**Section 1: Stocks**

**Financial Markets**
- and are bought and sold in a financial market.
- Financial markets money from some people to other people.
  - They bring together people that have money to with other people who would like to a new company or an existing one.

**What Are Stocks?**
- What does it mean when someone tells you they own 100 shares of stock of a company?
- It means they are a part owner in the company
- A stock is a claim on the of a corporation that gives the purchaser a share of the corporation.
  - This does not mean you run the company!

**Where Is Stock Bought and Sold?**
- Stocks are bought and sold through these venues:
  - The New York Stock Exchange (_______)
  - Stock over the phone, in person, or online
  - Other stock exchanges, such as the American Stock Exchange (_______) and the National Association of Securities Dealers Automated Quotations (__________)
    - NASDAQ is an stock market where trades are executed through a sophisticated telecommunications network
  - Americans can also buy and sell stock in exchanges and markets.

**The Dow Jones Industrial Average (DJIA)**
- The Dow Jones Industrial Average (DJIA) is the most popular, most widely cited activity. The DJIA is a weighted average of widely traded stocks on the New York Stock Exchange.
- Why did Charles Dow create the DJIA?
  - Answer: To tell people something about what was really happening in the market. At the time he created it, people were of the stock market so he wanted to create a way to keep people about more than just individual stocks.
  - He found the price of a certain number of stocks (it started at 11) that he thought would what was happening in the stock market as a whole.
- Thirty stocks currently make up the DJIA. The list from time to time, as determined by the editors of the Wall Street Journal.
- In addition there are other commonly cited stock indices in the U.S. including the Composite, the Standard & Poor’s and the Wilshire _________.

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### Stock Table

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<td>Honeywell International, Inc.</td>
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How the Stock Market Works

- If a company wants to raise money, it has three sources:
  1. ____________ from a bank
  2. issuing ____________
  3. selling or issuing ____________ in the company

- When companies are just starting out, stocks are usually ________________ held by a few owners.
- As the company grows and needs more money, it may decide to sell its stock on the

- An initial public offering (_______) is a company’s first offering of stock to the public.
- Typically, an investment bank acts as an ________________ between the company that issues the stock and the public that wishes to buy the stock.
- People buy a particular stock if they think that the ________________ of the company are likely to ____________.
- Remember that a share of stock represents ownership in the company. The more ________________ the company becomes, the greater the ________________ for the stock of that company.

Why Do People Buy Stock?

- Millions of people, in countries all over the world, buy stock every day.
  - Some people buy stocks for the ________________, which are payments made to stockholders based on a company’s profits.
  - Another reason to buy stocks is for the ________________ gain in ____________.
    (Buy low, sell high = profit)
- People also ____________ stock for many reasons, including paying for college expenses, helping finance a house, or because they expect the price of the stock to go down in the future.

How to Buy and Sell Stock

- Buying and selling stock is relatively easy.
- You can buy or sell stock through ________________ firms, or ________________.
- An account can usually be opened by depositing a certain amount of money, typically between $1,000 and $2,500.
- With a full-service broker, you may call your broker and ask for ________________, and he or she will place an order to purchase the stocks you desire.
- If you do not require help to buy stocks you can go to either a ________________ broker or to an ________________ broker.

Deciding Which Stocks to Buy

- One way to buy stocks is to purchase shares of companies that are ________________ to you, such as Coca Cola, Disney, or Microsoft.
- ________________ are a commonly used method of investing in stocks.
  - A mutual fund is a ________________ of stocks managed by a fund manager. Several hundred people often own shares in each mutual fund. It is up to the fund manager to do what she or he thinks is best to ________________ the overall returns from the fund.
- Another strategy for buying stocks is to buy the stocks that make up a stock index.
  - An ________________ is a portfolio of stocks, which represents a particular market or a portion of it, used to measure changes in a market or an economy. The ________________ is a stock index.
How to Read the Stock Market Page

- The newspaper is a good source for stock prices. Most stock price listings contain the same components.

