

# BUYING AND SELLING INVESTMENTS



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Chapter 12 covers the basics of buying and selling investments. You will learn about doing research before you invest to help you make better choices. Much information about investing is available.

Some information is free; some is very costly. You will also learn about many regulatory agencies. They are designed to protect you, the investor, when you buy and sell securities.

## ONLINE RESOURCES

*Personal Financial Literacy*  
Web site:

- Data Files
- Vocabulary Flashcards
- Beat the Clock: Buying and Selling Investments
- Chapter 12 Supplemental Activity

### Search terms:

- auction market
- discount broker
- over-the-counter market
- market order
- stock split
- stockbroker

# Researching Investments

## OUTCOMES

- Describe the types of financial information found in magazines, newspapers, and newsletters.
- Describe the type of data found in company reports.
- Explain how to find investing information on the Internet.
- List figures that can be used to compare the performance or value of companies.
- Explain how investment professionals help investors.

## SOURCES OF INFORMATION

Some people hire a stockbroker or financial planner to help them choose investments. Other people do research and make choices on their own. Either way, investors need a basic knowledge of financial markets. Keeping informed about current market conditions helps investors make better choices.

### Magazines

Business magazines, such as *BusinessWeek*, *Fortune*, and *Forbes*, contain information that can be helpful to investors. In these magazines, you can read business articles and get experts' opinions on various topics related to investing and the economy. For example, suppose the experts say that the economy is growing. As a result, you can expect interest rates to rise. Knowing this, you may want to avoid buying a CD or bond with a low, fixed rate. Reading business magazines can help you understand the economy and the markets. This, in turn, will help you choose the right investments at the right times.

You can also find good information in news magazines such as *Time*, *Newsweek*, and *U.S. News & World Report*. Read these magazines to study world events that affect the economy and investments. The magazines also have regular features that include financial advice.

Several magazines give information about saving, investing, and personal finance. Examples include *Money*, *Consumer Reports*, and *SmartMoney*. You can read articles in these magazines about people who have been successful. The articles can help you learn from their mistakes and profit from their successes.



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Staying informed about the economy can help you make better investment choices.

## Newspapers

One of the best sources for current information is the financial sections of newspapers. You will find articles about business triumphs and failures. You can read about new products and services. You will also see articles about the latest business scandals and frauds. Price quotes for securities are provided in many newspapers. The word *securities* refers to stocks, bonds, mutual funds, and other investments. The information you learn can help you make better investment choices.

The *Wall Street Journal* and *Barron's* are two national newspapers that report financial news and other events that affect markets. They provide market price quotes and articles about national and world events. These articles discuss market data and predict how it will affect the stock market. For example, when the Fed raises interest rates, different parts of the market are affected in different ways.

(The credit industry will benefit, and stock prices will rise.) These newspapers are geared to the

business world, but consumers can benefit from reading them as well.

## Investor Newsletters

Many financial advisors prepare free newsletters for their clients. The newsletters contain data about economic events and trends. The advisors may also make comments about certain stocks, bonds, or mutual funds. They may recommend that investors buy or sell securities. This data can help investors decide how to manage their portfolios.

Investors can subscribe to newsletters that give financial advice. Examples of these newsletters are *Standard & Poor's Stock Reports*, *Moody's Investor Service*, and *Value Line Investment Survey*. The newsletters may discuss how to reduce risk, changing market conditions, stocks to watch, and other information related to investing. Subscriptions to newsletters may cost from \$50 to \$1,000 per year.

## Company Reports

All companies that sell stock to the public must publish yearly annual reports. An **annual report** is a company's report to shareholders about the financial position of the company. It also tells about profits or losses and plans for the future. These reports are free, and many are available online as well as in print. A page from an annual report is shown in Figure 12-1.1 on page 349. This page gives information about the company stock and dividends. Annual reports include information that investors can use to compare one company to another. You can see how each company is doing over time. If you are considering investing in a company, learn as much as you can about the company.

## The Internet

Investors can find information about companies, products, and market trends on the Internet. One of the best ways to find information is to

## THE THOMSON CORPORATION 2005 ANNUAL REPORT

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### Corporate Information

#### Corporate Headquarters

Metro Center One Station Place  
Stamford, Connecticut 06902  
United States

tel 203.539.8000

[generalinfo@thomson.com](mailto:generalinfo@thomson.com)

#### Stock Exchange Listings

Common shares (symbol: TOC):

- Toronto Stock Exchange (TSX)
- New York Stock Exchange (NYSE)

Series II preference shares

(symbol: TOC.PR.B):

- Toronto Stock Exchange (TSX)

#### Capital Stock

Shares outstanding as of December 31, 2005:

- Common: 648,948,992
- Series II preference: 6,000,000

Controlling shareholder:  
Kenneth R. Thomson  
(approximately 69% of common  
shares)

#### 2005 Financial Calendar

Year end: December 31  
Quarterly results: announced on April 27  
(Q1), July 27 (Q2) and October 26 (Q3).

#### Common Share Dividends

At the discretion of the directors. Paid on  
March 15/June 15/September 15/December  
15 or on the first business day thereafter.  
Declared in U.S. dollars but can be paid in  
Canadian dollars or U.K. pounds sterling at the  
holder's option (see also note 15, page 86).

Further information is available from the  
registrar.

#### Dividend Reinvestment Plan

Eligible common shareholders may elect to  
have cash dividends reinvested in common  
shares. Further information is available from  
the registrar.

#### Employees

As of December 31, 2005, we had  
approximately 40,500 employees.

#### Annual and Special Meeting of Shareholders

Wednesday, May 3, 2006, 12:00 p.m. at  
Roy Thomson Hall  
60 Simcoe Street  
Toronto, Ontario, Canada

#### Transfer Agent and Registrar

Computershare Trust Company of Canada 100  
University Avenue, 9th Floor  
Toronto, Ontario M5J 2Y1  
Canada

tel 1.800.564.6253 (United States, Canada) tel  
514.982.7555 (outside North America)  
[www.computershare.com](http://www.computershare.com)

#### Auditors

PricewaterhouseCoopers LLP Suite 3000, Box 82  
Royal Trust Tower  
Toronto-Dominion Centre Toronto, Ontario  
M5K 1G8 Canada

#### Further Information

Please visit [www.thomson.com](http://www.thomson.com) for corporate  
and management news and more detailed  
information on individual Thomson businesses,  
products and services.

Source: Thomson Corporation, Annual and Quarterly Reports, [http://www.thomson.com/corp/investor\\_relations/ir\\_annquarterly\\_reports.jsp](http://www.thomson.com/corp/investor_relations/ir_annquarterly_reports.jsp) (accessed August 22, 2006).

**FIGURE 12-1.2**

*Internet sites provide valuable information for investors.*

INTERNET SITES	
Site Name	Information Provided
Bloomberg.com	News articles; market data for stocks, bonds, currency, mutual funds, commodities, and other securities; investment tools; online tutorials for investing; and other features
CNNMoney.com	Current financial news and information to help investors make better decisions
Kiplinger	Tools to help beginners get started. Investors can use this site to track investments in both stocks and mutual funds.
Morningstar®	Articles related to investments, stocks in the news, research reports, newsletters, a feature to track and analyze a portfolio, and other tools
Reuters®	Business and investing articles, stock quotes, bond and currency news, and a feature to track investments

use a search engine. Google, Yahoo!, AltaVista®, and other search engines allow users to search for data on almost any topic. Users can find out about companies, stocks, bonds, mutual funds, brokerage firms, and banks. Many businesses provide company data on their Web sites. You can find a company Web site by entering its name in a search engine. Figure 12-1.2 lists some Internet sites that investors might find helpful. Links to the sites are provided on the Web site for this textbook. Some sites allow investors to set up a free account and monitor investments.

## Using Research Data

A great deal of information about investing is available in print and online. Investors need to know about the economy and current market trends. They also need to learn about specific companies or funds in which they may want to invest. News articles are a good source of information on the economy and markets. Annual reports and online profiles are good sources of data about specific companies or mutual funds.

