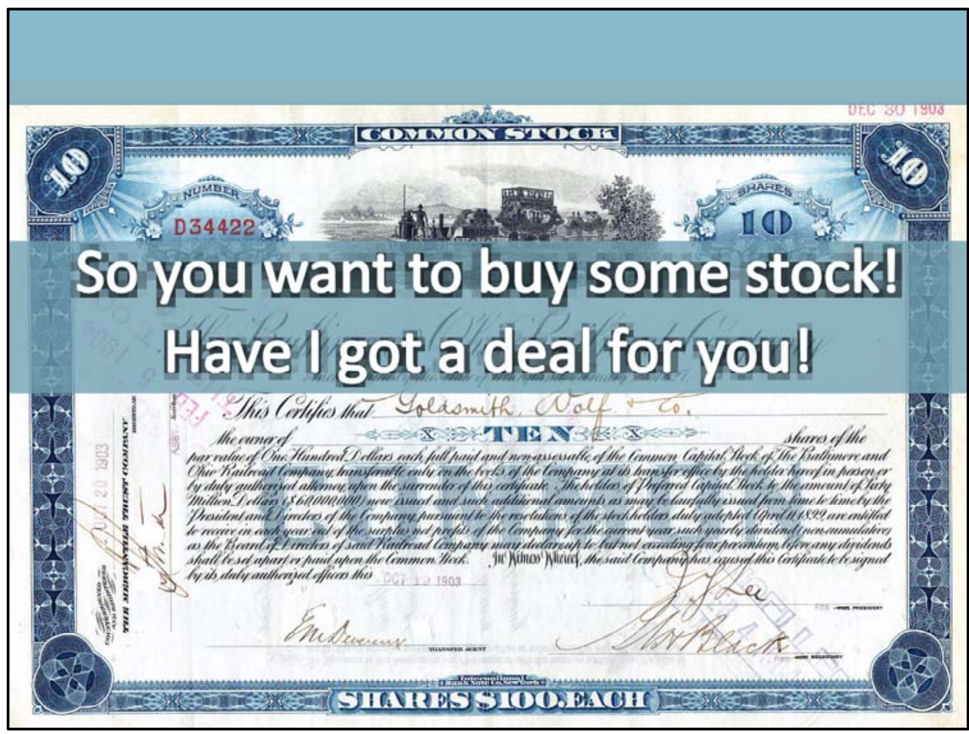


Do you want to own part of a huge corporation and share in the profits? Are you willing to risk some of your money to do it? If you answered yes to these questions, then you're ready to invest in the stock market. Before you run out and spend your money on the next stock that someone has guaranteed will make you a millionaire, let's take a look at different types of stocks and how you can easily research companies to make sure that you're not putting your hard-earned money at risk.

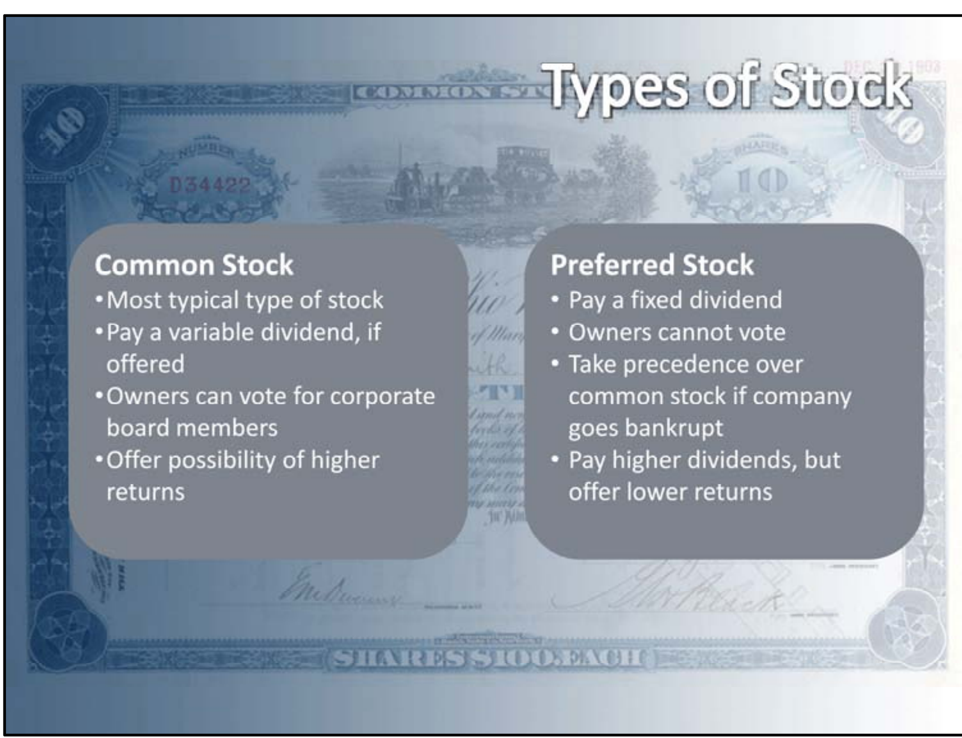
Yes, stocks offer some of the greatest opportunity for big rewards on your investments, but they also offer some of the biggest risks, unless you understand what you're doing and how to pick them. If you buy stock from a company just because you think you're going to get great returns, you are gambling just like the guy who picks the horse with the great name, only to lose all his money!

