

# UNDERSTANDING THE STOCK MARKET

Section I

## Investing In Common Stocks



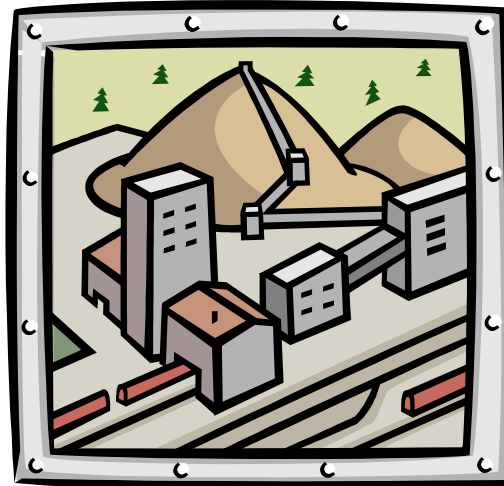
# CORPORATIONS

- A *corporation* is a company that is a separate legal entity owned by stockholders. In other words, the corporation functions like a single person separate from its owners (stockholders). Thus, the stockholders have *limited* liability, (the investment in the stock they own).



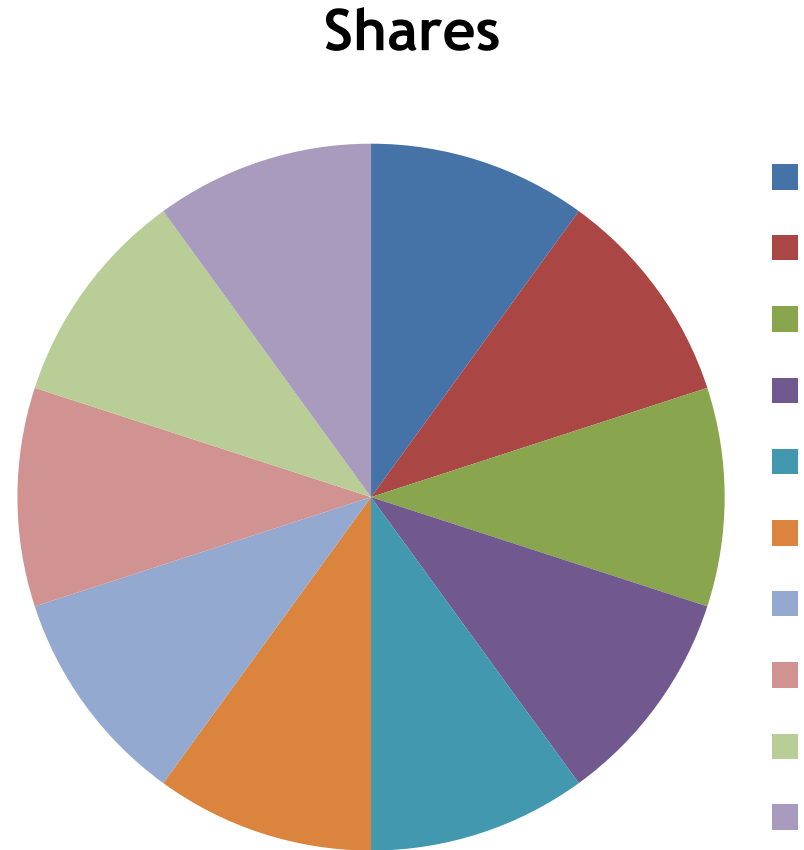
# COMMON STOCK

- Common stock represents ownership in a corporation. When you buy common stock, you are buying the corporation's factories, buildings, and products. Common stock is sold in shares. Each share of common stock represents the basic unit of ownership of the corporation.



# STOCK OWNERSHIP

- Stock is like a Pizza, each share of stock represents an equal piece of the pie (company).



# MAKING MONEY TWO WAYS

- ◎ **Price appreciation** occurs when you sell your stock for more than you paid for the stock.
- ◎ ***Dividends*** are the portion of a corporation's profit that is paid to shareholders.



