

MARKETS

INDICES

TRADING

FINANCIALS

shares

stocks

# Stock Market Basics

# What are Stocks?

- Stock is ownership in a publicly traded company.
- Stock is a claim on the company's assets and earnings.
- The more stock you have, the greater your claim as an owner.

# Types of Stock

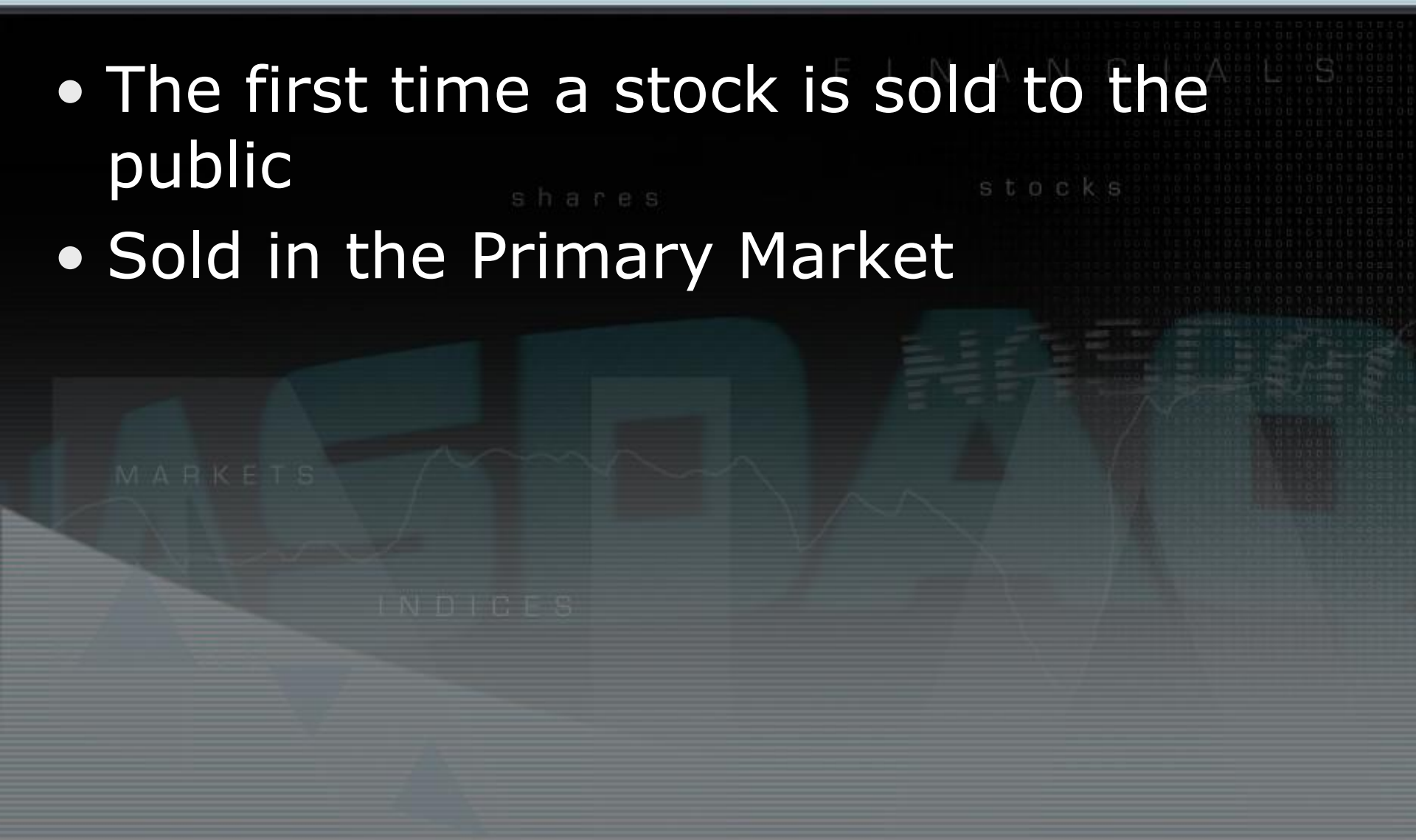
- **Common Stock** – most common form of stock.
  - One vote per share
  - Dividends are not guaranteed
- **Preferred Stock**
  - Fixed dividend
  - May not include voting
- Companies may customize other “classes” of stock.

