

ECONOMICS NOTES

I. Investing

A. Mutual Fund

Investors put money into a portfolio that invests the money into DIVERSIFIED ASSETS

Include: Stocks, bonds, metals, cash, real estate.

Bonds minimize loss

Power of Compounding Interest = Makes investment more profitable

Rule of 72 = Number of years for an investment to double

Ex. $72/9 = 8$ (8 years with 9% interest)

B. Stocks

Businesses issue and sell stocks to generate capital (capital = money to run and expand business)

Spend CAPITAL to hire labor, develop new products, advertise, open stores

Stock Splits = Reissue shares of stock to attract more buyers, lowering the prices.

1. Unrealized Gains versus Realized Gains

Unrealized Gains = money your portfolio has increased but your position is still on the table (yet to be sold for cash)

Realized Gains = actual money you have made once you have sold your stock.

Capital Gains = Buy low, sell high (increase in value)

Dividends = Companies pay a portion of their profits to shareholders a few times a year.

2. Risks of Buying Stock

No guarantee it will rise

Limited Liability = Long on an investment, you can only lose the amount of your initial investment

Risk Aversion = People who don't risk an option with an uncertain outcome.

Ex. CDs, Bonds, Savings Account

Risk Tolerance = how much loss someone can handle

3. Selling Short

Sell high, buy to cover low.

Infinite exposure to loss.

4. Stock Prices

Stock is worth what someone is willing to pay for it.

Ex. Demand up, price up.

Supply up, stock price drop.

5. Stock Exchanges

Traded on exchanges.

Licensed stockbrokers work on the exchange, execute trades EX. NYSE, NASDAQ