

# Basic

# STOCK INVESTING

By:  
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# Risk Tolerance

- The more risk investors take the probability of higher returns are increased.



- Conversely, the more risk you take the possibility of a bigger loss is increased.

# Common Stocks

- **What Does *Common Stock* Mean?**

A security that represents ownership in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Common stockholders are on the bottom of the priority ladder for ownership structure. In the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders and other debtholders have been paid in full.



# Preferred stock

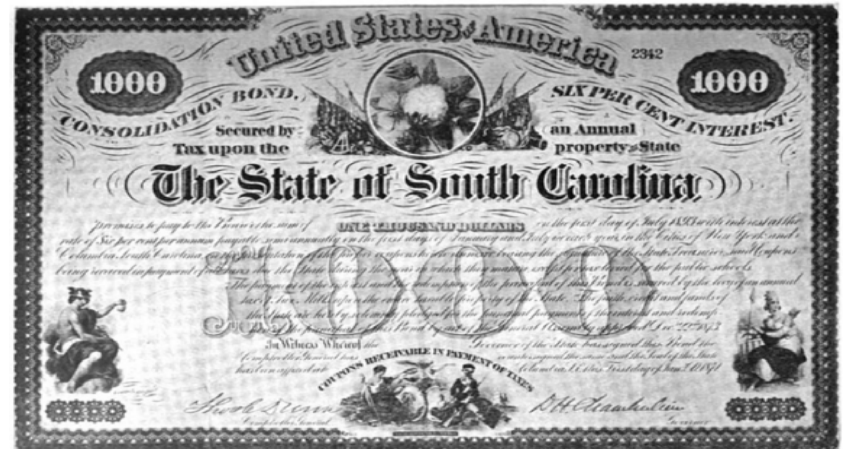
- A class of ownership in a corporation that has a higher claim on the assets and earnings than common [stock](#). Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

The precise details as to the structure of preferred stock is specific to each corporation. However, the best way to think of preferred stock is as a financial instrument that has characteristics of both debt (fixed dividends) and equity (potential appreciation). Also known as "[preferred shares](#)".



# Bonds

- A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states and U.S. and foreign governments to finance a variety of projects and activities.



# Mutual Funds

- A **mutual fund** is a professionally managed type of collective investment that pools money from many investors to buy stocks, bonds, short-term money market instruments, and/or other securities.



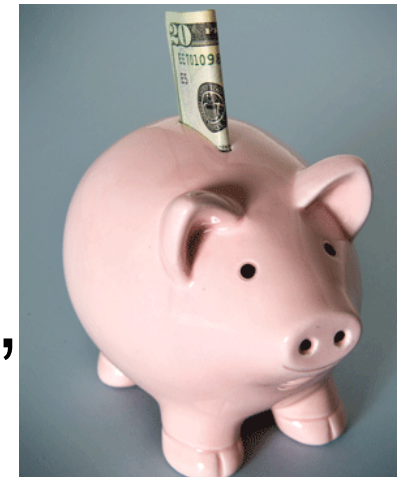


# Exchange Traded Funds

- An **exchange-traded fund (ETF)** is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks, commodities, or bonds, and trades close to its net asset value over the course of the trading day. Most ETFs track an index, such as the S&P 500 or MSCI EAFE. ETFs may be attractive as investments because of their low costs, tax efficiency, and stock-like features.

# Money Markets

- The **money market** is a component of the financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames. Trading in the money markets involves Treasury bills, commercial paper, bankers' acceptances, certificates of deposit, federal funds, and short-lived mortgage- and asset-backed securities




# Diversification

- Diversification is mentioned in the [Bible](#), in the book of Ecclesiastes 11.2 New Living Translation
  - But divide your investments among many places,
  - for you do not know what risks might lie ahead.



