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Where Should You Put Your Money for the Best Return? Know Your Investment Options

Penny Stocks

Penny stocks are low-priced stocks, usually with a value of less than \$5, of small companies. These stocks are traded on the Over-The-Counter-Bulletin-Board (OTCBB) and the Pink Sheets. Both these trading venues do not have the same kind of minimum requirements of exchanges such as Nasdaq or the NYSE set by the Securities and Exchange Commission. Companies which issue penny stocks may be new businesses or close to bankruptcy. A new issue of stocks could be a way to inject quick capital to try to save the business.

All of these factors--low price, lack of standards, and lack of stability--make penny stocks one of the riskiest investments around. It is true that if a company succeeds the payoff will be great, but the vast majority of penny stocks end in bankruptcy. Other reasons why penny stocks are risky include...

- Lack of information about the company. Companies listed in the Pink Sheets or the OTCBB do not have to issue financial statements. Most companies also have little reportable history.
- Low liquidity. Penny stocks are infrequently traded, so finding a buyer may be difficult. The price may have to be lowered substantially to interest someone in buying the stock.
- Potential fraud. Due to their unregulated nature, penny stocks are often used by con artists who sell them through spam email or off-shore brokers.

So penny stocks are risky but are there any benefits to them?

Not all penny stocks are frauds or companies facing bankruptcy. Some represent hard-working businesses that are struggling to meet the requirements to get listed on Nasdaq or the NYSE. Investing in these companies offers real growth potential--you have the opportunity to get in at the ground floor and ride all the way to the top.

The difficulty is finding which companies have this growth potential. Getting this information requires a lot of research and unless you are willing to take the time to personally investigate a company, you may again be the victim of fraud. Some companies specialize in offering 'inside information' about companies selling penny stock, but they may simply be fronts for pushing a particular stock on unsuspecting investors.

There are two ways to play the penny stocks: do research or play craps. The low cost of these stocks means that you will not lose a lot of money if the company goes under, and as long as you are prepared to lose this money penny stocks can be an interesting and fun addition to any portfolio. It must be stressed, however, that penny stocks should only make up a small portion of any portfolio. The odds are that most penny stocks will end up in a total loss.

If you would like to buy penny stocks you need to find a broker that will place an order for you. Many brokers will not cover them because of the difficulties in tracking them, but some online brokers specialize in penny stocks. Regulations require brokers to receive written confirmation from the client concerning the transaction. The broker is also required to give the client a document outlining the risks of speculating with penny stocks.

Finally, the broker must disclose the current market price of the stock and the amount of compensation the firm receives for the trade. Monthly statements must be sent to the client detailing market value of each penny stock in the account.

Penny Stocks: Good Investment or Get-Rich-Quick Scheme?

Penny stocks are defined as shares that trade at a price at or below \$2.00. The Security and Exchange Commission (SEC) considers anything up to \$5.00 as a "penny stock," however this value is actually close to the price of many mainstream stocks. Many shares trade at only a few cents, however, this does not imply that the companies' stocks are worthless. These stocks may be from relatively new companies or emerging fields.

If done right, trading in penny stocks can be an affordable option for those who want to get into the stock market. The profits from trading in penny stocks can become an income supplement rather quickly. For just a few hundred dollars, you can make thousands in returns if you jump on the right stock at the right time. In addition, many investors like the idea of being able to own a large amount of a good company's shares for a relatively low cost. Trading penny stocks is also a great way to learn about the stock market without investing a large amount of money.

As with all investments, penny stock investments should be based on research of the market and companies' financial history. Things to consider when looking at the companies financial history are the profitability of the company, whether they have announced losses and whether they have new patents or products. To find penny stocks, it is best to use a combined method such as buying penny stocks based on tips from professionals and using the services of a penny stock newsletter. Keep in mind that you also must do further research to decide if the penny stock purchase is right for you.

However, with the increased volatility of the penny stock market (as compared to more traditional stocks) comes an increased risk. Penny stocks are very susceptible to vast changes in price within a short space of time.

Many people enter the penny stocks market thinking that using penny stocks is an easy way to get rich. The chances that every penny stock you buy will raise to \$5 or more a share are very slim, though. Many of them stay roughly around the original purchase price or, in the worst-case scenario, fade away to nothing.

This is a risk that many are willing to take. In order to minimize the risks of trading in penny stocks, there are a few steps that you can take. First, never follow penny stock tips that come to you for free. Many companies distribute tips through faxes, spam e-mail or phone calls.

