

## The Stock Market Game Student Activity Packet

Welcome to the SIFMA Foundation's Stock Market Game! You're joining a community of students across the nation that utilize our programs to advance their knowledge of saving and investing. Each year over 600,000 students take part and we count ourselves lucky to aid in developing the next generation of industry leaders.

Whether brand new to saving and investing or looking to deepen your understanding of the capital markets, the SMG Student Activity Packet is equipped with tools to support your financial education journey.

Among them you'll find:

- Getting Started
- Video Resources
- Key Financial Terms
- Stocks 101
- Reading a Stock Quote
- Stock Quote Worksheet
- Starting Your Company Research
- How to Enter a Stock Trade
- Diversification 101
- Mutual Funds 101
- Reading a Mutual Fund Quote
- Mutual Fund NAV Worksheet
- How to Enter a Mutual Fund Trade
- Bonds 101
- Corporate, Municipal, Agency & US Treasury Bonds
- Bond Prompts
- How to Enter a Corporate & Government Bond Trade
- How to Enter a Municipal Bond Trade
- Diversifying Your Portfolio

## Getting Started

You may have received a Stock Market Game username and password from your teacher. If you did not receive one, you can have a parent or other adult register at [www.stockmarketgame.org](http://www.stockmarketgame.org) to have one created for you.

Your Stock Market Game username and password puts you in an investor's shoes; allowing you the opportunity to manage a virtual \$100,000 stock portfolio and invest in stocks, bonds and mutual funds. You can log-in to make trades online at [www.stockmarketgame.org](http://www.stockmarketgame.org) or through the Stock Market Game app, available on both the apple and google play stores.

**Sample Username:** USA\_20\_ZZ123

**Sample Password:** SMGABC123

**HOT TIP:** Usernames and passwords are case sensitive and must include all characters, even underscores. Usernames cannot be changed, but feel free to change your password to whatever you like. After logging in, click the "resources" tab at the top of the portfolio, click "change password" and follow the prompts.



Keep an eye out for these bars! They'll let you know when it's time to log into your SMG portfolio. Read thoroughly and pay attention while completing activities, they could be anywhere. 🙄



What's learning without a little social media? Follow us to get answers to your market questions, tips on navigating the portfolio, watch videos on investing concepts and get insight directly from financial professionals!

**@SIFMAFoundation** on Twitter, Instagram and Facebook and **The Stock Market Game** on YouTube!

## Video Resources

Check out our YouTube page ([www.youtube.com/c/thestockmarketgameprogram](http://www.youtube.com/c/thestockmarketgameprogram)) to view our mini lessons and other educational and tutorial videos. Make sure to subscribe to our channel for updates!

### SMG Essentials Mini Lesson Videos

Our mini lessons are 3-6 mins each, cover a core investing topic, and wrap up with a formative assessment.

1. The Stock Market Game Kick Off! (3 mins)
2. Intro to Investing (4 mins)
3. Intro to Companies (3 mins)
4. Intro to Stocks (4 mins)
5. Building Your Portfolio (5 mins)
6. The Stock Market Game Trading Portfolio (6 mins)
7. The Stock Market Game Rules (6 mins)
8. Conducting Research (5 mins)
9. Entering Stock Trades (4 mins)
10. Assessing Risk (4 mins)
11. Diversification (4 mins)
12. Entering Mutual Fund Trades (4 mins)
13. Market Analysis (4 mins)
14. Asset Allocation: Bonds & Beyond (5 mins)
15. Entering Bond Trades (5 mins)
16. Portfolio Evaluation (4 mins)
17. End of Session Reflection (4 mins)

[Click here](#) to start watching the playlist!

## Key Financial Terms

**Portfolio:** The group of assets—such as stock, bonds and mutual—held by and investor.

**Stock:** A share of ownership in a business. A share of a company's profit (or loss) belongs to each owner.

**Risk:** The likelihood of losing money. Higher risk means a greater opportunity for high return and a higher potential for loss.

**Diversification:** A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize risk by combining different investments whose prices are not likely to move in step with one another.

**Mutual Fund:** A company owned by investors who pool their savings to invest in a variety of stocks or bonds managed by a professional.

**Dividend:** A cash payment from profits announced by a company's board of director's and distributed among stockholders. In the Stock Market Game, and dividends received are listed in Transaction History and are included in the portfolio's total equity.

**NASDAQ:** An electronic exchange where stocks are traded through an automated network of computers instead of a trading floor. It stands for the National Association of Securities Dealers Automated Quotations System and is the largest electronic stock market in the U.S. and second largest in the world. The Nasdaq Composite index measures the change in more than 3,000 stocks.

