

Unit 4 Final Review

WHAT IS A STOCK?

- **Certificate of ownership in a corporation**
- **Represents partial ownership of a corporation**



PORTFOLIO DIVERSIFICATION

- **Portfolio diversification means having different types of stocks.**
- **Why?: To offset any declining stocks**



NEW YORK STOCK EXCHANGE (NYSE)

- **Oldest, largest, most prestigious stock exchange in the U.S.**
- **Lists stocks from 2,800 companies**



AMERICAN STOCK EXCHANGE (AMEX)

- **Also prestigious**
- **Companies on AMEX are smaller than on NYSE**
- **Has about 750 listed stocks**



NASDAQ

- **National Association of Securities Dealers Automated Quotation**
- **Largest electronic stock market**
- **Has mostly technology-related companies**



DOW-JONES INDUSTRIAL AVERAGE

- **Most publicized and popular measure of stock market performance on the NYSE**
- **Looks at the stocks of 30 top corporations**

BULL VS. BEAR MARKETS

- **Bull Market: “Strong” market that is moving up**
- **Bear Market: “Mean” market with falling prices**



BEAR VS BULL MARKET

Winnie the Pooh:

He's too busy eating honey to make money



KISS & CONSISTENCY

- **Investors like to “KISS”**
 - **Keep it Simple, Stupid!**
- **The more involved with an investment, the more that can go wrong**
- **Be consistent**



Financial Geniuses??

BONDS

- **When the govt or a business needs to borrow money for long periods, it issues bonds**
 - **Consumers buy bonds, giving the loan**
 - **These bonds earn interest over time**
- **Junk bond is risky**
- **Government Bonds and Treasury Notes/Bonds are safer**



Mutual Funds

- **A pool of money provided by many investors & given to a professional financial manager that invests the money into different investments.**



Savings

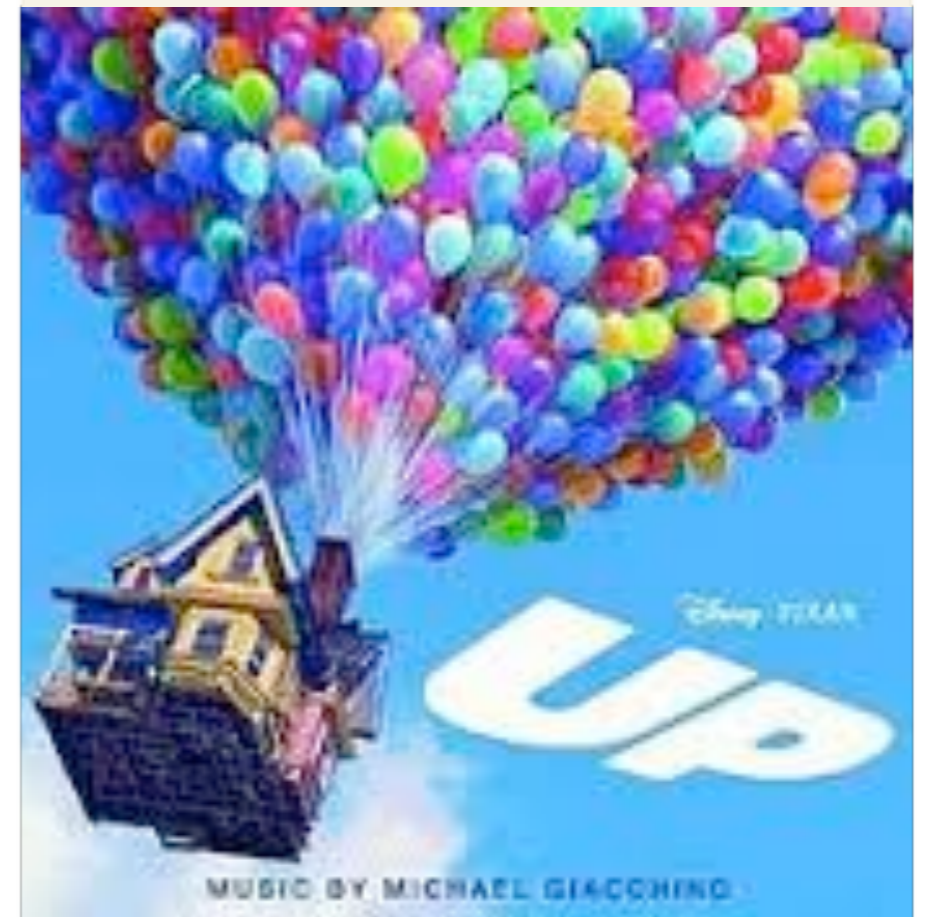
- ~ Usually requires small minimum deposit in savings account
- ~ Can be accessed at any time
- ~ Banks usually give $<1\%$ interest annually
 - ~ Many popular banks give $.01\%$



You can take out savings when you need it

Certificate of Deposit

- ~ Higher interest than savings account
- ~ Higher minimum deposit requirement
- ~ Can't be accessed right away
- ~ Good for saving for a specific purpose



No....it's not this kind of "CD"....

401(K)

- ~ Provided by employers
- ~ Tax deferred, individual pension fund for employee
- ~ 80% of employers will match what you put in
- ~ The money get invested into stocks and bonds
- ~ Penalties if taken out early



Individual Retirement Account (IRA)

- ~ Long term, tax-sheltered deposit
- ~ Up to \$5,000 a year can be deposited
- ~ This money gets invested
- ~ You have to start taking it out by age 70.5



Roth IRA

- ~ Different than IRA because you get a tax break on money that's withdrawn
- ~ You can only contribute if you make $< \$125,000/\text{yr}$ ($\$183,000/\text{yr}$ for married couples)



Carl and Ellie can only make up to a total of \$183,000 a year to be eligible to contribute to a Roth IRA

HOW DOES THIS WORK?

Saver



Bank



Investor/ Borrower



The Circular Flow of Funds

NONBANK FINANCIAL INTERMEDIARIES

- **Finance Companies**
- **Life Insurance Companies**
- **Pension Funds**
- **Mutual Funds**
- **Real Estate Investment Trusts**