These unsolicited advertisements are part of a scam to start a rumor mill and force the price of a company's stock up unnaturally. In most cases, the company is paying people to promote their stock.

Generally, the more you pay for a penny stock newsletter, the more valid the tips are there within. The best penny stock newsletter services are able to charge more because they have better quality leads and do more research on their leads.

Another way to minimize your risk in trading in penny stocks is to avoid stocks with low visibility. If a company does not send out regular financial reports, avoid investing with them. Only trade with penny stocks that are listed on the main exchanges, like NASDAQ and AMEX. Penny stocks with low tradability should also be avoided. If there are just a few shares being traded daily, then there is little investor interest. Focus your penny stock trading on higher volume stocks, and never invest in a stock that is not trading at least 20,000 shares a day.

Relying on reputable newsletters and professional opinions can help you avoid the hype created by many penny stock companies. Companies sometimes exaggerate their situation in order to get more stocks sold. Doing the necessary research and checking your sources carefully can minimize the risk of being victimized by hype.

To trade penny stocks all you need to do is contact a broker and open a brokerage account. The broker will take a small fee for each transaction that they perform for you. The broker will also walk you through the simple process of getting started.

The Exploration of Penny Stocks

Penny stocks, which only trade for \$5.00 per share, are a high risk stock that most people are advised to avoid, due to the fact that the companies that are selling this type of stock are either in great financial danger or on the verge of bankruptcy. Penny stocks tend to fluctuate rapidly in price but some penny stocks should a gain in days, possibly even in hours.

So, basically, the decision to invest in penny stocks is strictly the choice of the investor because, according to statistics, you have more of a chance of losing money, but, there are those times when penny stocks seem to pay off rather quickly.

The main reason to buy a penny stock is because you hoping for a high return. Because they are cheap, most people are able to purchase quite a large number of penny stocks, thus, if you receive a high return on your investment, you will make a considerable amount of money. For example, you buy 100,000 penny stocks for at \$0.10 each, which means you invested a total of \$10,000.

You decide to sell your penny stocks for \$0.40 each, which means you just earned 4 times what you invested and gained a profit of \$30,000. That is quite a return on your investment! Therefore, the key to purchasing penny stocks is get in and get ahead of other investors before they learn about the high returns that certain penny stocks are capable of producing.

In order to ensure that the penny stocks you are planning to buy virtually guarantee a high return of investment, be sure to look for companies in which their sales are steadily growing because this means that their profits are steadily rising, too. Also, invest in penny stocks only if the company has an honorable executive team in which expansion is one of their main priorities, that way, you can ensure that a certain company will stay in the stock market. With all these characteristics in place, a solid business foundation is established; therefore, an increase in the price per share of penny stocks is almost inevitably going to increase.

Another important aspect of penny stocks is to buy them when the company is new and in the early stages of business development, especially if you feel the company is going to have great success. Think about when Microsoft was just starting out and they sold penny stocks for \$2.50 per share. What if you had bought 100 of those penny stocks? The money that you used to purchase your penny stocks was actually used by the Microsoft Corporation to help them expand their business. Thus, due to the fact that Microsoft has exploded into a large, corporate entity, your penny stocks would probably be worth thousands.

With penny stocks, it is all about timing and the expansion of the business in which you purchase your stocks.

Please remember that penny stocks are a major high-risk investment, meaning that the chances of you earning a return on your investment are slim to none.

There are four main reasons for this high risk. First, information about companies who are selling penny stocks is hard to locate, and when information does arise, the sources are usually very unreliable. Penny stocks also do not fulfill the minimum requirements to remain the stock exchange. This is the reason penny stocks are offered by less reliable sources than the stock market, because such a large financial entity does not want the responsibility of liability.

Because many of the companies who sell penny stocks are brand new companies, they do not have a history of investment in which an investor can review. Plus, penny stocks have no value, unless by chance the business becomes a large, expanded company that is able to issue a huge return on investment. Therefore, it is vitally important to review both the positives and negatives in the case of penny stocks before making the decision to purchase them.

Penny stocks offer the ultimate gamble when it comes to stock trading. Penny stocks are extremely cheap to purchase and they have a small chance of delivering an extremely high return on investment. But, more than likely, penny stocks simply are a high-risk investment gamble in which you lose money.

