of \$1,000. The dollar amount of your return is \$50 ($\$1,000 - \$950 = \50). To find the rate of return on your investment, divide the dollar amount of the return by the purchase price ($\$50 \div \$950 = .0526 = 5.26\%$). The rate of return on your T-bill is 5.26 percent. A T-bill held until maturity can be reinvested in another bill or paid to the owner.

Diversification

Diversification is the process of spreading your assets among several different types of investments to lessen risk. You want to avoid “putting all your eggs into one basket.” *Is there ever a time when you should not diversify?*

Treasury Notes and Bonds Treasury notes are issued in \$1,000 units, with a maturity of between two and 10 years. Treasury bonds are issued in \$1,000 units, with a maturity of 30 years. Generally, the interest rates on notes and bonds are higher than on T-bills because of the increased risk of the rates rising or falling during the length of time until the note or bond matures.

U.S. Savings Bonds **Savings bonds** are registered bonds that are sold in denominations of \$50 to \$10,000. They allow people to earn interest on the savings they entrust to the government in exchange for the bond. Savings bonds cannot be bought and sold once they are purchased. They can be redeemed after one year.

A *Series EE* savings certificate costs half the amount of its face value to buy. For example, a \$100 bond costs \$50. After a certain number of years, it becomes worth its full face value. The time it takes to reach its maturity rate depends on the rate of interest. On *Series EE* bonds, the interest rate stays the same throughout the life of the bond. If you cash in a *Series EE* bond within five years, you have to pay a penalty. However, if you keep an *EE* bond past its maturity date, it will continue to earn interest for up to 30 years and can become worth more than face value.

Another type of savings bond is the *Series I* bond. Investors pay the face value for *Series I* bonds. If you want to buy a \$500 *Series I* bond, you must pay \$500. The interest rate on this bond fluctuates with the rate of inflation over time. As inflation goes up, the interest rate on the bond increases. However, the interest does not fall if there is deflation during a period of time. You can lose interest if you cash it in, or *redeem* it before its maturity date. For example, if you redeem a *Series I* bond during the first five years of your investment, you will forfeit, or lose, three months of interest.

EE bonds and *I* bonds are attractive to people who want safe, guaranteed long-term investments. Both classes of bonds are often purchased to finance education, supplement retirement income, or give as gifts. Interest from savings bonds is not subject to state and local income taxes. Investors who buy them to pay for a college education, or whose income is below a certain level, pay reduced taxes or no taxes at all.

Bonds Issued by Federal Agencies Besides the securities issued by the Treasury Department, bonds are issued by other federal agencies as well. Agency bonds, such as the participation certificates issued by the Federal National Mortgage Association (sometimes referred to as Fannie Mae®) and the Government National Mortgage Association (sometimes referred to as Ginnie Mae®), are almost risk-free. However, they offer a slightly higher interest rate than treasury securities. Their maturities range from one to 30 years, with an average life of about 12 years. Generally, their minimum denomination is \$25,000.

Municipal Bonds

Local and state governments issue municipal bonds.

Municipal bonds are sold to finance city, town, or regional projects such as schools, highways, and airports. You can buy them from a broker or directly from the government that issued them. The main advantage of municipal bonds is that the federal government generally does not tax the interest earned on them. As with Treasury bonds, you do not have to hold on to a municipal bond until it reaches its maturity date. If you sell it before it **matures**, however, you might receive less than the face value of the bond.

Corporate Bonds

Bonds issued by corporations are called **corporate bonds**. Corporate bonds can be bought and sold through brokerage firms. They are usually used to finance construction and equipment. Construction of buildings and purchases of equipment can increase productivity, which then helps society maintain and improve the standard of living. These are ways that savings and investments contribute to the economy.

The value of a corporate bond fluctuates according to the overall interest rates in the economy. If you buy a corporate bond with a high interest rate and interest rates fall, the corporation may be able to *call* your bond, or buy it back before the maturity date. This way the company does not have to continue paying the higher interest rate. Many issue new bonds at lower rates.



Explain How do corporate bonds help the economy?

ETHICS in Business

Putting the Client First

- **Critical Reading** Life is full of important decisions. Think about the kinds of decisions that you make as you read the question below.