Web sites such as Yahoo! Finance allow the user to enter a company symbol to find data about the company. The current stock price for the company is given. News articles related to the company or industry may also appear. A history of stock prices, stock splits, and dividend data is available. Key numbers and financial statements are provided. Much of the same data can be found in company annual reports. Data is also available for mutual funds. All this data can help investors evaluate the company or mutual fund.

With so much data available, investors may feel overwhelmed. They may not understand all the data or know how to compare companies or funds. Figure 12-1.3 on page 351 describes a few key figures that investors can use to compare companies. Investors who plan to choose stocks or mutual funds on their own may want to take classes or read books to learn more about investing. Many investors seek advice from experts when deciding how to invest.

## COMPARISON FIGURES

Figure	Description
Current stock price	This price is the amount investors are willing to pay for a share of ownership in the company.
Number of employees	Increases or decreases in the number of employees can reflect growth or downsizing.
Market cap (capitalization)	The total value of a company in the stock market (total shares outstanding times price per share). This figure, along with revenue, indicates the size of a company.
Revenue	The amount of money received from business activities. This may be mostly from sales of products and/or services to customers.
Net income or profit	The amount of money earned after deducting all the business's expenses. To investors, this number is more important than revenue.
Profit margin	Profit shown as a percentage. It is the net income divided by revenue for the same period.
P/E ratio	The price earnings ratio compares the selling price of a company's common stock to the annual profits per share. Fast-growing or low-risk companies may have higher P/E ratios than slow-growing or low-risk companies. This ratio is an important measure of a stock's value.
Current ratio	A measure of a company's ability to pay its current debts from current assets. It indicates a company's liquidity and financial strength. The current ratio is calculated by dividing the total current assets by the total current liabilities.

**FIGURE 12-1.3**

*Key figures can be used to compare the value or performance of companies.*

## ADVICE FROM PROFESSIONALS

Choosing which stock, bond, mutual fund, or other investment to buy is an important decision. Many investors seek advice from experts in the investing field. A fee is typically charged for investment advice or for making a sale or purchase for an investor.

A **stockbroker** is a person who buys and sells securities on behalf of others. Stockbrokers may also provide advice on which products to buy. The broker will make commissions on the items the investor buys.

A financial planner is an advisor who helps people make investment decisions to meet stated goals. Typically, investors are asked to give data about assets owned and income earned. They also list their goals, such as saving for retirement or paying for a child's college education. The planner considers this information and suggests options that will help meet the investor's goals. Some financial planners also sell securities, such as stocks and bonds. They may make a commission on products they sell.

Investors may go to some banks and credit unions for financial advice. Employees at these companies are licensed to sell securities that are endorsed by the company. They make a commission on products they sell. Some banks offer their own brand of securities. Rather than investing directly, investors can choose the bank's investment account. This is similar to owning shares of a mutual fund.

Choose advisors that you can trust to help you make the right choices. Be sure that they have proper licenses, bonds, and certifications. Ask how long they have been working for the bank or investment company. Also ask if they are members of the NASD (National Association of Securities Dealers). The NASD Web site provides a Broker Check feature. This feature allows you to learn about the background and license status of firms and brokers. Many state governments also provide similar data. Ask how your confidential and personal data will be protected by the broker or company. Deal only with advisors and companies that you think are properly licensed and qualified and have your interests in mind.

## Building Communications Skills

### PERSUASIVE MESSAGES

The goal of a persuasive message is to convince the reader to take (or not take) some action. For example, you may want the reader to buy a product or donate money to a charity.

It is tempting to write a very long message to persuade someone to do as you think they should. However, long messages are often discarded without being read. People may not read a long and detailed message unless they have asked for it. Thus, the message must be concise as well as clear and convincing.

You must gain the reader's attention and give solid reasons for the person to take action. The reader may have an opinion or bias that you must overcome. Your arguments must be logical and appealing. In the first paragraph, give one good reason why the reader should keep reading. In the middle paragraph(s), explain your position and give evidence to support it. In the final paragraph, give the reader a reason to take action or accept your position. Use a positive tone throughout the message.

## 12-1 REVIEW

### 12-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. Describe the types of financial information found in print items such as magazines, newspapers, and newsletters.
2. List three magazines that give information and advice about spending and investing.
3. List two newspapers that provide information helpful to investors.
4. Explain why an investor might be willing to pay for a subscription to an investor newsletter.
5. Describe the type of information available in a company annual report.
6. Give two examples of Internet search engines you could use to find information about companies or investments.
7. Explain ways you can find investing information on the Internet.
8. List several figures that can be used to compare the performance or value of companies.
9. How do investment professionals, such as stockbrokers or financial planners, help investors?
10. What steps can you take to be sure a stockbroker is qualified to give investing advice or make purchases for an investor?

### 12-1 Activity 2 Research Companies



[www.thomsonedu.com/school/pfl](http://www.thomsonedu.com/school/pfl)

1. Choose three large corporations to research. Choose companies from the list below or others approved by your teacher.

Company	Trading Symbol	Company	Trading Symbol
Allstate Corp.	ALL	Johnson & Johnson	JNJ
Boeing Co.	BA	Kroger Co.	KR
Chevron Corp.	CVX	Mattel Inc.	MAT
Dow Chemical	DOW	Merrill Lynch	MER
Humana Inc.	HUM	Tyson Foods	TSN

2. Access the Internet. Use a search engine to find the Web site for each company you chose, or find data about the company on sites such as Yahoo! Finance. A link to this site is provided on the Web site for this textbook. For each company, find the following information:
  - Industry sector or primary business
  - Current stock price
  - Revenue for last year
  - Net income for last year
  - Profit margin for last year
  - P/E ratio for last year
  - Current ratio for last year
3. Create a table that compares the three companies. Use the table that follows as an example. Enter the data you found in columns 2, 3, and 4.

Company name			
Industry or primary business			
Current stock price			
Revenue			
Net income			
Profit margin			
P/E ratio			
Current ratio			

4. Which company had the highest revenue?
5. Which company had the highest net income?
6. Which company had the highest P/E ratio?
7. Did each company have a current ratio of 1 or above? If not, which ones did not?
8. Have you heard or read any current news reports about this company or its industry? If so, what were the main points of the reports?
9. Would you consider one or more of these companies a good investment? Why or why not?

# Buying and Selling Securities

## OUTCOMES

- Explain the difference between the primary market and the secondary market for securities.
- Compare buying stock on a securities exchange to buying in the over-the-counter market.
- Describe the steps in a buy transaction on a stock exchange.
- List advantages of direct investing.
- Compare a full-service stockbroker to a discount broker and an online broker.
- Discuss types of stock market orders.
- Explain the purpose of market timing strategies.

## TRADING SECURITIES

Securities are stocks, bonds, and other financial investments. When securities are bought or sold, they are said to be traded. Investors can trade directly or use the services of a broker. Investors can trust a professional to manage the investments, or they can be involved in all the decisions.

### Primary Market

The **primary market** is one in which new issues of securities are sold. Proceeds of sales go to the issuer of the securities sold. New security issues (stocks and bonds) are issued through investment banks. An investment bank is a company that helps corporations raise money by selling stocks and bonds. A fee is charged for this service. The process takes many months to complete. New security offers are often in the form of initial public offerings. An **initial public offering** (IPO) is a company's first sale of its stock to the public. IPOs are often made by small or young companies seeking to expand their business. They can do this with the money raised by selling stock. In 1999, in one of the largest IPOs in Wall Street history, UPS (United Parcel Service) raised \$5.27 billion in its IPO.<sup>1</sup>

<sup>1</sup> UPS, "UPS Launches Class A-1 Tender Offer," February 4, 2000, <http://www.pressroom.ups.com/pressreleases/archives/archive/0,1363,3544,00.html> (accessed August 28, 2006).



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UPS raised more than \$5 billion in its IPO.

## Secondary Market

The **secondary market** is one in which securities are bought from current investors. A buyer is trading with someone who already owns the stock. After stock is sold in the primary market, it can be resold many times in the secondary market. Many securities are listed on securities exchanges. Some can also be found in the over-the counter market.