The Evaluation of Stocks

In order to effectively invest your money into stocks of any kind, you must know all of your stock options so that you can efficiently earn money. Because stocks are simply small shares of a company, the more stocks you purchase to more you own of a certain company. For example, if you purchase 100,000 stocks in AutoZone, an automotive store, you would have more say in what takes place in the company that someone who only purchases 1,000 shares of

AutoZone's stock. There are two main types of stock in which, you, the investor should become familiar with so that you can properly purchase the stock that is right for you and your monetary situation.

Common Stock

Basically stated, a common stock is, well, common! When you hear people talking about stocks in general, it is these types of stocks in which they are referring. It is simply a piece of paper that represents some degree of ownership of a corporation as well as some form of profit from that particular company. Interestingly enough, investors in common stocks receive one vote per stock owned to elect board members, the people who oversee major decisions made for the company as a whole, for a particular company. In the long-term, this type of stock means capital growth for the investor, however, if the company is forced into bankruptcy, the investor will not get paid what they are owed until creditors, bondholders, and preferred stockholders receive their payments.

Preferred Stock

In general, preferred stock is stock that is owned by preferred stockholders in which all of the company's earnings and assets go directly to the preferred stockholders first. Because preferred stockholders are paid before common stockholders, preferred stockholders choose to give up their right to vote in the election of board members. Therefore, preferred stockholders have no right in the selection process of the company. Preferred stockholders purchase stock in a certain company for monetary gain only in which their main goal in investment is earning a return on investment. However, there are four variations on preferred stock investments.

Voting: Preferred stock members can opt for the right to vote in a company in which they own stock. By doing this, they ensure the power to make sure that they receive all monies owed to them because they are able to bribe people into places of management. For example, Bob is a preferred stockholder who wants to ensure that his profits are paid to him no matter what happens to the company. Bob tells Tom, a man up for board election, that he will make sure Tom wins the election as long as Tom agrees to pay Bob his profits, whether the company goes into bankruptcy or not.

Adjustable Rates: Preferred stockholders receive an agreed upon profit based on stipulations provided by the company.

Convertible Stock: Preferred stockholders have the right to convert their preferred stock into common stock, allowing the investor to lock in their profit while they potentially profit from a rise in common stock. Basically, preferred stockholders are protected no matter what types of investment decisions they make.

Participating Stock: With this type of stock, preferred stockholders not only receive a set profit, but they are eligible for a certain percentage of the company's earned profit over a set period of time.

Therefore, it may seem that a preferred stockholder position is the way to go, however, with increased power comes more headaches. If you are a beginning investor, it is better to work

on common stocks for a number of years before trying to get involved with preferred stocks.

Because common stocks and preferred stocks are so different, companies are not allowed to customize either type of the stocks. The reason for this is that some companies may be corrupt and want the voting power to remain with certain investors. Companies are held under law to make sure that the voting power remains fair among both common stockholders and preferred stockholders.

It is your money and your choice, however, it is suggested that you become educated when playing with the stock market. It is important to know precisely what stocks are as well as the main characteristics of a common stock as well as a preferred stock. As with any investment, the ultimate goal is to gain a profit and this can only be done with stocks if you thoroughly understand them.

Pink Sheets Stocks

If you are interested in penny stocks you are sure to hear about the Pink Sheets. It is an electronic quotation system for many Over-The-Counter (OTC) securities. The name comes from the color of the paper the quotes were originally printed on. Today the Pink Sheets publishes quotations on the Internet, and most of its listings are so-called penny stocks.

Penny stocks are securities that are less than \$5 in value. Although they can be traded on regular stock exchanges, companies that are listed in the Pink Sheets usually do so because they cannot meet the requirements of other exchanges like the NYSE and Nasdaq. The Pink Sheets has no listing requirements ñ even companies with no financial history can be listed.

The Pink Sheets is not a registered stock exchange. As such, it can list companies that would otherwise be unable to raise capital through stock offerings. Although it is not regulated by the Securities and Exchange Commission (SEC) its trading system is only accessible by brokers licensed by the National Association of Security Dealers (NASD) and these brokers are required to follow NASD regulations. Companies which issue stock listed in the Pink Sheets must follow Federal and State security laws.

As an unregulated exchange, stocks listed in the Pink Sheets carry more risk than stocks on the big exchanges like AMEX. The lack of financial data means that companies may be facing bankruptcy and are issuing stock in a last ditch effort to stay afloat. Not all companies are in dire straights, however. Some may be in the process of becoming listed on the regular exchanges and use the Pink Sheets as an intermediate step to raise capital.

