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# Wee-Savers and Investors Financial Literary

## Introduction to Financial Literacy

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## INTRODUCTION TO STOCKS AND BONDS INVESTMENT

# What are Stocks?

- A stock is a piece of ownership in a publicly traded company. Owning stock in a public company can provide many financial benefits. However, investing in the stock market can involve a certain level of risk, as the prices can change pretty much at anytime, for a number of reasons. The price of oil, inflation, the world economy, and even terrorism can affect the entire United States stock market.

# Stock Keywords

- Publicly traded company: a company that you can invest in on the stock market.
- Stock market: the place where you can buy and sell stocks via a broker. The 3 most popular are: The New York Stock Exchange (NYSE), the National Association of Securities Dealers Automated Quotations (NASDAQ), and the Over The Counter (OTC) market.
- Broker: “middleman” in the transaction, who charges a fee to trade your securities.
- Securities: are valuable assets in your portfolio – usually: stocks, bonds, and funds.
- Portfolio: a collection of all of your assets/life savings – usually: securities, real estate and cash.
- Long-term: holding on to a security for 10+ years in order to maximize growth.
- Dividends: money paid to you every 3 months for owning stock in a company.
- Capital gains: buying something for a low price and can selling it later for more.

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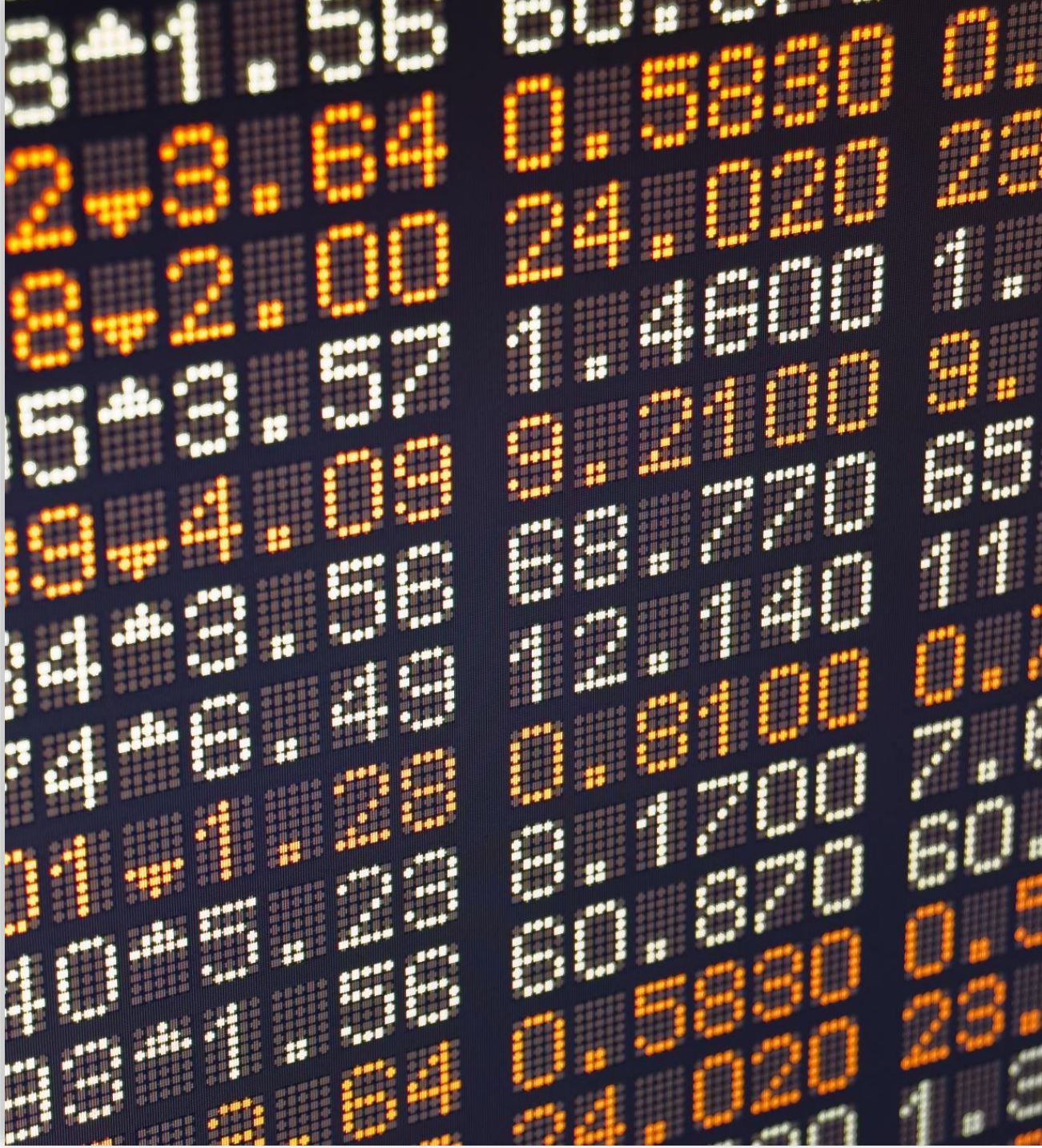
# Stock Investment Example

When you invest in the stock market, the secret is to buy low and sell high. The average pair of expensive gym shoes can easily cost $200. If any of us invested $200 into NIKE, Inc. stock (NYSE: NKE) in the year 2000, we could have sold the stock in 2015 and made over $2k in capital gains and dividends…and got 4 FREE pair of expensive gym shoes out of the situation!

