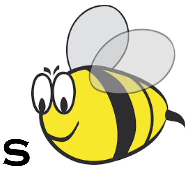
Investment Buzz Words



Have you heard of the Stock Market? Or the Stock Exchange? While many people are familiar with these terms, they can get confusing. However, they are a useful tool to grow your money, so it's important to understand how investments work.

Stocks

Another word you can think of when you see "stock" is "ownership." If you buy a stock (also known as a share) in a company, you now own a very small piece of it. For example: Let's say you really love the Disney company, and you feel that in general, they have a good business. You buy a stock in it, and now you own a teeny part of the Disney franchise. As that company succeeds or fails, your stock value will rise and fall. When it rises, you earn money. When it falls, you lose your money. Stock prices are always fluctuating, so in turn, you are constantly losing and earning. In the short term, this happens quite a lot. You may see your money increase and decrease on a weekly, or even daily, basis. However, in the long term, you will mostly see a gain. You can decide how risky you want to be with your money by what stocks you buy.

Bonds

A bond represents debt that a company owes you. For example, if you buy a government savings bond, you become a lender to the federal government, and they must pay you back for the loan. They also must pay you interest on the loan, which is how your bond makes money. Bonds are considered less risky than stocks because you know exactly how much in interest you will make annually. They do not gain and lose the way that stocks do.

Money Market Funds

This type of investment is considered "as good as cash." You can write a check out of a money market fund the same way you would write a personal check. The risk is extremely small on these funds, which also means the return is very small. For example, the Illinois Treasurer's Office invests most of their money from taxpayers in commercial paper because there is very little risk.

Securities

If you hear someone talk about trading securities, they are referring to stocks, bonds, and money market funds.

Mutual Fund

This refers to a pool of money that is provided by individuals or companies to be invested in stocks, bonds, and other funds. A fund manager is hired to invest the money on behalf of the investors. The collection of what they invest is your portfolio. You, as an individual, do not have to then worry about what stocks are high or low, when to sell them, etc.- it is all done for you.

Capital Gains

An increase in value from the time a company's stock was purchased until it was sold.

Dividend

This is the money stockholders are paid when the company earns a profit. It is common for dividends to be paid quarterly, semi-annually, or annually.

Common Stock

In this type of stock, shareholders are considered owners in the company and have voting rights involving some of the company's decisions.

Preferred Stock

These stockholders do not have voting rights but receive dividends before any common stockholders do.

Bear Market

This is a trading term that is used to describe a stock market in a downward trend. This means that stock prices are falling.

Bull Market

This is the exact opposite of a bear market. In a bull market, stock prices are rising.

Assets

A resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will make money in the future.