To get listed in the Pink Sheets a company needs a broker dealer to quote the stock. The only requirement is that the broker is a member of the National Association of Securities Dealers (NASD). Once listed, the company remains in the Pink Sheets as long as the stock is quoted. It can happen that a stock that no longer exists still is quoted in the Pink Sheets--a situation that highlights the need for researching any company that lists here.

The main advantage of buying Pink Sheet securities is their low cost. Investors who hope to get in on a new company right at the beginning can pick up stock for literally pennies. In the event that the company does well and grows the small initial investment will pay large dividends.

There is a very real risk, though, that the company will simply vanish, leaving behind valueless stock issues. The investor interested in penny stock in the Pink Sheets should be prepared to lose all. For this reason, Pink Sheet investments should represent only a small portion of an overall investment portfolio.

Another risk to the investor is the lack of liquidity of Pink Sheet listings. Volume is generally quite low and finding a buyer for stock may be difficult. The seller may have to settle for a much lower price than anticipated in order to unload his shares.

Stock Splits

One of the alluring myths that surround the stock market is the prospect that a certain stock may split, giving stockholders twice as many shares as before. What is poorly understood by the outsider though, is that although the investor has more stock after a split, the value of each share is reduced. For example, if a corporation decides to split its stock 2-for-1, it issues one new share for each outstanding one. At the same time, the value of each share is cut in half. So the stockholders now hold twice as many shares but the total value is the same as before the split. A stock split is like receiving 2 five-dollar bills for a single ten-dollar bill. Same value ñ twice as much paper.

Why would a company do this?

A lot of it has to do with investor psychology. The price-per-share of a stock may be so high that the average investor feels it is out of his reach. A stock split reduces the price so that it may be more affordable to smaller investors. In reality, the small investor could have bought a smaller number of pre-split shares for the same price, but the appeal of buying a \$20 stock as opposed to a \$60 may be strong for some investors.

Stocks can be split by a number of ratios but the most common are 2-for-1, 3-for-2, and 3-for-1. Stocks can also be reverse-split ñ the company reduces the number of outstanding shares so that each stockholder has fewer shares than before. Reverse stock splits are less common, but can be used for several reasons: the price per share may be so low that it appears as a poor investment; the company may be attempting to stave off possible de-listment on the stock exchange; to push out minority stockholders; or as a way to go private.

Advantages

Lower prices per share can result in greater liquidity ñ stocks are easier to sell at lower prices and there is less of a bid/ask spread. This is especially true for stocks that are priced in the hundreds of dollars ñ small investors view them as out of their budget and the high bid/ask spreads (the difference between buying and selling prices) can put off bigger investors.

Other advantages have to do with investor psychology. A split is usually seen as a bullish indicator ñ stock prices are increasing and the company is doing well financially. There is usually a short-term rally around a stock which splits, but the market tends to normalize after a short period.

On the downside, a split may cause investors to expect more about how the company performs. If these expectations are not met investor confidence may be shaken and the result could be a drop in share prices.

The bottom line is a stock split does nothing to affect the worth or performance of a company. It may be nice to own more shares, but in the end your 2 five-dollar bills are still worth the same as your ten-dollar bill.

Stocks versus Bonds

Whereas stocks give investors part ownership of a company, bonds are loans made by investors to corporations or governments. Rather than benefiting from company profits the way that stockholders do, bond holders receive a fixed rate of return--a percentage of the bond's original offering price. The return is called the 'coupon rate'. Bonds have a maturity date at which time the principal amount is returned. Bonds can be issued for any period of time; some take up to 30 years to mature.

Bonds always carry the risk that the principal amount may not be paid back. Companies with higher credit worthiness are more likely to be safe investments but their coupon rate will be lower than companies with lower credit ratings. Credit ratings are provided by firms such as Standard and Poor and Moody's Investor Service. Credit ratings range from a high AAA to a low D.

US government bonds are considered to be the safest type of bonds. Blue chip corporations (those with established performance records that span over many decades) are also very safe bond investments. Smaller corporations have a greater risk of defaulting on their bonds, but bondholders are preferential creditors and will get compensated before stock holders in the event that the business goes bankrupt.

Bonds can be bought and sold on the open market. Their value fluctuates according to the level of interest rates in the general economy. For example, if you hold a \$1000 bond that pays 5% per year in interest you can sell the bond at higher than face value as long as interest rates are below 5%. If they rise above 5%, your bond can still be sold but usually at less than face value. This is because investors are able to get a higher interest rate than what your bond pays so in order to offset the difference your bond has to be sold at a lower cost.