Before we get into how to evaluate stocks, let's look at how you buy and sell them.

When a company sells its stock for the first time during an initial public offering, commonly referred to as an IPO, you don't buy stock directly from the company—you buy stock from the investment bank that owns the stock and manages its sale for the company. The investment bank also puts together a prospectus with information for potential investors, helps determine the stock price, and issues the stocks in the primary market, where investors buy them. Select the link for the Wall Street Journal website if you'd like to see a list of companies that are having IPOs this week. You may have heard of some of them.

Once a company has sold stock, it's now a public company owned by the shareholders—the people who bought the stock. The stock is then bought and sold on a secondary market such as a stock exchange. Only licensed brokers, or their agents on the stock market floor, can actually buy and sell shares for their customers. You can't walk onto the trading floor at the New York Stock Exchange with your shares and try and find a buyer. You either have to work through a local broker who works through a floor broker at the stock exchange, or you can place orders for trades online. In either case, you have to pay a commission every time you buy or sell a stock in order to pay the costs of the brokerage firms and the stock exchange.

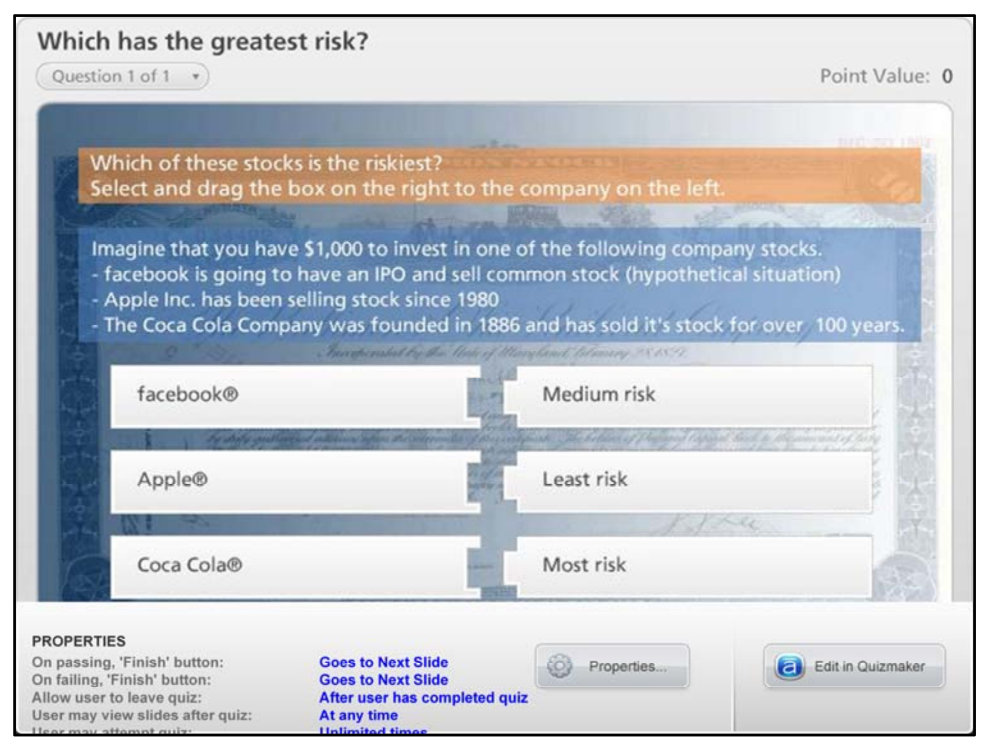
In a secondary market, for every buyer there must be a seller. When buyers and sellers agree on a price, the stock is sold. What happens if you want to buy or sell a stock, but there are no buyers or sellers? Do you have to wait until one appears before you can complete your sale or purchase? If there are no buyers or sellers for a certain stock, there are "specialists" at the major stock exchanges who "make a market." In other words, these designated agents buy or sell a stock so that you don't have to wait very long before you can buy or sell your stock. These specialists then buy or sell stock to other investors for a modest profit, thereby ensuring that investors can buy or sell a stock even when there are no buyers or sellers present.