### SECURITIES EXCHANGES

A **securities exchange** is a place where brokers buy and sell securities for their clients. Securities listed on the exchange have been accepted for trading at that exchange. The New York Stock Exchange (NYSE) is one of the largest security exchanges in the world. It lists more than 3,000 stocks. The exchange has 1,366 stockbroker members. These members can buy and sell securities. The American Stock Exchange (AMEX) and various regional stock exchanges are smaller. They have less strict requirements for companies to be listed than does the NYSE. Securities exchanges are auction markets. An **auction market** is one in which a stock is sold to the highest bidder. Both buyers and sellers compete with others for the best price. The steps in a transaction to buy stock are shown in Figure 12-2.1 on page 357.

### THE OVER-THE-COUNTER MARKET

The **over-the-counter market** is a network of dealers who buy and sell stocks and other securities. These stocks are not listed with a securities exchange. Stocks issued by several thousand companies are traded this way. NASDAQ is an electronic marketplace for over-the-counter stocks. This computerized system allows investors to buy and sell stocks through their brokers. More than 5,000 stocks are listed on NASDAQ. When stock is traded, offers to buy are matched with offers to sell.

## STEPS IN A STOCK BUY TRANSACTION

The following are steps an investor would take to buy stock traded on the New York Stock Exchange:

1. The investor calls or e-mails the broker and asks him or her to buy shares of stock.
2. The broker relays the order electronically to a representative at the stock exchange.
3. A clerk for the broker at the exchange receives the message and gives it to a floor broker.
4. The floor broker goes to the trading post at which this stock is traded.
5. The floor broker negotiates a buy from the floor broker of the stock being sold.
6. After the trade is made, the floor broker relays a message to the clerk and to the consolidated ticker tape.
7. The sale appears on the ticker tape.
8. A confirmation is sent to the investor's broker.
9. The broker notifies the investor that the transaction is complete.
10. The investor's account reflects money exchanged for stock at the price and quantity agreed upon.

**FIGURE 12-2.1**

*Stocks are traded by brokers on the New York Stock Exchange.*

## DIRECT INVESTING

Many companies have direct investing plans. Direct investing allows you to buy stock directly from a corporation. You do not use a brokerage company. Direct investing allows you to reinvest dividends as well. With this option, cash dividends are used to buy more shares of stock. People who do direct investing can use a spreadsheet to keep track of their investments, as shown in Figure 12-2.2 on page 358.

Direct investing can be risky. When you buy stock in only one company, you have not diversified. However, you could use direct investing to buy stocks in several companies. Buying U.S. government savings bonds is also a form of direct investing. This type of investment is low-risk.

Direct investing offers many advantages. One advantage is avoiding taxes. When cash dividends are converted to new shares of stock, they are not taxed. Investors can acquire many shares this way. Interest on U.S. savings bonds is not taxable until the bond is cashed. If the bond is used for education expenses, then the interest may not be subject to federal taxes when cashed.

With direct investing, there are no brokerage fees to pay. This advantage makes direct investing attractive to some investors. Another advantage is that you know which securities you have at all times. When you buy direct, you make the decisions about the items to buy and sell and the timing of the transactions.

Sometimes corporations issue a stock dividend instead of a cash dividend. A **stock dividend** is a dividend paid in the form of new shares of stock instead of cash. Stockholders have more shares of stock for future growth. A **stock split** occurs when a company issues more stock to current stockholders in some proportion. For example a two-for-one split means that for every share you own, you get an additional share of stock. Stock dividends and stock splits involve no brokerage fees or costs to investors, and they are not taxable income.

**FIGURE 12-2.2**

People who do direct investing should keep track of the performance of their investments.

	A	B	C	D	E	F	G
1	<b>STOCK RECORD</b>						
2							
3	<b>Stock A</b>						
4	<b>Purchase Date</b>	<b>No. of Shares</b>	<b>Price Paid per Share</b>	<b>Sold Date</b>	<b>No. of Shares</b>	<b>Price Received per Share</b>	<b>ROI</b>
5	12/2/20--	500	\$55.25				
6	3/30/20--	100	\$58.45	12/28/20--	100	\$68.00	21.9%
7							
8							
9	<b>Date</b>	<b>Closing Price</b>		<b>Average Price Paid</b>		\$55.78	
10	1/3/20--	\$55.00					
11	2/1/20--	\$57.25					
12	3/1/20--	\$58.95					
13	4/1/20--	\$52.50					
14	5/1/20--	\$53.78					
15	6/1/20--	\$57.50					
16	7/1/20--	\$59.32					
17	8/1/20--	\$59.25					
18	9/1/20--	\$60.35					
19	10/1/20--	\$65.50					
20	11/1/20--	\$70.65					
21	12/1/20--	\$68.50					
22							
23	<b>Average Price</b>	\$59.88					
24	<b>Highest Price</b>	\$70.65					
25	<b>Lowest Price</b>	\$52.50					
26							
27							

At some companies, employees can buy stock in the company. Some companies give shares of stock to employees as part of a benefits package. There are no brokerage fees or other costs for the employee in these transactions.

## BROKER SERVICES

When you use the services of a stock agent or broker, you pay this person to buy or sell securities on your behalf. From some brokers, you also get advice about what and when to buy and sell. Although these services cost money, they can help you invest wisely.

### Full-Service Brokers

If you buy securities through a full-service stockbroker, you will receive advice about what to buy. A stockbroker is a licensed professional who buys and sells securities for her or his clients. Stocks, bonds, mutual funds, and commodity futures contracts are examples of securities traded through stockbrokers. The broker will consider your investment goals. He or she will try to help you achieve those goals through your investment choices. You will be charged a commission or fee for the services provided. You will receive regular reports of activity and account balances.

The stockbroker will consider the information you provide. You should clearly state your financial goals. Be honest about your tolerance for risk. Be realistic in what you expect for returns on the money you invest. This information, along with her or his knowledge about the market and securities, will be used to select stocks or other investments for you. The broker will recommend securities to buy and sell and the timing of those trades. Merrill Lynch and A.G. Edwards are examples of full-service brokerage firms.

## Ethics

### CHURNING

Brokers earn fees for buying and selling securities for clients. Some may charge as much as \$75 for a single trade. The more trades they make, the more money they earn. When a broker is constantly buying and selling stocks, the client may or may not be making profits. Trading securities primarily to make money from sales commissions is called churning.

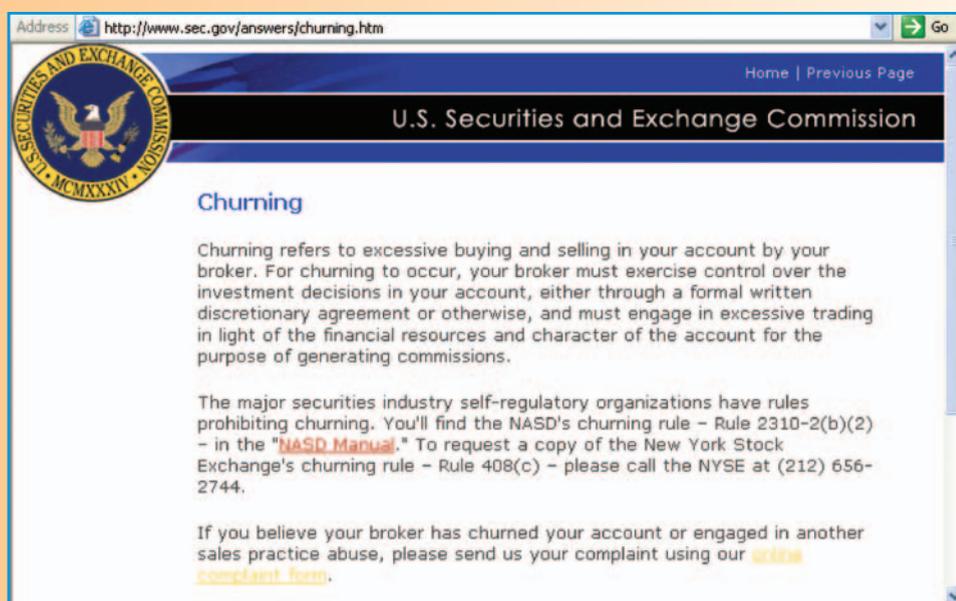
Churning is illegal under rules of the Securities and Exchange Commission (SEC). However, it can be hard to prove. Brokers are not liable for losses when they buy and sell for their clients. Investors

sign a waiver that states brokers are not responsible for losses in stock trades.