**New York Stock Exchange (NYSE):** The oldest and largest stock exchange in the United States. The New York Stock Exchange is located on Wall Street in New York City and is the largest equities-based exchange in the world based on the total market capitalization of its listed securities. The total market value of the roughly 2,300 companies whose shares are listed on the NYSE is about \$5 trillion. It was founded in 1792.

**Public Company:** A company with publicly traded shares that anyone can buy in the stock market.

**Private Company:** A company that doesn't sell shares to the public. You can't buy shares of a private company in the stock market.

**Dow Jones Industrial Average (DOW):** The best-known measure of stock prices consisting of 30 large, well-known companies in major sectors of the U.S. economy.

**S&P 500 (Standard & Poor's 500):** A popular measure of stock prices consisting of 500 large companies that represent the major sectors of the U.S. economy. One of the most commonly used benchmarks of the overall stock market.

**Market Capitalization (or Market Cap):** The total current market value of all outstanding shares of a company. Market capitalization is calculated by multiplying a stock's current price by the total number of outstanding shares.

**Small capitalization stocks (Small Cap):** A stock of a company whose market capitalization is small, usually under \$500 million. Small-cap stocks tend to grow faster than larger cap companies, but they also tend to be more volatile (inconsistent, fickle, changeable).

**Mid Cap:** Short for “middle cap,” mid cap refers to stocks with a market capitalization of between \$2 billion to \$10 billion.

**Large Cap:** refers to a company with a market capitalization value of more than \$10 billion. Large cap is a shortened version of the term "large market capitalization."

**Beta:** measure of the volatility of a security (stock) or a portfolio in comparison to the market as a whole. Break down – a beta of 1 indicates that the security’s price will move with the market. A beta of less than 1 means that the security will be less volatile than the market. A beta greater than 1 indicates that the security’s price will be more volatile than the market. For example, if a stock’s beta is 1.2, it’s theoretically 20% more volatile than the market.

**P/E:** the ratio for valuing a company that measures its current share price relative to its per share earnings. Break down – the P/E ratio indicates the dollar amount an investor can expect to invest in a company in order to receive \$1.00 of that company’s earnings. If a company were currently trading at a P/e of 20 the interpretation is that an investor is willing to pay \$20 for \$1 of current earnings

## Stocks 101<sup>1</sup>

Stocks represent a share of ownership in a publicly held company. The stockholder has a claim on the assets of a company in exchange for the money paid to purchase the stock. As an owner, the stockholder is sharing the wealth AND the risk of ownership with other owners of the company. No matter how few shares of stock you own, you are part owner of the business.

Typically, a company issues stock in order to raise money to expand and build their operations. The company goes to a financial services firm that specializes in underwriting an initial public offering (IPO) of stock to help them with this process. The financial firm gives the company the money it needs to expand, and issues stock. This stock is sold to the public in what is known as the secondary market. Stockholders, also called shareholders, are people who buy the stock.

People buy stock to earn dividends and with hope of selling the stock at a higher price than they originally paid. Stockholders may receive part of the company's profits through dividends. Public companies are not obligated to pay dividends, but most do. Stockholders have limited liability; that is, while they can lose the money they invested to buy the stock, they are not responsible for the company's financial debts should the company fail.

A stockholder should make investment decisions based on his/her "risk tolerance." All investments have some risk. A somewhat risky investment with great growth potential might be a good for someone who is 28 and financially stable, but not for someone who is 60 and plans on retiring in five years. A 28-year-old has time to regain losses before retirement; the 60-year old may not.

Stocks are traded on stock exchanges. The two major U.S. exchanges are the New York Stock Exchange and the NASDAQ. Both are located in New York City. Stocks usually trade in lots of 100; anything less than 100 called an "odd lot." Stocks can range in price from a few dollars to hundreds of dollars per share.

A publicly traded company pays increased taxes in the form of corporate income tax. Each state has its own rules regulating public companies. Public companies must also comply with rules and regulations imposed by the securities industry as well as the federal Securities and Exchange Commission (SEC). They must also submit an annual report to the SEC outlining all their financial information.

There are two types of stock, common and preferred. When you own common stock, your shares represent ownership in the corporation. They give you the right to vote for the company's board of directors, and benefit from its financial success. Some corporations issue preferred stock in addition to common stock. Preferred stocks often pay a fixed dividend on a regular schedule. The price of preferred stock tends to be less volatile than that of common stock. Preferred stocks tend to move with changing interest rates. Unlike owners of common stock, owners of preferred stocks are not entitled to vote on corporate matters.

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<sup>1</sup> SMG Source: <https://searchbk.smgww.org/uploads/U10T20G20Q1200S00AF1.pdf>

## Reading a Stock Quote<sup>2</sup>

A stock quote provides you with pricing information. This information helps you determine whether a stock is a good investment or not. Different financial news and research sites may organize their stock information differently but will provide essentially the same information. The example below is taken from a NYSE stock quote.