You work as a stockbroker for a large brokerage firm, and a major portion of your salary comes from commissions. Every time someone buys or sells stocks or bonds, you receive a portion of the fee your firm charges for the trade. A client comes to you and wants to make a number of changes to his portfolio. In your opinion, these changes would decrease your client's wealth because they would cause him to incur brokerage fees that would exceed the value he would realize on the transactions. However, you would profit substantially from the commissions associated with the brokerage fees.

- **Decision Making** Would you tell your client about the financial impact of the brokerage fees? Explain your answer.

Advantages and Disadvantages of Buying Bonds

Bonds have many of the same advantages and disadvantages as savings accounts. One advantage is that most bonds are secure, especially those from government and large, established businesses. In particular, bonds and other securities issued by the U.S. government enjoy the full faith and credit of the federal government. Bonds also pay interest.

Although they are liquid, one disadvantage of bonds is that an investor can lose money if a bond is sold or redeemed before it matures. Most bonds are written for a minimum of \$1,000, which may make them out of reach for some investors.

Like savings accounts, bonds may not keep up with inflation. For example, if there is 4 percent inflation over the year, you must have 4 percent more money at the end of the year than at the beginning of the year to buy the same amount of goods and services. That means your bond must pay at least 4 percent a year after taxes if you are to keep up the purchasing power of your investment.

Section 31.1

After You Read



Review Key Concepts

1. What are the two goals you should consider before starting to invest?
2. Identify some characteristics of bonds.
3. Name the four types of securities issued by the U.S. Treasury Department.

Academic Skills

4. **Mathematics** The six members of the Canterbury Investment Club have pooled their money to invest in the stock market. They meet monthly to discuss stocks, do financial research, and choose purchases. Each club member pays an initial \$200 to join, then \$25 a month. All of the money is invested in the stock market. Write an expression showing how much money the club was able to collect by the end of the first year.

CONCEPT

Variables and Expressions Use a symbol such as x to represent a variable or an unknown quantity in an expression.



For math help, go to the Math Appendix.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Stocks

Reading Guide

Before You Read

Think about why stocks are generally considered more risky than bonds and other types of investments.

Read to Learn

- Discuss stocks and stock markets.
- Identify the advantages and disadvantages of owning stocks.

The Main Idea

A stock is a share of ownership in a corporation. Stock prices may change continuously. Though stocks offer the possibility of high rates of return on investment, they also carry a greater degree of risk.

Key Concepts

- Investing in Stocks
- Advantages and Disadvantages of Stocks

Vocabulary

Key Terms

stock
dividends
capital gain
capital loss
common stock
preferred stock
stockbroker
stock exchange
mutual fund

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

indicates
illustrates
initiated
order

Graphic Organizer

In a figure like the one below, write notes about the advantages of owning stocks.

Stock Ownership

Advantages	Disadvantages



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

NCTE 7 Conduct research and gather, evaluate, and synthesize data to communicate discoveries

Science

Content Standard G Students should develop understanding of historical perspectives

Investing in Stocks

A **stock** is a share of ownership in a corporation. When you buy stock, you receive a *stock certificate* that **indicates** ownership in a corporation. Stock prices may change throughout the day, every business day. There is no promise that a stockholder will get his or her money back or that he or she will receive income from owning stock. Therefore, stocks are generally more risky than bonds. Sole proprietorships and partnerships do not sell stock. **Figure 31.2 illustrates** types of investments and their levels of risk.

Companies that sell stock must follow rules set up by the Securities and Exchange Commission, or SEC. The SEC is a U.S. government agency that supervises the exchange of securities to protect investors from wrongdoing. The SEC also has strict guidelines that financial professionals must follow.