Most bonds are traded in the Over-The-Counter (OTC) market which is made up of banks and security firms. Some corporate bonds are also listed on stock exchanges and may be bought through stock brokers. New issues of bonds are usually sold in \$5000 increments while bonds bought and sold after the initial issues are quoted in increments of \$100. A bond that is listed at 96 is selling for \$96 per \$100 face value.

Stocks or Bonds?

When deciding whether to invest in stocks or bonds, the risks versus the potentials have to be weighed. Stocks have much greater potential to increase in value but they are also more subject to market fluctuations. Investment grade bonds (those with a rating of BBB or better) carry less risk but offer a relatively low yield.

Most investors agree that for the short term, bonds offer greater security and return. The situation changes, however, when time spans of longer than 10 years are considered. The stock market has consistently outperformed bond investments by a large factor. This is because companies continue to increase in value and any short-term fluctuations in the stock market are smoothed out over time.

Bonds still have their place in most portfolios, however. They provide a stable investment, which helps to cushion against stock market fluctuation. A mixture of investments including stocks from various industries, bonds and other fixed-income investments is the way to provide maximum growth while securing your investment funds for the future.

Stocks versus Mutual Funds

A mutual fund is a diverse holding of stocks that are managed on behalf of the investors that buy into the fund. A mutual fund allows an investor to take advantage of a diversified portfolio without having to invest a large sum of money.

What is the advantage of a diversified portfolio? It offers protection against rapid market losses of any one particular stock. If a portfolio is spread across 20 stocks, if any one of those stocks quickly loses value the effect is less than if the portfolio consisted of that one stock by itself.

When investing it is always a good idea to diversify. The problem for small investors is that they often don't have the funds to buy a variety of stocks. Mutual funds allow small investors to benefit from diversification with a small amount of money.

Besides stocks, mutual funds can be made up of a variety of holdings including bonds and money market instruments. A mutual fund is actually a company and investors that buy into a fund are buying shares of that company. Shares in a mutual fund are bought directly from the fund itself or brokers acting on behalf of the fund. Shares can be redeemed by selling them back to the fund.

Some funds are managed by investment professionals who decide which securities to include in the fund. Non-managed funds are also available. They are usually based on an index such as the Dow Jones Industrial Average. The fund simply duplicates the holdings of the index it is based on so that if the Dow Jones (for example) rises by 5% the mutual fund based on that index also rises by the same amount. Non-managed funds often perform very well, sometimes better than managed funds.

There are downsides to mutual funds. There are usually fees that must be paid no matter how the fund performs, and the individual investor has no say in which securities can be included in the fund. Also, the actual value of a mutual fund share is not known with the same precision as stocks on the stock market.

Mutual funds are often a better choice for the small investor than either stocks or bonds. They offer the diversity that provides cushion against sudden stock market movements and usually provide a greater return than bonds. Of course, mutual funds can also lose value, especially in the short term, so short term investors may be better off with bonds which offer a set rate of return.

There are three main types of mutual funds: money market funds, bond funds and stock funds. Money market funds offer the lowest risk ñ they consist solely of high quality investments such as those issued by the US government and blue chip corporations. Money market funds have rarely lost money, but they pay a low rate of return.

Bond funds aim to produce higher yields than money market funds and therefore carry a correspondingly higher risk. All the risks that are associated with bonds--company bankruptcy, falling interest rates--also apply to bond funds.

Stock funds usually have the greatest potential for profitable investment but also carry the greatest risk. The risk is more for short-term holders of mutual funds ñ stocks have traditionally outperformed other investment instruments in the long run.

There are different types of stock funds including 'growth funds' that attempt to maximize capital gain and 'income funds' that concentrate on stocks that pay regular dividends.

Mutual funds are an ideal investment for those with limited funds or investment experience. Choosing the right fund is a decision on how much risk you are willing to take against your expected return on your investment.

Should You Invest in Mutual Funds or Stocks?

With so many options out there for the individual investor, it is sometimes difficult to determine which investments are right for you. The key to having a long-term, stable and profitable portfolio is to diversify your investments. For many investors the process of diversification includes investing in both mutual funds and stocks. The best course is to learn all you can about both types of investments and find your ideal balance between the two.

Mutual funds are open-end funds that are not listed for trading on a stock exchange. They are created by companies who use their capital to invest in other companies. Mutual funds will sell their own new shares to investors. Capitalization is not fixed and normally shares are issued as people want them.