When you buy a stock you usually have two options: common stock or preferred stock.

The majority of stock sales are for common stock. These offer many of the benefits of stock ownership, such as dividends, if the company pays them, the option of voting for company board members, and the possibility of a higher rate of return on your investment. When companies make a profit, they can either keep the profits to help them grow or they may share the profits with shareholders in the form of dividends.

You might have the option of buying preferred stock for a company as well. These pay a fixed dividend which doesn't vary. Most people that invest in preferred stock do so for the higher dividends that they offer and the fact that they are slightly less risky investments since they take precedence over holders of common stock if the company goes bankrupt.


Which has the greatest risk?
Question 1 of 1
Point Value: 0
Which of these stocks is the riskiest?
Select and drag the box on the right to the company on the left.
Imagine that you have $1,000 to invest in one of the following company stocks.
- facebook is going to have an IPO and sell common stock (hypothetical situation)
- Apple Inc. has been selling stock since 1980
- The Coca Cola Company was founded in 1886 and has sold it's stock for over 100 years.
facebook®
Medium risk
Apple®
Least risk
Coca Cola®
Most risk
PROPERTIES
On passing, 'Finish' button:
Goes to Next Slide
On failing, 'Finish' button:
Goes to Next Slide
Allow user to leave quiz:
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User may view slides after quiz:
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When it comes to selecting which stocks to buy, the first step is the same as any investment: determining your goals.

Yes, you want to pick stocks that are going to go up in value and possibly pay dividends, but you also want to manage risk and protect your money. Once you determine what your goals are, it's easier to narrow down the available pool of stocks.

If you are looking to make good returns down the road, look for growth stocks, those from companies with a steady record of reasonably rapid growth and earnings regardless of the broader economic conditions. A current example is Apple®. These companies have a slightly higher level of risk because at some point, they won't continue to grow as fast, and the stock price will start to rise more slowly, or perhaps go down.

If you buy income stocks, or stocks in companies that pay dividends, you will receive any dividends on a regular basis, when the company is profitable. You can then reinvest those dividends in the same stock, or put them into other investments. The amount of dividend you receive will vary depending on the company's profits.