# PRICE APPRECIATION

As the company grows, your piece of the pie grows as well. If the company is successful and grows by 25%, the value of your shares will grow as well.



# MORE ON DIVIDENDS

- ◉ **Dividends** are paid out of a corporation's profit after taxes have been paid. The corporation can, however, retain part of the profit and reinvest it in the corporation. This portion is known as *retained earnings* and it is frequently used for research and development or expansion. A corporation doesn't have to pay dividends.



# MORE ON DIVIDENDS CONTINUED

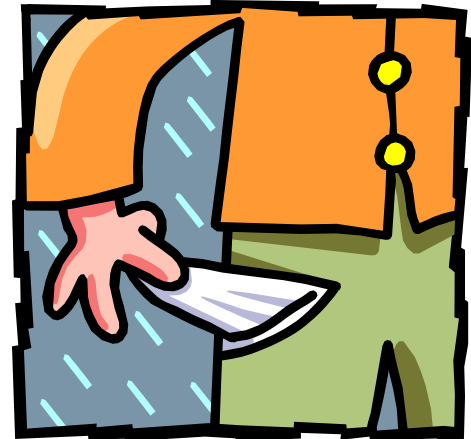
- **Dividends** do not even have to be paid with money. The board of directors can elect to issue *stock dividends*. When this is done, the current stockholders would receive more shares of the corporation's stock rather than cash.





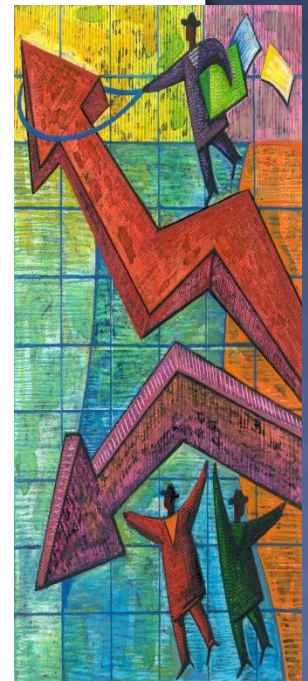
# CAPITAL GAINS AND LOSSES

- ◉ When investors sell stocks for more than they paid, the profit made from the sale is the investor's *capital gain*.
- ◉ When a stock sells for *less* than the investor paid for it, the investor suffers a *capital loss*.



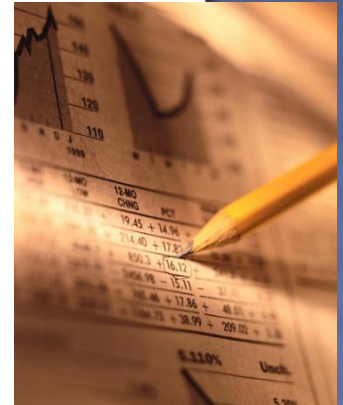
# EQUITY AND RISK CAPITAL

- ◉ The money an investor uses to buy stocks is called ***equity capital***. Because you can make *or lose* money through investments, you must determine the amount of money that you can afford to lose without harming your standard of living. The amount of money an investor can afford to lose is called ***risk capital***, and that is the amount that should be invested. Remember, invest *only* what you can afford to lose.



# TYPES OF CORPORATIONS

- ◉ Corporations may be classified in many ways. If stock is available for purchase by the public, it is an ***open corporation***. *The corporation is required by law to disclose its financial condition.* Most large corporations are open corporations.
- ◉ A ***closed corporation*** is one whose stock is not available to outsiders, it does not issue stock to the public and is not required to disclose publicly its financial condition.



# AUTHORIZED STOCK

- All corporations must issue stock. The state issuing the Articles of Incorporation authorizes the number of shares a corporation can issue. That number represents *all* the shares a corporation can issue without going back to the state and requesting that the state allow more shares to be issued.