Securities trading should be done with the intent to benefit clients. Trading for the purpose of generating fees for the broker is unethical. How will you know if this is happening? It may be hard for the average investor to know that he or she is being taken advantage of. If you think you have been a victim of churning, you can report the problem to the SEC using an online form. Visit the SEC Web site, shown in Figure 12-2.3, to learn more.

**FIGURE 12-2.3**

*Churning can be reported online at the SEC Web site.*



Source: U.S. Securities and Exchange Commission, Churning, <http://www.sec.gov/answers/churning.htm> (accessed August 28, 2006).

## Discount Brokers

A **discount broker** works for a firm that buys or sells securities on behalf of investors. The term *discount broker* is also used to refer to the brokerage firm. The fees or commissions charged by a discount broker are much lower than those charged by a full-service broker. The firm may charge a flat fee for its services of buying and selling. An amount such as \$12.95 per transaction is a typical fee. Discount brokers offer limited services. They do not give advice or help manage assets. However, some firms do offer free research reports. A discount broker has the same qualifications as a full-service broker. Fidelity Investments is an example of a discount brokerage company.

## Online Brokers

Many brokerage firms offer their services online. Online brokers charge low fees. They also give the least amount of service. They do not provide investment advice or manage assets. Some firms do offer free research reports. You must make your own decisions about buying and selling. Once you decide, you set up an account with an online broker. Different types of accounts are available. Investors can make single trades. Some sites also offer automatic investment plans that help users invest on a regular basis. Sharebuilder and TD Ameritrade are examples of online brokerage services.

## Commissions and Fees

Stockbrokers make money when stocks are bought and sold for clients. Some brokerage firms have minimum commissions of \$25 to \$60. Additional fees may be charged based on the number of shares and on the value of the stock being traded. On the trading floor of a stock exchange, stocks are traded in round lots or odd lots. A **round lot** is 100 shares or multiples of 100 shares of stock. An **odd lot** is fewer than 100 shares. When you buy less than a round lot, there is an additional fee.

Discount brokers usually charge a flat fee, such as \$8.95 per transaction. However, for odd lots or small amounts, they often have higher fees. For example, when the trade amount is less than \$1,000, the transaction fee may be higher.

## STOCK TRANSACTIONS

Once you have decided to buy or sell a stock, there are four types of transactions, called orders, that you can request.

- A **market order** is a request to buy (or sell) a stock at the current market value. In an auction market, the broker will try to get you the best price as soon as possible. There is no guarantee of what you will pay or receive. The stock will be auctioned to the highest bidder, and you may or may not buy or sell the stock at the price you hoped to get.
- A **limit order** is a request to buy (or sell) a stock at a specific price. When you are buying, a limit order ensures that you will not pay more than a set dollar amount. When you are selling, the order

## Focus on . . .

### FULL-SERVICE OR DISCOUNT BROKERS?

There is a healthy competition between full-service brokers and other types of brokers. A smaller fee for services is one reason people choose discount or online brokers. There are other factors to consider as well. One factor is the amount of information available and how much it costs. If you have to pay extra to get the information you need to make good choices, then discount brokers may not save you money in the long run.

Another factor to think about is the amount of help you will need to make wise investment choices. If you do not have the time or expertise to study the market, you may find that your choices are not very

profitable. You may be better off paying higher fees for sound investment advice from a full-service broker.

Investors should also look at how easy it is to buy and sell. Investors must compare services in terms of the type of trading they want to do. For example, do you want to trade online or by phone? Where is the nearest office? How often do investors receive statements? What is the charge for services such as research? What are all the fees that will be charged for having an account? Are there minimum deposits? Consider all these factors carefully to help decide which type of broker is right for you.

ensures that you will not get less than a specific dollar amount if the stock is sold.

- A **stop order** is a request to sell at the next available time after the price reaches a certain amount. This type of order protects an investor from a sudden drop in price.
- A **discretionary order** is an order to buy (or sell) a stock that lets the broker get the best possible price. The broker also determines the best time to buy. This type of order may involve a range of shares, such as buying odd numbers of shares if they are available. Discretionary orders give the broker the power to use her or his experience and judgment to make good decisions.

## MARKET TIMING

A market timing plan is a strategy used to increase profits and reduce costs. There are several timing plans you can use, regardless of the type of securities you buy and sell.

**Selling short** is selling stock that has been “borrowed” from a brokerage firm and must be replaced at a later date. You are hoping to make a sell agreement today for more money than you will have to pay for the stock at a later time. This is a lawful thing to do (if the brokerage firm allows it), but it is highly risky. You are hoping that prices will drop. If prices for the stock do not drop, you will lose money.

**Buying on margin** is a transaction in which you borrow part of the money to buy stock. The cash you use to pay for the rest of the purchase is called the margin. The margin amount is set by the Fed. This is a form of leverage, or borrowing money to make a profit on a stock transaction. You may make less than if you paid for the stock yourself. However, you can buy more stocks with less money and thus possibly make more profits.

In some cases, the value of the stock purchased may drop by an amount equal to the margin. When that happens, the investor may be given a margin call. The investor must immediately provide more money or sell the stock in order not to default on the loan. Buying on margin is a risky strategy. Figure 12.2-4 illustrates buying on margin.

**Buy and hold** is a long-term plan in which investors make money in three ways. First, they will receive dividends over the years. Second, the price of the stock will go up (giving them long-term capital gains). Third, the stock may split. When a stock splits, they gain additional shares of stock. They do not have to pay commissions on the stock gained, and there is no tax to be paid on the added shares.

Regardless of your investment plan, you will find market timing important. You want to sell at prices that are higher than the amount you pay for investments. Understanding the economy and its signals can help you do this. You will not always earn profits, but with careful timing, you may be able to gain more than you lose.

#### FIGURE 12-2.4

*Buying on margin involves borrowing part of the money to buy stocks.*

#### BUYING ON MARGIN EXAMPLE

1. Marijen invests \$5,000 and borrows \$5,000 from a brokerage firm. She buys 500 shares at \$20 per share (\$10,000 purchase price). She uses the stock certificates as security for the loan (as required by the Fed) at 5% annual interest.
2. Six months later, the stock has increased in value to \$30 per share. Marijen sells the stock for \$15,000 ( $500 \times \$30 = \$15,000$ ). She pays commissions and fees of \$150.
3. From her net proceeds of \$14,850, Marijen repays the \$5,000 loan plus \$125 interest ( $\$14,850 - \$5,125 = \$9,725$ ). When she subtracts the \$5,000 she originally invested, Marijen has made \$4,725 net profit.

Note: There is no guarantee that the stock price will rise. If the stock price drops, Marijen has to pay interest on the loan and wait to sell the stock. If she sells when the price has dropped, she will lose money (principal).

## Technology Corner

### BLOGS

A **blog** (a shortened form of *Weblog*) is an online place where you can find short articles or comments on a particular subject area. Blogs usually include text messages. However, some blogs contain photos, videos, or sound. Blogs may read like a journal, and they are often shown with the most recent entry first. A blog may be posted by one individual. Some blogs are posted by companies or organizations. Several people may write the postings in a blog. Access to many blogs is free. Some blogs charge a fee for access.

Many blogs that deal with investing are available. Fidelity Investments' Amazon blog is one example. It contains articles related to many areas of investing. Retirement pensions, the market for gold, and increasing your investment knowledge are examples of the topics covered.

Seeking Alpha™ is a network of blogs with articles posted by people such as portfolio managers, research analysts, and financial advisors.