<b>Company</b>		<b>Symbol</b>	
The name of the company		The company's stock/ticker symbol	
<b>Current Price</b>	<b>Price Change</b>		<b>Percent Price Change</b>
This is the current per share price of the stock	This is the difference between the stock's current price and its last reported price		This is the difference in price expressed as a percentage
<b>Prev Close</b>		<b>Day's Range</b>	
The previous close is the stock's closing price on the previous trading day		The highest price and lowest price of the stock so far today	
<b>Open</b>		<b>52wk Range</b>	
The first trade of stock today is its opening price		The highest price and lowest price of the stock so far over a 52-week period	
<b>Bid</b>		<b>Volume</b>	
An offer made to buy this stock		The total number of shares traded so far today	
<b>Ask</b>		<b>Avg Vol (3M)</b>	
The price at which a seller wants to sell this company's stock		The average of the total number of shares traded in the past three months	
<b>1 y Target Est</b>		<b>Market Cap</b>	
The median target price as predicted by analysts covering the stock		The total current market value of all outstanding shares of a company	
<b>Beta</b>		<b>P/E</b>	
Beta measures volatility. A number less than 1 means less volatility and a number greater than 1 means more volatility		A company's closing price divided by its latest annual earnings per share	
<b>Next Earnings Date</b>		<b>EPS</b>	
The next time the company will report its earnings		EPS stands for Earnings Per Share. It is a company's profit or earnings divided equally among all the shares investors own	
<b>Div &amp; Yield</b>			
A dividend is a payment many companies make to its stockholders. Yield is the amount of cash that returns to stockholders			

<sup>2</sup> SMG Source: <https://searchbk.smgww.org/uploads/U10T30G20Q2000S00AA1.pdf>

Company name and ticker symbol → **Chipotle Mexican Grill, Inc. (CMG)**  
 Exchange → NYSE - Nasdaq Real Time Price. Currency in USD  
 Stock Price → **879.11** -0.07 (-0.01%)  
 As of 11:54AM EST. Market open.

☆ Add to watchlist

Buy

Summary		Company Outlook		Chart	Conversations	Statist
Previous Close	<b>879.18</b>	Market Cap	<b>24.435B</b>			
Open	<b>873.89</b>	Beta (5Y Monthly)	<b>0.71</b>			
Bid	<b>878.00 x 900</b>	PE Ratio (TTM)	<b>80.01</b>			
Ask	<b>878.84 x 1300</b>	EPS (TTM)	<b>10.99</b>			
Day's Range	<b>873.20 - 883.67</b>	Earnings Date	<b>Feb 04, 2020</b>			
52 Week Range	<b>518.66 - 887.60</b>	Forward Dividend & Yield	<b>N/A (N/A)</b>			
Volume	<b>92,213</b>	Ex-Dividend Date	<b>N/A</b>			
Avg. Volume	<b>413,758</b>	1y Target Est	<b>880.44</b>			

52-week range →

Market Cap  
 Beta  
 P/E ratio  
 Dividend  
 N/A means no cash dividend

Questions to consider when investing in a company<sup>3</sup>:

- What products or services does this company provide? Are there new products coming to the market?
- What type of risk do you think you're taking when you invest in this company?
- Why would you recommend investing in this company?

<sup>3</sup> SMG Source: <https://searchbk.smgww.org/uploads/U20T40G20Q2800S00AA3.pdf>



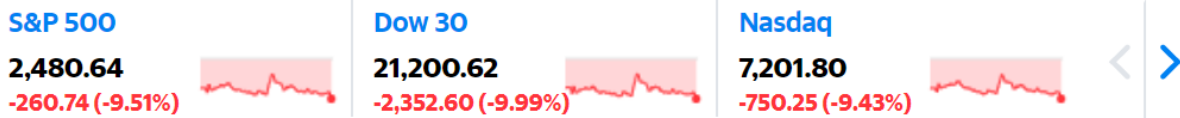
## Stock Quote Worksheet

Name: \_\_\_\_\_ Date: \_\_\_\_\_

<b>Company</b>		<b>Symbol</b>	
<b>Current Price</b>	<b>Price Change</b>		<b>Percent Price Change</b>
<b>Prev Close</b>		<b>Day's Range</b>	
<b>Open</b>		<b>52wk Range</b>	
<b>Bid</b>		<b>Volume</b>	
<b>Ask</b>		<b>Avg Vol (3M)</b>	
<b>1 y Target Est</b>		<b>Market Cap</b>	
<b>Beta</b>		<b>P/E</b>	
<b>Next Earnings Date</b>		<b>EPS</b>	
<b>Div &amp; Yield</b>			

## Starting Your Company Search

Search the top companies across indexes. Visit: [finance.yahoo.com](http://finance.yahoo.com) and select one of the indexes at the top:



Once you've reached the indexes page, click "components". You now have a list of companies to start your search!