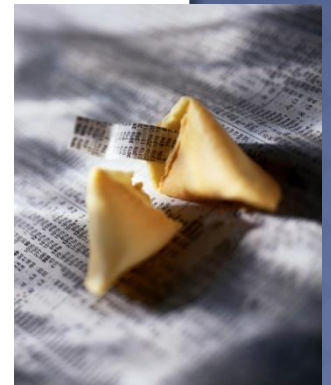
# ISSUED STOCK

- These are the shares of stock that the company has sold (issued). The issued shares represent ownership. Authorized but not issued are held for future sales to raise funds (capital) for future growth.



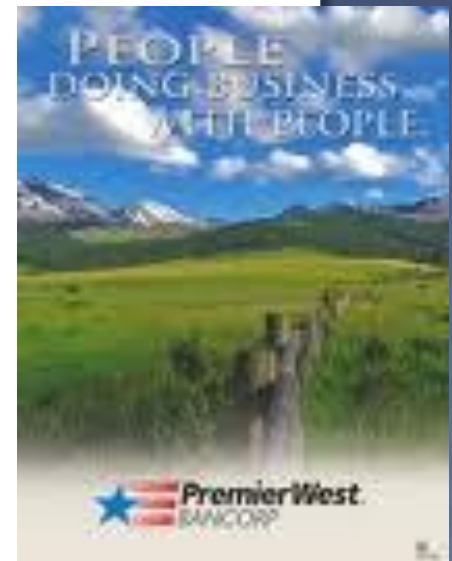
# SO YOU WANT TO GO PUBLIC

- ◉ When a company wants to go public, or to be traded on stock exchanges, it must meet some strict standards.
- ◉ The New York Stock Exchange (you don't start here)
  - A pre-tax income of \$2.5 million for the previous year or \$2.0 million a year for two previous years
  - Net tangible assets of \$18 million
  - Two thousand shareholders who each have 100 or more shares
  - At least 1.1 million publicly held shares
  - Outstanding shares with a value of \$18 million



# THE ANNUAL REPORT

- ⦿ An ***annual report*** is a financial report issued to stockholders at the end of each operating year. An annual report will present the financial condition of the corporation, the names of the board of directors, the location and date of the next stockholder's annual meeting, an auditor's report verifying the authenticity of the financial data, and the shareholder's letter.



# BALANCE SHEET AND INCOME STATEMENT

- ◉ The *balance sheet* lists the corporation's assets and liabilities. (What they own less what they owe)
- ◉ The *income statement* lists the revenue (income), expenses, and profit or loss for the year. (How much money did they make)
- ◉ A stockholder can get a good idea of the financial condition of a corporation from analyzing the balance sheet and the income statement. Some corporations will even include a five-year financial summary.



# Balance Sheet

For the Year End 2001 through 2005

(all numbers in 000s)

