CONCEPT: INTRODUCTION TO INVESTMENTS

- A company may choose to invest in other companies for two main reasons:
  - □ *Excess Cash* **–** invest in debt or equity securities to earn ____________
  - □ *Influence* **–** buying enough stock in another company could allow you to influence ________________

More than ____% - Example: Buying stock in supplier to obtain consistent, high quality raw materials for production

- ***Security* –** any tradable financial instrument that holds monetary value, representing an ownership or creditor relationship
  - □ ***Equity Security* –** ownership interest in a corporation

    - Examples: ___________________ and ___________________

    - Equity securities tend to earn income through dividends received and capital gains

    - ***Capital Gains* –** increases in the value of the security since its purchase

EXAMPLE: You purchase 10 shares of Banana Stock for $400. The company pays a dividend of $1 per share. You sell the Banana Stock when the price has increased to $55 per share. How much income did you earn on your investment?

  - □ ***Debt Security* –** money that is borrowed and must be repaid with __________________

    - Example: ___________________

- When we invest in debt or equity securities of another company, we must classify them into one of three categories:
  - □ ***Trading Security* –** investments expected to be sold within the near term through active trading
  - □ ***Available-for-Sale Security* –** investments held with the intent of selling them

    - Basically, AFS does not fit into either of the other two categories

  - □ ***Held-to-Maturity Security* –** debt securities that the investor intends to hold until the maturity date

	Trading Security	**Available-for-Sale Security**	**Hold-to-Maturity Security**
Classification			
Initial Measurement			
Subsequent Measurement			
Unrealized Gains/Losses			