LANGUAGE OF THE STOCK MARKET
GRADE LEVEL 10-12

“TAKE CHARGE OF YOUR FINANCES”

Materials provided by: Kim Knoche, Family and Consumer Sciences Educator, Forsyth High School, Forsyth, Montana
Time to complete: 180 minutes

NATIONAL CONTENT STANDARDS
Family and Consumer Science Standards: 2.3.1, 2.4.3, 2.5.3, 2.6.1, 3.3.1, 3.3.2, 3.3.4, 3.3.5
National Council on Economic Education Teaching Standards: 1, 3, 5, 7, 8, 12
National Standards for Business Education
- Career Development:
- Economics: III.1, III.2, III.3-4, IV.2, IV.3
- Personal Finance: IV.2, IV.3, VIII.1

OBJECTIVES
Upon completion of this lesson, participants will be able to:
- Define basic stock market terminology.
- Apply proper calculations for dividends, book value, earnings per share, and price per earnings ratio.
- Identify the different types of stock classifications.
- Interpret stock listing information.
- Evaluate stock investment options.
- Describe how stocks are bought and sold through brokers.
- Understand how the laws of supply and demand guide the stock market.

INTRODUCTION
Why Learn About Investing in the Stock Market:
People hear about investing in the stock market on a daily basis. Not necessarily because they want to, but because it has become an integral part of American society. The market is the core of economic stability in the United States.

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. A stock is a share of ownership in the assets and earning of a company. It is represented by a piece of paper called a stock certificate. A bond is a type of debt that a company issues to investors for a specified amount of time, similar to a loan. The company pays annual interest until the maturity date is reached when the principal is repaid to the bondholder.

When a company would like to grow, there are several methods they can employ to raise the necessary funds and pay for ongoing business activities. One of the most preferred methods is to sell shares of ownership called stock to investors, another method is to issue bonds. Companies prefer to issue stock because stockholders provide capital to the company without the company’s promise to pay the capital back and the stockholder shares the risk of the company’s success without knowing if their stock will increase in value. Investors that are more concerned about risk will often choose to purchase bonds because they provide a promise to repay the debt reliable income.
Risk is the uncertainty about the outcome of an investment. For example, an individual who keeps all of his/her earnings in an ultraconservative savings and investment option, such as a Certificates of Deposit, will have low earnings, which will barely cover taxes and inflation. Portfolio diversification reduces risk by spreading investment money among several investment opportunities. The greater the risk a person is willing to make on an investment the greater the return they may potentially receive. Risk tolerance changes over a person’s lifetime.

Investing in stocks can increase an individual’s potential future earning power; however, along with the potential increase in earning power there is also an increased risk the individual will lose his/her money.

Determining which stock to purchase can be very difficult because there are more than 7,000 companies from which an investor can choose. One must be able to research and track stocks and bonds in order to decrease potential risks associated with investing in the stock market. There are two basic types of stock an investor may choose to put his/her money into: common and preferred.

Common Stock vs. Preferred Stock:
Common stock, the most typical type of stock, refers to shares or units of ownership in a public corporation. An individual who has invested in common stock has one vote per share owned to determine the company’s board of directors. There are four ways the value of a stock can change. First, the dollar value of a stock changes between the time the buyer purchases and sells the stock. Value can also change when a stock split occurs. For example, if there is a 2 for 1 split and an individual owns one share worth $100.00 after the split, the individual will own two shares worth $50.00 each. After a split, the value of a stock generally increases. A merger between two companies is a third way the value of a stock can change. Dividends are distributions of earnings a corporation pays to stockholders.

Preferred stock refers to shares of stock which pay fixed dividends and have precedence over common stock. As a result of this precedence, preferred stock has less risk than common stock. Individuals do not have a vote to determine the company’s board of directors. Dividends for each stock are stated as a percentage known as the par value. This value is a fixed percentage stated on the stock certificate. If a $100.00 stock has a par value of 6%, the dollar amount would be $6.00 per dividend period. The market price (amount a willing buyer would pay a willing seller for the stock) is based upon interest rates of the economy. Market price is the current price of a single share of stock. Typically a person can find this information in the business section of a newspaper or on the internet.

