

Investing 101

You gotta know the basics before you make a killing.

By Brendan Picha

OK, you were embarrassed when the gang in psych class was talking about the Hang Seng, and you thought they meant the new Chinese restaurant in town. Well, here's your chance for a quick intro to basic money matters: *Steamtunnels* guide to investment basics.

Basics: Investors fund a company's operations by buying a company's stock. The purchaser becomes part owner of the company, and the investor's stock is linked to how well the company performs. A good year will award **dividends**—cash from company profit to the investor. Not everyone profits, however—investors lose money if the company takes a dive.

Stock: If the company makes a profit, there are several things it might do with the money: it could hold onto the cash and build up its infrastructure, called a **growth stock**. If it decides to pay out most of its profits in the form of dividends, it's called an **income stock**.

An investor that wants to buy a certain stock may go through a brokerage firm like Paine Webber, Charles Schwab or Merrill Lynch. In this situation, the firm charges the investor a fee and gives a percentage of that fee to the broker.

CDs: A certificate of deposit is a safe alternative to investing in the stock market. You lend the bank money for a set period of time, from three months to five years. At the end of the term, you get your money back

Before investing, you should set aside enough money to allow you to live for at least six months.

plus the earned interest, at a rate set at the time of purchase. This investment option is low-risk but also low return—typically between five and

seven percent, based on the CD duration.

Bonds: When you buy bonds, you lend money to the government or a corporation. A bond provides a fixed interest rate, called a Coupon Payment, and a return of the original investment at the date of maturity. The coupon is paid every six months. The original bond price and final interest payment are paid at the date of maturity. Bonds

are low risk and a good way to diversify your portfolio.

Mutual Funds: Mutual funds are a grouping of stocks or bonds that are managed by professional investors.

An investment company buys quantities of securities and sells portions to the public. Funds vary depending on how many stocks are involved. Benefits: Your investment is spread out over numerous stocks, so if one tumbles, the fund won't suffer.

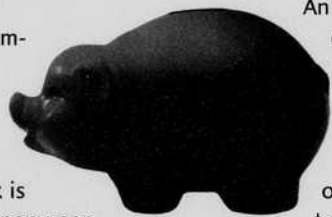
Annuities: Insurance companies sell annuities as insurance policy/retirement account combos. You place money into an annuity and it's allowed to grow, tax-deferred, until you're 59. After you reach 59, you are allowed to remove money by either receiving steady payments over a period of time, or at once in a lump sum. There's no limit to the amount of money you can put in, unlike an IRA or 401K. However, taxes and broker charges are significantly higher than other investments.

Financial Self-Evaluation: Before investing, set aside enough money to live for at least six months. Also, pay off debt on credit cards and loans. However, some graduates have debt with such a low interest rate that it's actually more financially sound to pay back the loan over more years and invest the money. Many investments have a high enough return to cover the interest on your student loans and still make money.

Decide how you feel about risk and return. As a rule, lower-risk investments like CDs won't earn as much, but you're sure not to lose money. Investing in the stock market has the potential to make a lot of money—but you could also lose it all. Most people deal with this by diversifying their investment portfolios.

Now is definitely the time: beginning to invest at a young age is the key to compounding interest and making your money work for you. •

For more about investing and tips from the Motley Fool, go to Steamtunnels.net and search for keyword "invest."



Average Professors Salaries by Discipline

	Private	Public
Business	65,054	66,464
Chemistry	55,556	58,977
Economics	67,255	66,682
Education	49,137	54,369
Engineering	76,060	78,024
English	50,931	51,960
Fine Arts	48,619	51,249
History	54,363	54,937
Law	102,513	95,829
Math	54,087	57,871
Philosophy	54,856	55,105
Physics	63,516	63,537
Political Science	57,645	56,027
Psychology	53,188	58,157
Sociology	53,242	54,471
Theater Arts	48,134	49,219

Source: chronicle.com

Gadgets Guide

High-Tech Toys: Better Living through Technology

Olympus DS-150 Digital Voice Recorder: \$299

Recording lectures may seem like just a useless hassle, but not with the Olympus DS-150 Digital Voice Recorder (olympusamerica.com). The Digital Voice Recorder uses speech-to-text technology and holds up to 160 minutes of recording time. You may never have to take notes again (but we doubt it).



Compressor Music Jukebox MP3 Player: \$749

Most MP3 players can hold about two dozen songs max, but the Compressor Music Jukebox (musiccompressor.com) isn't your ordinary portable MP3 player. The jukebox stores up to 100 CDs worth of music with its 6.4GB notebook hard disk drive. —Kathryn Yu

