

Unit One:

The Basics of Investing

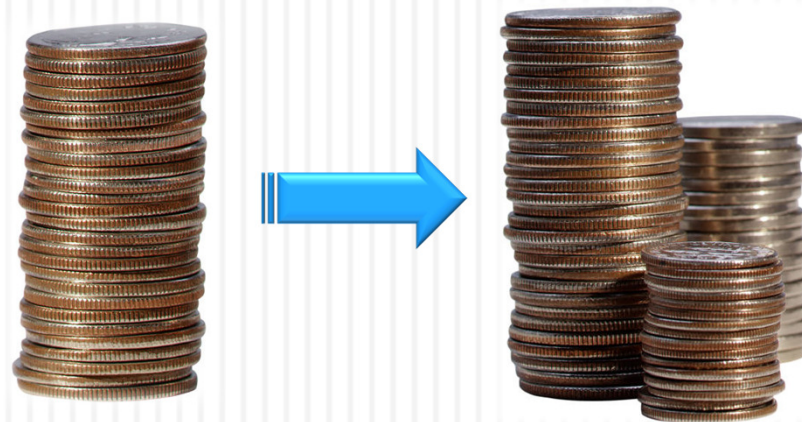


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What does investing mean?

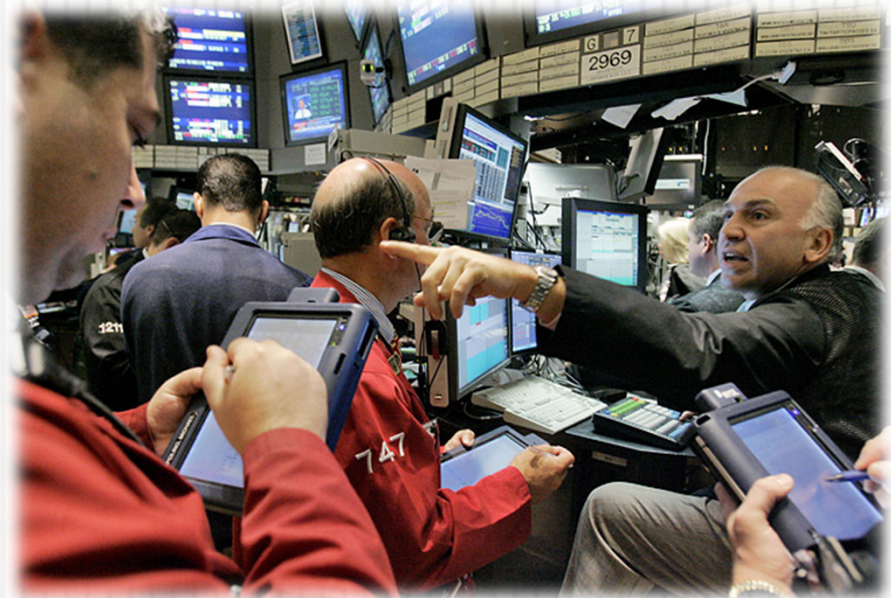
Investing is a process where you put money into something with the hope of getting more money out later on.



You can invest in anything in the world, as long as you have money to put into it.

The Stock Market

When most people invest, they put money into the **stock market**. This is a big network where people go to buy, sell, and trade parts of their companies. Each part of the company is called a **share**, and it shows that someone owns a piece of the company's money or property.



How does the Stock Market work?

Fun Fact

There are \$50 trillion in stocks on the stock market.

That's enough to buy 17,423 candy bars per second for the rest of your life!

The stock market is run through several buildings called **stock exchanges**. These are all around the world.



In America, we mostly use the New York Stock Exchange, which is located in New York City. Other countries have their own stock exchanges to use too.

At the stock exchange, people called **stock brokers** work out deals for **investors**. The investor is the person who has the money, and the stock broker is the person buying and selling shares for him.

When someone buys a share of a company, he or she is hoping that the company's value will go up. The higher it goes, the more money the person will make.

That is because the share represents a percentage of the company, not a dollar amount. When the whole thing gets bigger, the little piece gets bigger too.



Example: How Shares Work



Let's pretend this apple tree is a company, and you own a share of it. Your share is for $\frac{1}{2}$ of the apple tree.

In the first year, the tree makes 20 apples. That means 10 apples are yours because you own half of the tree.



In the second year, the tree makes 60 apples. Since you still own half, you now get 30 apples.



In one year, you got 20 more apples than you did the year before. That's a good investment!

Stocks and Bonds



When you start looking into investing, you'll hear the term “stocks and bonds” a lot. Both of these are types of investments, but they work in different ways.

With a **stock**, you own a piece of the company you invest in. With a **bond**, you simply loan money to the company like a bank would. You will get paid interest on this loan over time, but the company will take a little bit to pay you back.

Example: How Bonds Work



If we think about the apple tree from before, a bond would be you giving the tree owner a pack of apple seeds.

Then as the tree grows, the tree owner has to pay you back one apple every month until your seed loan was covered, with interest.



You might not get as much out of this as you would with a stock, but you will get something.

Investing and Saving

A lot of people think that investing and saving are the same thing. They're not. When you **invest** money, you hope to get more money out in the future.



vs.



When you **save** money, you know exactly how much you will get when you take the money out. Even though you can turn your investments into savings later on (or vice versa), they do not start out that way.

Think about it...



Which of these are investments?

- Putting money into a piggy bank
- Buying a video game
- Buying a stock
- Giving someone money for a present
- Paying for a bond
- Getting an allowance
- Using a coupon to buy something

Risks and Rewards

Everyone wants to make money with investments, but that does not always happen. You could lose all of the money you put into an investment if something goes wrong.

That is why it is important to weigh out the **risks** and **rewards** of any investment you make.

The risks are the bad things that can come from an investment, and the rewards are the good things.



Example: Risks and Rewards



Let's go back to the apple tree, with you owning half of it. Instead of making 20 apples one year and 60 apples the next, the tree dies because it gets hit by lightning.

Now you have no way of getting your money back, and you have no apples for the future.

That is a risk you choose to take.



Big Risks = Big Rewards

The more risk you take with an investment, the more money you will have a chance to make. However, **big risk could also mean big loss.**

Pretend you decided to buy shares for 5 apple trees instead of 1 because you thought they would do well.



If they all make 60 apples in year two, you will get 150 apples, not 30. BUT... If they all die in a winter storm, you will lose the money for 5 trees, instead of just 1. You have to decide if you want to take that chance.

You decide...



Want to see what stocks and bonds are really like?
Check out this computer game:

<http://www.stockmarketgame.org/>

Follow your teacher's instructions, and you will soon feel like you're actually in the stock market!