### Dow Jones Industrial Average (^DJI)

DJI - DJI Real Time Price. Currency in USD

[★ Add to watchlist](#)

**21,200.62** -2,352.60 (-9.99%)

At close: 4:20PM EDT

[Summary](#)
[Chart](#)
[Conversations](#)
[Historical Data](#)
[Options](#)
[Components](#)



Currency in USD

#### Top 30 Components

Symbol	Company Name	Last Price	Change	% Change	Volume
UTX	United Technologies Corporation	102.50	-5.01	-4.66%	18,928,947
JNJ	Johnson & Johnson	125.41	-6.39	-4.85%	21,139,678

Some other suggestions:

1. Think about products and services that you use or encounter every day. For example, Starbucks coffee, Apple iPhones (and their cell-phone carriers), Ford cars, etc.
2. What companies do you like?
3. What companies they are growing/expanding (adding new stores or restaurants in new locations)?
4. What companies that are creating new products or services?
5. What companies have been around for a longtime and offer a dividend (see vocabulary)?

## How to Enter a Stock Trade

# HOW TO TRADE STOCKS

## THE STOCK MARKET GAME™ WAY

### LOG IN



Log in to your SMG trading portfolio at [www.stockmarketgame.org](http://www.stockmarketgame.org). Don't know your login info? Ask your teacher to contact your local SMG Coordinator to re-send.

### DO YOUR RESEARCH



Before you trade, research! Use the internet or through your SMG trading portfolio. Scroll down to "Ticker Look Up." Type in the ticker or name of the stock to see how it's performing. Check out any recent news about the stock or industry.

### BUY OR SELL?



After reviewing the company, decide on your purchase. In your portfolio click "Enter Trade" under the Trade menu. Select "Stock Trade" and chose the type of trade you want to make (Buy or Sell).

### THE DETAILS



Enter the ticker symbol of the stock and the number of shares. Unsure of the ticker symbol? Type in the company name and then click "Search by Company Name." Select the company and then click "Preview Trade."

### CONFIRM TRADE



Please review all information regarding your trade, then enter your password. Click "Confirm Trade." You should then receive a confirmation message of the transaction.

### TRADE NOT SUCCESSFUL?



There could be a few reasons why your trade didn't go through. Please visit the "Transaction Notes" page to see the reason. Click on the blue "i" button to read a more detailed explanation.


### NEED HELP? CONTACT US!




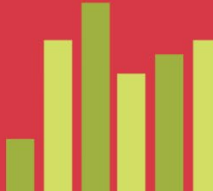



Ask your teacher to contact your local SMG Coordinator. We're here to help!

## How to Enter a Stock Trade on The SMG App!

**HOW TO ENTER A STOCK TRADE**



*on the  
Stock Market Game™ App!*

	<p style="text-align: center; font-weight: bold; font-size: 24px;">1</p> <p><b>Download &amp; Log In</b></p> <p>Download the Stock Market Game app from your mobile phone's app store. Log in to your SMG trading portfolio. Don't know your login? Ask your teacher to contact your local SMG Coordinator to re-send.</p>
<p><b>Research</b></p> <p>Research companies on the internet or through the app by clicking on "Latest News" to check out recent articles about the stock market.</p>	
	<p style="text-align: center; font-weight: bold; font-size: 24px;">3</p> <p><b>Buy or Sell?</b></p> <p>After reviewing a company, decide on your purchase. Click "Enter Trade." Select what type of security you'd like to trade. Choose "Stock Trade." Now make your decision- are you buying or selling? Click the bubble next to "Buy" or "Sell."</p>
<p><b>The Details</b></p> <p>Fill in the details of your trade. Enter the ticker symbol of the stock and the number of shares (min of 10). Unsure of the ticker symbol? Type in the company name and the ticker symbol will appear. Click on the company. Select "Market" to execute your trade, then click "Preview Trade."</p>	
	<p style="text-align: center; font-weight: bold; font-size: 24px;">5</p> <p><b>Confirm Trade</b></p> <p>The final step is to confirm your trade. Please review all information regarding your trade, then enter your password. Click "Confirm Trade." You should then receive a confirmation message of the transaction.</p>