Mutual funds have many appealing characteristics for investors. Mutual funds are professionally managed. The mutual funds employ professional managers to operate all investing. These

professional managers bring with them many years of experience. They are experts in selecting and evaluating investments for the fund. The managers make all of the buying decisions and selling decisions, which relieves the individual investors from that responsibility.

Another advantage of mutual funds is that most of their portfolios are highly diversified. This means that the mutual fund is invested in a wide variety of stocks. The advantage of diversification is that if a few stocks drop in price the entire fund won't be dramatically affected. Diversification occurs by investing in many different companies. It can also be accomplished by investing in several different industries. The advantage of diversifying through mutual funds is that the funds can reach a wider diversification than can be reached by individual investors.

There are thousands of mutual funds to choose from. Depending on your preferences, you can choose to invest with a mutual fund that covers the whole market or with a fund that focuses on one or two industries. There are even mutual funds available that invest only in foreign markets.

Mutual funds can be very convenient for the investor since the fund does all the record keeping. Your mutual fund will provide you with all the forms you need to file your taxes. Additionally, many may offer perks such as the ability to write checks against the money market fund.

On the other hand, purchasing individual stocks has attractive features as well. After the brokerage fee is paid, there is no ongoing fee associated with owning individual stocks. This is in contrast to mutual funds, which charge a participation fee. Mutual fund fees can totally negate the mutual fund return that you are expecting.

With investing in individual stocks, an investor has the ability to be very flexible with their investing and move with market if they so desire. Mutual funds are very stable but this also keeps them slow. Individual stock investments can be traded quickly if need be, and purchased just as quickly if the investor finds an undervalued stock.

With individual stock investing, an investor has a greater level of control over their investing. Although brokerage firms are involved there is the opportunity to be more hands on with the stock purchases. This level of involvement is impossible with mutual funds. Many investors like to know exactly where their money is going and this can be hard with a mutual fund that holds shares in 50 or more companies.

Investing in individual stocks allows the investor to have a larger relationship with the company they are investing in. This can create a sense of comfort for the investor because they know where their money is being used. They can track the activities of the company they have invested in and feel like a true part of that company.

Investing a mixture of mutual funds and individual stocks seems to be the best method for a majority of investors. Those who do not want to take the time to research their stocks and would rather let an expert handle things, are more comfortable with mutual funds. On the other end of the spectrum, those who want a greater level of participation with their investments will find individual stock investing attractive. As part of a long-term diversification strategy it may be best to look into both in the ratio that you are comfortable with.

Bull Markets and Bear Markets

The stock market moves up and down every day, but when movements continue downwards for a period of time the market is referred to as a 'bear market'. Upward moving markets are 'bull markets'. If a particular stock is doing well, it is said to be bullish. If it is losing value it is bearish.

Bull and Bear are the terms to describe the general conditions of the stock market. These do not refer to short-term fluctuations; a bear market is commonly understood as one where prices of key stocks have fallen in price by 20% or more over a period of at least 2 months. Even during a bear market, however, prices may increase temporarily. Bull markets are the opposite of bear markets: they are indicated by a rise in prices of key stocks over a certain period of time.

Usually stock market conditions reflect the state of the economy. During bull markets the economy is doing well, unemployment is low and interest rates are reasonable. Bear markets usually occur during times of economic slowdown. Investors lose confidence and companies may begin laying off workers. At the extremes, an exaggerated bear market can lead to a crash brought on by panic selling. An exaggerated bull market can be caused by over-enthusiasm of investors. It leads to a market 'bubble' that will eventually burst.

Although most money can be made during bull markets, there are also opportunities during bear markets. Knowing the characteristics of each type of market allows investors to profit from them. As would be expected, when the market is bullish investors wish to buy up stock. The economy is doing well and people have extra money, which they wish to invest in stocks. This creates a situation of short supply, which drives up prices even higher. During bear markets, on the other hand, prices are falling so investors wish to unload their stocks and put their money in fixed-return instruments such as bonds. As money is withdrawn from the stock market, supply exceeds demand, which drives prices down even further.

It is easiest to make money during a bull market. Getting in right at the beginning will allow you to make the most profits. During a bull market any dips in the market are temporary and should soon be corrected. The upward rising prices can't go on forever, though, so the investor needs to be able to gauge when the market reaches its peak and sell at that time.