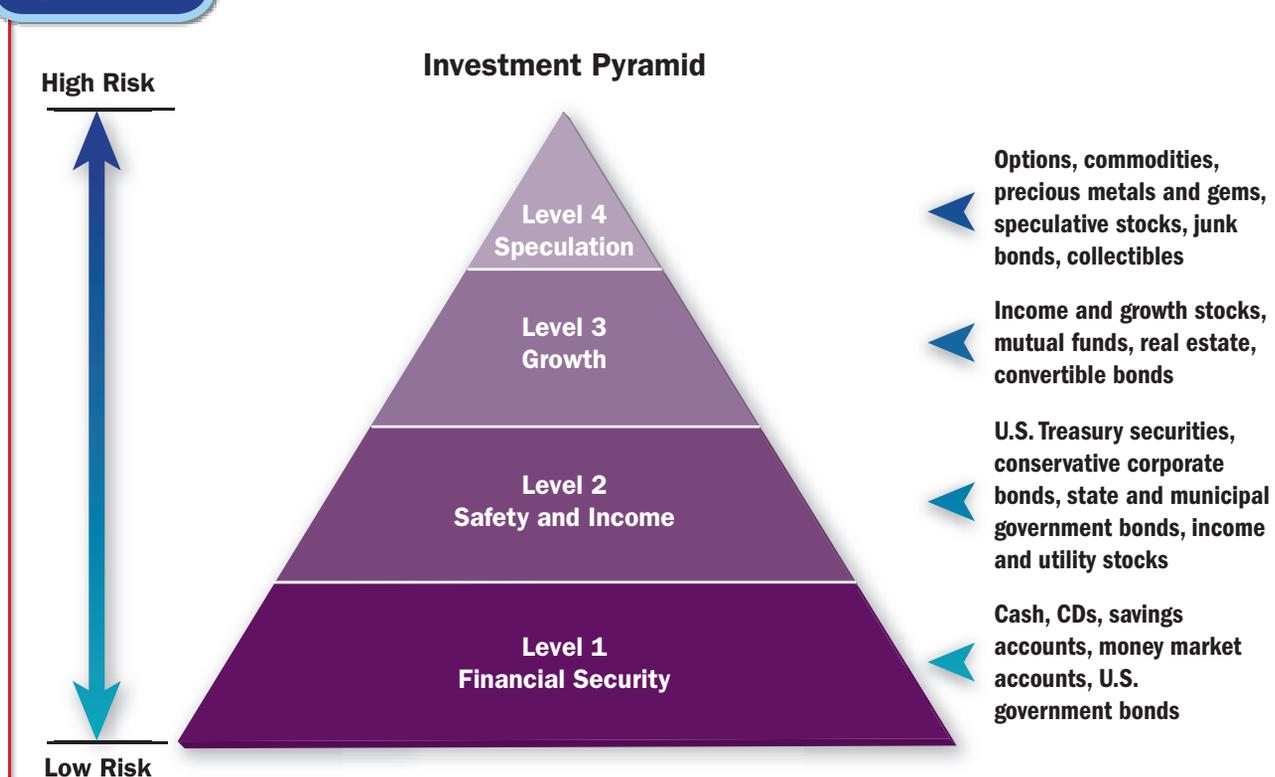
Return on Stocks

Just as bonds have specific characteristics, so do stocks. One is the return or yield on a stock. The amount of money the stock earns depends on its type of return and rate of return.

As You Read

Think about the different types of investments. Have you ever had an investment? Did it make or lose money?

Figure 31.2 — Possible Investments



Investment Pyramid Building for your financial future takes a solid investment strategy. Without a solid foundation, you risk losing your investment. **What does this chart show about the possible risk and potential return for investing in stocks?**



Types of Returns on Stocks There are two ways that you can receive a return on stocks. One is through the payment of **dividends**, which is a share of profits given to stockholders. If a corporation makes a lot of money over a certain period of time, it can decide to distribute at least some of the profits in the form of dividends. Dividends are usually paid quarterly in cash or in more shares of stock.

Many stockholders receive a return on stock when they sell it. Selling stock for more than you paid for it results in a capital gain. A **capital gain** is a profit made from the sale of a financial asset such as stock or a bond. A **capital loss** is an amount lost when an asset is sold for less than its cost. As with other forms of income, the government taxes the amount received in dividends or capital gains.