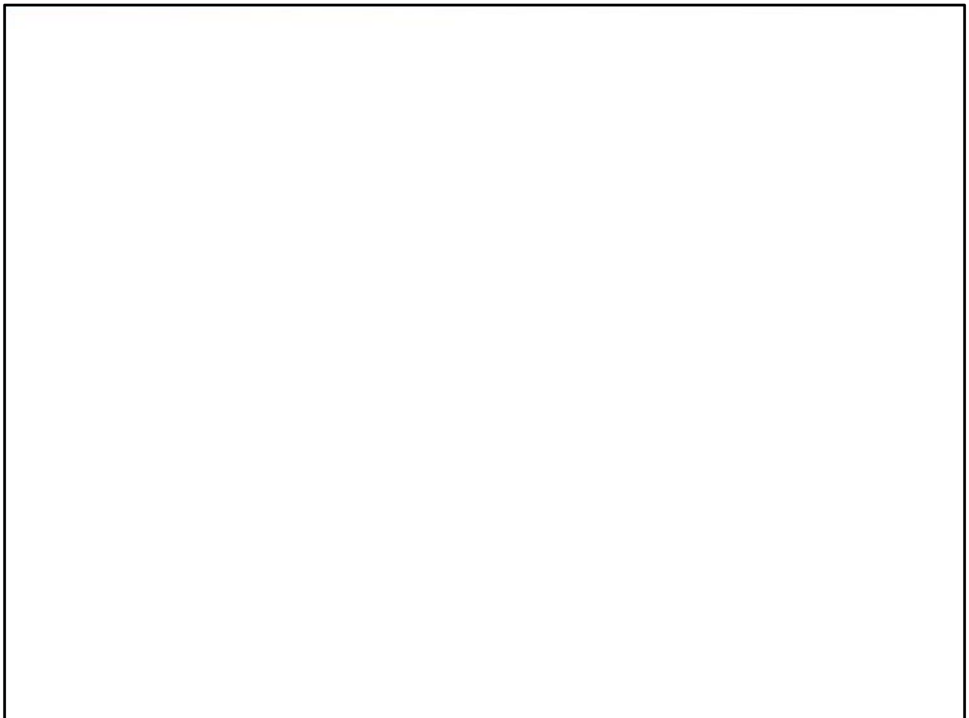
If you watch the news, you'll often hear the term blue chip stocks, which refers to stock from large, well-established companies that are nationally recognized, have revenue of one billion dollars or more, and dominate their industry. These stocks are usually some of the safer investments in the stock market, although they don't usually offer the highest returns.

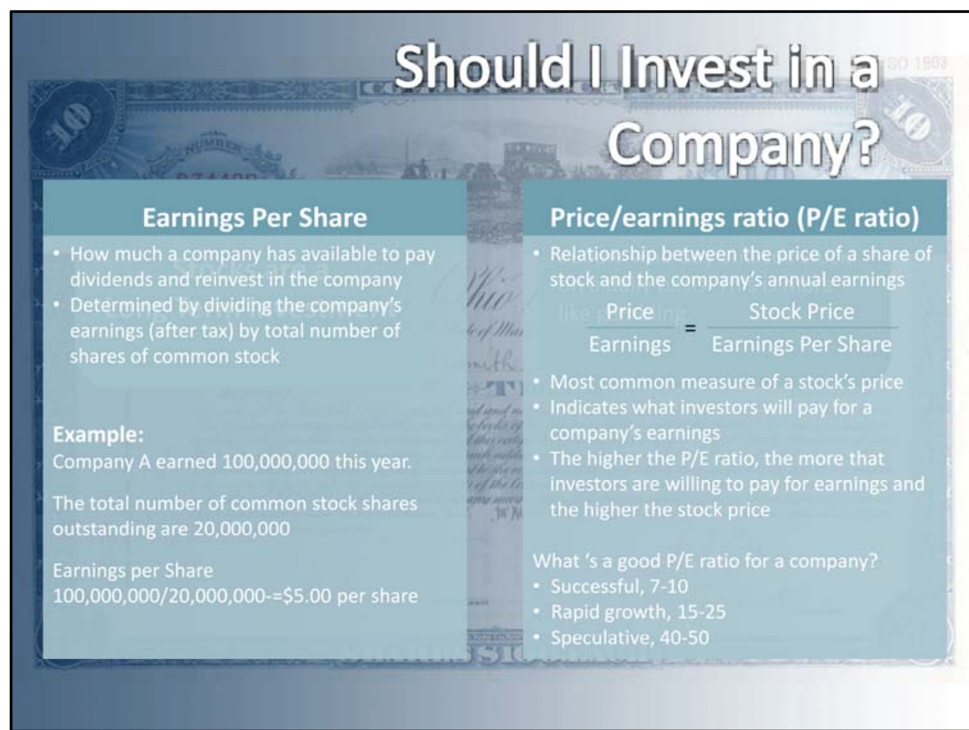
Finally, if you are looking for the possibility of making larger returns on your investments, you should look into more speculative stocks in companies with the potential for high future earnings. The earnings for these companies may be inconsistent, but the returns on these types of stocks can be high because they have the potential to grow very fast. Some pharmaceutical and technology companies fall into this category. Remember that there's also a larger risk that you'll lose your money with these stocks.

