



The Stock Market

Bulls and Bears!



Stock

- Def. A portion of ownership in a corporation. It is a way for a corporation to raise money. Also known as shares or equities.



Why should I buy stock?

Stockowners can earn a profit in two ways:

1. **Dividends:** portions of a corporation's profit. They are paid out to stockholders of many corporations every quarter (3 months). The higher the corporate profit, the higher the dividend. If a corporation makes no profit, there is no dividend.



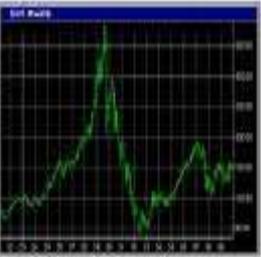
How to make a lot of money in the Stock Market

The second way stockholders earn money:

2. **Capital Gain:** When a stock holder sells stock for more than he or she paid for it.

Ex. I buy a share of Kodak stock for \$20. The value of the stock increases to \$21, and I sell it for a profit of \$1.

When a stock holder sells stock for less than he or she paid, it is a capital loss.



Stock goes up and down



Stock value increases and decreases according to the company's performance and how people think the company will do in the future.

Stock value goes up when a company has good sales or invented a new product.

Stock value goes down if a company has to lay off people, doesn't sell much or does not make a profit.



Making and losing money

Can you lose everything in the market?

- If you are foolish, yes. If you invest more than you can afford to lose, and the stock loses value, you are in trouble.
- But, if you invest only what you can afford, and diversify your investments (buy stock of many different companies), you can do very well. If you diversify, even if one investment loses money, the others will still be okay. And, stock prices go up and down a lot. If you lose money today, the stock can still go up tomorrow. You only lose if you sell!

So how do I make money?

- The smart stock strategy is to invest over the long term. Diversify your portfolio (buy a lot of different stock) and let the stock price increase over time. Even if stocks go down, it is okay- just wait until they go back up. The market as a whole always goes back up.
- Some people play the market like a casino; they gamble on quick money. They may get lucky, but it is **VERY RISKY!** One bad move, and you lose all you invest.



Types of Stock



- Income Stock: stock that pays dividends at regular times in a year
- Growth Stock: pays few to no dividends. All profits are reinvested in the business. Owners of growth stock are interested in making money through capital gains.
- The company determines what stock it offers.



Ownership of a Company

Stockholders are part owners of the company, and as such have a say in decisions the company makes. But, since most companies have thousands of shareholders with millions of shares, most stockholders have little say in the company.

- Controlling Share: Owning 50% of a company's stock. This person controls the company.

Making ownership decisions

Common Stock: stockholders are voting owners of the company.



But, most people own such a small percent of a company's shares, they do not wish to vote on company decisions.

Preferred Stock: stockholders do not vote in company decisions, but receive dividends before owners of common stock.



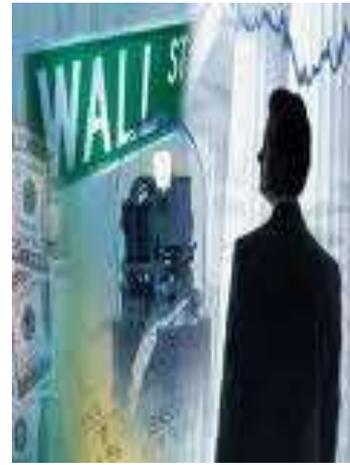


Where are stocks traded?

- Stock Exchanges: markets where businesses buy and sell stock. Most industrialized nations have one. The U.S. has several.
- In the U.S. the two largest are The New York Stock Exchange (aka. Wall Street), which represents the oldest and largest corps. in the country. The NASDAQ in Chicago represents newer companies.



How are stocks traded?



- Stockbroker: licensed intermediary between buyers and sellers of stock
- Brokerage Firms: businesses which specialize in trading stock.
- Daytrader: stockbrokers who buy and sell large amounts of stock very quickly to turn a profit in one day's trading. (get it?)





Bull and Bear Markets



- Economists describe the stock market activity as being a:



- Bull Market: steadily rising stock market over time



- Bear Market: steadily falling stock market over time



Stock Performance Indexes

- With thousands of publicly owned corporations, selling billions of shares of stock, it is impossible to keep track of how the market is doing as a whole. Stock Performance Indexes are used to look at parts of the stock market to make a generalization about the market as a whole.

Two Stock Performance Indexes

The Dow Jones Industrial Average



- The Dow is an index that shows how 30 companies in various industries change in value from day to day.



The S&P 500

- The S&P is an index that tracks the performance of 500 different stocks.
- By watching the indexes, we can tell if it is a Bull or Bear market, and when to invest or not!