ASSETS	2001	2002	2003	2004	2005
<b>Current Assets</b>					
Cash and Equivalents	\$32,615	\$20,576	\$295,794	\$261,237	\$432,893
Net accounts receivable	563,995	361,644	376,110	391,154	469,385
Inventory	500,148	470,693	485,400	500,654	574,162
Other current assets	10,000	10,000	10,000	10,000	10,000
<b>Total Current Assets</b>	<b>\$1,106,758</b>	<b>\$862,913</b>	<b>\$1,167,304</b>	<b>\$1,163,046</b>	<b>\$1,486,440</b>
<b>Fixed Assets</b>					
Capital assets	\$100,000	\$600,000	\$600,000	\$1,100,000	\$1,600,000
Accumulated depreciation	84,000	172,200	264,810	362,051	464,153
<b>Total Net Fixed Assets</b>	<b>\$16,000</b>	<b>\$427,800</b>	<b>\$335,190</b>	<b>\$737,950</b>	<b>\$1,135,847</b>
<b>TOTAL ASSETS</b>	<b>\$1,122,758</b>	<b>\$1,290,713</b>	<b>\$1,502,494</b>	<b>\$1,900,995</b>	<b>\$2,622,287</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable	\$263,520	\$224,895	\$233,712	\$242,896	\$280,910
Short-term notes	70,000	0	0	0	0
Other short-term liabilities	0	0	0	0	0
<b>Total Current Liabilities</b>	<b>\$333,520</b>	<b>\$224,895</b>	<b>\$233,712</b>	<b>\$242,896</b>	<b>\$280,910</b>
Long-term liabilities	\$225,000	\$195,000	\$45,000	\$45,000	\$45,000
<b>Total Liabilities</b>	<b>\$558,520</b>	<b>\$419,895</b>	<b>\$278,712</b>	<b>\$287,896</b>	<b>\$325,910</b>
<b>Shareholders' Equity</b>					
Capital stock	\$110,000	\$110,000	\$110,000	\$110,000	\$110,000
Retained earnings	444,238	750,818	1,103,782	1,493,099	2,176,377
<b>Total Shareholders' Equity</b>	<b>\$554,238</b>	<b>\$860,818</b>	<b>\$1,213,782</b>	<b>\$1,603,099</b>	<b>\$2,286,377</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$1,112,758</b>	<b>\$1,280,713</b>	<b>\$1,492,494</b>	<b>\$1,890,995</b>	<b>\$2,612,287</b>

PERIOD ENDING	29-Sep-07	30-Sep-06	1-Oct-05
<b>Total Revenue</b>	<b>35,510,000</b>	<b>34,285,000</b>	<b>31,944,000</b>
Cost of Revenue	28,729,000	28,807,000	27,837,000
<b>Gross Profit</b>	<b>6,781,000</b>	<b>5,478,000</b>	<b>4,107,000</b>
<b>Operating Expenses</b>			
Research Development	-	-	-
Selling General and Administrative	-	-	-
Non Recurring	(1,052,000)	(18,000)	6,000
Others	-	-	-
Total Operating Expenses	-	-	-
<b>Operating Income or Loss</b>	<b>7,833,000</b>	<b>5,496,000</b>	<b>4,101,000</b>
<b>Income from Continuing Operations</b>			
Total Other Income/Expenses Net	153,000	114,000	491,000
Earnings Before Interest And Taxes	8,471,000	6,153,000	4,592,000
Interest Expense	746,000	706,000	605,000
Income Before Tax	7,725,000	5,447,000	3,987,000
Income Tax Expense	2,874,000	1,890,000	1,241,000
Minority Interest	(177,000)	(183,000)	(177,000)
Net Income From Continuing Ops	4,674,000	3,374,000	2,569,000
<b>Non-recurring Events</b>			
Discontinued Operations	13,000	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	(36,000)
Other Items	-	-	-
<b>Net Income</b>	<b>4,687,000</b>	<b>3,374,000</b>	<b>2,533,000</b>
Preferred Stock And Other Adjustments	-	-	-
<b>Net Income Applicable To Common Shares</b>	<b>\$4,687,000</b>	<b>\$3,374,000</b>	<b>\$2,533,000</b>

# STOCK MARKET TERMINOLOGY

## Section II

# SECURITIES AND EXCHANGE COMMISSION

- ◉ The Securities and Exchange Commission is a watchdog agency. It helps to protect the investor by enforcing federal laws pertaining to the stock market. The SEC monitors securities, stock exchanges, corporate reporting, investment firms, stockbrokers, and public utility holding companies.



# STAGES OF A STOCK'S LIFE

- ◉ Authorized shares are the shares a corporation is allowed to issue.
- ◉ Issued shares are the shares actually issued and sold to investors.
- ◉ Shares repurchased by a corporation are called treasury shares, or treasury stock.
- ◉ Shares purchased by stockholders are called outstanding shares, shares standing out in the hands of the public.