Investors may find the articles and comments posted on blogs helpful when making investment decisions. They should be careful, however, about accepting the information posted on all blogs. Some blogs give comments on the investing strategy and ideas of one person. This person may or may not be qualified to give investing advice. Consider the source of the posting when deciding on its value. Is the article written by a person trained to give investing advice? Are sources listed so facts can be checked? Does the advice make sense when you think about other articles you have read? Answering these questions can help you tell the value of a blog posting.

## 12-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is the difference between the primary market and the secondary market for securities?
2. What is an IPO? What is its purpose?
3. How does buying stock on a securities exchange differ from buying in the over-the-counter market?
4. List the steps in a buy transaction on a stock exchange.
5. List three advantages of direct investing.
6. What services do investors receive from a full-service broker?
7. What is an advantage of using a discount broker or an online broker rather than a full-service broker? What is a disadvantage?
8. What is a round lot in a stock order? What is an odd lot in a stock order?
9. Describe four types of stock market orders.
10. Explain the purpose of a market timing plan, and list three market timing plans.

## 12-1 Activity 1 Track Stock Performance



When investors use a full-service broker to buy stocks, they receive regular reports about the stocks. Investors who use direct investing or a discount broker should track their stocks regularly. In this activity, you will record stock purchases and related data in an *Excel* spreadsheet.

1. Open the *Excel* file *CH12 Stocks* from the data files. This file contains information about a stock purchased earlier. (A real stock name has not been used in this activity as it would be when you track stock you actually own.)
2. You purchased Stock A on December 2 last year. You have recorded the closing price for the stock at the beginning of the month for 6 months. Record the following closing prices in the worksheet:

Date	Closing Price
7/1/20--	\$ 71.86
8/1/20--	\$80.92
9/1/20--	\$83.91
10/1/20--	\$85.45
11/1/20--	\$88.50
12/1/20--	\$85.00

3. Enter a formula in cell B24 to find the average price of the stock for the prices recorded.
4. Enter a formula in cell B25 to find the highest price of the stock for the prices recorded.
5. Enter a formula in cell B26 to find the lowest price of the stock for the prices recorded.
6. On March 30 of the current year, you bought another 100 shares of Stock A at \$69.00 per share. Record this data in the worksheet. (You can use the real current year instead of 20--.)
7. On December 28, you sold 100 shares of the stock at \$86.00 per share. Enter this data in the worksheet.
8. Enter a formula in cell F9 to find the average price per share for the stocks you purchased. (Multiply the price by the number of shares for each purchase. Add the two amounts. Divide by the total number of shares purchased.)
9. Enter a formula in cell G6 to find the return on investment for the 100 shares you sold. You use a discount broker with very low fees, so you will not include the trade fees in the ROI calculation. Use the average price per share for the stocks you purchased in the ROI formula. (Reminder:  $ROI = \frac{\text{total amount received} - \text{total amount paid}}{\text{total amount paid}}$ )
10. Create a line chart to show the closing price for Stock A for each of the 12 prices recorded. Use **STOCK A PRICES** for the chart title. Do not include a legend. Save the chart on a separate sheet in the workbook. Format the scale and other features for an attractive chart.
11. When could you have sold to receive a higher price than you received for the 100 shares you sold?
12. When would have been the best time (lowest price) to buy more of this stock between May 1 and September 1?



# Regulatory Agencies

## OUTCOMES

- Describe independent agencies that regulate and supervise the securities industry.
- Describe government agencies that regulate and supervise the financial industry.
- Explain the purpose of the Sarbanes-Oxley Act.

## INDEPENDENT AGENCIES

Banks, brokerage companies, and other financial businesses are limited and controlled by a number of agencies. These agencies make or enforce rules and regulations. They act to protect consumers in many ways.

### *Federal Deposit Insurance Corporation*

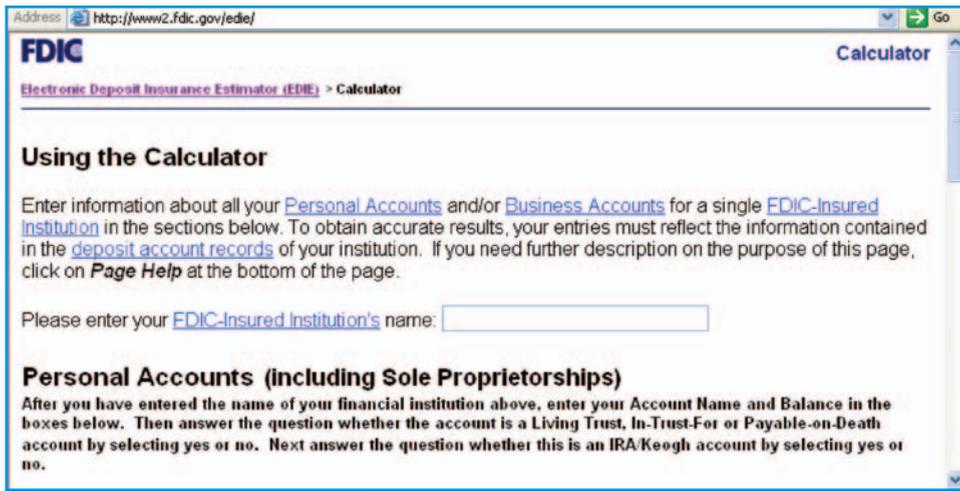
The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress in 1933. Its purpose is to promote public confidence in the banking system. It also supervises banks and other financial institutions to maintain a stable and sound banking system. The FDIC monitors advising, investment accounts, and practices at banks. These activities assure consumers that lawful and ethical practices are being used.

The FDIC insures deposits in banks and other financial institutions, such as savings and loan companies. Checking accounts, savings accounts, and other deposits, up to \$100,000 per depositor per bank, are covered. Generally, separate coverage is provided for retirement accounts. This means that accounts such as an IRA held in an insured bank may be covered for up to \$250,000. The FDIC provides an Electronic Deposit Insurance Calculator for consumer use. This calculator, described in Figure 12-3.1 on page 367, allows you to find the insurance coverage of your accounts at each FDIC-insured bank.

The FDIC also provides other consumer resources. At the FDIC Web site, you can find information about many topics related to investing. Other topics of interest to consumers are also discussed. For example, your right to financial privacy and how to avoid being a victim of identify theft are discussed.

### *National Credit Union Administration*

The National Credit Union Administration (NCUA) is a federal agency that charters and supervises federal credit unions. It also supervises state-chartered credit unions across the country. The NCUA insures savings



**FIGURE 12-3.1**

*The FDIC provides a calculator to help depositors find their insurance coverage for accounts.*

**Source:** Federal Deposit Insurance Corporation, Electronic Deposit Insurance Estimator (EDIE), <http://www2.fdic.gov/edie/> (accessed August 30, 2006).

deposits in federal credit unions and other member credit unions. Most share accounts in federally insured credit unions are insured for up to \$100,000. Retirement account insurance protection is separate from coverage on other credit union accounts. Retirement accounts, such as an IRA, at insured credit unions are covered for up to \$250,000.

The NCUA provides resources for its credit union members. It also provides resources for consumers, including workshops and financial advising. The NCUA Share Insurance Estimator is available on the NCUA Web site. It is an educational resource that gives a detailed explanation of insurance coverage.

## **National Association of Securities Dealers**

The National Association of Securities Dealers (NASD) is a private, nonprofit organization. It is responsible for self-regulation of the securities industry. The NASD monitors trading on the NASDAQ stock market and other selected markets. Almost all securities firms that do business with the U.S. public are members of the NASD. It registers member firms and has rules to govern their behavior. It also checks to see that firms follow the rules. Firms breaking the rules may be charged high fines.

Protecting investors is a primary goal of the NASD. The NASD looks at advertising related to securities. Its goal is to see that ads are accurate and do not mislead the public. The NASD also licenses stockbrokers. Investors can find information about licensed brokers on the NASD Web site. The NASD provides materials in print and on its Web site to educate the public about investing. Its Investor Alerts give current news about investment scams and problems.