# Annual Returns (in Percentages) of Asset Classes (for periods 12/31/95–12/31/10)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Average Return For All Periods
Best	Commodities 33.92	Large-Cap Value 35.18	Large-Cap Growth 38.71	Emerging Markets 66.41	Commodities 49.74	Corporate Bonds 10.31	Commodities 32.07	Emerging Markets 56.28	Emerging Markets 25.95	Emerging Markets 34.54	Emerging Markets 32.59	Emerging Markets 39.78	Government Bonds 12.39	Emerging Markets 79.02	Small-Cap 26.85	Mid-Cap 9.82
	Large-Cap Growth 23.12	Large-Cap Growth 30.49	International 20.33	Commodities 40.92	Long Duration 16.16	Short Duration 9.03	Foreign Bonds 19.49	Small-Cap 47.25	International 20.70	Commodities 25.55	International 26.86	Commodities 32.67	Foreign Bonds 10.89	Floating Rate 44.87	Mid-Cap 25.48	Emerging Markets 8.99
	Large-Cap Value 21.64	Mid-Cap 29.01	Large-Cap Value 15.63	Large-Cap Growth 33.16	Government Bonds 13.24	TIPS 7.90	TIPS 16.57	Mid-Cap 40.06	Mid-Cap 20.22	International 14.02	Large-Cap Value 22.25	Large-Cap Growth 11.81	Long Duration 8.44	Mid-Cap 40.48	Emerging Markets 19.20	Small-Cap 7.64
	Mid-Cap 19.00	Small-Cap 22.36	Foreign Bonds 15.30	International 27.30	TIPS 13.18	Long Duration 7.28	Long Duration 14.81	International 39.17	Small-Cap 18.33	Mid-Cap 12.65	Small-Cap 18.37	TIPS 11.64	Short Duration 5.13	Large-Cap Growth 37.21	Large-Cap Growth 16.71	Large-Cap Value 7.62
	Small-Cap 16.49	Long Duration 14.52	Long Duration 11.77	Small-Cap 21.26	Corporate Bonds 9.08	Government Bonds 7.23	Government Bonds 11.50	Large-Cap Value 30.03	Commodities 17.28	Diversified Portfolio 7.96	Mid-Cap 15.26	International 11.63	Cash 1.75	International 32.46	Large-Cap Value 15.51	Diversified Portfolio 7.48
	Diversified Portfolio 10.99	Diversified Portfolio 10.62	Mid-Cap 10.09	Mid-Cap 18.23	Short Duration 8.93	Cash 4.10	Corporate Bonds 10.12	Large-Cap Growth 29.25	Large-Cap Value 16.49	Large-Cap Value 7.05	Diversified Portfolio 9.51	Foreign Bonds 10.95	TIPS -2.35	Small-Cap 27.17	Diversified Portfolio 11.42	Long Duration 6.93
	Floating Rate 7.48	Corporate Bonds 10.23	Government Bonds 9.85	Diversified Portfolio 14.16	Mid-Cap 8.25	Floating Rate 2.65	Short Duration 8.12	Diversified Portfolio 21.23	Diversified Portfolio 11.35	Floating Rate 5.69	Large-Cap Growth 9.07	Diversified Portfolio 10.41	Corporate Bonds -4.94	Diversified Portfolio 22.10	Long Duration 10.16	TIPS 6.88