# Ticker Symbols

- All securities traded on the stock exchange have a ticker symbol
  - Microsoft (MSFT)
  - Southwest Airlines (LUV)
  - Ford Motor Company (F)
  - Google (GOOG)

# Initial Public Offering (IPO)

- The first time a stock is sold to the public
- Sold in the Primary Market



# The Markets

- **Primary Markets** – where stocks are created
- **Secondary Markets** – investors trade previously issued stocks
  - The Stock Market
- *Companies are not involved in the buying and selling of their stock.*

# The Exchanges

- Where Stocks are Bought and Sold
  - New York Stock Exchange (NYSE)
  - American Stock Exchange (AMEX)
  - NASDAQ

# The Indices (index)

- *A collection of stocks—representative of the stock market*
  - **Dow Jones** – 30 most significant stocks in the stock market
  - **S&P 500** – 500 largest companies on the US stock market
  - **NASDAQ Composite** – all stocks on the NASDAQ

# How Do You Make Money in the Market?

## 1. Stock Price Goes Up and You Sell

- Buy low, sell high

## 2. Dividends

- Not all companies pay dividends

# What Causes Stock Prices to Change?

- Supply and Demand
- Earnings and Expectations
- Sentiments and Attitudes
- Economic Indicators
- Follow the Leader (volume)
- Anything 😊

# Why Invest in Stocks?

- The return on investments in the market are 3-4 times the annual return of inflation, savings and treasury bonds
- You can make good money in the market
  - You can lose money too.....

# How Should I Invest?

- What are your financial goals?
- What is your risk tolerance?
  - Return rises with risk
- Do you want to actively manage your portfolio?
- Diversify
  - Don't put all your eggs in one basket!

# Where do I Start?

- Learn the Basics
- Setup a brokerage account
  - Full-service vs. discount?
    - The Internet provides a variety of discount brokerage firms (do it yourself)
    - Fees, commission, minimum balance
- Keep it simple as you learn
- Learn about other investment vehicles

# Reading a Stock Table

- **Ticker Symbol** – the alphabetic name that identifies the stock.
- **Price** – current stock price
- **Open** – current day's opening price
- **Close** – the last trading price from the previous day
- **Net Change** – the net change from the previous day
- **Day's Range** – the current day's price range
- **52-Week Hi and Low** – the highest and lowest prices at which a stock has traded over the past year
- **Trading Volume** – the total number of shares traded for the day
- **Market Capitalization** – the market value of the company
- **Dividend Per Share** – annual dividend payment per share.
- **Price/Earnings Ratio** – the current stock price divided by earnings per share for the last four quarters

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# Bulls and Bears

- Bull Market – the economy is great and stock prices are rising
- Bear Market – the economy is bad and a recession is looming

# Beyond the Basics

- **Bonds** – a debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.
- **Buying on Margin** - borrowed money that is used to purchase securities.
- **Selling Short** - a trade in which the investor borrows a security and sells it to another investor in market.
- **Dollar Cost Average** - buying a fixed dollar amount of a particular investment on a regular schedule

# Options vs. Futures

- Options give the holder the *right* to buy or sell the underlying asset at expiration, a futures contract is an *obligation* to fulfill the terms of a contract.
  - **Options:** A privilege, sold by one party to another, that gives the buyer the right, to buy or sell a stock at an agreed-upon price within a certain period or on a specific date
  - **Futures:** A financial contract obligating the buyer to purchase an asset at a predetermined future date and price (i.e. currency, commodities)