Investments Unit 1

Introduction to the Stock Market

1. Is investing in the stock market gambling? The differences between gambling and investing is that investing:
   - Utilizes research to make informed decisions, gambling is random
   - Is a business pursuit while gambling is entertainment
   - Contributes to production (companies use the money they raise to expand their businesses) and gambling doesn't add value or produce anything
   - Over the long term, investors in the stock market are winners; with gambling there is always a loser
   - Investors are risk adverse, while gamblers are risk seeks

2. What skills do you need to be a good investor?
   a. Knowledgeable about the economy, current events
   b. Understanding how businesses operate
   c. Research skills-ability to search for relevant information and analyze it
   d. Savings that you can invest (do not use the mortgage money)
3. What factors affect the stock market in general?
   a. Economic news and conditions, unemployment, interest rates, budget deficit, tax policy, natural disasters, price of oil, consumer sentiment and spending
   b. Company specific news – new products, management changes, lawsuits, competition
4. Warren Buffet – The most famous "Value Investor". This philosophy of investment looks for bargains in the stock market (companies with low P/E's that have good prospects and are largely undiscovered. His company is Berkshire Hathaway.

5. Given a news event or situation, describe how it could affect a company's earning and the stock price in the short term and long term.

6. Forms of business ownership
   a. Company-a business or association formed to manufacture or supply products or services for a profit
   b. Entrepreneur – (Mark Zuckerberg, Steve Jobs, Jeff Bezos) person who takes on the risk of starting a business
   c. Sole proprietorship – a company owned and run by one individuals who receives all of the profits and bears the risk of all the losses. The owner is legally liable for all the debts and obligations of the business. This is easy to start up and requires no legal documents.
   d. Partnership – a company owned and run by 2 or more individuals who share in the profits based upon a contract call a Partnership Agreement. The owners are legally liable for all the debts and obligations of the business .
   e. Corporation – a company that is legally separate from its owners. More legal work is required and a document called the Articles of Incorporation must be

prepared by lawyers.

7. Public Corporation vs Private Corporation
    a. Public-shares of stock are sold to the public and traded on a stock exchange. The owners of the company are the shareholders. Shareholders can only lose the amount they invested and are not legally liable for the debts of the business
    b. Private Company – shares of stock are not sold to the general public. They are usually owned by the company founder, employees, or groups of investors called venture capitalists. You can't buy stock in a private company on the stock market (ex. Facebook).

8. Companies sell stock to raise money. They use the money to expand their business or pay off debts

9. IPO (Initial Public Offering) – when a private corporation decides to "go Public" and sell stock to the public. Dunkin Brand did this recently. Google went public in 2005.

10. The shareholders are the owners of the corporation

11. Review the stock listing on Yahoo finance. Make sure you know what each numbers 1-10 on the handout are (company, ticker, exchange, last trade, change. Previous close, Day's range, 52 week range, market capitalization, P/E ratio
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12. Review the company research you did in the library. Make sure you there is one company you can discuss in terms of its stock price in relation to the 52 week range, the business its in, and what factors you considered when making your decision to buy or not buy.

13. p/e ratio –.A measure of the relationship between the stock price and the company's earnings. It gives an indication of what the market is willing to pay for future earnings. A high p/e can mean that the stock is overpriced or that the market has high hopes for the stock future earnings growth. A low P/E can mean that the market doesn't think highly of the company's future prospects or that it is a "Value Stock" that the market has overlooked. Warren Buffet made his fortune spotting these.

14. Review the Stock Market Game "rules of the game" we discussed so far.

15. Be able to calculate gains or losses on stock transactions and calculate commissions.

16. Unrealized vs realized profits – unrealized means they are "not real" and still on paper. You still have a position in the stock. Realized is a "real" profit because you have received money for it. You liquidated your position and received real dollars.

17. Market vs limit orders – a market order means your transactions get the current market price (in the SMG you get the price at the market close). A limit order means you can specify the highest price you are willing to accept. This is protection from large moves in the price of the stock, mutual fund, etc.

Calculate the gain or loss on the following transactions. State whether it is realized or unrealized.

1. You bought 1000 shares of Nike at $70 per share and you sold it for $90 a share.

2. You bought 100 share of Jet Blue at $7 in January. The stock closed at $4 per share on September 23rd.

3. In the SMG, the commission rate is 2%. Calculate the total commissions you would have paid on number 1 above:

Market and Limit Orders

Apple was trading at $401per share last Friday morning. We entered at trade to buy Apple Stock with a limit of $410 per share. The price of Apple closed at $404.30 that day.

- Did we buy Apple? Was the trade executed?

- What if the price of Apple closed at $415 per share?

- What if the price of Apple closed at $410 per share?