

# Chapter 12-Buying and Selling Investments



## Section 12-1-Researching Investments and Markets

# Sources of Investing Information



## ❧ Magazines

- ❧ Business Week, Fortune and Forbes

- ❧ Contain information that can be helpful to investors

- ❧ Read business articles about investing

- ❧ Get expert opinions on topics related to investing

## ❧ Newspapers

- ❧ Wall Street Journal and Barron's

## ❧ Financial section

- ❧ Report financial news and other events that affect markets

- ❧ Provide market price quotes

# Sources of Investing Information



## Investment Newsletters

- Standard & Poor's Stock Reports, Moody's Investors Service

- Contain data about economic events and trends

- Advisers comment about stocks, bonds and mutual funds

- Articles about risk reduction strategies, changing market conditions, stocks to watch

# Sources of Investing Information



## ☞ Company Reports

### ☞ Annual Report

- ☞ A company's report to shareholders about the financial position of the company
- ☞ Gives information on profits and losses and plans for the future
- ☞ Gives information about the company's stock and dividends.
- ☞ Reports are free, and many are available online



# Sources of Investing Information



## ☞ Prospectus

- ☞ A legal document that offers securities or mutual fund shares for sale and includes a detailed description of the securities
- ☞ It must contain the terms and a summary of the funds investments

# Sources of Investing Information



## ☞ Internet

- ☞ Information about a company's stocks, bonds, mutual funds can be found on line
- ☞ Search by the company's name

# Professional Advisors



- ❧ Stockbroker-a licensed professional who buys and sells securities on behalf of others
  - ❧ Full-service broker-a qualified stockbroker who provides advice about what securities to buy and sell
    - ❧ Broker should consider your goals and the risks you are willing to take
    - ❧ Brokers should recommend the best timing for stock trades and carry out the transactions for you.
    - ❧ You will be charged for a commission or a fee
    - ❧ You should receive regular reports of activity and account balances

# Professional Advisors



- ❧ Discount broker- a qualified stockbroker who buys and sells securities at a reduced commission, but offers no advice
  - ❧ Fees are much lower than a full-service broker
  - ❧ This type of broker has the same qualifications as a full-service broker
  - ❧ Examples of Discount Brokers: E\*Trade or Fidelity Investments



# Professional Advisors



- ❧ Online Brokers-brokerage firms that offer their services online
  - ❧ Charge low fees
  - ❧ Provide the least amount of service
  - ❧ Do not provide investment advice or manage assets
  - ❧ Investors can make single trades
    - ❧ Examples of Online Brokers: ShareBuilder and TD Ameritrade

# Professional Advisors



- ❧ Financial planners: an adviser who helps people make investment decisions to meet goals
  - ❧ Work for investment and brokerage firms and at financial institutions
  - ❧ May make commissions on financial products they sell
- ❧ Investors provide data about assets owned and income earned
  - ❧ Provides a list of goals
  - ❧ Planner uses the information and suggests options to meet an investor's goals

# Professional Advisors



- ☞ Certified Financial Planner: a person who has taken coursework and has passed an exam
  - ☞ Planners often own their own companies
  - ☞ Meet with clients
  - ☞ Give advice
  - ☞ Choose investments for clients

# Professional Advisors



## Financial Institutions

- Banks and credit unions that offer financial advice
- Licensed to sell securities that are endorsed by the company
- Licensed personal bankers-make a commission on products they sell



# Financial Markets



- ❧ Securities are bought or sold on the financial markets
  - ❧ Primary market-the financial market in which new issues of securities are sold
    - ❧ Proceeds from sales go to the issuer of the securities sold
    - ❧ Securities are offered through investment banks
    - ❧ Fees are charged for this service
    - ❧ New security issues are often in the form of initial public offerings (company's first sale of its stock to the public)

# Financial Markets



- ❧ Secondary market-the financial market in which previously issued securities are bought and sold
  - ❧ After stock is sold in the primary market, it can be resold in the secondary market
  - ❧ Securities may be listed on securities exchange or in the over-the-counter market

# Financial Markets



- ❧ Securities Exchanges-a place where brokers buy and sell securities for their clients
- ❧ Securities listed on the exchange have been accepted for trading at that exchange
  - ❧ New York Stock Exchange-one of the largest security exchanges in the world
    - ❧ Lists more than 8,000 stocks
    - ❧ Company must meet minimum requirements to be listed

# Financial Markets



- ❧ Auction Market-stock is sold to the highest bidder
  - ❧ Both buyers and sellers compete with others for the best price
- ❧ Over-The-Counter Market- a network of dealers and brokers who buy and sell stocks and other securities that are **not** listed with a securities exchange
  - ❧ NASDAQ (over-the-counter-market) an electronic marketplace
  - ❧ Computerized system allows investors to buy and sell stocks through their brokers



# Financial Markets



- ❧ Direct investing-involves buying securities directly from a corporation
  - ❧ Broker is not used
  - ❧ U.S. Savings bonds are a form of direct investing
- ❧ Reinvesting-when investors forgo cash dividends to receive more shares of stock in a company
  - ❧ Stockholders have the opportunity to grow their wealth
  - ❧ Stock dividend-a dividend paid in the form of new shares of stock
  - ❧ Stock split-when a company issues more stock to current shareholders in some proportion to the stock they already own