

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			