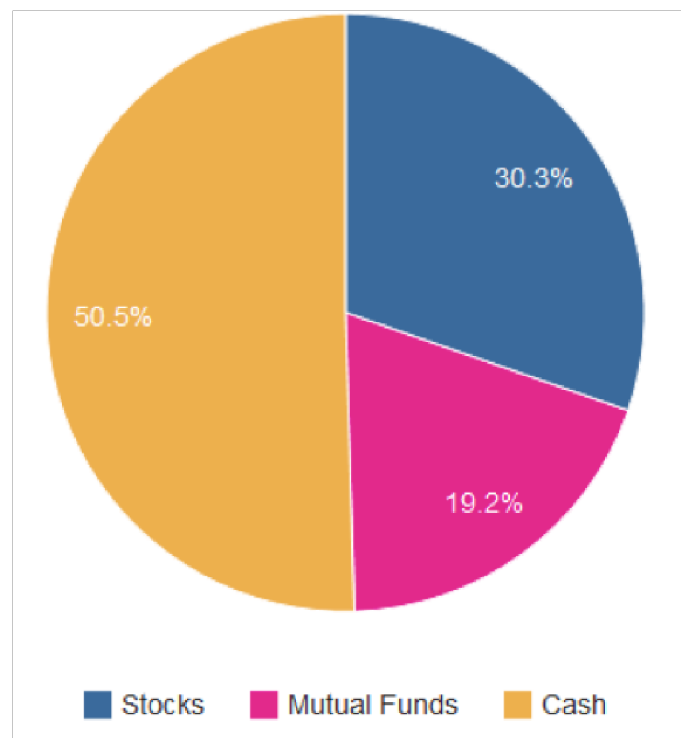
## Diversification 101<sup>4</sup>

Have you ever been told: Don't put all of your eggs in one basket? Do you know what people mean when they say that? In the context of investments, it means invest in a variety of companies through a mix of stocks, bonds, and funds. Investors do this to protect themselves from losing a lot of money when the economy is bad.

For example, in tough financial time, people are less likely to buy new TVs and other electronic devices. The lack of business would lead to a drop in the stock prices of consumer electronics retailers like Best Buy. If you only had Best Buy stock in your portfolio, your entire portfolio would lose money.

However, if you had stock in a company like Walgreens, that sells health and hygiene products as well as dispenses prescription medication, you might not lose as much. This is because people will need to maintain their health, regardless of the economy. Their steady business and stock price would protect your investment portfolio from heavy losses.

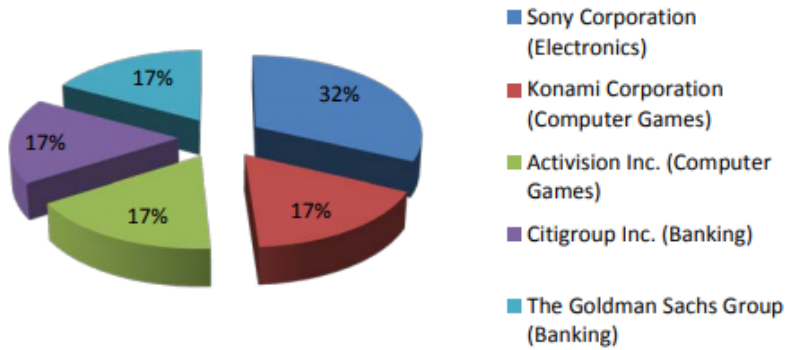
Take a look at this pie graph. Would you consider it diversified? Why or why not?



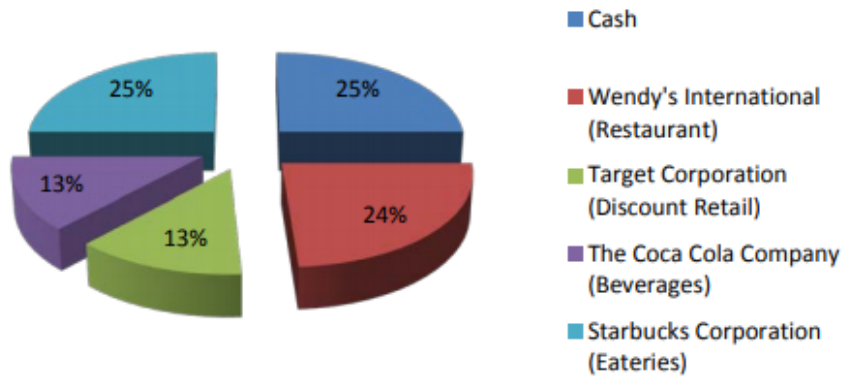
<sup>4</sup> SMG Source: <https://searchbk.smgww.org/uploads/U10T30G20Q2000S00AA1.pdf>

Look at the following portfolios. Which of these is the most diversified? What led to your decision?

**Portfolio A**



**Portfolio B**



## Mutual Funds 101<sup>5</sup>

A mutual fund investor can make money in several ways:


- Funds earn income from interest or dividends on its investments and distribute it to shareholders in an income distribution (the frequency of distribution depends on the fund).
- Funds produce capital gains by selling securities at a profit, and distribute those capital gains to investors, usually at year end.
- Investors sell their shares of the mutual fund at a higher price than they paid for them.

