Companies need capital in order to grow. When you hear capital, think money.

Suppose you own a successful restaurant and you want to open 5 more across the state. You need capital to fund, or pay for, this expansion plan. Where does the money come from? Investors

There are two options:

Option 1: Borrow the money (from a bank or individuals). They give you money today, and you promise to pay them back (plus interest) on a specific date. This is known as issuing debt or borrowing\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Option 2: Sell part of your company in exchange for cash. This is known as selling equity or stock in a company.

So who loans the money, or buys the stock, so the company can raise capital? Investors . They provide capital to companies who need money to grow (or to survive).

For example, suppose you are a working professional who has saved up $5000 over the last year. Where do you put the money?

Under your mattress? That pays zero interest and it’s not safe.

Keep it in the bank? Well, it’s quite safe, but the interest is \_low\_.

Remember, companies need capital. Investors have capital. The two parties meet in what we call the securities markets.

What about loaning the money out to a business or purchasing shares in a company? This is called investing.

Of course this introduces \_risk and uncertainty into the equation. There is a trade off; you have higher chance of loss, but the potential returns are much higher than a bank offers.

Investing is taking your capital (money) and placing it at risk in the hopes of future gains or profit.

A gain is when you receive cash flows \_greater than your original investment. For example, if you bought a share of Wal-Mart at $59 and sold it one year later at $70.

A loss is when your investment pays you less than your original cost.

Investing does not come without risk. Risk is the probability of loss of capital

We can invest in two types of assets:

Financial assets are stocks (which represents ownership in a company), bonds (loans to companies or governments) and mutual funds (pooled investment accounts).

Real Assets include farmland, real estate, and commodities (like gold).