- “52W high” is the highest price of the stock during the _________________________, or the past 52 weeks.
- “52W low” is the lowest price of the stock during the past 52 weeks.
- The “Stock” column provides an ________________________________ name of the company.
- The “Ticker” column contains the stock or ticker symbol for the company.
- In the “Div” column you will find the amount of the last ________________ dividend.
- “Yield %” is the dividend divided by the ______________________ price.
- “P/E” is the price-earnings ratio, and is obtained by taking the latest closing price per share and dividing it by the latest available net earnings per share. A ___________ PE ratio usually indicates that people believe the stock will experience higher than ________________ growth in earnings.
- “Vol 00s” is the volume, in this case represented in hundreds, of shares that were bought and sold on that particular day.
  - If you see the “00s” in the title, you must add two zeroes to the number in the column to get the volume
- “High” is the high price the stock traded for on that ________.
- “Low” is the low price the stock traded for on that day.
- “Close” is the share price of the stock when trading ________________ that day.
- “Net chg” is the ______________________ between the current closing price and the previous day’s closing price.

Stock Quotes

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Yield = \( \frac{\text{Dividend per share}}{\text{Closing price per share}} \)

P/E = \( \frac{\text{Closing price per share}}{\text{Net earnings per share}} \)

**Example:** \( \frac{\$0.25}{\$12.22} = 2.0\% \)

**Example:** \( \frac{\$12.22}{\$1.35} = 9.1 \)
Stock Quotes Online

www.yahoofinance.com

In the search box, type the name of the company
Dividends
One reason people buy stocks is for the dividends they receive. If we divide the dividend (per share of stock) by the closing price (of the stock), we get the yield. The higher the yield of a stock, the better it is for the investor, all other things being the same. Based on this information and what you have learned about stocks, write your answers to questions 1-4 in the space provided.

1. What are dividends?

_______________________________________________________________________________________
_______________________________________________________________________________________

2. If you own 100 shares of company A and company A pays an annual dividend of $1.32 per share, how much would you receive in dividend payments for the year?

_________

3. The dividend for a stock is listed as 1.43. What does this mean?

_______________________________________________________________________________________
_______________________________________________________________________________________

4. If the closing price of a stock is $53.48 and its dividend is $1.22, what is the yield? (Yield should be written as a percentage rounded to the second decimal place – for example 3.62%)

_______

Capital Gains and Losses
Another way people make money by investing in stock is by selling their stock for a price that is higher than their purchase price was. A capital gain is the amount of money made when stock is sold for a price that is higher than the purchase price. To calculate a capital gain, subtract the purchase price from the sale price and multiply that amount times the number of shares involved in the transactions.

Of course, stock does not always increase in value. A capital loss is the amount of money lost when stock is sold for a price that is lower than the purchase price. To calculate a capital loss, subtract the sale price from the purchase price and multiply that amount times the number of shares involved in the transactions.
The entries in the following table appeared in the stock market page of a newspaper. Use the table to answer questions 5-12.

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5. Which stock has the highest yield? __________________________

6. If you bought 100 shares of Sirius Satellite Radio at the highest price for the year and sold it at the lowest price for the year, what was your capital gain/loss? Explain.
_______________________________________________________________________________________
_______________________________________________________________________________________
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7. If you bought 100 shares of Best Buy at the lowest price for the year and sold it at the closing price on the day of this printing, what was your capital gain/loss? Explain.
_______________________________________________________________________________________
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8. If you bought 100 shares of Google at the lowest price for the year and sold it at the highest price for the year, what was your capital gain/loss? Explain.
_______________________________________________________________________________________
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9. How many shares of Microsoft traded on the day this table represents? __________________________

10. What was the closing price of Pepsico the day before this table is represented? __________________________

11. If you have owned 100 shares of Kellogg for a year, how much money did you receive in dividend payments last year? __________________________

12. If you owned 200 shares of Wal-Mart, how much money did you receive in dividend payments last year? __________________________
Chapter 16, Section 2- Bonds

What Is a Bond?
- A bond is an _________, or a promise to pay, issued by companies, governments, or government agencies to borrow money.

The Components of a Bond
- The __________ or ________ value of a bond is the dollar amount specified on a bond. It is the total amount the bond issuer will ____________ to the bond buyer.
- The ___________ date is the day when the bond issuer must pay the bond buyer the face value of the bond.
- The coupon rate is the __________ of the face value that the bondholder receives each __________ until the bond matures.