### Types of Mutual Funds

There are many types of mutual funds for investors to choose from: balanced funds, stock funds, bond funds, sector funds, money market funds, etc. Most mutual funds are open-end funds. This means the fund will usually sell as many shares as investors want to buy. If you sell shares of your open-end funds, you sell them back to the same mutual fund pool you bought them from. Sometimes, open-end funds will stop selling shares to new investors when they grow too large to be managed effectively.

There are some mutual funds that have been created with specific social goals. For example, companies with environmentally friendly business practices, companies that are considered “family friendly”, and companies promoting diversity and equity.

Look at the stocks your team has purchased or plan to purchase. What industries do they represent? Is it a broad range of different industries?

List three mutual fund companies you would consider for your portfolio.  Most financial news sites provide access to a list of “Top Funds” and news specific to mutual fund investors. You can also visit the Top Holdings section of your portfolio (found within the account holdings tab).

1.

2.

3.

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<sup>5</sup> SMG Source: <https://searchbk.smgww.org/uploads/U20T30G20Q6800S00AA1.pdf>

## Reading a Mutual Fund Quote<sup>6</sup>

Most financial news sites have a section devoted to mutual fund news and quotes. A mutual fund quote is referred to as **NAV**. It is an acronym meaning: **Net Asset Value**. It represents the value of one share of this fund just like the price quote for a stock. NAV is calculated by taking the total value of the fund's investments, subtracting its expenses and dividing by the number of shares in the fund. Unlike a stock quote, NAV is calculated once a day after the market closes at 4pm ET.

**The YTD (Year-To-Date) Return** is the percentage increase or decrease in value for one share since the beginning of the current calendar year.

A mutual fund's **Expense Ratio** is how much it costs to maintain the fund in proportion to the value of the mutual fund. Costs can include management fees, recordkeeping, and accounting and auditing fees.

**Net Assets** represents total amount of money invested in all available classes of the mutual fund. Mutual funds like stocks are issued in classes. Each class provides shareholders with specific rights.

A mutual fund's **Holdings Turnover** is the rate a mutual fund replaces its assets annually.

Example of a NAV below:

### Fidelity Emerging Markets Fund (FEMKX)

Nasdaq - Nasdaq Delayed Price. Currency in USD

[Add to watchlist](#)

**35.26** -0.36 (-1.01%)

As of February 20 8:00PM EST. Market open.

[Summary](#) [Chart](#) [Conversations](#) [Historical Data](#) [Profile](#) [Holdings](#) [Performance](#) [Risk](#) [Purchase info](#) [Sustainability](#)

Previous Close	35.62	Net Assets	4.47B
YTD Return	-3.35%	Beta (5Y Monthly)	1.14
Expense Ratio (net)	0.94%	Yield	1.77%
Category	Diversified Emerging Mkts	5y Average Return	N/A
Last Cap Gain	0.00	Holdings Turnover	85.00%
Morningstar Rating	★★★★★	Last Dividend	0.60
Morningstar Risk Rating	Average	Average for Category	N/A
Sustainability Rating	🌍🌍🌍🌍🌍	Inception Date	Nov 01, 1990



<sup>6</sup> SMG Source: <https://searchbk.smgww.org/uploads/U20T30G20Q6800S00AA2.pdf>

Screenshot: <https://finance.yahoo.com/quote/FEMKX?p=FEMKX&.tsrc=fin-srch>



## Mutual Fund NAV Worksheet<sup>7</sup>

Name: \_\_\_\_\_ Date: \_\_\_\_\_

Fund Name		Ticker	
NAV	YTD Return	Expense Ratio	Holdings Turnover

Briefly describe the fund. What companies and industries is it invested? Is it invested in other assets in addition to stocks?

How has the fund performed over the last five years?

What is the fund's top three holdings?

What is Morningstar's opinion of this mutual fund? **Morningstar** is a financial services firm. Morningstar's research and recommendations are considered highly influential in the asset-management industry. Visit [www.morningstar.com](http://www.morningstar.com).

Morningstar Rating (# of stars)	Morningstar Risk Rating

Do you believe this fund is a good investment? Explain.

<sup>7</sup> SMG Source: <https://searchbk.smgww.org/uploads/U20T30G20Q6800S00AA3.pdf>

## How to Enter a Mutual Fund Trade

# HOW TO TRADE MUTUAL FUNDS

## THE STOCK MARKET GAME™ WAY

### LOG IN



Log in to your SMG portfolio at [www.stockmarketgame.org](http://www.stockmarketgame.org). Don't know your login info? Ask your teacher to contact your local SMG Coordinator to re-send.