The return on foreign stocks is a bit more difficult to determine since dividends are generally issued in the currency of the nation where the firm has its headquarters. For example, suppose you have stock in a firm based in England. The currency there is the pound. If a dividend of 2 pounds is announced and the exchange rate is 1 pound = \$1.90, then the dividend would be $2 \text{ (pounds)} \times \$1.90 = \$3.80$.

Rate of Return The rate of return on stocks is always expressed as a percentage of the original investment and figured on an annual basis. For example, suppose \$1,000 earns \$50 of interest in a savings account one year. The rate of return on the investment is 5 percent ($\$50/\$1,000 = 0.05$). A single share of stock whose value increases from \$50 to \$55 in a year and pays a \$5 dividend during the year has a 20 percent rate of return ($\$10 \text{ return}/\$50 \text{ original investment} = 0.20$).



Identify What are the two ways you could receive a return on stocks?

Market Quotes Every day that the market is open the stocks listed on an exchange are traded. The prices at which they are traded are broadcast to the public. **How would you find the names of the companies for the stocks shown here?**

Types of Stocks

When a company sells stock, it usually offers two different types. **Common stock** is stock that provides the most basic form of corporate ownership. It entitles the stockholder to voting privileges. All corporations must issue common stock. Many issue common stock only. For each share that is owned, the stockholder gets a vote in how to run the corporation.

Preferred stock is stock that gives the owner the advantage of receiving cash dividends before common stockholders receive any. This is important if a company is having financial problems. If the company pays dividends, preferred stockholders will receive their dividends before common stockholders. Preferred stockholders do not vote on company issues. Many preferred stocks stipulate the limit on what can be paid as far as a dividend. A dividend does not have to be paid each year.

Stocks carry different levels of risk. *Blue-chip stocks* are stocks in large, well-established companies that have a good track record of success and profitability. *Speculative stocks* are stocks in new firms without an established track record. They are often small firms that are developing new goods and services.



Contrast How do common stocks and preferred stocks differ?

As You Read

Think about purchasing stock from a stockbroker compared to buying over the Internet. Which method would you choose? Why?

Stockbrokers

A **stockbroker** is a person who buys and sells stocks, bonds, and other securities for clients. Stockbrokers act as a link between buyers and sellers. They facilitate transactions. Many give financial advice. As a fee for their services, stockbrokers charge a *commission*, which is either a percentage of the value of the stock or a set amount for each transaction.

Many people lower their investment fees by buying and selling securities using the Internet. With online trading, the trade is **initiated** by the individual via a computer. The **order** is sent to a brokerage firm. Online brokerage houses, such as E*Trade® and TD AMERITRADE®, tend to charge less for each trade because there usually is no stockbroker involved. Some of the largest and more traditional brokerage firms also allow online trading. They include Merrill Lynch® and Charles Schwab®.

Stock Exchanges

Most stocks are bought and sold through a trading market known as a stock exchange. A **stock exchange** is an organized market for buying and selling financial securities. When people sell stocks or bonds through their stockbroker, their order is sent to the broker's representative on the stock exchange floor. An auction takes place at a booth where the stock is bought and sold.



Mock Portfolios

Before investing money in the stock market, practice first. Build a mock portfolio by choosing at least three companies that interest you. Write each company's ticker symbol next to its name and the date. Document their prices each day to track their performance. Read stories about them. *If you are a teen, how can you buy stock when you are ready?*

Some of the best-known exchanges are the New York Stock Exchange (NYSE®) and the American Stock Exchange (Amex®). There are also regional exchanges such as the Chicago Stock Exchange. Only companies listed on an exchange can have their stocks traded there. Companies are listed on exchanges with codes called *stock symbols*, or ticker symbols. These codes are used to identify the stock. For example, the stock symbol for Walt Disney Company® is DIS, and for FedEx® it is FDX. Stock symbols and closing prices are listed in print and online in financial news sections.

Over-the-Counter Markets

Over-the-counter securities are not listed or sold through stock exchanges. They are traded directly between buyers and sellers in person or via computer. The transactions may be facilitated by individual dealers. Many over-the-counter securities can be bought and sold through the National Association of Securities Dealers Automated Quotations (NASDAQ®) market. The NASDAQ is an electronic stock market system that quotes over-the-counter securities.