**NASD sponsors continuing education programs for stockbrokers.**

## Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC) is a federal corporation. Its mission is to protect retirement incomes of workers with defined benefit pension plans. These plans are designed to pay a monthly benefit to retired workers. The amount is commonly based on the person's former salary and years spent on the job.

The PBGC collects insurance payments from companies that offer pension plans to their workers. It also earns money from investments. When a covered pension plan ends or fails for some reason, the PBGC pays some benefits to the retired workers. However, retirees may not get some benefits promised by the company. For example, health care benefits may not be covered. The maximum benefit is set by law. It depends, in part, on the year in which your plan ended. Your age at the date you begin receiving benefits is also a factor. Monthly maximum benefits tables are provided on the PBGC Web site. A link to the PBGC Web site is provided on the Web site for this textbook.

The PBGC Web site provides news releases related to pension plans, as shown in Figure 12-3.2 on page 369. It also offers helpful information about topics such as the following:

- How to learn if your pension plan is insured by PBGC
- How a pension plan may end
- Benefits likely to be provided to workers in the plan
- Survivor benefits
- How to start collecting pension benefits

### Success Skills

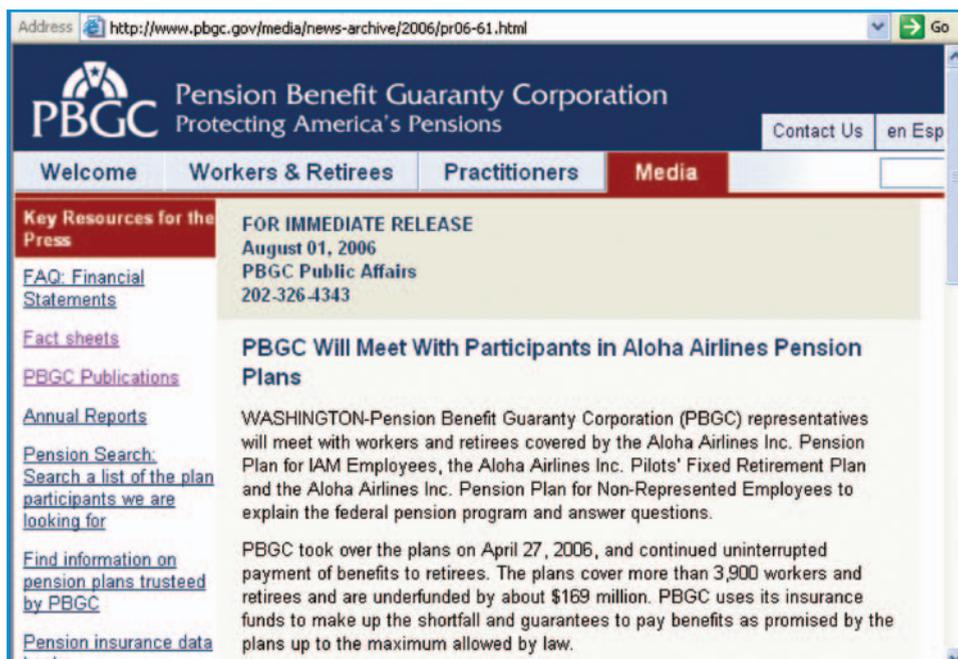
#### LEADERSHIP

Leadership is often defined as the ability to influence others. Leaders are those who accept responsibility and take the lead. They are often known by their roles, such as coach, manager, or mentor. Every leader has a unique leadership style. This style reflects the leader's actions and ways of communicating to motivate people and achieve goals.

Creating plans and motivating others to get work done are important tasks for a leader. Leaders are able to inspire others. A leader does not do all the work but is able to achieve goals by managing a team. A good leader builds strategic alliances—friendships with the right people who help get things done.

Leaders often have to deal with people in difficult situations and overcome obstacles to achieving goals. Leaders face many challenges, but they do not give up. They learn and grow. They earn the respect of others, who willingly follow.

Developing leadership skills can help you be successful at school and at work. At school, you can use leadership skills in clubs, sports, and other teams. At work, leadership skills can be important even if you are not in a management position. You may need to lead a committee, work group, or project team. Success at work contributes to job security and promotions. These, in turn, can help you build financial security.



**FIGURE 12-3.2**

*The PBGC uses insurance funds to pay pension benefits.*

Source: Pension Benefit Guaranty Corporation, "PBGC Will Meet With Participants in Aloha Airlines Pension Plans," August 1, 2006, <http://www.pbgc.gov/media/news-archive/2006/pr06-61.html> (accessed September 1, 2006).

## GOVERNMENT AGENCIES

The U.S. government has agencies that seek to protect consumers. One role of these agencies is **oversight**. Through oversight, or supervision, they help protect investors from unlawful actions. States also have agencies that help protect investors.

### Securities and Exchange Commission

The Securities and Exchange Commission (SEC) is the primary overseer and regulator of the U.S. securities markets. It oversees securities exchanges, brokers and dealers, investment advisors, and mutual funds. The SEC works with other federal and state agencies and with private organizations.

The SEC tries to maintain fair and orderly markets and foster business growth. It also enforces securities laws. Typical law violations include insider trading, accounting fraud, and giving false information about companies or securities.

A primary goal of the SEC is to protect investors. The SEC requires public companies to give meaningful and accurate data to the public. This data includes financial reports. Having the data helps investors make informed decisions.

### Department of the Treasury

The U.S. Department of the Treasury is the primary federal agency responsible for the economic security of the United States. It has a wide range of duties related to financial issues. It seeks to help citizens by fostering an economy with growth and job opportunities.

## Focus on . . .

### SARBANES-OXLEY ACT

The Sarbanes-Oxley Act of 2002 (SOX) was passed in July 2002. The act is also known as the Public Company Accounting Reform and Investor Protection Act of 2002. This law created new and stronger standards for U.S. public companies and for accounting firms. The law was created in response to scandals in large companies. These scandals involved fraud or misconduct by company officers. They resulted in losses for investors and company employees.

SOX requires improved financial reporting, audits, and accounting services for public companies. The SEC has adopted rules that require companies to comply with the law.

The law established a new agency, the Public Company Accounting Oversight Board. The agency's purpose is to oversee and regulate accounting firms in their roles as auditors of public companies.

Information about many saving and investing topics is available online at the Department's Web site. The Department of the Treasury is a member agency of the U.S. Financial Literacy and Education Commission. The commission provides a Web site called MyMoney.gov. The site allows consumers to order a free *My Money* tool kit. The site also provides

**FIGURE 12-3.3**

*The MyMoney.gov Web site offers valuable information for consumers.*

The screenshot shows the MyMoney.gov website interface. At the top, the address bar displays "http://www.mymoney.gov/". The main header features the U.S. Financial Literacy and Education Commission logo, which includes a telephone handset and a computer mouse, with the text "mymoney" in green. Below the header is a navigation menu with links for "Home", "About Us", "Pueblo.gsa.gov", "Consumer.gov", and "en". The main content area is divided into two columns. The left column is titled "Click on the topics below for more information." and lists various topics such as "Budgeting & Taxes", "Credit", "Financial Planning", "Home Ownership", "Kids", "Paying for Education", "Privacy, Fraud & Scams", "Responding To Life Events", "Retirement Planning", "Saving & Investing", "Starting a Small Business", "en Español", "Member Agencies", and "Free My Money Tool Kit Order Form". The right column is titled "Do you want to learn how to save, invest, and manage your money better?" and contains introductory text about MyMoney.gov, a "News" section with two items (a meeting and hurricane help), and a link to a "Free 'My Money' Tool kit Order Form".

Source: MyMoney.gov, <http://www.mymoney.gov/> (accessed September 2, 2006).

consumers with information about topics such as saving and investing, privacy, retirement planning, and starting a business. A link to the Web site is provided on the Web site for this textbook.

## Internal Revenue Service

The Internal Revenue Service (IRS) is a bureau of the U.S. Department of the Treasury. Its role is to help taxpayers understand and meet their tax responsibilities. It also seeks to ensure that those who owe taxes pay them.