Regardless of personal financial goals, most people who invest in the stock market have the same ultimate goal: to sell the stock for more than they paid for it. There are some people known as short sellers who make money when stock prices go down, but we aren't going to cover those types of speculative investments.

So how do you know when a stock is the right price? It's more than reading the numbers on the stock ticker. That will tell you what people are paying for the stock right now, but it won't tell you about whether the stock price is going up or down, or whether the company is profitable. In order to find out that kind of information, you're going to have to do some research. Fortunately, there are lots of easy-to-use tools that are available for you to use. You just have learn how to use them.

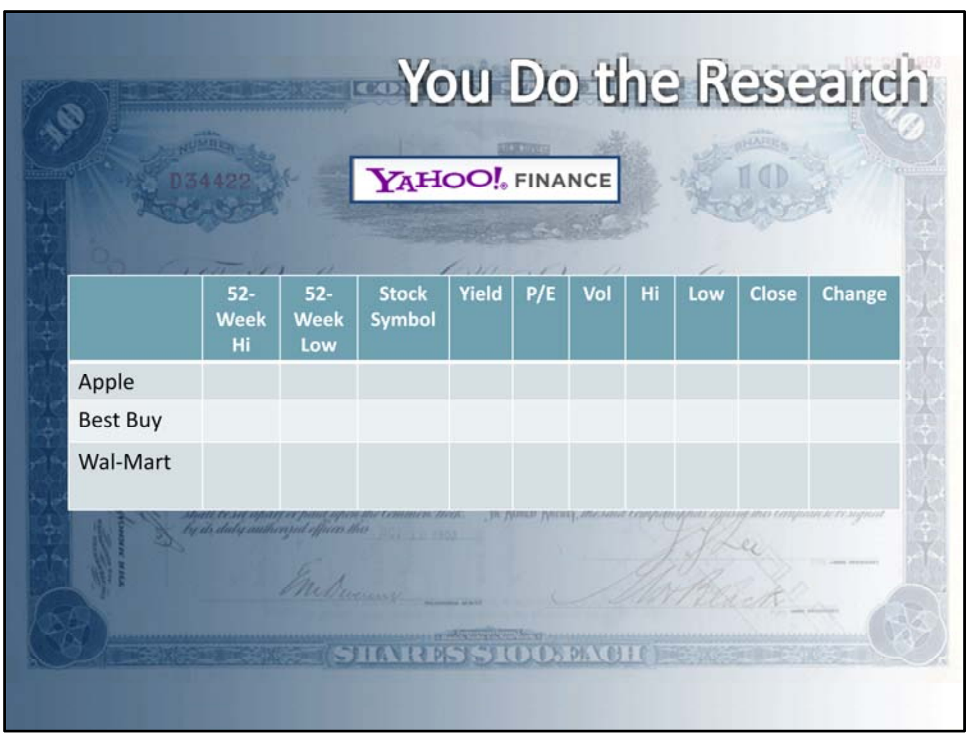
The Internet has lots of great resources for researching stocks. This example is from the Yahoo! finance website.





When you buy stock, you should be investing for the long term. You may have heard the term day traders. These are people who buy and sell stock on a daily basis. This is more like gambling than it is investing. You should be looking to buy a stock and hold onto it for a long time before you sell it. Therefore, you should be looking at the long term health of a company before you buy its stock.

There are many different tools you can use to evaluate the health of a company, and whether its stock price reflects that. Two of the most common are ones we just looked at, earnings per share and the price-to-earnings ratio. Here is some more detailed information about those numbers and how you can use them to interpret a company's current situation and opportunity for growth.