Mutual Funds

Mutual funds lessen the risk of investing in the stock market. A **mutual fund** is a fund created by an investment firm that raises money from many shareholders and invests it in a variety of stocks or other investments. A mutual fund has great buying power. If the investments owned by the mutual fund make a profit, then the mutual fund's shareholders are likely to earn a dividend.

Science/TechTRENDS

Stock Tickers

Stock tickers were first used in the 1870s as a means of conveying stock prices over long distances. Before the ticker, information concerning stocks was delivered by hand in either written or spoken messages. Because the length of time individual stock information remains useful is short, it had not been sent over long distances. Instead, summaries of the day's trading were sent. Stock tickers are the ancestors of the modern computer printer allowing text to be transmitted over a wire to a printing device. Today, stock tickers are transmitted electronically and can be monitored on the Internet and on many news programs.

Web Quest

Go to the *Introduction to Business* Online Learning Center through glencoe.com for links to Web sites where you can research electronic stock tickers. Write a few sentences about your experiences viewing electronic stock tickers.

Short- and Long-Term Investing

Most people who are investing for retirement will own individual stocks or bonds for a number of years. Long holding periods are an excellent way to build wealth while minimizing risk. Other investors buy and sell more often in an attempt to benefit from day-to-day fluctuations in the value of a stock. *Day traders* are people who buy and sell stock, usually on the Internet, based on minute-by-minute changes in the price of the stock. This is extremely risky. Day traders not only risk losing their original investment, but they also could face additional losses if they borrowed money to buy stocks whose prices fell.



Explain How can you purchase stocks that are not listed on a major exchange?

BusinessWeek Reader and Case Study

Not Your Average Science Project

As high school students select topics for the annual Intel Science Talent Search, they typically gravitate toward math, biochemistry, and medicine. Chad Sandler chose mutual-fund managers.

Sandler, 17, a senior at North Shore Hebrew Academy High School in Great Neck, N.Y., wanted to develop a profile of an ideal fund manager. He focused on demographic data, including where fund managers lived, what schools they attended, and what academic degrees they held. His project, "The Highways and Byways of Fund Management: Selected Demographic Characteristics as Predictors of Mutual Fund Success," was a semifinalist among 120,000 submissions for the 2006 Intel competition.

Based on previous academic research, Sandler thought managers who graduated from top-tier universities and held MBAs would outperform their peers, and they did. But he also discovered some surprises. First, fund managers based in mountain time zone areas had better track records than those located in U.S. commercial centers. While a top-notch academic background is useful at the start of a

career, after six years in the business, managers from second-tier universities matched the performance of tier-one graduates. "New managers remain with the herd until they are more confident and established in their position," Sandler says.



CASE STUDY Go to the *Introduction to Business* Online Learning Center through glencoe.com for the *BusinessWeek* Reader Case Study.

Active Learning

Like banks, mutual funds pool money from many investors. However, a mutual fund's specific purpose is to invest in securities like stocks and bonds. To learn more about investing, form an investment group with two classmates. Choose one person to be the "banker," another to be the "mutual-fund manager," and a third to be a "stock market investor." Create a presentation to convince your class that each team member would have been most successful in investing \$1,000 over a two-week period.

Advantages and Disadvantages of Stocks

A general principle when investing is that the greater the risk, the greater the possibility of a larger return. A major disadvantage of stocks is that you have more risk of losing your investment when putting money into them rather than a savings account or bonds. You also are not guaranteed a return each year with a stock. However, a big advantage of stocks is that long-term comparisons of returns on stocks and returns from savings accounts or bonds show stocks do better over time. Common-stock ownership allows stockholders to help make decisions about the company in which they are investing.

If a company declares bankruptcy, its stockholders may receive little or none of their investment back. Bondholders must be paid before stockholders. If anything is left, preferred stockholders are paid. Common stockholders are only paid if any money remains.

Liquidity refers to how easily an investment can be turned into cash. Most stocks can quickly be turned into cash by selling them. You are not guaranteed to get all the money out of your investment, however, because the value of the stock might have gone down since you bought it. Stock returns generally keep up with inflation, meaning that the value of an investment in them does not decrease when inflation rises.