In Chapter 2, you learned about paying taxes and completing simple IRS tax forms. When you own, buy, or sell securities, you may need to report this activity as part of your tax return. Figure 12-3.4 shows a portion of Form 1040A. This form has several lines on which taxpayers report interest, dividends, and capital gains.

Form 1040EZ is the simplest tax form to complete. Form 1040A allows more options for income and deductions to be entered. Some sections require the filer to attach additional forms, often called schedules. For example, Form 1099-INT shows interest income earned during the year. This form is sent to individuals by the bank that pays the interest. Taxable interest must be reported on your tax return. If a taxpayer sells stocks or bonds during the tax year, that activity must be reported on Schedule D of Form 1040.

Taxpayers should read the tax form instructions carefully to be sure all investing activity is properly reported. Taxpayers who have many investments and several transactions during the year may want to hire a trained tax preparer to complete the forms.

## The Federal Reserve

The Federal Reserve System is the central bank of the United States. Its purpose is to provide the nation with a safe and flexible financial system. Its activities are in four general areas as follows:

- Conducting monetary policy
- Providing financial services to the U.S. government, financial institutions, and the public
- Supervising and regulating banking
- Keeping the country's financial systems and markets stable

The Federal Reserve is covered in more detail in Chapter 5, Banking Procedures.

<b>Income</b> Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.  If you did not get a W-2, see page 24.  Enclose, but do not attach, any payment.	<b>7</b>	Wages, salaries, tips, etc. Attach Form(s) W-2.	<b>7</b>	
	<b>8a</b>	<b>Taxable</b> interest. Attach Schedule 1 if required.	<b>8a</b>	
	<b>b</b>	<b>Tax-exempt</b> interest. <b>Do not</b> include on line 8a.	<b>8b</b>	
	<b>9a</b>	Ordinary dividends. Attach Schedule 1 if required.	<b>9a</b>	
	<b>b</b>	Qualified dividends (see page 25).	<b>9b</b>	
	<b>10</b>	Capital gain distributions (see page 25).	<b>10</b>	
	<b>11a</b>	IRA distributions.	<b>11a</b>	
			<b>11b</b>	Taxable amount (see page 25).
			<b>11b</b>	
	<b>12a</b>	Pensions and annuities.	<b>12a</b>	
			<b>12b</b>	Taxable amount (see page 26).
			<b>12b</b>	
	<b>13</b>	Unemployment compensation and Alaska Permanent Fund dividends.	<b>13</b>	
	<b>14a</b>	Social security benefits.	<b>14a</b>	
			<b>14b</b>	Taxable amount (see page 28).
		<b>14b</b>		
<b>15</b>	Add lines 7 through 14b (far right column). This is your <b>total income</b> .	<b>15</b>		

**FIGURE 12-3.4**

*Data related to investments must be reported on tax forms.*

**Source:** Internal Revenue Service, 2005 Form 1040A, <http://www.irs.gov/pub/irs-pdf/f1040a.pdf> (accessed September 2, 2006).

## 12-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is purpose of the FDIC? How does it benefit consumers?
2. What is the NCUA? What does it do?
3. What is the NASD? What does it do?
4. What organization is responsible for protecting the retirement incomes of workers with defined benefit pension plans?
5. What is meant by government oversight of the securities industry?
6. What does the SEC do to protect investors?
7. What prompted passage of the Sarbanes-Oxley Act of 2002? How does this law help protect consumers and investors?
8. What is the primary federal agency responsible for the economic security of the United States? How does it help citizens?
9. What organization provides the MyMoney.gov Web site? What types of information are available on the site?
10. How does the IRS help consumers? What tax form is used to report details of stock trades?

## 12-3 Activity 1 Tax Reporting for Investments



Investors who sell stocks and bonds (except for retirement investment accounts) will need to fill out tax Form 1040. They will also need to complete Schedule D to find the amount of capital gain or loss on sales. If you buy and sell stocks using a broker, the broker should supply the information needed to prepare Schedule D.

1. Open the PDF file *CH12 Schedule D* from the data files. Print the form. This form is Schedule D, which is used to report investment activity for Form 1040.
2. Write your name and Social Security number on the first line of the form. If you do not have a Social Security number or want to keep your number private, use 000-22-1111 as the number.
3. You had the investment activity shown in the following table. Part I of the form is used to report the sale of assets held for 1 year or less. The *Sales Price* is the amount you received less any trading fees. The *Cost or Other Basis* is the amount you paid for the stock plus

trading fees. Enter the data in Part I, line 1, of the form. (If you were actually completing a tax return, you would use real stock names instead of Stock A, Stock B, etc.)

Description of Property	Date Acquired	Date Sold	Sales Price	Cost or Other Basis
Stock A, 100 shares	4/1/2005	9/30/2005	\$ 1,050.00	\$ 900.00
Stock B, 300 shares	3/20/2005	11/3/2005	\$3,000.00	\$2,500.00

4. Calculate the amount of gain or loss for each stock. Enter the amount in Part I, column F, of the form.
5. Total the short-term sales price amounts. Enter the amount on line 3.
6. Leave lines 4, 5, and 6 blank. Find the total of Part I, column F, and enter the amount on line 7, column F.
7. Part II of the form is used to report activity for assets held more than 1 year. Enter the following data in Part II on line 8:

Description of Property	Date Acquired	Date Sold	Sales Price	Cost or Other Basis
Stock C, 200 shares	5/15/2002	8/30/2005	\$3,000.00	\$2,400.00
Stock D, 100 shares	6/20/2004	7/31/2005	\$ 900.00	\$ 1,000.00

8. Find the total of the sales prices in column D. Enter this amount on line 10.
9. Calculate the amount of gain or loss for each stock. Enter the amount in Part II, column F. Enter an amount that is a loss in parentheses.
10. Leave lines 11, 12, 13, and 14 blank. Calculate the total amount of gain or loss from the amounts in Part II, column F. Enter this amount on line 15.
11. Total the amounts from lines 7 and 15. Enter the amount on line 16.
12. On line 17, check the Yes box. Leave lines 18 and 19 blank.
13. On line 20, check the Yes box.
14. Leave lines 21 and 22 blank. You have now completed Schedule D. Information from this form would be used to complete Form 1040.





# EXPLORING CAREERS IN AGRICULTURE, FOOD, AND NATURAL RESOURCES

Do you like to work outdoors? Are you good at making plants grow? Is caring for animals something you like to do? If the answer is yes, a career in agriculture, food, and natural resources might be right for you. Jobs in this area are varied. You might choose to be a farm or ranch worker, growing crops or caring for livestock. You might choose to be a farm owner or manager, directing the work of others. You might also work in one of the many areas related to processing or marketing food or natural resources.

Jobs in this career area are found in government and businesses. The need for jobs in the agriculture, food, and natural resources career area is expected to grow. Job outlook varies by job.

## Skills Needed

Some of the skills and traits needed for a career in agriculture, food, and natural resources include the following:

- Math and science skills
- Communications skills
- Computer/technology skills
- Management skills
- Decision-making skills
- Problem-solving skills

## Job Titles

Many jobs are available in the agriculture, food, and natural resources field. Some job titles for this career area include the following:

- Botanist
- Farm supply store manager
- Farmer or rancher
- Forest worker or logger
- Greenhouse manager
- Mining engineer or technician
- Produce buyer
- Veterinarian
- Water quality manager

## Explore a Job

1. Choose a job in the agriculture, food, and natural resources field to explore further. Select a job from the list above, or choose another job in this career area.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information about the job you selected to answer these questions:
  - What is the nature of the work this job involves?
  - What is the job outlook for this job?
  - What training or qualifications are needed for this job?
  - What are the median annual earnings for this job?