Bond Ratings
- The more ______________ the bond issuer will pay the face value of the bond at maturity and will meet all scheduled payment schedules, the ___________ the bond’s rating.
- Two of the best-known rating agencies are Standard & Poor’s and Moody’s.
- A bond rating of __________ from Standard & Poor’s or a rating of __________ from Moody’s is the highest rating possible.
  - Bonds rated in the B to D category are lower-quality bonds that may be in jeopardy of being in ______________ (the issuer cannot pay off the bond)

Bond Prices and Yields
- The ___________ that a person pays for a bond depends on ______________ conditions.
- The ___________ on a bond is equal to the annual coupon payment divided by the price paid for the bond.
  - For example, if you pay $985 for a bond with a face value of $1,000, and the annual coupon payment is $40, the bond yield is _________ percent.
  - The yield on bonds can also be referred to as the “____________________________”

Types of Bonds
- A ______________ bond is issued by a private corporation. Corporate bonds typically have $___________ face values. Corporate bonds may sell for a price above or below the face value depending on current supply and demand conditions for the bond. The interest that corporate bonds pay is fully ________________.
- Municipal bonds are issued by __________ and __________ governments. Municipal bond interest is not subject to federal taxes.
- Treasury bills (T-bills), notes, and bonds are issued by the ________________ government. The only difference between them is their time to ____________. Treasury bills mature in 13, 26, or 52 weeks. Treasury notes mature in 2 to 10 years, and Treasury bonds mature in 10 to 30 years. They are considered __________ investments because the government is unlikely to default.
- A new issue for the federal government is ______________-______________ bonds. The government will increase the coupon payment to match inflation.

Risk and Return
- Stocks and bonds often come with different risk and return factors.
- Treasury bonds often pay relatively _________ returns because they carry the least _______.

Example:

Bond yield = \[ \frac{\text{Annual coupon payment}}{\text{Price paid for the bond}} \]

Assuming an annual coupon payment of $40 and a $1,000 bond purchased for $985:

\[ \text{Bond yield} = \frac{40}{985} = 4.06\% \]
Applying the Principles  
Bonds  
CHAPTER 16, SECTION 2

Elena pays $10,000 for a bond with a face value of $10,000 and a coupon rate of 6 percent. Scott buys a bond for $9,500. The face value of the bond is $10,000 and the coupon rate is 6 percent. Fill in the blanks in questions 6-14 with the correct answers.

13. Elena will receive a coupon payment of $_____________ each year.

14. When the bond matures, Elena will receive $_____________ from the issuer of the bond.

15. The yield that Elena will receive on the bond is _______________________.

16. If the maturity date is five years from the day Elena buys the bond, she will earn a total of $_____________ on her investment.

17. Scott will receive a coupon payment of $_____________ each year.

18. The yield that Scott will receive on the bond is _______________________.

19. When the bond matures, Scott will receive $_____________ from the issuer of the bond.

20. If the maturity date is five years from the day Scott buys the bond, he will earn a total of $_____________ on his investment.

21. Both Elena and Scott bought bonds with face values of $10,000, coupon rates of 6 percent, and maturity dates five years from the date of purchase. Scott will earn $__________ MORE on his investment than Elena will earn on her investment because he paid $____________ LESS than the face value of the bond.

22. What is the main difference among corporate bonds, municipal bonds, and treasury bills?

_______________________________________________________________________________________

_______________________________________________________________________________________

_____________________________________________________________________________________

23. Which type of investment, stocks or bonds, is riskier? Why?

_______________________________________________________________________________________

_______________________________________________________________________________________

_____________________________________________________________________________________

24. What is the relationship between the returns and the risks of various investments?

_______________________________________________________________________________________

_______________________________________________________________________________________
25. If a person wants high returns from investments and is willing to take high risks, he or she would likely invest mainly in __________________.

26. If a person wants low risk investing, she or he would likely invest mainly in __________________.

27. If the yield on a 10-year Treasury bond is 4.60 percent and the yield on a 10-year corporate bond is 5.26 percent, which bond do you think would involve more risk? Why?
_______________________________________________________________________________________
_______________________________________________________________________________________
_____________________________________________________________________________________

Read the “Economics in the Real World” on page 439 in your textbook.

What is the difference between a mutual fund and stock index fund?

What was the result of the dart throwing experiment by Forbes?

If stock pickers can do no better than throwing darts at the stock market page, then why do you think some people still pay the experts to pick stocks for them?

Define each of the following words using the Financial Talk chart on (page 436).

<table>
<thead>
<tr>
<th>Big Board</th>
<th>Bull Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sandwich Generation</td>
<td>Bear Market</td>
</tr>
<tr>
<td>Santa Clause Rally</td>
<td>War Babies</td>
</tr>
</tbody>
</table>