	International 6.36	Government Bonds 9.59	Corporate Bonds 8.57	Large-Cap Value 7.35	Large-Cap Value 7.01	Small-Cap 2.49	Cash 1.71	Commodities 20.72	Foreign Bonds 10.35	Long Duration 5.33	Floating Rate 7.33	Government Bonds 8.66	Diversified Portfolio -19.38	Large-Cap Value 19.69	Floating Rate 9.98	Corporate Bonds 6.29
	Emerging Markets 6.03	Floating Rate 8.30	Short Duration 7.63	Cash 4.73	Cash 5.98	Foreign Bonds -0.99	Floating Rate 1.12	Foreign Bonds 14.91	Long Duration 8.56	Large-Cap Growth 5.26	Foreign Bonds 6.12	Short Duration 7.27	Floating Rate -28.75	Corporate Bonds 18.68	Commodities 9.03	Government Bonds 5.78
	Cash 5.27	Short Duration 7.13	Diversified Portfolio 5.91	Floating Rate 4.69	Floating Rate 4.94	Emerging Markets -2.37	Diversified Portfolio 0.92	Floating Rate 11.01	TIPS 8.46	Small-Cap 4.55	Cash 4.79	Long Duration 6.60	Small-Cap -33.79	Commodities 13.48	Corporate Bonds 9.00	Large-Cap Growth 5.73
	Short Duration 4.67	Cash 5.27	Floating Rate 5.31	TIPS 2.39	Diversified Portfolio 4.54	Diversified Portfolio -2.48	Emerging Markets -6.00	TIPS 8.40	Large-Cap Growth 6.30	Cash 2.99	Corporate Bonds 4.30	Mid-Cap 5.60	Large-Cap Value -36.85	TIPS 11.41	International 8.21	Foreign Bonds 5.68
	Foreign Bonds 3.62	International 2.06	Cash 5.12	Short Duration 2.09	Foreign Bonds 1.59	Large-Cap Value -5.59	Large-Cap Value -15.52	Corporate Bonds 8.24	Floating Rate 5.60	TIPS 2.84	Short Duration 4.22	Cash 4.81	Large-Cap Growth -38.44	Short Duration 4.62	TIPS 6.31	Short Duration 5.27
	Corporate Bonds 3.28	Foreign Bonds 0.23	TIPS 3.95	Corporate Bonds -1.96	Small-Cap -3.02	Mid-Cap -5.62	International -15.66	Long Duration 5.87	Corporate Bonds 5.39	Government Bonds 2.65	Government Bonds 3.48	Corporate Bonds 4.56	Mid-Cap -41.46	Foreign Bonds 2.55	Government Bonds 5.52	Floating Rate 5.23
	Government Bonds 2.77	Emerging Markets -11.59	Small-Cap -2.55	Government Bonds -2.23	International -13.96	Large-Cap Growth -20.42	Mid-Cap -16.19	Short Duration 3.35	Government Bonds 3.48	Corporate Bonds 1.68	Long Duration 2.71	Floating Rate 1.88	International -43.06	Long Duration 1.92	Foreign Bonds 5.17	International 5.09
	Long Duration 0.14	Commodities -14.07	Emerging Markets -25.34	Foreign Bonds -4.27	Large-Cap Growth -22.42	International -21.21	Small-Cap -20.48	Government Bonds 2.36	Short Duration 1.85	Short Duration 1.44	TIPS 0.41	Large-Cap Value -0.17	Commodities -46.49	Cash 0.14	Short Duration 4.08	Commodities 4.22
Worst			Commodities -35.75	Long Duration -2.65	Emerging Markets -30.61	Commodities -31.93	Large-Cap Growth -27.88	Cash 1.07	Cash 1.25	Foreign Bonds -6.88	Commodities -15.09	Small-Cap -1.57	Emerging Markets -53.18	Government Bonds -2.20	Cash 0.13	Cash 3.25