### Summary

- Investors should do thorough research before buying stocks, bonds, or other investments.
- Investors can find helpful information in magazines, newspapers, and newsletters related to investing.
- Corporate annual reports are free, and many are available online. They provide information about the company that can be helpful to investors.
- Investors can find information about companies, products, and market trends on the Internet.
- Investors can use key figures, such as revenue, net income, and P/E ratios, to compare companies.
- Professionals, such as stockbrokers, financial planners, and investment advisors, can help investors choose securities to buy or sell.
- When buying stocks in the primary market, investors buy directly from the issuer. When buying stocks in the secondary market, investors buy from another investor who owns the stock.
- Securities exchanges are auction markets, where stocks are sold to the highest bidder.
- The over-the-counter market is a network of dealers who sell stocks not listed on an exchange.
- Direct investing is buying stock directly from a corporation or bonds directly from the issuer. Direct investing allows investors to avoid transaction fees.
- Both full-service and discount brokers buy and sell securities for clients. Full-service brokers also provide investing advice and other services. Many brokers offer their services online through Web sites.
- Brokers charge fees or commissions for their services.
- Different types of stock market orders can be placed when trading on a securities exchange. Market orders and limit orders are two examples.
- Market timing strategies can be used to help investors decrease losses and increase profits.
- Many independent and governmental agencies regulate and control the investing industry. They seek to protect consumers by providing stable markets and fair trading practices.
- The Sarbanes-Oxley Act of 2002 helps protect consumers with new and stronger standards for U.S. public companies and for accounting firms.

## Key Terms

annual report	limit order	secondary market
auction market	market order	securities exchange
blog	odd lot	selling short
buy and hold	oversight	stock dividend
buying on margin	over-the-counter	stock split
discount broker	market	stockbroker
discretionary order	primary market	stop order
initial public offering	round lot	

## ACTIVITY 1 Review Key Terms

Use the key terms from Chapter 12 to complete the following sentences:

1. A licensed person who buys or sells stock for clients at fees much lower than a full-service broker charges is called a(n) \_\_\_\_\_.
2. When you buy a(n) \_\_\_\_\_, you are buying 100 shares or multiples of 100 shares of stock.
3. When a company issues shares of stock to shareholders instead of a cash dividend, this is called a(n) \_\_\_\_\_.
4. A(n) \_\_\_\_\_ is a request to buy stock at the current market price.
5. A company's report to stockholders, called a(n) \_\_\_\_\_, tells about the financial position of the company.
6. A network of dealers who buy and sell stocks (not as part of a securities exchange) is the \_\_\_\_\_.
7. Selling stock that has been borrowed and must be replaced later is called \_\_\_\_\_.
8. \_\_\_\_\_ is a long-term timing plan whereby you hold stock for many years.
9. A(n) \_\_\_\_\_ is a request to sell stock when the price reaches a certain amount.
10. An order to sell stock that allows the broker to get the best possible deal is a(n) \_\_\_\_\_.
11. Buying shares of stock from current owners of the stock takes place in the \_\_\_\_\_.
12. Buying shares of stock directly from the issuer of the stock takes place in the \_\_\_\_\_.
13. \_\_\_\_\_ is the process of buying stock with a partial loan and repaying the loan when the stock is sold.
14. A(n) \_\_\_\_\_ takes place when a company issues more stock to shareholders in proportion to the stock they already own.
15. A market in which stock is sold to the highest bidder is a(n) \_\_\_\_\_.

16. A company's first sale of its stock to the public is called a(n) \_\_\_\_\_.
17. Supervision of the markets by government, called \_\_\_\_\_, is for the purpose of protecting investors from unlawful actions.
18. A(n) \_\_\_\_\_ is a licensed person who buys and sells securities for investors.
19. An online place where you can find short articles or comments on a particular subject area is called a(n) \_\_\_\_\_.
20. A(n) \_\_\_\_\_ is a request to buy or sell stock at a set price.
21. Fewer than 100 shares of stock is known as a(n) \_\_\_\_\_.
22. A(n) \_\_\_\_\_ is a place where brokers buy and sell stock for their clients.

## ACTIVITY 2

### Math Minute

1. You plan to buy 100 shares of stock for \$45.00 per share. If you use a full-service broker, the fee will be a 2 percent commission on the purchase price. Investment advice is included at no extra cost. What will be the amount of the commission you must pay? If you use a discount broker, you will pay a fee of \$9.95 for this round lot purchase. No investment advice is provided. You have already paid \$100.00 for an investing newsletter to help you decide which stock to buy. Which broker would you use and why?
2. You plan to buy 35 shares of stock for \$22.18 per share. If you use a full-service broker, you must pay a 2 percent commission on the purchase price. You must also pay \$10.00 for an odd-lot sale and \$15.00 because this is a small purchase. What is the total amount you must pay? If you use a discount broker, you will pay a fee of \$34.95 for this odd lot purchase. You have already paid \$100.00 for an investing newsletter to help you decide which stock to buy. Which broker would you use and why?

## ACTIVITY 3

### Research a Company



[www.thomsonedu.com/school/pfl](http://www.thomsonedu.com/school/pfl)

Before buying stock in a company, investors should learn about the company, its history, and its outlook for the future. Work with a classmate to research a company that interests you.

1. Choose a company to research. It can be a company with which you are familiar, such as Coca-Cola, General Motors, or Wal-Mart. It can be a company you find listed on the NYSE or NASDAQ.

2. Do research to learn all you can about the company. Look for information in magazine and newspaper articles and on the Internet. If possible, get a copy of the company's annual report. Keep a record of the source information for all the articles you read, whether in print or online.
3. Write a report or give an oral report to present what you have learned about the company. Include several of the following points and others that you think would help an investor decide whether to buy stock in the company.
  - Company name and trading symbol
  - Industry that the company is a part of
  - Major products or services the company sells
  - Location of the company headquarters
  - Number of employees
  - Brief history of the company
  - Plans for expansion or new product areas
  - Other topics in the news related to the company
  - Current stock price
  - Range of stock prices over the last year
  - Revenue for last year
  - Income for last year
  - P/E ratio and current ratio
  - Dividends paid
  - Stock splits
  - Risk level for the company stock

## ACTIVITY 4

### Stocks and Strategy



Before buying a stock, you must select an investing strategy. For example, you may plan to buy medium-risk growth stocks and hold them for several years.

You might decide to buy income stocks that pay high dividends. Your choices will reflect your needs and what you think about the economy and the future of certain companies. They will also reflect the risks you are willing to take.

1. Open the *Word* file *CH12 Stock Descriptions* from the data files. Read the descriptions of various types of stocks found in this file.
2. Miquel is making his first stock purchase. He has some other investments, mostly safe and liquid ones. Which type of stock do you think Miquel should buy? Why do you recommend this choice?
3. Hanae is seeking more risk and larger returns for 20 years from now. Which type of stock do you think she should buy? Why do you recommend this choice?
4. Larry is retired. Which type of stock do you think he should buy? Why do you recommend this choice?
5. Linda has inherited a large amount of money. She wants to invest it and is willing to take moderate risk. Which type of stock do you think she should buy? Why do you recommend this choice?

# BUSINESS ETHICS EVENT



The FBLA Business Ethics event allows students to respond to ethical situations. Students work in a team of two or three members. A situation is given that presents ethical questions. Students must prepare a presentation to respond to the situation.

## *Evaluation*

Students who take part in this event are judged on their ability to:

- Define clearly the ethical issue(s) involved in the situation.
- State clearly the team's position about the ethical issue(s).
- Present an effective ethical solution to the issue.
- Organize thoughts and solutions clearly.
- Show self-confidence and poise while presenting.
- Involve all team members in the presentation.

## *Sample Scenario*

Mario applied for a job as an accounting clerk in a local company. On his resume and application, Mario overstated his qualifications for the job. He stated that he had worked in a similar job for 5 years. Mario had worked for his previous employer for 5 years. However, he worked for only 2 years as an accounting clerk. For 3 years, he worked as a cashier. Mario has a Bachelor's of Business Administration degree. His major area of study was economics. The job ad requested that the applicant have a degree in accounting. Mario stated that his college major was accounting. Mario was hired for the job.

## *Think Critically*

1. What might be some negative outcomes for the employer that result from Mario's overstating his qualifications?
2. How might Mario's actions affect other applicants for the job?
3. What may happen if the employer discovers that Mario was not truthful on his resume and application?