



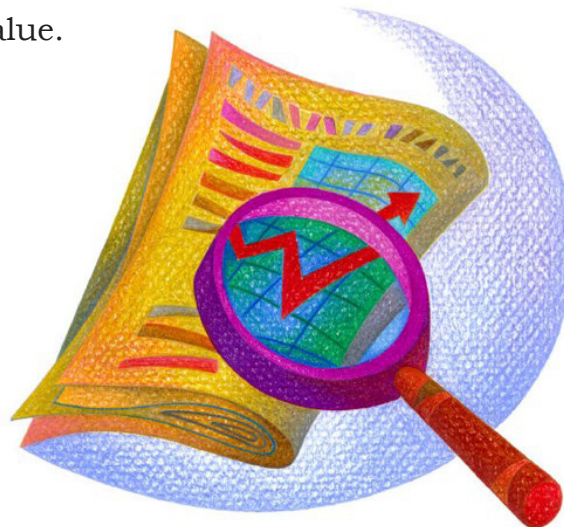
Markets Make Sense

Stocks

Owning stock in a company means that you own part of that company. A company usually begins issuing shares of stock to raise money for such reasons as buying new equipment or hiring more employees. Investors who buy stock are called **shareholders** because they own shares of the company. Shareholders often are given special privileges, such as voting in company elections and having the right to buy new shares of stock in the company.

There are several ways to buy stock in a company, with the most common method being to purchase stock through a **stockbroker**. A stockbroker is a qualified individual who buys and sells shares of stock on behalf of investors. These days, many people invest without any assistance by using the Internet.

Stocks can be risky investments because shareholders can potentially lose the money they have invested. On the other hand, the value of stocks also has the potential to grow greatly and rapidly. The price of stocks changes, based on how successful the company is and how much **demand** there is for its products. If the demand increases, the stock price likely will increase as well. For instance, if you buy stock in a clothing company that is growing in popularity with all the kids at school, your stock may rise in value. But if another clothing company becomes more popular, your stock may go down in value.





Bonds

A bond is a loan, usually to a government group or a company. An organization generally will issue a bond to raise money for reasons ranging from covering corporate expenses to building new roads. Investors who buy bonds are called **bond holders**. The organization that creates the bond is called the **issuer**.

Bonds are purchased both by large investors, such as insurance companies and banks, and individual investors. Individual investors can purchase bonds through **brokers** (a qualified individual who buys and sells bonds on behalf of investors) or through **bond funds**. A bond fund is a collection of money from different investors that is used to buy many different types of bonds. Bond funds are managed by knowledgeable individuals, known as **fund managers**, who make buying and selling decisions on behalf of the investors.

A bond is purchased for a certain **face value**, or the money initially invested. A bond also has a **coupon rate**, or an annual rate of interest earned by the bond holder. The higher the coupon rate, the more interest the issuer must pay. Finally, each bond also has a **maturity date**, or the date when the issuer must pay back the bond holder's initial investment. This will not occur if the bond's issuer **defaults**, or does not have the means to pay back the loan.





Commodities

Commodities are raw materials used to create products that individuals use. Commodities can be anything from agricultural products, such as corn and beef, to minerals, such as gold and silver. Investors do not actually purchase these commodities; rather, they invest in **commodity futures**. Commodity futures are contracts between buyers and sellers of commodities. Investors speculate on the future direction of a commodity's price, meaning whether the price will rise or fall. Investors buy a futures contract if they think that the price of the commodity will go up. They sell a futures contract if they think the price will decrease. For every trade, there must be a buyer and a seller. Commodity prices rise when there is a great demand for a particular commodity (meaning that many people want that commodity). Commodity prices drop when the demand for the commodity is low, or the supply (the amount available) is high.

Commodity futures generally are purchased through **commodity brokers**. A commodity broker is an individual who buys and sells commodities for investors, as well as for himself or herself.

