

# Chapter 10

## Stocks & Annuities

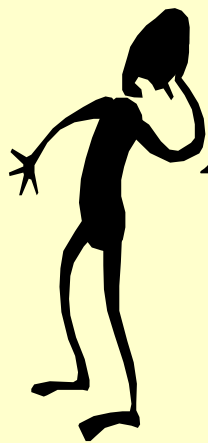
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**New River Community College**  
**Dublin, VA 24084**  
**<http://www.nr.cc.va/fin107>**

# What is a fee only financial advisor?

An advisor who gives advice for a fee but does not make money on the products he sells

**Does a small investor  
get same consideration  
as a larger investor?**

**No!** Stock brokers tend  
to give quality time  
to the larger accounts



**Why do some stock  
brokers encourage me  
to buy and sell often?**

Because every time he buys  
or sells a share of stock  
for you he makes money

# **Will my bank always give me the best advice?**

Your banker may advise you to buy the bank's house-brand mutual funds, these may or may not be the best for you

# What makes for a good advisor?

Someone who considers your age, income, assets, risk tolerance, and goals

**Can I sue a sales rep who gives me advice based on his own interests?**

**Yes** Some companies will even demote sales reps who give advice based on their own self interest



**Where can I find the  
best source for  
financial advice?**





American Institute of  
Certified Public Accountants  
(800-862-4272)

<http://www.aicpa.org>

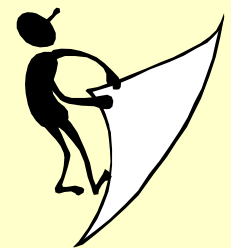
National Assoc. of Personal  
Financial Advisors  
(800-366-2732)

<http://www.napfa.org>

# **What is the commodities market?**

A market whereby you agree to buy or sell a certain commodity, such as grain, juice, metals, and even currencies etc.

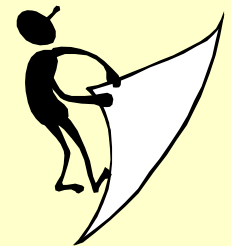
# How do I make money in the commodities market?



As a buyer, if the market price goes above the contract price on the date you agreed to buy, you gain

As a seller, if the market price goes below the contract price on the date you agreed to sell, you gain

# How do I lose money in the commodities market?



As a buyer, if the market price goes below the contract price on the date you agreed to buy, you lose

As a seller, if the market price goes above the contract price on the date you agreed to sell, you lose

