



Stock Market Basics

FIN 1050

Why Learn About Stocks

- The stock market is the core of America's economic system
 - A **Stock** is a share of ownership in the assets and earnings of a company
 - A **Bond** is a type of debt that a company issues to investors for a specified amount of time.
 - The **Stock market** is a general term used to describe all transactions involving the buying and selling of stocks and bonds issued by a company

Mutual Funds



- Investors pool their money
- The manager will invest in a variety of stocks, bonds and other securities
- Mutual funds offer diversification (not “putting all your eggs in one basket”)
- You can start with as little as \$100, depending on the fund.
- Broker commissions are lower than in stock purchases (or nonexistent)

Why Companies Issue Stock

When a company would like to grow, it issues stocks to raise funds and pay for ongoing business activities

- It is popular because:
 - The company does not have to repay the money
 - Paying dividends is optional
 - **Dividends** are distributions of earnings paid to stockholders

Why People Buy Stock

- The very best way for your money to grow over a long period of time is to invest in stocks



Risk vs. Return

- On average, stocks have a high rate of return
 - The increase or decrease in the original purchase price of an investment
- Higher rate of return = greater risk
 - Uncertainty about the outcome of an investment
- Stocks provide **diversification**
 - Money invested in a wide variety of investment tools instead of just a few

Ways a Stock Value Can Change

- The dollar value increases or decreases
- A merger of two companies
- Dividends are paid

Ways a Stock Price Can Change – Stock Split

- Shares owned by existing stockholders are divided into a larger number of shares
 - Example: You own 100 shares of Company A, worth \$10 each for a total portfolio value of \$1000 (100 shares X \$10/share)
 - Company splits 2 for 1
 - You now have 200 shares (100 X 2)
 - But they are worth half as much ($\$10/2$)
 - Your portfolio value stays the same: \$1000 (200 shares X \$5/share)

Beta Value

- The **beta value** measures a stock's volatility compared to overall changes in the stock market
 - If a stock has a beta of +1.5 and the market goes up 10%, the value of the stock is expected to rise 15% (multiply the increase in the stock market X the beta value)
 - Average beta is between +0.5 - +2.0
 - Beta value can be found under "Key Statistics"
 - A higher beta indicates more risk because the stock price change will be more drastic

Remember...

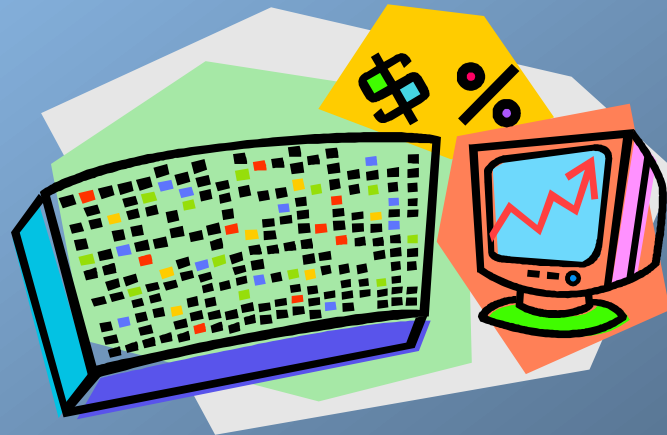
- ***You can lose money*** in the stock market:
 - Interest rate risk:
 - When the interest rate goes up, stock prices go down
 - Inflation risk:
 - Inflation can impact interest rates, thus causing stock prices to decrease
 - Business risk:
 - How well or how poorly the business in which you are invested is doing

Risks



- Financial risk:
 - If a company has too much debt, it will not be able to make payments, and price will drop
- Market risk:
 - Stocks go up and down in relation to the market as a whole
- Political and regulatory risk:
 - Changes in the tax or legal environment may affect stock value

Reading Stock Quotes



Year to Date Percent Change

YTD %	52-Week		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
	High	Low									
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Year to date percent change is the stock price percent change from January 1st of the current year
 - If a stock was \$43.00 on January 1st and \$36.00 on July 30th, the percentage change would be -16.3%

52-Week High Low

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

52-Week High & Low shows the highest and lowest prices the stock was sold per share during the last 52 weeks

Stock Name – Ticker Symbol

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

Stock – Each company's stock is provided with an abbreviated trading symbol name

Dividends per share

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Dividends per share is the total cash paid to common stockholders per share annually
 - Helpful when determining the type of stock
 - If a company paid \$10,000 in dividends for 30,000 shares, the dividends per share would be \$0.33

Dividend Yield Percentage

YTD %	52-Week High	52-Week Low	Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Dividend yield percentage is the dividend expressed as a percentage of the price of the share
 - If a company paid \$1.25 in dividends for a stock with a market price of \$50.00, the dividend yield percentage would be 2.5% ($1.25/50$)
 - Helpful to know how much income to expect. A company paying high dividends is not reinvesting money to grow.

Price/Earnings Ratio

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Price/earnings ratio is the closing price of the share compared to the annual earnings per share
 - If the stock's market price is \$50.00 and the earnings per share is \$2.25, the P/E ratio is 22.2
 - It means that for every dollar the company earns, the stock's market price is worth \$22.00, or investors are willing to pay \$22.00
 - A high number indicates people are optimistic about the company and health of the market.