	52-Week Hi	52-Week Low	Stock Symbol	Yield	P/E	Vol	Hi	Low	Close	Change
Apple										
Best Buy										
Wal-Mart										

Look up the information below for each stock listed in the table using the Yahoo!® Finance website.

Stock prices are just like prices for most other things: they are determined by the laws of supply and demand. If lots of people want to buy a stock and few people are selling, the price is going to go up. This is what happens when investors think that a company will be profitable in the future. If investors think that a company will be less than profitable in the future, then demand for the stock goes down as does the stock price.

Whether a company successfully delivers a new product can have a large impact as well. For example, if a pharmaceutical company was developing a new drug to treat a disease, and the tests failed, that could drive the stock price down. Alternately, if a company creates a new piece of technology that looks like it will be a huge success, then the stock price could go up.

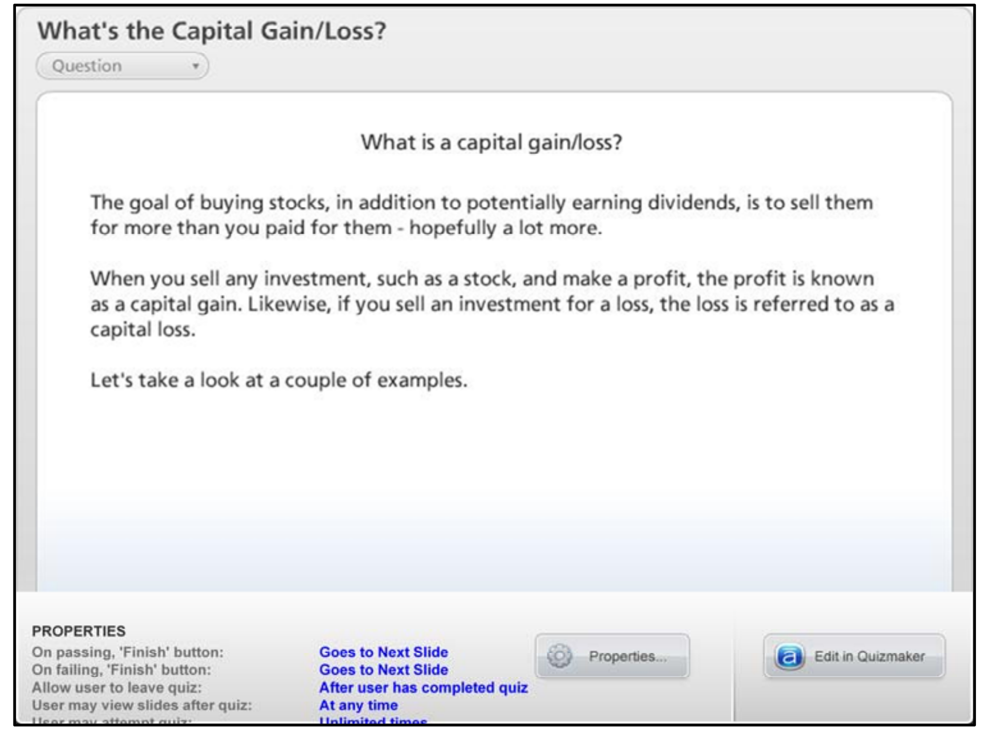
There are other things that can affect a stock's price as well. For example, if the stock market as a whole is going up or down, that can positively or negatively impact a stock's price. Stock prices also tend to go up when the economy is doing well and people are optimistic about the opportunities for business. Lastly, the stock market tends to move in the opposite direction of interest rates: when interest rates fall, the stock market generally rises, and when interest rates rise, the market goes down.

It's difficult to predict how current or future events will impact a company over the long run. That's why it's important that you buy stocks that you're going to hold onto for a long time, so you can ride out the ups and downs of the market. If you base all your decisions on short term considerations like whether you think other people are going to buy or sell a stock, you probably won't be a successful investor.

As we talked about earlier, you can only buy and sell stocks through a broker and her affiliated traders at the stock exchange. Remember Ted Weisburg in the video you watched before this presentation? It's traders like him who buy and sell stocks for you at the best possible price.