# MARKET VALUE VS. BOOK VALUE

- ◉ The **market value** of a stock is the price people are willing to pay for the stock at present. The market value is determined by the demand for the corporation's stock.
- ◉ The **book value** of a corporation is equal to its total assets minus its total liabilities.  
(Balance Sheet)



# PRIMARY VS. SECONDARY MARKETS

- When stock is issued to the public for the first time by a corporation, it is called a primary distribution. (IPO) The company is purchased by an investment bank and they sell shares to investors.
- After the primary distribution of stock, all subsequent sales of the stock take place in secondary markets (for example, the New York Stock Exchange or the Over-the-Counter Market).



# STOCKHOLDERS

- People who buy stocks are stockholders. When either preferred or common stocks are purchased, the stockholder receives a stock certificate.





# BUYING AND SELLING STOCKS

## Section III

# STOCK EXCHANGES

- A security exchange, commonly called a stock exchange, is a non-profit organization that provides facilities for its members to buy and sell securities.
- The members of a stock exchange are brokers who buy memberships (called seats) so that they may use the exchange. Only members can trade on the floor of the exchange.



# STOCK EXCHANGES CONTINUED

- The nation's largest stock exchange is the New York Stock Exchange (NYSE) located in New York City. The American Stock Exchange (AMEX), also located in New York City, is the nation's second largest exchange. There are also smaller regional exchanges, such as the Pacific, Midwest, Cincinnati, Philadelphia, and Boston exchanges.
- In addition to exchanges based in the United States, there are also various international exchanges, such as those located in Tokyo, London, Frankfurt, Zurich, Paris, Milan, Amsterdam, Stockholm, Brussels, Sydney, Hong Kong, Singapore, and Toronto.



# STOCK EXCHANGES

- A stock exchange is very similar to a large swap meet or flea market. According to legend, it originated in 1792 when businessmen met under a buttonwood tree on Wall Street and signed an agreement that they would trade stocks. A company's name was called out and bids on that company's stock were exchanged. Eventually the exchange moved indoors and became known as the New York Stock Exchange (also referred to as the Big Board).



# STOCKBROKERS

- ◉ An investor who wishes to buy stock will most likely place an order with a stockbroker. A stockbroker is an agent licensed by the SEC to buy and sell securities for clients.
- ◉ A stockbroker who works for a full-service brokerage firm provides research information, suggests investment strategies, and offers advice on market conditions.



# STOCKBROKERS CONTINUED

- A stockbroker who passes a very comprehensive securities test known as the "Series 7 Exam" is called a registered representative.
- A stockbroker receives a commission based on the total dollar volume of each order. The commission rate varies with each brokerage firm.



# DISCOUNT BROKERS

- ◉ Discount brokerage firms are an alternative to paying the full price commissions that full-service brokerage firms charge investors.
- ◉ Discount brokerage firms often offer no advice or consultation about investing; they simply execute a client's orders.



**Buy stocks**  
for **\$4**



- No Minimums
- No Inactivity Fees

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# STOCK ORDERS

Three of the common types of stock orders are market orders (spot orders), limit orders, and stop loss orders.





# MARKET ORDERS

- ⦿ A market order is an order to buy or sell a stock at the best price possible.
- ⦿ The broker will execute the investor's instructions at whatever price the trade demands on that day.
- ⦿ Most orders are market orders and are carried out the same day.



# LIMIT ORDER

- ⦿ A limit order is an order to a broker to buy or sell shares at a specific price no greater than a specific amount.
- ⦿ A limit order is not executed unless the stock market price reaches the limit the investor has set.



# STOP LOSS ORDER

- A stop loss order is an order to a broker to sell a stock if the price drops to a predetermined level. This limits the investor's losses or guarantees a certain profit.



# TIME IS EVERYTHING

- ◉ When an order is placed with a stockbroker, the investor also must tell the stockbroker how long that order should stand.
- ◉ A day order tells the stockbroker to fill the order that day. At the end of the day, the order is cancelled.
- ◉ A good 'til cancelled (GTC) order stands until it is filled or until the investor cancels it.



