



§8-2

Commissions and stocks, bonds, and
mutual funds

Goals

- Discover what factors must be considered before buying stocks and bonds.
- Calculate profits and losses from stocks.
- Calculate commission rates.



Things to consider before “playing the market”

- Be sure you can afford to lose what you invest
- Set long term and short term goals
- Ask if you have the emotional fortitude to handle the ups and downs of the market
- Plan to spend time and money on the companies you invest in
- Choose an experienced, reputable broker



- Stick to your goals
- Do not expect too much too soon
- Be aware you are buying part of a company, not a lottery ticket
- Have an overall family investment plan to protect you from falling into hit or miss investing



Broker

- A salesperson that specializes in buying and selling stocks and bonds.



Commission

- A rate or percentage a broker makes for selling and buying stocks and bonds.



Full service broker

- gives advice or reports on what and when to buy and sell.



Discount Broker

- Only buys and sells. Does not give advice.
- These are mostly online and charge a flat rate for transactions.
- Ex. Etrade charges \$8 per transaction.
- Ex. TD Ameritrade charges \$10 per transaction.
- Scottrade.com \$7 per transaction



Round Lot

- 100 shares of a particular stock



Odd Lot

- A trade fewer than 100 shares



Stock Exchanges

- Where stocks are traded
- The largest is the New York Stock Exchange
- The American Stock Exchange is the other national exchange in the US



Over the counter market

- A national network of dealers and brokers who trade among themselves by telephones, telegraph, or teletype



Percentage Review

- $1\% = .01$
- $200\% = 2.00$
- $6.5\% = .065$

- $.333 = 33.3\%$
- $4.25 = 425\%$



Commission Cost Formula

- $C = prn$
- C = cost of commission
- p = price per share
- n = # of Shares
- r = commission rate



Example 1

- Charlie wants to buy 300 shares of Yahoo! (YHOO) stock which is currently trading at $35 \frac{1}{4}$. How much will Merrill Lynch charge if their commission rate is 2%?
- What is the total cost for Charlie to buy the shares of Yahoo!?



Example 2

- If Lucy buys 250 shares of Texas Instruments (TXN) at $42 \frac{5}{8}$, what is the commission charge if Charles Schwab charges 1.5% Commission?
- What is the total cost for Lucy to buy the shares of Texas Instruments?



Absolute Value Review

- The distance from zero on a number line
- $|-4| =$
- $|1.2| =$
- $|-509| =$
- $|0| =$



Rate of Change formula

$$r = \frac{|P_n - P_0|}{P_0}$$

r = rate of increase / decrease

P₀ = original price

P_n = new price



Example 3

- Charlie would like to know what the *capital gain* would be on the original 300 Yahoo! shares if the stock rose from $35 \frac{1}{4}$ to $38 \frac{1}{2}$.
- What would the rate of change be for the above example?



Example 4

- Complete the table by finding total price for the original purchase and the current market.
- Then find the gain (+) or loss (-)
- Then find the percent change



Example 4



Co.	# of shares	Original Purchase		Current Market		Gain or Loss	% change
		Price per share	Total price	Price per share	Total price		
SNE	146	15 ³ / ₄		16 1/8			
COKE	515						
IBM	405						
MSFT	300						
UA	73						
MCD	45						
EA	340						



Example 4



Co.	# of shares	Original Purchase		Current Market		Gain or Loss	% change
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SNE	146	15 ¾	2,299.50	16 1/8	2,354.25	54.75	+0.238%
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IBM	405						
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MSFT	300	38		36 7/8			
UA	73	100 1/2		104 3/4			
MCD	45	91 3/4		93 3/4			
EA	340	23.95		26			



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IBM	405	171.52	69,465.60	177.36	71,830.80	2,365.20	+0.034%
MSFT	300	38	11,400	36 7/8	11,062.50	-337.50	-0.029%
UA	73	100 1/2	7,336.50	104 3/4	7,646.75	310.25	+0.042%
MCD	45	91 3/4	4,128.75	93 3/4	4,218.75	90.00	+0.218%
EA	340	23.95	8,143.00	26	8,840.00	697.00	+0.086%

Homework

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