SECTION 1: Stocks

Financial Markets

- Stocks and bonds are bought and sold in a financial market.
- Financial markets channel money from some people to other people.
  - They bring together people that have money to invest with other people who would like to start a new company or expand an existing one.
SECTION 1: Stocks

What Are Stocks?

- What does it mean when someone tells you they own 100 shares of stock of a company?
- It means they are a part owner in the company.
- A stock is a claim on the assets of a corporation that gives the purchaser a share of the corporation.
- This does not mean you run the company!
Where Is Stock Bought and Sold?

- Stocks are bought and sold through these venues:
  - The New York Stock Exchange (NYSE)
  - Stock brokers over the phone, in person, or online
  - Other stock exchanges, such as the American Stock Exchange (AMEX) and the National Association of Securities Dealers Automated Quotations (NASDAQ)
    - NASDAQ is an electronic stock market where trades are executed through a sophisticated telecommunications network
- Americans can also buy and sell stock in foreign exchanges and markets.
The Dow Jones Industrial Average (DJIA)

- The **Dow Jones Industrial Average (DJIA)** is the most popular, most widely cited indicator of day-to-day stock market activity. The DJIA is a weighted average of 30 widely traded stocks on the New York Stock Exchange.

- Why did Charles Dow create the DJIA?
  - *Answer*: To tell people something about what was really happening in the market. At the time he created it, people were suspicious of the stock market so he wanted to create a way to keep people informed about more than just individual stocks.
  - He found the average price of a certain number of stocks (it started at 11) that he thought would mirror what was happening in the stock market as a whole.
**The Dow Jones Industrial Average (DJIA)**

- Thirty stocks currently make up the DJIA. The list changes from time to time, as determined by the editors of the *Wall Street Journal*.

- Changes in the Dow are closely connected to things such as consumer credit, business expectations, exports and imports, personal income, and the money supply.

- In addition there are other commonly cited stock indices in the U.S. including the NASDAQ Composite, the Standard & Poor’s 500 and the Wilshire 5000.

<table>
<thead>
<tr>
<th>3M Company</th>
<th>Intel Corporation</th>
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<tbody>
<tr>
<td>Alcoa Incorporated</td>
<td>International Business Machines</td>
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<td>Altria Group, Inc.</td>
<td>Corporation</td>
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<td>American Express</td>
<td>J. P. Morgan Chase and Company</td>
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<td>American International Group, Inc.</td>
<td>Johnson &amp; Johnson</td>
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<td>Boeing Company</td>
<td>McDonald’s Corporation</td>
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<td>Coca-Cola Company</td>
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<td>DuPont</td>
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<td>Exxon Mobil Corporation</td>
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<td>General Electric Company</td>
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<td>Hewlett-Packard Company</td>
<td>Wal-Mart Stores Incorporated</td>
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<td>Home Depot Incorporated</td>
<td>Walt Disney Company</td>
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<td>Honeywell International, Inc.</td>
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The History of the Dow Jones Industrial Average
How the Stock Market Works

- If a company wants to raise money, it has three sources:
  1. borrowing from a bank
  2. issuing bonds
  3. selling or issuing stock in the company (in other words, sell part of the company)
- When companies are just starting out, stocks are usually privately held by a few owners.
- As the company grows and needs more money, it may decide to sell its stock on the open market.
- An initial public offering (IPO) is a company’s first offering of stock to the public.
- Typically, an investment bank acts as an intermediary between the company that issues the stock and the public that wishes to buy the stock.
- People buy a particular stock if they think that the earnings of the company are likely to rise.
- Remember that a share of stock represents ownership in the company. The more profitable the company becomes, the greater the demand for the stock of that company.
Why Do People Buy Stock?

- Millions of people, in countries all over the world, buy stock every day.
  - Some people buy stocks for the **dividends**, which are payments made to stockholders based on a company’s profits.
  - Another reason to buy stocks is for the **expected gain in price**. (Buy low, sell high = profit)
- People also sell stock for many reasons, including paying for college expenses, helping finance a house, or because they expect the price of the stock to go down in the future.
How to Buy and Sell Stock

- Buying and selling stock is relatively easy.
- You can buy or sell stock through brokerage firms, or online.
- An account can usually be opened by depositing a certain amount of money, typically between $1,000 and $2,500.
- With a full-service broker, you may call your broker and ask for recommendations, and he or she will place an order to purchase the stocks you desire.
- If you do not require help to buy stocks you can go to either a discount broker or to an online broker.
Deciding Which Stocks to Buy

- One way to buy stocks is to purchase shares of companies that are familiar to you, such as Coca Cola, Disney, or Microsoft.

- **Mutual funds** are a commonly used method of investing in stocks.
  - A mutual fund is a collection of stocks managed by a fund manager. Several hundred people often own shares in each mutual fund. It is up to the fund manager to do what she or he thinks is best to maximize the overall returns from the fund.

- Another strategy for buying stocks is to buy the stocks that make up a **stock index**.
  - An **index** is a portfolio of stocks, which represents a particular market or a portion of it, used to measure changes in a market or an economy. The DJIA is a stock index.
How to Read the Stock Market Page

- The newspaper is a good source for stock prices. Most stock price listings contain the same components.

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<td>Div</td>
<td>Yield %</td>
<td>P/E</td>
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- “52W high” is the highest price of the stock during the past year, or the past 52 weeks.
- “52W low” is the lowest price of the stock during the past 52 weeks.
How to Read the Stock Market Page

- The “Stock” column provides an abbreviated name of the company.
- The “Ticker” column contains the stock or ticker symbol for the company.
- In the “Div” column you will find the amount of the last annual dividend.
- “Yield %” is the dividend divided by the closing price.
“P/E” is the price-earnings ratio, and is obtained by taking the latest closing price per share and dividing it by the latest available net earnings per share. **A high PE ratio usually indicates that people believe the stock will experience higher than average growth in earnings.**

“Vol 00s” is the volume, in this case represented in hundreds, of shares that were bought and sold on that particular day.

- If you see the “00s” in the title, you must add two zeroes to the number in the column to get the volume.
“High” is the high price the stock traded for on that day.

“Low” is the low price the stock traded for on that day.

“Close” is the share price of the stock when trading stopped that day.

“Net chg” is the difference between the current closing price and the previous day’s closing price.
# Stock Quotes

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Yield = \( \frac{\text{Dividend per share}}{\text{Closing price per share}} \)

**Example:** \( \frac{0.25}{12.22} = 2.0\% \)

\[ \frac{\text{Closing price per share}}{\text{Net earnings per share}} \]

**Example:** \( \frac{12.22}{1.35} = 9.1 \)
Stock Quotes - Online

Yahoo Finance

Alphabet Inc. (GOOG) - NasdaqGS

July 28, 10.78 (1.54%) 4:00 PM EDT

After Hours: 712.22 +0.56 (0.08%) 5:26 PM EDT

Prev Close: 702.00
Open: 701.55
Bid: 712.22 x 90
Ask: 716.22 x 100
52wk Range: 485.23 - 730.00
Volume: 2,558,010
Avg Vol (3m): 2,356,280
Market Cap: 490.17B
P/E (ttm): 30.08
EPS (ttm): 23.69
Div & Yield: N/A (N/A)

Alphabet Inc.

Oct 26, 4:00 pm EDT
None