Also, remember you have options when it comes to picking a broker. You can either go with a full-service brokerage that offers more services including advice on which stocks to buy, but also charges higher commissions for these services, or you can go with a discount brokerage that enables you to do your own research and make your own decisions about what to buy and sell. You can also hire a financial advisor who works with you to come up with investment strategies, but cannot buy or sell stock because they aren't brokers.

Regardless of which type you select, you are going to pay some commission each time you buy or sell a stock.


What's the Capital Gain/Loss?
Question
What is a capital gain/loss?
The goal of buying stocks, in addition to potentially earning dividends, is to sell them for more than you paid for them - hopefully a lot more.
When you sell any investment, such as a stock, and make a profit, the profit is known as a capital gain. Likewise, if you sell an investment for a loss, the loss is referred to as a capital loss.
Let's take a look at a couple of examples.
PROPERTIES
On passing, 'Finish' button:
Goes to Next Slide
On failing, 'Finish' button:
Goes to Next Slide
Allow user to leave quiz:
After user has completed quiz
User may view slides after quiz:
At any time
Properties...
Edit in Quizmaker

U.S. Stock Exchanges

New York Stock Exchange (NYSE)

- Began in 1792
- Largest exchange with most stringent company standards
- Approximately 2,800 companies offer stocks on this exchange

NASDAQ Stock Market

- More than 4,000 small American and foreign companies listed on exchange
- Mostly technology-based companies particularly hardware and software

Companies can list their stock only on one exchange in the U.S. so why do we have more than one exchange? Each has different requirements for companies that are listed there that reflect the different types of businesses that make up the majority of the businesses listed on the exchange.

Look over the different requirements that the two most popular exchanges have for companies. Remember when we were looking at the stock information on Yahoo!® Finance earlier that the exchange where the company's share were listed was included in the stock information. It's an important part of understanding how detailed and accurate the information is about a company.

When it comes to measuring the overall performance of the stock markets on any given day, the three most common terms you'll hear about for U.S. markets are the Dow Jones Industrial Average, commonly called the Dow; the Standard and Poors five hundred Index, commonly called the S and P five hundred, and the NASDAQ Composite index.

The Dow is an index created by the Dow Jones company that shows how the stock prices of 30 large U.S. companies performed throughout the day. It is often used as an indicator of how the overall New York Stock Exchange is doing since it's a better representation than an average of all companies listed on the exchange. Large changes in the Dow often indicate very positive or negative economic news.

The S and P five hundred is an index of the stock prices for five hundred large companies listed on both the New York Stock exchange and the NASDAQ. Like the Dow, the S and P five hundred is considered one of the most important measures of how stock prices and the overall economy are performing.

The NASDAQ Composite is an index of stocks for companies listed on the NASDAQ stock market. Most financial analysts follow this number an indicator of how stocks for technology and growth companies are doing since these are the majority of the companies that are listed on the NASADAQ.

When the stock market goes up or down over a period of time, say months, or even years, people use the terms bull and bear market. A bear market describes market conditions where a majority of stocks are declining, and a bull market is one where stock prices are going up.

Do you want to buy stocks, but don't know where to start? Would you like to buy a number of different investments in order to diversify your portfolio and lower your risk exposure? What if you could have a professional watch over your investments every day and make sure they're performing well? If this sounds good to you, then you should check out mutual funds, which are some of the most popular investments around.

A mutual fund is a combined fund of a variety of investments like stocks, bonds, and other investments. These funds are monitored by investment professionals who buy and sell the various investments based on investment goals, such as being low-risk, or buying stock in technology companies.

When you buy a mutual fund, you are pooling your resources with other investors. This enables you to get professional account management services that normally would only be available to large investors. Mutual funds also give small investors the opportunity to buy a number of investments with a small amount of money. Where one thousand dollars might not be enough to buy a particular bond, with mutual funds, that same one thousand dollars might enable you to buy both a diversified stock mutual fund and a diversified bond mutual fund.

We'll look more in depth at the different types of mutual funds in a later lesson.