Bear markets represent opportunities to pick up stocks at bargain prices. Getting in near the end of a bear market offers the greatest chance for profit. The prices will most likely fall before they recover, so the investor should be prepared for some short-term loss. Short-selling is also an investment strategy during bear markets. Short selling involves selling stock that you do not own in the anticipation of further price drops, so that when it comes time to deliver you can buy the stock for less than you sold it.

Fixed return investments such as CAs and bonds can be used to generate income during a bear market. So-called 'defensive stocks' are also safe to buy at any time. These include government owned utilities that provide necessities no matter what state the economy is in.

Ethanol and Its Significance in the Stock Market Investing World

In the bid for the world's search for alternative sources of energy as time is currently running out given the current scarcity of crude oil, there have been numerous initiatives by companies to develop the potential of different alternatives to crude oil such as natural gas and ethanol.

Ethanol is a colorless, clear liquid with an agreeable odor. This is the natural component of ethyl alcohol. Corn, wheat, potatoes and other plants can produce starch that is made into ethanol by the process of fermentation. It can be used as fuel by mixing it with the regular gasoline and this becomes gasohol.

These sources of alternative fuels are currently one of the faces of future technologies that are being developed and researched on by many technology energy companies listed in the stock market. These technology companies have been popular picks of long-term technology savvy investors for more than 5 years.

The potential of ethanol has been the focus of a lot of technology companies in stock exchanges most commonly those listed in the NASDAQ stock exchange. The popularity of this resource as a future alternative to fossil fuels has been recognized in the stock market and numerous initiatives for research and development to make this a renewable source of energy has been ongoing for quite some time.

Although investment performance returns from these alternative energy companies may not yet be as competitive as the established companies that are currently in the business of the popular fossil fuels, the technology for these alternative fuel companies may still be a long way of waiting as the issue of having the necessary infrastructure to produce and distribute alternative sources of fuel like ethanol will take quite some time.

Investors that are optimistic on the future of these alternative energy companies believe that the technology will still require longer waiting. Aside from the waiting of new discoveries, the infrastructure and distribution of energy products produced from alternative energy sources like ethanol will still be more costly.

It will also not necessarily be competitive at its initial stages of introduction to the stock market investors as compared to the established production and distribution processes of companies producing fossil fuel energy products.

While the wait for the availability of alternative energy sources to the public may still be long and initially costly, the world will still have to push forward the developments of alternative energy sources as the world reserves of fossil fuels are already depleting and sooner or later the alternative sources of energy will have to be much more of a priority not only of companies engaged in its development but also of the general public as well.

Hurricane Katrina and Projected Corporate Earnings

The effects of Hurricane Katrina on the stock market and overall economy are still yet to be

played out. Katrina was the most costly storm in U.S. History. It is estimated to have an economic impact to exceed \$100 billion. The human toll alone was in the thousands, in addition to the millions of dollars of property lost.

There are whisperings in some financial circles that a recession is in progress as a result of the disaster. If this happens, the impact of the storm will affect many more American citizens. Fortunately, most financial analysts are rejecting the idea that the country is experiencing the beginnings of a recession.

There are some real problems that have resulted from the catastrophe. The price of gasoline and diesel was almost immediately affected after the hurricane hit the Gulf Coast. Katrina damaged refineries, pipelines and port facilities in New Orleans and all along the Gulf Coast. This has resulted in higher energy costs across the board. Since petro-chemicals are used in the manufacturing of most products directly. Even those companies that don't use petro-chemicals for manufacturing are indirectly affected by the price increase. The higher cost of gasoline has resulted in higher shipping costs. In many cases the higher shipping costs are being passed along to the customer.

Corporations, as well as consumers, will be taking a beating from rising energy costs throughout this winter. As a result, corporate budgets will have to be re-evaluated and this can mean less corporate earnings. Certain industries will feel the effect more than others. Those companies in the travel industry, such as hotels, restaurants and airlines, will feel the biggest pinch as consumers lose their discretionary income to spend on such luxuries. Discount retailers and other non-essential spending markets will also take a hit. Corporate earnings for these industries will be down.

On the other hand, energy and building material companies will stand to gain the most in this period. The corporate earnings in these cases will be positive.

What does this mean for the stock investor? Corporate earnings are one of the main ways that investors can determine the value of a stock. Everything a company does either adds to or subtracts from the company's earnings report. The earnings or, more simply put, the profits of a company let investors and competing companies know how well a company is doing.