### DO YOUR RESEARCH



Before trading, research different Mutual Funds. Need help starting? Here is a good resource to begin your search: <https://www.morningstar.com/funds.html>

### SET UP THE TRADE



In your portfolio click "Enter a Trade" under the Trade menu. Select "Mutual Fund Trade" and choose the type of trade you want to make (Buy or Sell). In the first box, you can enter the fund name and click "Search By Mutual Fund Description" or enter the fund ticker symbol and click "Search for Mutual Fund" to locate the fund. Once you are satisfied with the fund selection, click on the "Trade" link. In the second box, enter the amount of shares you want to buy or sell.

### COMPLETE THE TRADE



Once all of the values have been entered, click "Preview Trade." The final step is to confirm the trade. Please review all information regarding your trade, then enter your password. Click "Confirm Trade." You should receive a confirmation message of the transaction.



### NEED HELP? CONTACT US!

Ask your teacher to contact your SMG coordinator. We're here to help!

## Bonds 101<sup>8</sup>

Use the story to find the meaning of the words below. Underline the meaning when you find it.

- Bond
- Issuer
- Interest
- Face value
- Default

Bonds are issued by corporations, governments and government agencies (like mortgage lenders, Fannie Mae and Freddie Mac) to raise large amounts of money. Just like any loan, the issuer (the organization selling the bond), agrees to pay back the money borrowed on a set date and agrees to pay interest. Interest is money paid by the lender to the borrower in addition to the amount borrowed for use of the money.

Investors buy investment grade bonds because they are considered very safe investments. They are issued by corporations and governments who are considered very trustworthy. These issuers always pay the interest and the loan back when they promise. Of course, just like a friend can refuse or is unable to pay all or part of an IOU an issuer can refuse or default on a bond, but it is unlikely this will happen when you buy investment grade bonds. Now we will learn about the safest kind of bonds: Investment grade bonds or those that are the most likely to be repaid on time. Let's look at an example:

You buy a U.S. Government 10-year Treasury bond on the day it is issued (made available for purchase)- let's say January 1st and the bond has a \$1,000 face value. This means you have given our federal government a 10-year loan, so ten years from now, the government will write you a check for \$1,000 to repay the loan. Your 10-year Treasury bond had an interest rate of 5%, the government will also pay you \$50 per year over the 10-year life of the bond for the privilege of using your money.

Please use what you have learned from the reading to answer the questions below.

1. How is a bond like an IOU?
2. Why is an investment grade bond considered a "safe" investment?
3. How can an investor make money by buying a bond?
4. Your \$1,000 US Treasury bond has a 5% interest rate each year and you collect the interest for ten years. How much interest will you collect in one year? How much interest will you collect over ten years?

<sup>8</sup> SMG Source: <https://searchbk.smgww.org/uploads/U20T20G10Q5760S00AA1.pdf>

## Corporate, Municipal, Agency & US Treasury Bonds<sup>9</sup>

Bonds are loans- very big loans. There are many different bond issuers or organizations who sell bonds: U.S. corporations, the U.S. Treasury, cities and states as well as federal, state, and local government agencies. Many overseas governments and businesses also sell bonds on the U.S. market, as well as in international markets.

To ensure the lenders making these very big loans are paid back, borrowers often need to show they can do so. Often you will hear the term “backed by” when reading about a bond. “Backed by” refers to what the company will sell in order to repay its debt (the money it borrowed).

Just like any other loan, the bond issuer agrees to pay back the loan on a set date and agrees to pay interest on the loan. Interest is money paid by the lender to the borrower in addition to the amount borrowed.

The chart below explains the four main types of bond issuers:

<b>Corporate Bonds</b>	<b>Municipal Bonds</b>
Bonds are major sources of corporate borrowing. The most common type of corporate bonds are backed by the general credit of the corporation. Asset-backed bonds are backed by specific corporate assets, such as property or equipment.	Millions of bonds have been issued by state and local governments. General obligation bonds are backed by the full faith and credit of the issuer. Revenue bonds by the income generated by the project being financed.
<b>Agency Bonds</b>	<b>US Treasury Bonds</b>
Some government sponsored but privately owned corporations (like Fannie Mae and Freddie Mac), and certain federal government agencies (like Fannie Mae and Tennessee Valley Authority) issue bonds to raise funds either to make loan money available or to pay off new projects.	<i>Treasury notes</i> are an intermediate term obligation of the U.S. Treasury having a maturity period of one to ten years and paying interest semiannually. <i>Treasury bills</i> are a short-term obligation of the U.S. Treasury having a maturity period of one year or less and sold at a discount from face value.

Use what you read to answer the questions below:

1. A local government wants to build a new bridge to connect two parts of a growing city. Which type of bond would a local government issue? Why?