Section 31.2

After You Read

Review Key Concepts

1. Discuss stocks and stock markets.
2. Identify an advantage and a disadvantage of stocks.
3. Why is it important to discuss your financial goals with a financial professional?

Academic Skills

4. **English Language Arts** Work with a group of students to research investment tips and guidelines for beginning investors. Create a poster display or bulletin board entitled "Top 10 Investment Tips for New Investors." When writing the ten tips, use parallel construction. For example, begin each tip with a verb.
5. **English Language Arts** Work with a group of three or four other students to search local newspapers for advertisements for investments such as stocks, bonds, mutual funds, CDs, and so on. Highlight or circle terms such as *rate of return*, *yield*, *fixed rate*, and *variable rate*.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Chapter 31 Review and Activities

Section 31.1 Summary

Bonds Investing is using money to participate in an enterprise that offers the possibility of profit, especially buying bonds and stock. A bond is a certificate issued by a government or company promising to pay back borrowed money at a fixed rate of interest on a specified date. Like savings accounts, bonds earn interest. Most bonds are considered a safe investment. Governments issue bonds to help raise the money to fund their regular activities. The federal government sells a variety of bonds and other securities. State and local governments sell municipal bonds. Corporations usually sell bonds to pay for construction and equipment.

Section 31.2 Summary

Stocks Stocks are shares of ownership in a business. Only corporations sell stock. When a company sells stock, it usually offers two different types: common stock and preferred stock. Brokers buy and sell stock through stock exchanges. Unlike stocks on organized exchanges, over-the-counter stocks are not traded in a specific place. They are traded directly between buyers and sellers. Mutual funds are created by investment firms by raising money from many shareholders and investing it in a variety of stocks. One major advantage of stocks is their potential for high returns on investment. A disadvantage is their higher rates of risk.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms

investing	savings bonds	capital loss
security	municipal bonds	common stock
yield	corporate bonds	preferred stock
bond	stock	stockbroker
coupon rate	dividends	stock exchange
bond discount	capital gain	mutual fund

Academic Vocabulary

participate	indicates
eliminate	illustrates
commission	initiated
matures	order

Review Key Concepts

2. Discuss two goals to set before you start making investments.
3. Name five characteristics of bonds.
4. Differentiate between types of federal, municipal government, and corporate bonds.
5. Describe the advantages and disadvantages of investing in bonds.
6. Discuss stocks and stock markets.
7. Identify the advantages and disadvantages of owning stocks.

Critical Thinking

8. Why are Series EE savings bonds popular with the public?
9. Why do people invest in stocks and bonds?
10. Why do you think the federal government offers different types of investment options with various denominations and maturity dates?
11. If you have only a small amount of money, would you invest in a high-risk stock or a low-risk bond? Explain why?
12. Imagine you own 100 shares of common stock in a corporation. What will happen to your investment if the company declares bankruptcy?
13. Stocks that are not listed on exchanges or traded over the counter may be traded via the company's main office. The company will then try to sell them for the stockholder. Do you think this type of stock is more or less liquid than those on an exchange? Explain your answer.
14. Why do federal, state, and local governments not issue stocks?

Write About It

15. "Some bonds are riskier than some stocks." Write two or more paragraphs indicating how this might be true.
16. Contact a brokerage firm, or go online and research one. Find out about how various mutual funds are classified. Write an e-mail to your teacher on your findings.
17. Write at least two paragraphs either agreeing or disagreeing with the following statement: "As people grow older, they should put more of their money in bonds rather than stocks."
18. List the advantages and disadvantages of buying a corporate bond instead of putting savings in a CD. After reviewing the list, would you buy a corporate bond or a CD? Explain your answer.
19. Review Figure 31.2 on page 554, which discusses the investment pyramid. Then create your own investment pyramid showing how you would choose to invest money based on the levels of risk indicated in the chapter. Write a brief statement explaining your choices.

Technology Applications

Online Research

20. When considering an investment, it is important to make wise tactical decisions despite the hype you might hear in the media. Most technology stocks are traded on the NASDAQ. Find out more about the NASDAQ. What does the name mean? Where is it located? What is its history? How many different stocks are traded on it? Write a one-page report on your findings. Then discuss your report with your classmates.