Types of Common Stock:

Stocks fall into different categories, based on an investor’s preferences and risk tolerance they may choose stocks accordingly. The seven basic classifications for common stock are:

1. **Growth stock** - a company who has a consistent record of relatively rapid growth and earnings in all economic conditions. Generally growth stocks are associated with new companies who pay no dividends to their investors.

2. **Income stock** – pays high dividends because the company chooses to retain only a small portion of its profits. These stocks are from companies who have a steady stream of income. Utility companies fit this profile.

3. **Value stock** – has a low market price considering their historical earning records and value of current assets. These stocks are an investment bargain some past examples are IBM and Time Warner.

4. **Cyclical stock** – these stocks are greatly influenced by changes in the economic business cycle. They are associated with companies who operate in major consumer dependent industries such as automobiles and airlines.

5. **Countercyclical stock** – stock associated with companies that have consistent returns even when the economy is suffering due to the fact that their products are in high demand. Grocery stores and utility companies are examples.
6. **Speculative stock** – these companies have a spotty earning pattern, but have potential for substantial earnings in the future. Pharmaceutical companies are represented by this type of stock. They are very high risk stocks.

7. **Blue chip stock** – nationally recognized companies which dominate their respective industry and often have revenue of 1 billion or more. They have consistent records of profits, dividend payments, and a good reputation for company management. A few examples of blue chip stock are Wal-Mart, Coca-Cola, and General Motors.

**Stocks may fall into more than one category at a time!**

**Researching a Company:**

Determining which stock best meets one’s needs can be a difficult process. To choose a stock, one must evaluate the history of the company to determine a stock’s classification (income, growth, cyclical, etc). An individual should also research the historical annual rate of return on an investment. Lastly, an individual should research the market price of the stock, and if the company has distributed dividends in the past. Often the consumer will hire an **investment broker** to assist with investment choices. A basic understanding of stock terminology is critical for anyone who invests privately or through their companies retirement plan (this includes almost everyone). There are four numerical measures which help an investor determine how well a company’s stock is doing.

1. **Book value** is the net worth of a company. It is determined by subtracting a company’s liabilities from its assets, both of which can be found in the company’s annual report. The answer to the equation indicates what would happen if a company’s assets were sold, debts paid off, and all proceeds were distributed to those who own shares of common stock.

2. **Earnings per share (EPS)** indicates how much income a company has available to pay in dividends and to reinvest as retained earnings on a per share basis. This indicator is highly regarded as an important statistic to consider when evaluating a stock. It is determined by dividing the corporation’s after tax annual earnings (before common stock is paid but after dividends are paid to preferred stockholders) by the total number of shares of common stock. These numbers can be found in the business section of most newspapers.

3. **Price/earnings ratio (P/E ratio)** is the relationship between the price of one share of stock and the annual earnings of the company. It is the most widely used and critical measure of a stock’s price. It represents how much investors are willing to pay for each dollar of a company’s earnings. Most companies’ P/E ratio is 5 to 25. Financially successful companies have a ratio of 7-10, rapidly growing companies are between 15-25, and speculative companies are 40-50. Stocks with lower P/E ratios pay higher dividends, have less risk, lower prices, and slow growth. High P/E ratios indicate investors believe a firm is expected to have significant future growth.

4. **Beta** measures stock volatility compared to changes in the overall stock market. If a stock has a beta of +1.5 and the market went up 10%, it is expected the value of the stock would rise 15%. Conversely, if the market dropped 10%, a +1.5 beta stock would drop 15%. Stocks have an average beta between +0.5 to +2.0. A **negative beta** is a countercyclical stock because the price changes are opposite the movements in the business cycle. Conservative investors want a stock with a beta of +1.0 or less meaning the stock is less sensitive to changes in the market. A beta of +1.1 to +2.0 indicates the stock is more sensitive to changes in the market because it moves at a greater percentage. A higher beta indicates a greater risk, but also the possibility of a greater reward.

