Investing 101
STOCK

- A piece of a corporation
- Shareholders are OWNERS
- Share in profits & losses
Shareholders “win” when...

- A company grows
- Stock becomes more valuable
- CAPITAL APPRECIATION
- Paper profit until you sell
Shareholders “win” when...

The firm is profitable.

Mgt. may send investors a share of the profits

- DIVIDEND
Is a win guaranteed? **NO!**

- Stock prices can fall
  - DEPRECIATION

- No/low profits -> no dividend paid
2 Kinds of Stock

**COMMON**
- No fixed rate of return on your investment

**PREFERRED**
- Has a fixed rate of return
- Preference over common stock in dividend distribution
- Look for “pf” after the company name
How do I pick a stock?
Hit the **LIBRARY**!!

*RESEARCH, RESEARCH, RESEARCH!*

- Annual reports
- Company profiles
- Analysts’ reports (ask a broker)
- Reference books
  - Value Line
  - Standard & Poor’s
  - Moody’s
- Newspapers
How do I pick a stock? Search the **INTERNET**!

- Company web sites
- Investment advice sites
  - younginvestor.com
  - individualinvestor.com
  - www.stockpoint.com
  - Library.thinkquest.org/10326/investment_lessons/stock_information.html
What am I looking for?

COMPANY PERFORMANCE

- Profit history
- Earnings (P/E ratio)
- Growth potential
- Good management?
- What do you think of their products?
What am I looking for?

THE BIGGER PICTURE

- Is this a growth industry?
- Impact of world events?
- Does a recession hurt or help the company?
What determines a STOCK’S PRICE?

The stock market’s like an auction . . .

- When more people REALLY want to buy, a stock’s price rises
  - Rosy profit picture
  - Company’s growing
  - Popular products
What determines a stock's price?

When investors are bearish about a stock:

- Expect its price to go down & want to sell before it does
- Selling pushes share price down
Don't forget COMMISSIONS

The fee paid to have your stock purchase or sale executed.
Risk vs. Rewards

- Volatile stocks can bring big payoffs or big losses.
- Slow and steady is the pattern with stocks that are less risky.
What’s a MUTUAL FUND?

- Investors pool their $$$
- Hire a fund manager
- Mgr. buys an array of stocks
  - The fund’s PORTFOLIO

Advantages:
- Professional management
- More diversification
- Accept small $ amounts
Are STOCKS & BONDS the same?

- NO!
- Shareholders are owners (INVESTORS)
- Bondholders are creditors (LENDERS)
  - Bond stipulates the repayment schedule (principal + interest)
Plunge in & HAVE FUN!