# What is a disadvantage of the commodities market?

You have no control over your investment, you have to stick to the contract



# **Are there commissions to be paid in the commodities market?**

Because brokers buy and sell often, sales commissions can add up fast

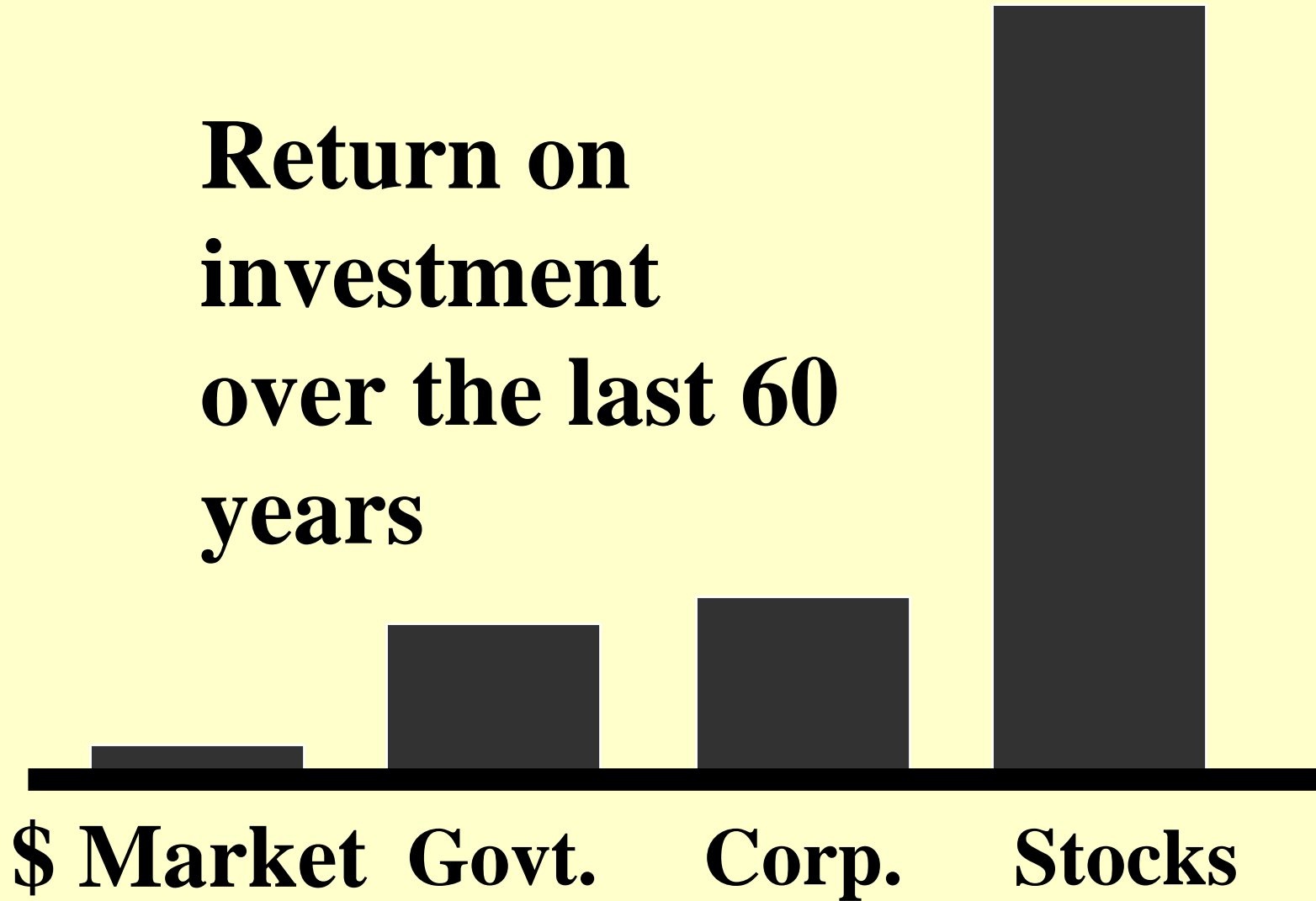


# What is the stock market?

A market where stocks  
are bought and sold



# Return on investment over the last 60 years

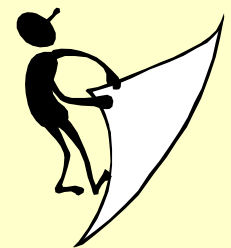


# Why doesn't everyone invest in the stock market?

Because in the short run there can be big market drops



# What are some characteristics of stock investors?



- Mutual funds doubled since 1990 while number of participants have tripled
- 89% are investing for their retirement
- Participants doubled from 1990 – 1997
- 47% of investors are women
- Average investor is under 50 years of age

# Who can help me learn the fundamentals of investing?

National Assoc. of  
Investors Corp.

(810) 583-6242

<http://wsdinc.com>

# What are some good books to read?

One Up on Wall Street

by Peter Lynch

The Warren Buffet Way

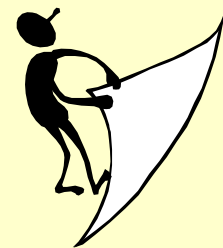
by Robert G. Hagstrom Jr.

**What are some good books to read?**





- Invest in companies with high debt when the economy is expanding
- Invest in companies with low debt during economic uncertain times
- Invest in companies that have a niche in the market
- Invest in companies that are in a no growth industry



- Invest in companies that are in a disgusting or depressing occupation, dull and boring
- Invest in humdrum companies that are in a simple market with little competition
- Buy stock in smaller companies rather than big companies
- Buy stocks in a field you are familiar with
- Ignore the stock market and concentrate on the company

# **What are the advantages of a Full service stock broker?**

- Gives you personal advice
- Personal relationship
- Can keep you informed

# What is the disadvantage of a full service stock broker?

The expense



# What are the advantages of a discount broker?

- Confirm trades in writing
- Send out reports
- Market quotes over phone
- Less expensive than full service

