Investing Lecture Notes

What comes to mind when you think of the future? Do you picture yourself owning your own home, retiring at age 45 or becoming president of a major company? No matter how much you may want to have something, you will not be able to obtain it if you cannot pay for it. In order to gather the necessary funds to achieve the future you picture in your mind, you will need to carefully plan and become self-disciplined. If you are investing or saving to meet a goal that will make you happy and financially secure, the sacrifices you make now will be worth it in the future.

Investing is the purchase of assets with the goal of increasing future income. Many people do not start investing because they have only a small amount of money. Others believe that they are too young to invest, while some may just not know what to invest in. None of these reasons should stop an individual from investing; rather the key is to become educated about the different options available to the investor. Any investment plan needs to start with a SMART (Specific, Measurable, Attainable, Realistic, Time bound) goal. You must have a purpose that you are working towards, also known as a goal of increasing future income.

A fundamental concept in investing is the higher the risk, the higher the return, the lower the risk, the lower the return. This is also known as the relationship between risk and return. As an investor, you must decide what risks you are willing to take and be able to handle the outcome whatever it may be- good or bad. Risk is defined as the uncertainty about the outcome of an investment. For example, an individual who keeps all of his/her earning in an ultraconservative savings and investment option, such as a Certificate of Deposit, will have low earnings, sometimes barely covering taxes and inflation. Compare this to an individual who keeps all of his/her retirement in speculative stock (P/E ratio 40-50) has the option of making a ton of money or losing it all.

INVESTMENT VEHICLES

There are a variety of different investment vehicles to use while investing. There are six main investment vehicles:

-<u>Stocks</u> (An investment that represents ownership in a company or corporation.)
-<u>Bonds</u> (A security representing a loan of money from a lender to a borrower for a set time period, paying a fixed rate of interest).
-<u>Mutual Funds</u> (An investment that pools money from several investors to buy a particular type of investment, such as stocks. This can diversify a portfolio.)
-<u>Real Estate</u> (An investor buys pieces of property, such as land or a building, in hopes of generating a profit.)
-<u>Savings/Certificates of Deposits</u> (A deposit that earns a fixed interest rate for a specified length of time.)
-<u>Collectibles</u> (Unique items that are relatively rare or highly valued such as Art work, Baseball trading cards, Coins, Automobiles, Antiques)

Depending on the amount of risk you are willing to assume, any of these investing vehicles can work for you. An investment vehicle option that has little risk is called a certificate of deposit. A Certificate of Deposit or CD is a deposit that earns a fixed interest rate for a specified length of time, the longer the time period the greater the rate of return; however, there is a substantial penalty for early withdrawal.

STRATEGIES FOR INVESTING

While investing, there are two main types of strategies: Short-Term Investing Strategies and Long-Term Investing Strategies.

Short Term Investing Strategies include:
-Buying on margin (This is where an investor borrows part of the money needed to invest in a stock from a brokerage firm. There is a 50% margin requirement. For example, if you want to purchase $2,000 worth of stock you can borrow up to $1,000 to make the purchase.)

-Short selling (This is when an investor sells shares of stock that they do not own with the intent to buy them back later at a lower price.)

Long-Term Investing Strategies include:
-<u>Diversification</u> (This is spreading your assets among different types of investments to reduce risk or otherwise known as "Not putting all your eggs in one basket")
-<u>Dollar Cost Averaging</u> (This is buying an equal amount of the same stock at equal intervals. The price you pay for the stock then averages out over time.)
-<u>Buy and Hold Technique</u> (This is where an investor buys stock and holds on to it for a number of years. During that time you are paid dividends and the price of the stock may go up.)

SOURCES OF INVESTMENT INFORAMTION

You can find information on investing through a prospectus which is a formal written offer to sell securities that sets forth a plan for a proposed business enterprise. A prospectus should contain the facts that an investor needs to make an informed decision. You can also find information on investing through an annual report. An annual report is a document detailing the business activity of a company over the previous year, and containing an income statement, cash flow statement, and balance sheet. Information on investments can also be found through financial publications such as The Wall Street Journal or Fortune Magazine, or through online research.

WAYS TO BUY OR SELL INVESTMENT

Individual investors do not go to the floor of the New York Stock Exchange in order to buy stock nor do they log on to NASDAQ's intricate computer based system. Instead, individual investors buy and sell stock through the services of a full-service broker, a discount broker, or an investment advisor. When we think of a stockbroker, we generally think of a traditional, full-service securities industry professional that manages your account and advises you on your investments. A full-service broker might be a long time advisor who knows you personally or your family personally. Or, it might not be a person al all, but simply the company that holds your online investing account. Generally speaking, a stockbroker is usually a person. Your brokers should be qualified and licensed by the National Association of Securities Dealers, Inc. and pass an exam or series of exams that are administered by the NASD and must remain qualified through compliance and continuing education. A full-service broker is an individual who knows you well and advises you on your investments. A discount broker is an individual who works for a firm and answer calls from various investors, assists the investors in placing orders to buy or sell without giving specific guidance or advice. These individuals provide limited services resulting in a lower cost to the investor. In order to purchase investments, you must use Investment Advisor, Full-service Broker, Discount Broker, or online services through online accounts.

PROTECTING INVESTORS

Due to the complexities of investments, there is a high danger of fraud and market misconduct. While the vast majority of investment participants are honest and trustworthy, a few bad apples can spoil the system for all of us. Consequently, regulation is needed to make sure that all the people and organizations involved in the process abide by the rules that have been set out. There is a network of safeguards that surround the securities industry from the individual brokerages all the way up to the US Congress called the Regulatory Pyramid.

REGULATORY PYRAMID

Individual Brokerage Firms

Self Regulatory Organizations.
Self Regulatory Organizations regulatory authority was given to national securities association under the Maloney Act of 1938. Under federal law, every securities firm that does business with the public in the U.S. must be a member of the National Associations of Securities Dealers (NASD) and must follow its rules and regulations.

The Security and Exchange Commission (SEC)
This is an agency of the federal government that was created by Congress in 1934 to protect investors and maintain the integrity of the securities market. The SEC oversees public companies, stock exchanges, broker/dealer firms, investment advisors and other market participants.

United States Congress.

Source: www.nyse.com
Source: The Stock Market, NASDAQ Educational Foundation