<sup>9</sup> SMG Source: <https://searchbk.smgww.org/uploads/U20T20G10Q5760S00AA2.pdf>

2. A home mortgage company backed by the government wants to raise money for more first-time home mortgage loans. Which type of bond would the government sponsored agency issue? Why?
  
  
  
  
  
  
  
  
  
  
3. An investor wants to make the safest possible bond investment and plans to collect the interest for ten years. Which type of bond should the investor purchase? Why?
  
  
  
  
  
  
  
  
  
  
4. A large corporation wants to expand into Asian markets. They want to issue a bond and plan to guarantee the bond with land holdings in Latin America. What type of bond would they issue? Why?
  
  
  
  
  
  
  
  
  
  
5. A major corporation wants to issue a bond, they have a reputation for being a trustworthy company. They want to use their credit rating to guarantee the bond. What type of bond would they issue? Why?
  
  
  
  
  
  
  
  
  
  
6. An investor wants to support the increase of waterpower in America and would like to purchase a bond from the Tennessee Valley Authority. What type of bond would he purchase? Why?

## Bond Prompts

**Corporate Bonds:** Look up the bonds of the same companies for which you are buying stocks. Why do you think the company is selling both stocks and bonds? Why would it make sense to own one, or the other, or both?

**Municipal Bonds:** Find your hometown in the SMG municipal bond list and research why your town is raising money in the bond market. If you can't find your hometown, search for nearby towns!

**Government (Treasury) Bonds:** Discuss why governments borrow money. Do research on how coupons on government bonds can provide a dependable flow of interest to add to their portfolio earnings.

## How to Enter a Corporate & Government Bond Trade

# HOW TO TRADE CORPORATE & GOVERNMENT BONDS

THE STOCK MARKET GAME™ WAY



### LOG IN

Log in to your SMG portfolio at **www.stockmarketgame.org**. Don't know your login info? Ask your teacher to contact your local SMG Coordinator to re-send.



### DO YOUR RESEARCH

Before trading, research different Corporate or Government (Treasury) Bonds. Need help starting? Visit the Bonds section of FINRA's Market Data Center at:

[HTTP://FINRA-MARKETS.MORNINGSTAR.COM/BONDCENTER/DEFAULT.JSP](http://finra-markets.morningstar.com/bondcenter/default.jsp)



### SET UP THE TRADE

In your portfolio click "Enter a Trade" under the Trade menu. Select "Bond Trade" and choose the type of trade you want to make (Buy or Sell). Then click "Search for Bond" to open a pop-up window.



### COMPLETE THE TRADE

To search Corporate Bonds, type in the company name and then click "Search Corporate Bonds." To search Government Bonds, click "Search Government Bonds." Once you are satisfied with the Bond selection, click on the "Trade" link. Enter the face value in \$1,000 increments for Corporate Bonds and \$100 increments for Government Bonds. Click "Preview Bond Trade." Re-enter your password and then click "Confirm Trade."



### NEED HELP? CONTACT US!

Ask your teacher to contact your SMG coordinator. We're here to help!

How to Enter a Municipal Bond Trade 

## HOW TO TRADE MUNICIPAL BONDS

THE STOCK MARKET GAME™ WAY

### LOG IN



Log in to your SMG portfolio at [www.stockmarketgame.org](http://www.stockmarketgame.org). Don't know your login info? Ask your teacher to contact your local SMG Coordinator to re-send.



### DO YOUR RESEARCH

Before trading, research different Municipal Bonds. Need help starting? Research on EMMA at [Emma.msrb.org](http://Emma.msrb.org).

### SET UP THE TRADE



In your portfolio click "Enter a Trade" under the Trade menu. Select "Bond Trade" and choose the type of trade you want to make (Buy or Sell). Then click "Search for Bond" to open a pop-up window.

### COMPLETE THE TRADE



To search Municipal Bonds, select the state that has issued the bond you wish to buy and then select the "Search Municipal Bonds" link. Once you are satisfied with the bond selection, click on the "Trade" link. Enter the face value in \$1,000 increments. Click "Preview Bond Trade." Re-enter your password and then click "Confirm Trade."



### NEED HELP? CONTACT US!

Ask your teacher to contact your SMG coordinator. We're here to help!



## Diversifying Your Portfolio

Complete the table using the investments currently in your portfolio:

Today's Date: \_\_\_\_\_ Cash Balance: \_\_\_\_\_

Ticker Symbol	Investment Type (stock, bond, fund)	Industry / Sector	Number of shares purchased/Dollar value amount purchased
BAC	Stock	Banking/Finance	25
VAIPX	Mutual Fund	Investment Management	15
MU_59259YPM5	Municipal Bond	Transportation	\$10,000