# ROUND LOTS & ODD LOTS

- Stock orders are generally placed in increments called round lots. A round lot is a multiple of 100 (100, 200, 300, 400, etc.) shares.
- An odd lot is a number of shares that is not a multiple of 100, such as 50 shares or 322 shares.



# INDICATORS FOR INVESTORS

## Section IV

# NYSE INDICATOR

- The Dow Jones Industrial Average (DJIA), often called the Dow, is an index of 30 major corporate stocks listed on the New York Stock Exchange.



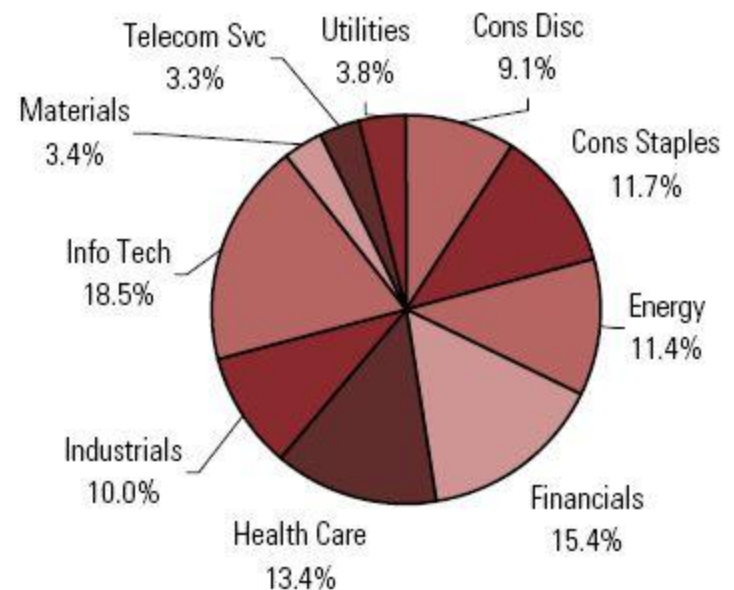
Symbol	Company Name	Close on 2/2	YTD % Chg	Dividend Yield	Yield at Year end
GE	General Electric Co	11.62	-28.3	10.22	7.84
BAC	Bank Of America Corp	6.00	-57.4	9.73	9.67
PFE	Pfizer Inc	14.89	-15.9	8.78	7.21
AA	ALCOA Inc	7.69	-31.7	8.73	6.36
DD	E I du Pont de Nemours and Co	22.65	-10.5	7.14	6.53
T	AT&T Inc	25.16	-11.7	6.66	5.81
VZ	Verizon Communications	30.59	-9.8	6.16	5.54
JPM	JPMorgan Chase and Co	25.20	-20.1	5.96	4.9
CAT	Caterpillar Inc	30.29	-32.2	5.45	3.85
MRK	Merck & Co Inc	28.43	-6.5	5.32	5.14
INTC	Intel Corp	13.63	-7.0	4.34	3.81
AXP	American Express Co	16.98	-8.5	4.3	4
HD	Home Depot Inc	21.57	-6.3	4.18	3.89
KFT	Kraft Foods Inc	28.24	5.2	4.14	4.36
BA	The Boeing Co	40.80	-4.4	3.97	4.07
MMM	3M Company	50.62	-12.0	3.72	3.5
CVX	Chevron Corp	70.29	-5.0	3.69	3.54
KO	The Coca Cola Co	42.24	-6.7	3.56	3.38
MCD	McDonald's Corporation	57.90	-6.9	3.45	3.24
UTX	United Technologies Corp	47.54	-11.3	3.21	2.9
JNJ	Johnson and Johnson	57.69	-3.6	3.19	3.11
MSFT	Microsoft Corp	17.83	-8.3	3.04	2.69
PG	Procter & Gamble Co	53.05	-14.2	2.94	2.62
IBM	International Business Machines	90.93	8.0	2.18	2.39
XOM	Exxon Mobil Corp	76.69	-3.9	2.09	2.04
WMT	Wal-Mart Stores Inc	46.57	-16.9	2.02	1.73
DIS	The Walt Disney Co	20.20	-11.0	1.69	1.56
C	Citigroup Inc	3.65	-45.6	1.13	0.6
HPQ	Hewlett-Packard Co	34.66	-4.5	0.92	0.88
GM	General Motors Corp	2.89	-9.7	0	0
			<b>Average</b>	<b>4.40</b>	<b>3.91</b>
			<b>Median</b>	<b>3.85</b>	<b>3.68</b>



