What is stock? essay sample

Finance

Bank of America

CDs require a minimum amount of money to invest. CDs are safe ways to save money but it is hard to get the money out. Bank will charge a fee if money is taken out early. Generally ranges from one month to five years. IRA

Individual Retirement Account (IRA)—a portion of a person’s income is set aside to be withdrawn after retirement, growing interest in the meantime through investment in other securities. Employers might contribute to the account as a benefit to employees. The risk varies and depends on the plan. IRA account includes multiple types of investments including stocks, bonds, etc. Requires an account with a bank, brokerage firm or mutual fund company.

Wells Fargo

There is a limit to how much you can deposit. Banks will also charge a fee if money is taken out early. It saves money on taxes. Banks will charge a fee if money is taken out early. MMA

Money Market Account – is a savings account that offers a higher rate of return in exchange for deposits that are larger than normal. This account will not make much money, but more than traditional savings. Low risk. Offered by banks and other financial institutions.

Bank of America

Bank may require a minimum amount of money in the account. Bank will charge a fee if money is taken out early. Stocks

Stocks are a share of ownership in a corporation that represents a claim on a portion of that company’s earnings. High Risk because if a stock company fails, all money invested is lost. Though if successful, stocks make the most money over a long period of time. Nasdaq

Usually you can't just buy one stock- must invest a minimum dollar amount. For a large company like McDonald's, the high start-up cost deters personal investors ($50, 000 in 2012). Bonds

Bonds are a debt investment, meaning the purchaser of the bond is loaning money to the company or government for a set period. They have a fixed interest rate, meaning the investor knows how much interest will be earned on the loan since the rate will not change. Moderate risk. Purchasing a bond means giving a loan to a company. " T-Bonds" are bonds issued by the U. S. Treasury and are safer than corporate bonds. (Loaning money to the government is safer than loaning money to a private business.) 30-Year Treasury Bond – U. S. Department of the Treasury

Bonds require a minimum amount of money to purchase and a minimum length of time to hold on to the bond. Mutual Funds

Mutual Funds are a pool of funds collected from many investors in order to purchase stocks, bonds, and other investments in greater amounts. Mutual funds are shares of ownership in a group of companies. Moderate risk; mutual funds can earn significantly more money but can also potentially lose more. Homestead Funds Short Term Bond Fund

Mutual funds require a minimum amount of money to invest.

Futures

Futures are a contract or legal agreement, where an investor agrees to purchase a certain amount of a physical good or financial asset on a specific date for a set price. High (Aggressive) – Have a potentially large return relative to other investments but also are considered the riskiest. Trade Station

Futures involve betting on the future price of a common product. With futures a legal commitment is made to buy a certain amount on a certain date for a particular price. Traditional Bank Account

In a Traditional Savings or Checking Account, funds are deposited in a bank that the depositor (account holder) can withdraw at will. Moderate risk because these accounts have the potential for identity theft. Wells Fargo, American Express, Bank of America all offer traditional bank accounts. They are easy to start but require a fee for the accounts. You can take out cash easily and are easy to use with debit cards and checks.

Investment Plan

After completing the reading and activities in the lesson, develop your own investment plan. Base this investment plan on your results from the spinner activity on the activity tab.

Choose three investment options from the chart for your money. Describe your investment plan in a detailed paragraph. Be sure to include responses to the following questions: Explain how you obtained the money for investment

Congratulations! You win a talent competition with a cash prize of $1, 000.

Why did you choose these three options?

Traditional Bank Account, IRA, and MMA. I chose a Traditional Bank Account to help in everyday tasks when I need money, so I can use a debit card. Second I chose an IRA because I need it to help me retire in the future. Lastly, I chose MMA because it is low risk but still makes more money than a traditional bank account.

How do your choices reflect your tolerance for risk?
My choices reflect a low tolerance for risk. I prefer not to risk my money so much.

How do you plan to divide your money between the three investment options you chose? Be sure to include the following terms in your explanation:
Diversification – spend money upon multiple accounts

Risk – rate of return – The percentage of interest you earn from an investment over time interest rate –

I plan to diversify my investments by putting a percentage of my earnings in each account. I plan to use 50% in my traditional bank account, 20% in my IRA account, and 30% in my MMA account. That would be $500 in my traditional bank account, $200 in my IRA, and $300 in my MMA. These are low risk investments and I will still get a rate of return.