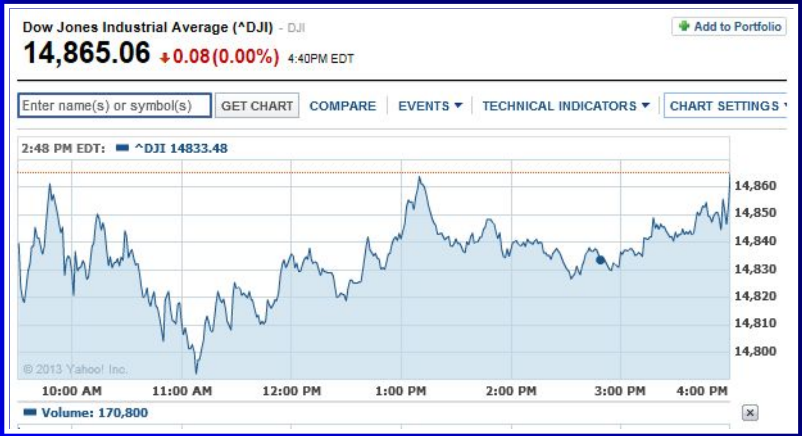
Intro to Investing in the Stock Market



A Personal Finance Lesson for Teens by Personal Finance for Teens Unleashed

What is a Stock?

- A share of stock represents partial ownership in a corporation---like Apple, Pepsi or Hershey's, for example.

- A share of a corporation can be held by an individual, group or another company.

Companies Issue two Types of Stock…

Common Stock

and

Preferred Stock

What is Common Stock?

- Common stock is the most frequently issued class of stock.
- It represents basic ownership of a corporation and provides voting rights.
- Companies issue common stock before preferred stock.
- Common shares on average out-perform preferred shares over time.

Drawbacks to Common Stock

- Common stockholders cannot be paid dividends until all preferred stockholders have been paid.
- What's a Dividend? A sum of money from a company's profits paid regularly (typically quarterly) to its shareholders.
- In the event of bankruptcy, common stock investors receive any remaining funds after preferred stock holders have been paid.

What is Preferred Stock?

- A company issues preferred stock only after common stock has been issued.
- Preferred stockholders usually do not have voting rights.
- However, one benefit of owning preferred stock is that preferred stockholders receive dividends before common stockholders.

More Benefits of Preferred Stock...

- If the company goes out of business---preferred stockholders receive the money they have invested before common stockholders receive theirs.
- In exchange for these benefits, preferred stock-holders accept a fixed dividend payment, regardless of any increase in company profits.

Are there Different Categories of Stock?

There are Several categories of stock.

- Blue Chip Stock---Very solid and reliable companies with long histories of consistent growth and stability. Examples are *Coke, Disney and Nestle*.
- The term comes from the blue chips used in poker- always the most valuable chips.

More Categories of Stock

- Income Stock---A stock that is purchased primarily for income, which is paid out in the form of dividends.
- Growth Stock---Generally young companies with growth potential. These companies usually reinvest most of their profits back into the business to expand and strengthen it. As a result they do not pay dividends.
- Cyclical Stock---A stock whose price is affected by the ups and downs of the economy.

More Categories of Stock

- Defensive Stock---A stock that tends to remain stable under difficult economic conditions. Defensive stocks include necessities like food, oil, and utilities.

- Penny Stock---A nickname for extremely low priced stock, usually only a few dollars a share. These stocks are considered highly risky. They are priced low because they have not yet proven themselves in the market.

What is a Stockholder?

- When an individual, group or company buys stock in a corporation they become a part-owner or a stockholder.
- They immediately own a part of whatever that corporation owns.
- Investors most often have portfolios, a collection of diversified investments including stocks, bonds and mutual funds.

What does diversified mean…

- A portfolio strategy designed to reduce risk by investing in a variety of investments.

Why does a Company Issue Stock?

- Typically a company sells stock when it needs to raise cash.
- In exchange for cash, the company gives up some control of the company to its shareholders.

What is an Initial Public Offering

- The first time a company's stock is sold, the company is said to be going public.
- In other words, the owners of the company are selling part-ownership to the general public. The formal name for this is Initial Public Offering (IPO)

What is a Stock Exchange?

- A stock exchange is a place where stocks are bought and sold. There are many stock exchanges in the United States and around the world. The 2 major U.S. stock exchanges include: The New York Stock Exchange Euronext and NASDAQ.