# ANOTHER STOCK MARKET INDICATOR

- Another major index is the Standard and Poor's 500 Stock Index. This index of 500 key stocks also deals with corporations listed on other exchanges and is a much broader based index than the Dow Jones Industrial Average.

Sector Breakdown



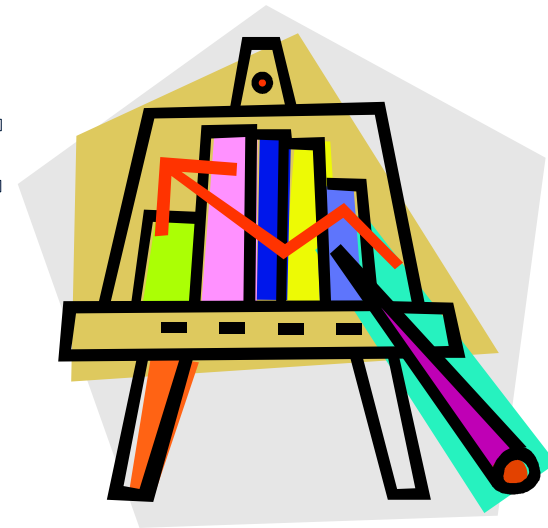
# COMPANY RISKS?

- ⦿ A company risk is a risk that affects the stock prices of one company or industry. Demand for a product is a company risk. If a company's product or service is in high demand, the price of its stocks will generally rise. If a company's product or service is not in demand, the price of its stocks will generally fall.



# SECTION IV

## LETS PLAY THE GAME



### ○ Rules

- \$50,000.00 to invest
- 5 Stock max in a portfolio
- 3 trades per week (5 first week to load)
- Stocks must sell for \$5.00 or more
- Stocks must be bought in 25 share increments
- \$10.00 brokerage fee per trade
- No mathematical mistakes ( if you exceed your \$50,000 limit, your purchase will be canceled and it will cost you \$100.00)

# WHY PLAY THE GAME?

- ◉ The group that accumulates the most profits will get a 10 point boost to the last nine week's grade.
- ◉ Second Place will get 5 points to the last nine weeks.
- ◉ Last place gets a deduction of 5 points  
**(just kidding)**



# WHERE DO WE START

- ⦿ First we go to YAHOO finance and type in a company name to get its trading symbol. Everything about the stock comes from this symbol.

<http://finance.yahoo.com/>

- ⦿ **Coca-Cola Company (The) Common**
- ⦿ (NYSE: KO)
  
- ⦿ The trading symbol for Coke is **“KO”**

# Common (NYSE: KO)

Last Trade: 51.78  
Trade Time: 12:08PM EDT  
Change: 0.22 (0.43%)  
Prev Close: 51.56  
Open: 51.56  
Bid: 51.77 x 700  
Ask: 51.78 x 400  
1y Target Est: 61.80

# Common (NYSE: KO)

Day's Range:	51.40 - 51.79
52wk Range:	47.18 - 59.45
Volume:	2,448,328
Avg Vol (3m):	11,522,600
Market Cap:	119.46B
P/E (ttm):	17.02
EPS (ttm):	3.04
Div & Yield:	1.76 (3.40%)

