



INTRODUCTION TO INVESTING IN THE

# STOCK MARKET

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A SHARE OF STOCK REPRESENTS PARTIAL OWNERSHIP IN A CORPORATION.

A SHARE OF A CORPORATION CAN BE HELD BY:

1. INDIVIDUAL
2. GROUP
3. ANOTHER COMPANY

## WHAT IS A STOCK?

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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

## WHY WOULD A COMPANY ISSUE STOCK?

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## WHAT IS A STOCK HOLDER?

- ▶ 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.

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**PORTFOLIO THEORY, AS USED BY MOST FINANCIAL PLANNERS, RECOMMEND THAT YOU DIVERSIFY WITH A BALANCE OF STOCKS, BONDS, CASH THAT'S SUITABLE TO YOUR OWN RISK.**

Harry Markowitz, Nobel Memorial Prize Recipient,  
Economics

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## COMPANIES ISSUE TWO TYPES OF STOCK: COMMON STOCK

- ▶ Most frequently issued classification of stock
- ▶ Voting Rights
- ▶ Companies issue common stock before preferred stock.
- ▶ Common stock on average out performs preferred shares over time.
- ▶ Common stockholders cannot be paid dividends until all preferred stockholders have been paid.
- ▶ In the event of bankruptcy, common stockholders receive any remaining funds AFTER preferred stockholders have been paid.

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## COMPANIES ISSUE TWO TYPES OF STOCK: PREFERRED STOCK

- ▶ Preferred stock issued only after common stock has been issued.
- ▶ Preferred stockholders usually do not have voting rights
- ▶ Preferred stockholders receive dividends before common stockholders.
- ▶ In the event of a bankruptcy, preferred stockholders receive the money they have invested before common stockholders receive their's.
- ▶ In exchange for these benefits, preferred stockholders accept a fixed dividend payment, regardless of any increase in company profits

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## DIVIDENDS

- ▶ A sum of money from a company's profits paid regularly (typically quarterly) to its shareholders.
- ▶ For preferred stockholders, dividends are usually a set amount.
- ▶ For common stockholders, dividends vary with the company's profits.



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BLUE CHIP COMPANY IS VERY STRONG FINANCIALLY, WITH A SOLID TRACK RECORD OF PRODUCING EARNINGS AND ONLY A MODERATE AMOUNT OF DEBT. IT ALSO HAS A STRONG NAME IN ITS INDUSTRY WITH DOMINANT PRODUCTS OR SERVICES. TYPICALLY, THESE COMPANIES ARE LARGE (INTERNATIONAL) CORPORATIONS THAT HAVE BEEN IN BUSINESS FOR MANY YEARS AND ARE CONSIDERED TO BE VERY STABLE.

## BLUE CHIP STOCKS

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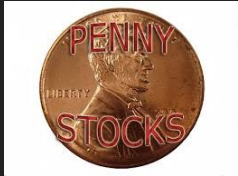
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A NICKNAME FOR EXTREMELY LOW PRICED STOCK, USUALLY ONLY A FEW DOLLARS A SHARE. THESE STOCKS ARE CONSIDERED HIGHLY RISKY. THEY ARE PRICED LOW BECAUSE THEY HAVEN'T PROVEN THEMSELVES IN THE MARKET AS OF YET.

## PENNY STOCK



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PART OWNER OF A PUBLICLY TRADED CORPORATION. INDIVIDUAL STOCKS MAKE UP A PORTION OF ONE'S FINANCIAL PORTFOLIO.

## STOCKHOLDER

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A COLLECTION OF DIVERSIFIED INVESTMENTS INCLUDING STOCKS, BONDS, AND MUTUAL FUNDS

## FINANCIAL PORTFOLIO

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Initial  
Public  
Offering

INITIAL PUBLIC OFFERING:  
THE FIRST TIME A COMPANY'S STOCK IS SOLD  
TO THE PUBLIC.  
THE COMPANY IS SAID TO BE "GOING PUBLIC"



IPO

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SECURITIES AND EXCHANGE  
COMMISSION, A FEDERAL  
AGENCY:  
PROTECTS INVESTORS  
REGULATES THE ACTIVITIES OF  
STOCK TRADERS TO SAFEGUARD  
INVESTORS AGAINST  
FRAUDULENT PRACTICES AND  
TO MAKE SURE THAT THE  
SECURITIES MARKETS OPERATE  
HONESTLY AND FAIRLY.

SEC

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## 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.

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## 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**.



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## 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...



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## 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.

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## 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.

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## 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...



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- Industrials/Basic Materials
- Consumer Durables/Staples
- Consumer Cyclicals
- Technology
- Healthcare
- Financials
- Energy
- Utilities

Investors use sectors to place stocks and other investments into categories.

## SECTORS, WHAT ARE THEY?

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## READING A STOCK QUOTE

Stock quote interpretation from [www.investopedia.com/university/stocks/](http://www.investopedia.com/university/stocks/)

	52WK High	52WK Low	Stock	Ticker	Div	YIELD %	P/E	Y OI 00s	High	Low	Close	Pct chg
\$45.39	19.75		ResMed	RMD			52.5	3831	42.00	39.51	41.50	-1.90
11.63	3.55		Revlon A	REV			162	6.09	5.90	6.09	6.09	+0.12
77.25	55.13		RioTinto	RTP	2.30	3.2	168	72.75	71.84	72.74	72.74	+0.03
31.31	16.63		RitchieBr	RBA			20.9	15	24.49	24.29	24.49	-0.01
8.44	1.75		RiteAid	RAD			31028	4.50	4.20	4.31	4.31	+0.21
\$38.63	18.81		RobtHalf	RHI			26.5	6517	27.15	26.50	26.50	+0.14
51.25	27.69		Rockwell	ROK	1.02	2.1	14.5	6412	47.99	47.00	47.54	+0.24

Column 1  
Column 2  
Column 3  
Column 4  
Column 5  
Column 6  
Column 7  
Column 8  
Column 9  
Column 10  
Column 11  
Column 12

## GETTING YOUR PORTFOLIO STARTED



Company Name	Is it Public?	Ticker Symbol	Exchange	Sector	Industry	Recent Price	Dollars to Invest	Approx Shares
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								

## 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.

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INVESTING IN STOCKS IS RISKY

**“UNLESS YOU CAN WATCH YOUR STOCK HOLDING DECLINE BY 50% WITHOUT BECOMING PANIC-STRICKEN, YOU SHOULD NOT BE IN THE STOCK MARKET.”**

Warren Buffett

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**“RULE NO.1: NEVER LOSE MONEY. RULE NO.2: NEVER FORGET RULE NO.1.”**

Warren Buffett

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## 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.

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## 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.

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## 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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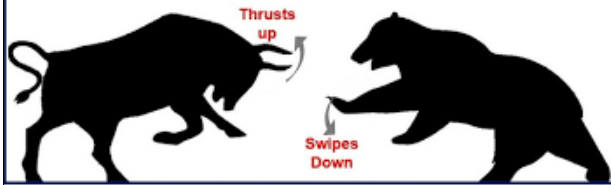
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## Bull & Bear



Bull Market

A Bull Market is a market where prices are rising.

Bear Market

A Bear Market is a market where prices are falling.

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Are you ready to start investing?

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