



Unit 3: Saving & Investing

Investing – All About Stocks

What is Stock?

📊 **Stock is ownership in a company**

📊 **Think about this...**

📊 **Wal-Mart began as a single-store business in Arkansas**

📊 **Dell began when it's founder, Michael Dell, sold computers out of his dorm room**

📊 **McDonald's began as a small unknown restaurant**

📊 **What do these companies have in common?**

📊 **They raised capital by selling stock in themselves!**

What is Stock?



Share of stock



When you buy a share of stock, you become part owner of that company



Stockholders





The investors who own the corporation because they own shares of its stock

What is Stock?

 Can all companies sell stock in themselves?

 No!

 Businesses owned by one person (sole proprietorship) or two people (partnership) cannot issue stock in their company

 Corporations are the only businesses allowed to issue stock in themselves

Important “Stock” Vocabulary

Earnings per Share

 Amount of profit each share of the company is entitled to

“Going Public”

 When a company sells stock in itself for the 1st time

Share

 Investor’s ownership of the profits, losses, and assets

Ticker Symbol

 Short group of letters representing the stock name

What is the Stock Market?

- 📊 The business of buying and selling stocks
- 📊 All stocks listed on the NYSE, NASDAQ, and Amex
 - 📊 NYSE: New York Stock Exchange
 - 📊 Amex: American Stock Exchange
- 📊 One of the most important sources for companies to raise money

Stock Market Memorable Moments

Wall Street Crash of 1929

 Black Thursday – “The Great Crash”

 Beginning of the Great Depression

 Share prices on the NYSE collapsed...and continued to fall for a full month

Stock Market Crash in 1987

 Black Monday

 The Dow Jones Industrial Average fell dramatically (22.68%) in just one day

NASDAQ

- ☒ National Association of Securities Dealers
Automated Quotations
- ☒ American electronic stock exchange
- ☒ Originated in 1971
- ☒ Largest electronic screen-based equity securities market in the US
 - ☒ Approximately 3200 companies
 - ☒ In the 1990's became the popular method of trading stock

NASDAQ



Advantages:



Less expensive to operate



Not limited in space



Investors can trade more kinds of stock



Can operate for longer hours

MARKETS

INDICES

FINANCIALS

stocks

NYSE Composite

- 📊 NYSE = New York Stock Exchange
- 📊 Stock market index covering all common stock listed on the New York Stock Exchange
- 📊 Includes over 2000 stocks
 - 📊 Over 1600 are US corporations
 - 📊 Over 350 are foreign corporations

Dow Jones Industrial Average

- 📊 Stock market index founded by Charles Dow
- 📊 Includes the performance of the industrial component of America's stock markets
- 📊 Includes 30 of the largest and most widely held public US companies (blue-chip stocks)
 - 📊 AT&T, McDonald's, and Microsoft
 - 📊 Boeing and Verizon Communications
 - 📊 Coca-Cola and Wal-Mart Stores
 - 📊 Exxon Mobil and Walt Disney

S&P 500

☒ Standard and Poor's

☒ Index which includes the stocks of 500

Large-cap corporations

☒ Companies chosen by a committee

☒ They are not necessarily the 500 biggest US companies

☒ Based on liquidity, size, and industry

☒ There is also a S&P 400, 600, and 1500

Show me the Money...

 You want to earn a return on your investment through:

 Dividend payments

 Increases in the price of the shares of stock

 Amount of return depends on:

 How much profit the corporation makes

 Price of the stock

 How much stock you own

Show me the Money...



Dividends



By selling the stock



Capital gain



The profit you earn from selling stock at a higher price than you paid for it



Capital loss



The loss you take when you sell your stock at a lower price than you paid for it



Buy Low, Sell High!

How Stock Exchanges Work


- 📊 You can buy and sell stock in two ways:
 - 📊 Through a stock exchange
 - 📊 Through the electronic system - NASDAQ

How Stock Exchanges Work

Transaction

-  Sale or purchase of shares; usually conducted through a stock brokerage firm or a stockbroker

Stockbroker

-  A person who handles the transfer of stocks and bonds between buyer and seller

Brokerage firm

-  A company that specializes in helping people buy and sell stocks and bonds

How Stock Exchanges Work

- 📊 A stock exchange is where orders to buy or sell stock are sent and carried out
- 📊 Largest exchange-New York Stock Exchange (NYSE)

Stock Prices

- 📊 Price of a stock depends on what other people are willing to pay to buy it
- 📊 Supply and Demand (sound familiar?)
- 📊 Successful company → large profits → high dividends → higher price of shares of stock
- 📊 Unsuccessful company → low dividends → lower price of shares of stock

Two Types of Corporate Stock



Preferred stock



Pays a fixed dividend



Common stock



Does not pay a set dividend




FINANCIALS

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Common vs. Preferred Stock

-  Preferred stock is less risky than common stock
-  Common stock generally has a better return than preferred stock in the same corporation
-  The price of common stock tends to change more than the price of preferred stock

Two General Classes of Stock

Blue chip stocks

 Shares in large, well-established corporations

 History of steady sales and profits

 Dividends usually grow over time

 Stock values do not change rapidly

 Involves lower risk

 Examples: Procter and Gamble, Ford

Two General Classes of Stock

Growth stocks

-  Stock in a corporation that is expected to experience rapid growth
-  Pay no, or very small, dividends
-  Return is in the form of large capital gains
-  Growth company has a greater chance of failure
 -  Examples: Intel and Microsoft