# Bonds

You can invest in bonds similar to how you can invest in stocks. A bond is basically a loan. The major difference is that bonds provide fixed rates of interest. The prices don’t go up and down like stocks.



# Bonds Keywords

- Loan: cash borrowed from a company or government that gets paid back with interest.
- Mature: the time it takes for you to get paid back from a loan – usually: 3 months to 30 years.
- Fixed interest: the amount of return you get on a loan – usually: 1 – 6%.
- Invest: the activity of putting your cash behind a company or project, expecting a return.
- Risk: the reality that you can lose some or all of the cash you invest – usually: 10% - 100%.
- Reward: the amount of money you expect to gain from your investment – usually: 20% - 1,000%.
- R.O.I.: Return On Investment is the amount of money you actually gained or lost.

| Stocks | | Bonds |
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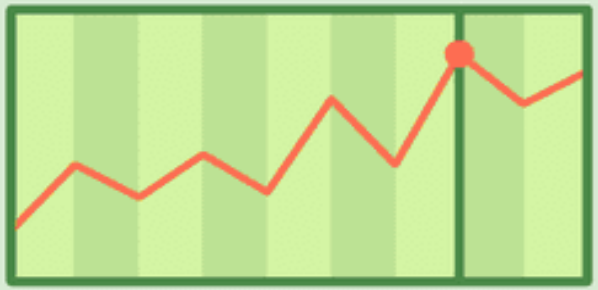
|  | vs. | |
| An equity instrument carrying ownership interest. | **Meaning** | A debt instrument with a promise to pay back the money with interest. |
| Dividend | **Return** | Interest |
| No | **Return Guarantee** | Yes |
| Voting rights in the company. | **Additonal Benefits** | Preferential treatment when bond matures. |

STOCKS/BONDS

# Investment

Your investment goals are as unique as the route you take to reach them. But regardless of your course, we believe these 10 “rules of the road” can help you get where you want to be.

1. Develop your strategy. Your financial advisor gets to know you – your long-term goals, investment time frame and comfort level with risk – before recommending a strategy. The more you can outline what you are trying to achieve, the more he or she can tailor your strategy to you.

2. Understand risk. As a rule, the higher the return potential, the more risk you’ll have to accept. To determine what makes sense for you, your financial advisor will want to know:

- What is your comfort level with risk? Understanding this can help him or her determine how you may react to market ups and downs over time.
- How much risk are you able to take? The amount of time you have to invest plays an important role in determining how much risk you’re able to take.
- How much risk do you need to take? Your financial advisor will want to determine the return, and therefore the risk, that may be necessary to reach your long-term goals.

3. Diversify for a solid foundation. Your portfolio’s foundation is your asset allocation, or how your investments are diversified among stocks, bonds, cash, international and other investments. Your mix should align with your goals and comfort with risk.

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4. Stick with quality. Of all the factors to consider when investing, Edward Jones believes quality is one of the most important. It's also one of the most overlooked. Although it may be tempting to buy a popular investment, it may not fit with the rest of your portfolio, and it may be riskier than you expect. If it sounds too good to be true, it probably is.

5. Invest for the long term. Despite stories of fortunes made on one or two trades, most successful individual investors make their money over time, not overnight. One of the biggest mistakes you can make is trying to "time" the markets.

6. Have realistic expectations. First, you'll need to determine the return you're trying to achieve – which should be the return you need to reach your goals. Then you can base your expectations on your asset allocation, the market environment and your investment time frame.

7. Maintain your balance.Your portfolio's mix could drift from its initial objectives from time to time. You can rebalance to reduce areas where your investments are overweight or add to areas where they are underweight. By rebalancing on a regular basis, you can help ensure your portfolio remains aligned with your objectives and on track to reach your long-term goals.

# Investment

8. Prepare for the unexpected. Unforeseen events could derail what you're working so hard to achieve. By preparing for the unexpected and building a strategy to address it, you'll be better positioned to handle the inevitable bumps along the way.

9. Focus on what you can control. You can't control market fluctuations, the economy or the political environment. Instead, you should base your decisions on time-tested investment principles, which include: Diversifying your portfolio, Owning quality investments and Maintaining a long-term perspective

10. Review your strategy regularly. The one constant you can expect is change. That's why it's so important that you and your financial advisor review your strategy on a regular basis.

Think of your financial advisor as your navigator on this journey. By working together to regularly review your strategy and make the adjustments you need, you can have a clearer picture of where you stand and what you need to do to help reach your goals.

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Financial Literacy Series