Volume

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Vol 100's is the number of transactions to the share on the reported day
 - Represented in hundreds (take the number and add two zeros)

High and Low

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- High and low entries represent the high and low selling price of one share for the previous day

Close

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Close is the price of the last share sold for the day

Net Change

YTD %	52-Week High Low		Stock	Div	YLD %	P/E	Vol 100s	High	Low	Close	Net Chg
-16.3	43	36	AAR	.33	2.5	22	1479	40	37	39	.027

- Net change is the difference between the closing price of the share from the prior day and the current day

Stock Quote From Yahoo

Name of stock, exchange and ticker symbol

Current price

Today's change in dollars and percent

Yesterday's closing price

Today's opening price

Today's range of prices

Range of prices over past year

Shares traded today

Price/Earnings Ratio

Earnings per share

Dividend amount per share and percentage

ZIONS BANCORP (NasdaqGS: ZION)

Last Trade:	47.55	Day's Range:	46.04 - 47.68
Trade Time:	10:55AM ET	52wk Range:	39.31 - 86.26
Change:	↑ 2.00 (4.39%)	Volume:	812,859
Prev Close:	45.55	Avg Vol (3m):	2,453,580
Open:	46.21	Market Cap:	5.09B
Bid:	47.55 x 100	P/E (ttm):	10.76
Ask:	47.58 x 100	EPS (ttm):	4.42
1y Target Est:	54.20	Div & Yield:	1.72 (3.70%)

Quotes delayed, except where indicated otherwise. For consolidated real-time

ZION 1-Apr 10:55am (C)Yahoo!

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How Well the Stock Market is Doing Overall



3 Basic Indicators (Indexes)



- Dow Jones Industrial Average ("DOW")
 - Lists the 30 leading industrial blue chip stocks
- Standard and Poor's 500 Composite Index
 - Covers market activity for 500 stocks
 - More accurate than DOW because it evaluates a greater variety of stock
- National Association of Security Dealers Automated Quotations ("NASDAQ")
 - Monitors fast moving technology companies
 - Speculative stocks, show dramatic ups and downs

Ups and Downs



- The term **bull market** means the market is doing well because investors are optimistic about the economy and are purchasing stocks
- The term **bear market** means the market is doing poorly and investors are not purchasing stocks or selling stocks already owned

Purchasing Stock



Brokers



- A Broker is a person who is licensed to buy and sell stocks, provide investment advice, and collect a commission on each purchase or sale
 - Purchases stocks on an organized exchange (stock market)
 - The vast majority of all stocks are bought and sold on an organized exchange

Organized Exchanges

- A **stock exchange** is a place where stocks are bought and sold.
- There are minimum requirements for a stock to be on an exchanges, to ensure only reputable companies are listed
- Each exchange has a limited number of seats available which brokerage firms purchase to give them the legal right to buy and sell stocks on the exchange

New York Stock Exchange

- New York Stock Exchange (NYSE)
 - Oldest and largest, began in 1792
 - 1,366 seats available
 - 2,800 companies
 - Average stock price is \$33.00
 - Strict requirements



American Stock Exchange

- American Stock Exchange

- Began in 1849
- 2nd largest exchange
- Its requirements are not as strict as NYSE allowing younger, smaller companies to list
- Average stock price is \$24.00



Regional Stock Exchanges

- Regional Stock Exchanges
 - Stocks are traded to investors living in a specific geographical area
 - Including Boston, Cincinnati, Philadelphia, Spokane

NASDAQ



- National Association of Securities Dealers Automated Quotations
 - Stocks are traded in an over the counter electronic market
 - 4,000 small companies
 - Company requirements are not as strict
 - More volatile because companies are young and new
 - Average stock price is \$11.00

Supply vs. Demand



- The stock exchange is organized based upon the laws of supply and demand
 - **Supply** is the relationship of prices to the quantities of a good or service sellers are willing to offer for sale at any given point in time
 - **Demand** is the relationship of prices to the quantities and the corresponding quantities of a good or service buyers are willing to purchase at any given point in time.

Stock Supply vs. Demand

- With a limited number of shares of stock,
- If the demand is high:
 - Share prices will rise because investors are willing to pay more to get the stock.
- If the demand is low:
 - Share prices will drop because investors are willing to take a lower price to get rid of their shares.

How Do You Choose a Stock or Mutual Fund?

- There are over 7,000 individual stocks
- There are over 13,000 mutual funds
- Not all of them make money...some of them lose quite a lot



Some Suggestions on Choosing Stocks and Mutual Funds

- Buy stock in a company that you like and personally buy from
 - Examples: Pepsi, Kohl's, Apple Computer, McDonalds, WalMart, etc.
- Suggestions ("tips") from someone already investing
- Suggestions from a financial manager

Diversification

- It is very risky to put all of your money into just one or two investments
 - If the price declines, you can lose a lot of money
- **Diversification** means that you lower your overall risk by investing in a variety of stocks or mutual funds
 - If one declines, it will not negatively affect your overall portfolio value too much

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