Business Ethics

Help Your Clients—or Help Yourself?

21. Imagine that you are being interviewed for a job as a financial adviser for an investment firm. The interviewer says the company's average clients with the most savings are over the age of 55. However, this group includes the most conservative investors. Your job would be to encourage this group to invest in high-risk stocks, which would bring in more commissions but could possibly lead to major losses for the investors. Should you take the job?

Chapter 31 Review and Activities

Applying Academics to Business

English Language Arts

22. Research one of the leading stock exchanges in the world. Examples include the NYSE, the London Stock Exchange, and the Nikkei Exchange in Tokyo. Write a two-page essay telling how the exchange was started and how it has changed over the years. Include such information as the volume of trading that occurs and the process used to buy and sell stocks.

Mathematics

23. Sarah buys 500 shares of stock at \$18 and sells the holding for a capital gain of \$3,000. What was the share price at the time of the sale?

CONCEPT **Capital Gain or Loss** The difference between how much you invest initially and the current value of that investment is called a *capital gain* if the current value is greater than the initial investment. If the current value is less than the initial investment, the difference is called a *capital loss*.

English Language Arts

24. Explore at least three Web sites devoted to helping the young investor. Write a few paragraphs comparing and contrasting their features. Tell what you think about the graphics, the appropriateness and accuracy of the information they provide, and the ease of use of the sites. Rank the three sites in order listing the best site first.

Mathematics

25. Locate the financial section of the newspaper. Choose three different stocks and study the stock listings for the following information:

Which stock traded the most shares on this day? How many shares were traded?

If you buy 100 shares of each stock you selected, how much would it cost you today? How much would it have cost you yesterday?

CONCEPT **Reading a Chart** Charts are generally organized into rows and columns. Read down the column and across the row to find specific information.

Active Learning

Conducting a Survey

26. Conduct a survey of your family and friends to find out if they have ever invested in bonds. If yes, what kind? How did they purchase the bonds? What do they think about savings bonds as an investment? If they have never purchased a bond, why not? Prepare a report on your findings.

Business in the Real World

Research a Local Brokerage Firm

27. Investigate a brokerage firm. Ask about the services it provides, the educational outreach it offers, and the fees it charges. If possible, invite a stockbroker to your classroom to discuss his or her job. Ask the stockbroker about the skills and other requirements needed to become a stockbroker.

Real LIFE skills

WHICH BOND IS BETTER?

28. Maria has \$10,000 to invest. She is considering purchasing a \$10,000 corporate bond that offers 7% or a \$10,000 municipal bond that offers 5%. Additional income from the corporate bond that she might receive would be taxed at 33%. Which of the investments will result in the greatest gain? Be sure to consider any taxes that might apply.

COOL Business CAREERS

FIND YOUR DREAM JOB

29. Go to the *Introduction to Business* Online Learning Center through glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the job category of “financial managers.” Then write a one-page report about this type of occupation. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

Role Play

ADVISING AN INVESTOR

30. **Situation** Your 40-year-old aunt would like to invest part of the \$300,000 she has saved in CDs. She has asked you and two of your friends to look at the various investment options that she could consider and help her to decide which would be best.

Activity Your presentation should focus on comparing the different types of bonds and stocks to CDs.

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Discuss the investor’s financial situation and goals.
- Describe the different types of government and corporate bonds.
- Describe the differences between common stock and preferred stock.
- Describe the various types of CDs.
- Choose the best investment.

Standardized Test Practice

Directions Choose the letter of the best answer. Write the letter for the answer on a separate piece of paper.

1. Which is NOT true about a non-terminating, non-repeating decimal?

- A It is a rational number.
- B It can be expressed using an exponent.
- C It can be expressed using integers.
- D It is part of the system of real numbers.



TEST-TAKING TIP Test anxiety can lower your test score. Talk with your family, teachers, and counselors about ways to manage and reduce test stress.



READING Go to the *Introduction to Business* Online Learning Center through glencoe.com for a list of outside reading suggestions.