Investors look for companies with positive earnings to buy stock from. In a few cases, however, a small or rapidly growing company may have a negative earnings report. This does not mean the company's stock should be avoided. A corporate earnings report should be evaluated in context of the company's history and current position.

In addition to showing actual earnings, a corporate earnings report can help create an expectation of earnings for a specific company. If a company has experienced a quarter of positive earnings, they may pay out a dividend to their investors so everyone benefits.

If a company is expected to have a positive corporate earnings report, their stock is often bought with anticipation of a dividend being returned. In some cases, companies are not able to live up to the expectation of earnings. This results in their stock being sold and losing its value. This is what is occurring when we hear that a company's stock "fell" on the evening news.

To measure the amount of earnings, investors and brokers use "earnings per share." The earnings per share value is determined by dividing the earnings by the number of outstanding shares. For example, if a company earned \$12 million in any given quarter and had 8 million outstanding shares, the earnings per share for that company would be \$1.50 (\$12 million divided by \$8 million).

Using the earnings per share price gives a more fair view of the market. If two separate companies made \$12 million in one quarter they would appear to be comparable when using only that figure. If one company had 8 million shares and the other had 4 million outstanding shares, the investors in the latter company would profit more.

By keeping an eye on the corporate earnings in the aforementioned industries, investors can prepare themselves for bumps and declines that will be the result of the Hurricane Katrina disaster.

Seven Stock Indexes You Should Know About

Dow Jones - (DJIA) The Dow Jones Industrial Average is the most often quoted stock index in the world. It is a broad based stock index, comprised of 30 companies and it is price weighted. It is the oldest continuing index in the world and the most often quoted. The Dow Jones industrial Average is expressed in points not numbers.

Nasdaq Composite Index - Nasdaq stands for " National Association of Securities Dealers Automated Quotation System." It was launched on Feb 5, 1971, with a base of 100.00, and is a broad based index of over 3000 securities. The NASDAQ Composite Index measures practically all NASDAQ stocks listed on The NASDAQ Stock Market. It is larger than most stock indexes and widely quoted and watched for just that reason. The NASDAQ Stock market was the first electronic stock market and most tech and computer firms can be found there, so investors often use Nasdaq to get an idea of how tech stocks are performing.

The NASDAQ Composite a market capitalization weighted Index. Which means the largest firms have the greatest impact on the index's value?

NASDAQ was the world's first electronic stock market and is the fastest growing stock market in the US.

Standard and Poor 500 - THE S&P 500 Is an index made up of 500 different stock. Each stock is selected for liquidity, size, and industry. The Standard and Poor 500 is weighted for market capitalization. Because of its diversity it is often seen as a benchmark of the overall market. It is the second most watched large -cap index after The DJIA. The S&P is often used in publications to compare other indexes, stock and mutual funds performance. It is not just a list of the biggest companies like the fortune 500, however. The companies on the index are carefully selected by a committee to insure they are representative of various industries of the U.S. economy.

The Index is owned and maintained by Standard and Poor.

Japanese Nikkei 225 is the stock market index for the TSE (Tokyo Stock Exchange) it is the most watched index of Asian stocks. The Since 1971, it has been calculated by the Nihon Keizai Shimbun newspaper. It is a price-weighted average similar to the Dow Jones Industrial Average. The unit of expression is the Yen and the components are reviewed once a year.

FTSE 100 - The "footsie" is a share index of the 100 largest companies listed on the London Stock Exchange. It is seen as an indicator of the British economy and is the leading share index in Europe. The stocks in this index are determined quarterly. FTSE is an independent company owned the Financial Times and the London Stock Exchange. This index was first calculated in 1984.

Another Important stock market Index for Japan is the **TOPIX**. The Topix tracks 1645 companies on the Tokyo Stock Exchange or TSE. Topix is a free float weighted Index. Free float means it is weighed counting the shares that are available for trading.

CAC 40 - The CAC 40 is a French stock market index. It is a benchmark index for Euronext Paris. CAC stands for "Cotation Assistée en Continu" (Continuous Assisted Quotation), the index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse. Its base value of 1,000 was set on 31 December 1987. As of 1 December 2003 the index has become a free float weighted index.

Even though CAC 40 is composed of "French" companies, about 45% of their shares are owned by foreign investors. These investors include American pension funds. The shares have been acquired mostly during the last 20 years as formerly state-owned companies became privatized. With so many foreign investors CAC 40 variations can have quite serious international repercussions. For instance, attempts at "boycotting French products", by the American public may easily backfire, and lower the values of their own assets.

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