## Coca-Cola Company (The) Common



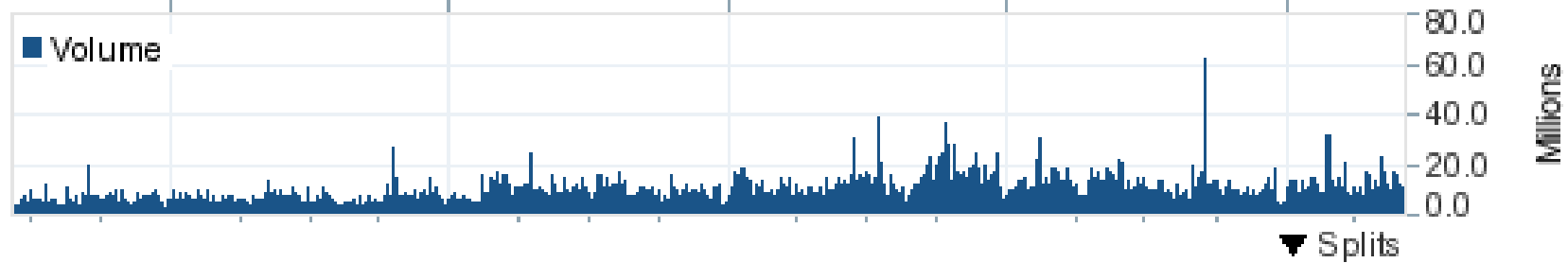
# 6 Month Chart



# Coca-Cola Company (The) Common

■ KO

Jun 08, 2010



## 5 Year Chart

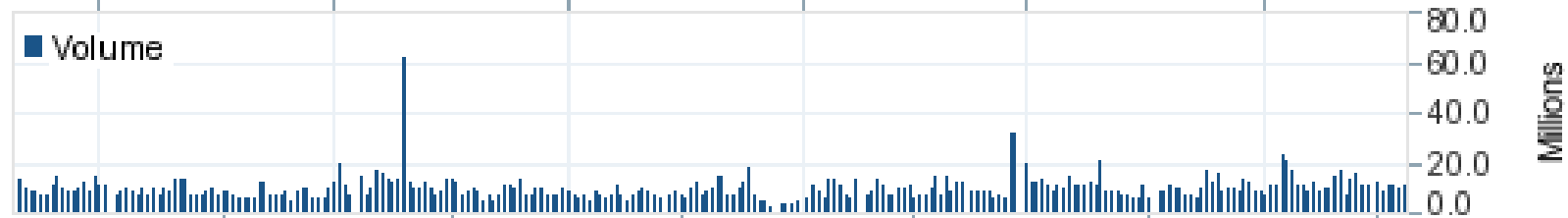
## Coca-Cola Company (The) Common

■ KO ■ MCD

Jun 08, 2010



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# 1 Year Chart Coke to McDonalds

# LETS REVIEW

- ◉ Where is KO's stock price in comparison to its 52 week high and low?

- ◉ Last Trade: **51.78**
- ◉ 52wk Range: 47.18 - 59.45

**A LITTLE BELOW HALF WAY**

- ◉ What is the P/E Ratio - this is the current price divided by its earnings. You should have a P/E Ratio under 20 if the n/a appears this stock lost money last quarter.

- ◉ EPS: 3.04
- ◉ P/E: 17.02

**THE P/E IS UNDER 20**

# WHAT'S NEXT?

- Lets look at the analysis' estimates of where it should be trading. 1y Target Est:61.80

**THE CURRENT STOCK PRICE IS BELOW THE ESTIMATE**

- What about the 6 month chart?



**THE TREND IS TOO CHOPPY TO ESTIMATE A BOUNCE**

# WOULD YOU BUY THIS STOCK?

- ◉ All things point to an increase in Coke Stock except the 6 month chart. All things considered this stock should be looked at.