# What are the disadvantages of a discount broker?

- Does not promote stocks
- No free research
- No advice
- No monitoring your account

# What is the advantage of a deep discount broker?

No frills service at  
the lowest price



# **What should I consider with a discount broker?**

- Watch for hidden fees
- Check out what's offered
- Be aware of restrictions



# How can I trade on the Internet?

Hotlinks to 30 companies

<http://invest-faq.com/articles/trade-electronic.html>

**I think my broker is guilty  
of fraud, what can I do?**

National Association of  
Securities Dealers

(212) 480-4881

[http://interlearn.com/summary  
/nasd.htm](http://interlearn.com/summary/nasd.htm)

# When buying stock, what is a put?

Gives you the option to sell  
a specified number of  
shares at a specified price  
before a specified date

# **When buy stock, what is a call?**

Gives you the right to buy  
a specified number of  
shares at a specified price  
before a specified date

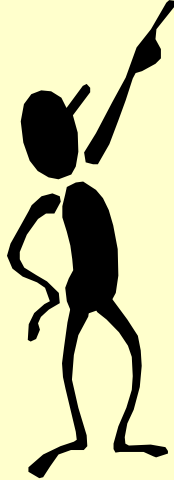
# What is one problem with puts and calls?



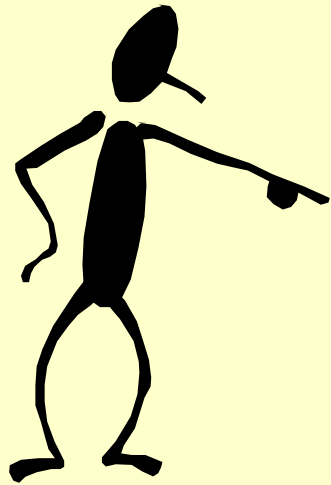
They cost money

# What is a bull market?

A rising market



# What is a bear market?



A falling market

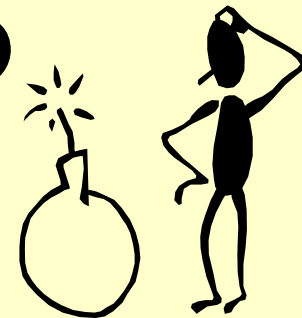
# What are index funds?

Common stock mutual funds that focus on matching the performance of some index of the stock market



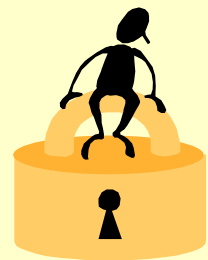
# What is active management?

A stock broker takes  
action and buys and  
sells according to  
market trends



# What is passive management?

A stock broker who  
simply buys a basket of  
stocks in some index



# What are the advantages of passive management?

- Lower costs
- Invests more of every dollar you give him to invest
- Less turnover

# What is a dividend reinvestment plan?

DRIPs allow you to buy stocks directly from a company rather than through a stock broker

# **What is an optional cash payment?**

A DRIP that automatically drafts your bank account monthly

**Where do I find out  
more about DRIPs?**

[http://www.investorama.  
com/dripcent.shtml](http://www.investorama.com/dripcent.shtml)

# What is dollar cost averaging?

A plan that has you invest the same amount every month on a regular basis

# What are the advantages of dollar cost averaging?

Your money buys less when stock prices go up and more when stock prices go down



# What is an annuity?

An investment which you receive fixed monthly payments for a lifetime or a specified number of years

# Give me an example of a single premium annuity?

You inherit \$100,000 and purchase an annuity with it, you then receive a certain amount monthly for life after certain age

# **What is a fixed rate annuity?**

Your monthly income  
will remain the same  
your whole life after  
a certain age

# What is a variable annuity?

Your income will depend  
upon how well the  
annuity's investments do

# Avoid these plunders:



- With bonds beware of what is said to be guaranteed, the price of bonds fluctuate with interest rates
- Never get emotionally involved in a stock
- Do not buy stocks based solely on past performance
- Always see a prospectus before taking any action
- Beware of solicitations over the phone

**Where can I find  
answers to almost any  
investment question?**

**<http://invest-faq.com/>**

**END**