What is  
Dollar Cost  
Averaging?

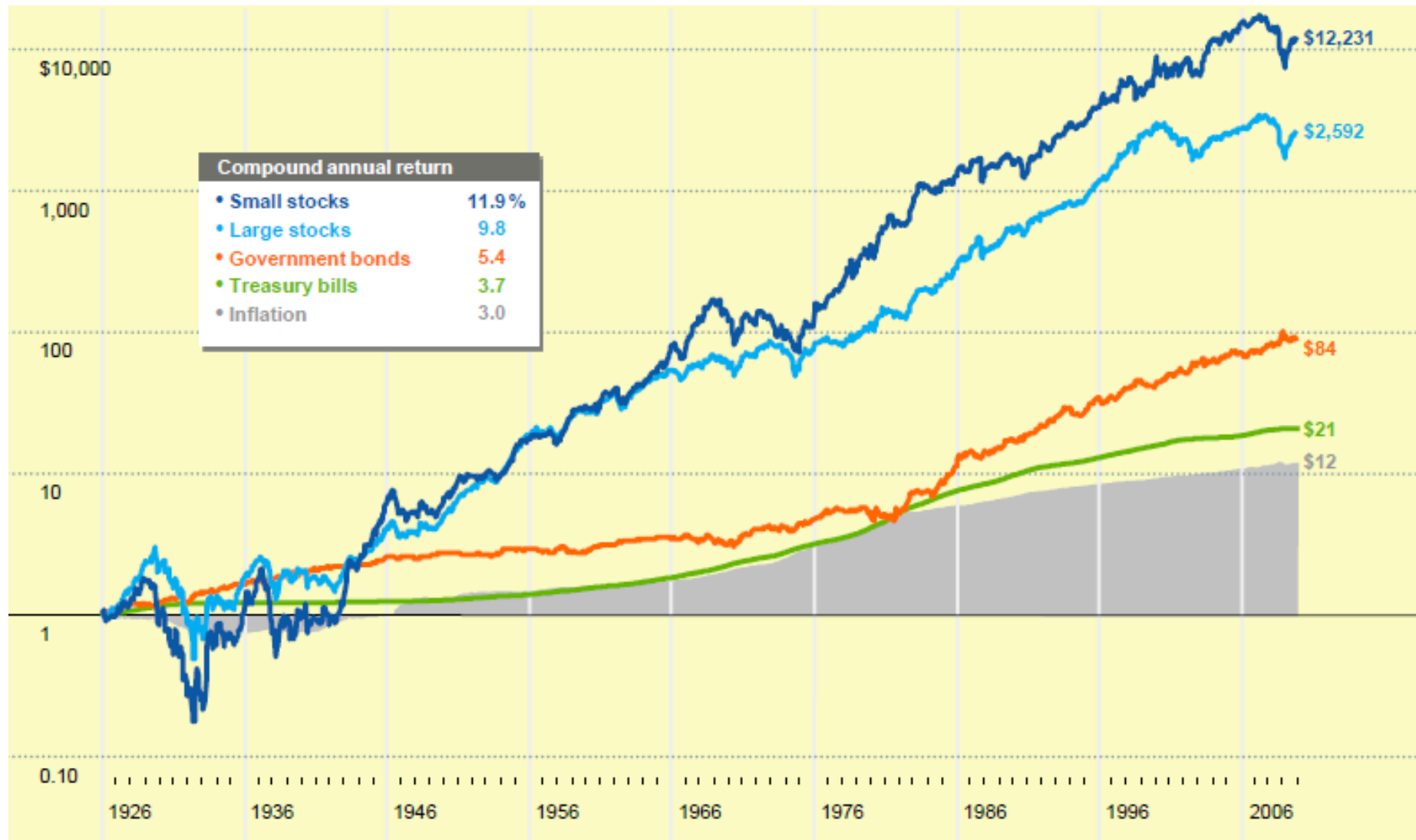
# Dollar Cost Averaging

- **Dollar cost averaging (DCA)** is an investment strategy, that may be used with any [currency](#). It takes the form of [investing](#) equal monetary amounts regularly and periodically over specific time periods (such as \$100 monthly) in a particular investment or portfolio. By doing so, more shares are purchased when prices are low and fewer shares are purchased when prices are high. The point of this is to lower the total average *cost per share* of the investment, giving the investor a lower overall cost for the shares purchased over time.
- Dollar cost averaging is also called the **constant dollar plan** (in the [US](#)), **pound-cost averaging** (in the [UK](#)), and, irrespective of currency, as **unit cost averaging** or the **cost average effect**

# Market trends

- A **market trend** is a tendency of a financial market to move in a particular direction over time. These trends are classified as ***secular*** for long time frames, ***primary*** for medium time frames, and ***secondary*** lasting short times. Traders identify market trends using [technical analysis](#), a framework which characterizes market trends as a predictable price tendencies within the market when price reaches support and resistance levels, varying over time.
- The terms [bull market](#) and [bear market](#) describe upward and downward market trends, respectively, and can be used to describe either the market as a whole or specific sectors and securities

# Stocks, Bonds, Bills, and Inflation 1926–2009



# Buying and Selling Securities

- You have to Buy or Sell securities through a brokerage firm.
- Settlement Dates
- Margin
- Margin Calls
- Shorting
- Commissions



# Brokerage Firms

## Full Service Firms

- Morgan Stanley Smith Barney
- UBS
- Merrill Lynch

Morgan Stanley  
Smith Barney



## Online Firms

- TD Ameritrade
- E\*TRADE



# Traders and Investors

- **Common Characteristics of Traders**
- Traders enter a position to make money.
- Traders will short sell a currency.
- Traders will hold for a short period of time.
- Traders use technical indicators and charts.
- Traders cut losses.
- Traders take profits quickly.
- **Common Characteristics of Investors**
- Investors will buy and hold.
- Investors enter long (or buying) positions.
- Investors will hold for a long period of time.
- Investors focus on fundamental analysis.
- Investors are not concerned with short-term losses.
- Investors let profits accumulate.