The New York Stock Exchange Euronext

- The oldest, largest, and most well known stock exchange in the U. S. is located on Wall Street in New York City. It is often referred to as the "Big Board".
- The NYSE is responsible for setting policy, supervising member activities, listing securities, overseeing the transfer of member seats, and evaluating applicants.
- It merged with Euronext in 2007 and was renamed The New York Stock Exchange Euronext.

NYSE EURONEXT NEW YORK STOCK EXCHANGE

NASDAQ

National Association of Security Dealers Automated Quotations

- The first electronic stock market to use computers and telecommunications to trade shares rather than a traditional trading floor. There is no physical location for the NASDAQ. All stock trades are done electronically through a network of dealers .

Some of the most active companies on the NASDAQ include…

Microsoft ORACLE facebook SiriusXM SATELLITE RADIO

intel YAHOO! QUALCOMM

What are Market Indices?

Indices are a snapshot of how the market is doing in general. There are many indices. Two of the most widely used indices are…

Dow Jones Industrial Average (DJIA)

Sometimes referred to as the Dow, it is the best-known and most widely followed market indicator in the world. It tracks the performance of 30 US blue chip stocks.

Standard and Poor's 500 Index (S&P 500)

A stock market index that tracks the 500 most widely held stocks on the NYSE and is used as an indicator of stock market trends.

How is Stock Bought and Sold?

- Stock is usually purchased through a stockbroker.
- A stockbroker is a licensed professional who advises individuals about investments.
- He or she also helps investors buy and sell stocks, bonds, and mutual funds.
- The broker earns a commission, usually a percentage of the transaction.

What do Investors Look for?

- Investors look for companies with the best possibility for strong, long-lasting earnings.
- It's a good idea to research a company before you invest in it.
- Some Internet resources that can help you analyze the potential of a stock include…

Tips for Buying Stock…

- When you buy a stock you're making a bet that a lot of other people are going to want to buy that stock too----and that the price will go up as a result.
- Carefully research stock before you buy it.
- Invest in stocks that offer products that are in demand.
- Keep your money diversified.
- A stock is only as valuable as people think it is, so it is a good idea to track your stocks regularly.
- Stay informed about not only your stock, but the economy in general.

Why does the Price of a Stock go up?

- Stocks prices go up because more investors want to buy than sell. If a large number of investors buy a particular stock, the price of that stock will rise, making it a more valuable stock.
- On the other hand, stocks prices go down because more investors want to sell than buy. In order to quickly sell their shares, stockholders may be willing to accept a lower price.

How do Investors make a Profit?

- Stockholders profit through dividends when a company they invested in profits.
- And by selling stock for more than they paid for it.
- Investors also profit by a strategy called compounding. Simply put, compounding is earning interest off from interest. It is a strategy of reinvesting your dividends and leaving your money invested and letting its returns compound, allowing your dollars to earn interest off from its own interest.

What are Bull and Bear Markets?

Bull Market

- A bull market is a market where prices are rising.

Bear Market

- A bear market is a market where prices are falling.

Is Investing in Stock Risky?

- Investing in stock tends to be more risky than investing in bonds, real estate, gold and cash. It is quite easy to lose money owning the wrong stocks, however, purchasing the right stocks and then holding onto them over the long term can be *very* profitable.
- One strategy investors use to lessen risk is Dollar Cost Averaging. This strategy enables investors to accumulate shares of stock by purchasing shares on a regular basis with a fixed dollar amount.
- Example: $100 invested in Pepsi every month for 10 months. The goal is that more shares will be purchased when prices are low and fewer shares will be purchased when prices are high.

How is Stock Regulated?

- To protect investors, the Securities and Exchange Commission (SEC), a federal agency, regulates the activities of stock traders. Its job is to safeguard investors against fraudulent practices and to make sure that the securities markets operate honestly and fairly.
- It has a strong anti-fraud unit that monitors advertising and marketing to make sure companies comply with strict rules concerning the sale of securities.
- The Financial Industry Regulatory Authority (FINRA) also looks out for investors. It is the place consumers can take complaints. The FINRA has the ability to fine individuals and organizations for unethical behavior and can revoke licenses.

What is A Stock Split?

- When a company finds that its high stock price is discouraging new investors, it may initiate a stock split to lower the price and increase trading.

More Shares--Lower Prices…

- In a stock split, the company gives you more shares but lowers the price of each share.
- If the stock splits two for one, the price of the stock is cut in half and stockholders are given twice as many shares.

What are the Effects of Stock Splits

- The initial effect for the stockholder, is no different than trading a dime for two nickels.
- The longer term effect is that now there are twice as many shares available to buy in the market at half of the price.

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