**Reading a Stock Quote:**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>52-Week High Low</td>
<td>Stock Div YLD % P/E Vol 100s High Low Close Net Chg</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>4.15</td>
<td>AAR</td>
<td>.10</td>
<td>2.5</td>
<td>22</td>
<td>1479</td>
<td>4.51</td>
<td>4.4</td>
<td>4.45</td>
</tr>
</tbody>
</table>
1. **52-WEEK HIGH & LOW** - Shows the highest and lowest prices the stock was sold per share during the last 52 weeks.

2. **STOCK** - Each company's stock is provided with an abbreviated trading symbol name. If you do not know what a particular company's ticker symbol is you can search for it at: [http://finance.yahoo.com](http://finance.yahoo.com)

3. **DIV - Dividend per share** is the total cash paid to common stockholders per share. It is based upon annual payments. An "e" next to the number indicates dividends have been paid in the previous year, but not on a regular basis. A blank in this space indicates the company does not currently pay out dividends. If a company paid $10,000 in dividends for 30,000 shares, the dividends per share would be $0.33 (10,000/30,000).

4. **YLD% - 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% ($1.25/50.00).

5. **P/E - Price/earnings ratio** is the closing price of the share compared to the annual earnings per share. If a stock’s market price is $50.00 and the earnings per share is $2.25, the P/E ratio will be 22.2 (50.00/2.25) or 22 to 1. This means for every dollar the company earns, the stock’s market price is worth $22.00. This shows how the market values a stock because it describes how much investors are willing to pay for each dollar of earnings.

6. **VOL 100s** - This is the number of transactions to the share on the reported day, represented in hundreds (take the number and add two zeros).

7. **HIGH & LOW** - These entries represent the high and low selling prices of one share of stock for the previous day.

8. **CLOSE** - This is the price of the last share sold for the day.

9. **NET CHG** - *Net Change* is the difference between the closing price of the share from the prior day and the current day. A loss is indicated by a minus sign.

### How the Stock Market is Doing Overall:

There are three basic indexes which track stocks and give individuals a sense of the general health of the economy. These indexes vary daily because of the variety of stocks they measure.

1. **The Dow Jones Industrial Average** began in 1884 and is the oldest indicator of the ups and downs of the stock market. It was named after a cofounder, Charles H. Dow, and is nicknamed the Dow. It lists the 30 leading industrial blue chip stocks. [www.djindexes.com](http://www.djindexes.com)

2. **The Standard & Poor’s 500 Composite Index** covers market activity for 500 stocks. It is more accurate than the Dow because it evaluates a greater variety of stocks. [www.standardandpoors.com](http://www.standardandpoors.com)

3. **The NASDAQ (National Association of Securities Dealers Automated Quotations)** monitors fast moving technology and financial services stocks. It covers the market activity for all stocks traded on the NASDAQ. Because the NASDAQ monitors smaller companies with a more speculative stock, it generally has more dramatic ups and downs compared to the Dow. [www.nasdaq-amex.com](http://www.nasdaq-amex.com)

When referring to the general health of the economy, stock analysts often use the terms “bear market” and “bull market”. The term **bull market** describes a state of the economy when prices have risen 20% or more over time. The market’s upward trend is the result of investors who are optimistic about the economy and purchasing stocks. A **bear market** describes the state of the economy when the market is doing poorly and investors are not confident in the economy; therefore, they are not purchasing stocks or selling those already owned. A bear market is characterized by a 20% decline in prices over time. The above terms are also associated with a person’s outlook on the market. For example if a person is a pessimist, believing that stocks are going to drop, he/she is called a bear.

### Purchasing Stock:

When individuals think of a stock exchange, they imagine this scene of frantic activity, people yelling, making strange hand signals, and papers flying. However, the stock exchange actually has a very methodical and organized system. Buyers and sellers are meeting to compete for the best price for their customers. It is based upon the laws of supply and demand. A trade occurs when the best bid meets the lowest offer to sell. 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 between prices and the corresponding quantities of a good or service buyers are willing to purchase at any given point in time.

A **broker** is an employee of a brokerage firm who is licensed to buy and sell stocks, provide investment advice, and collect a commission on each purchase or sale. A broker buys and sells stocks on the stock market (organized exchange). Over three-fourths of all stocks are bought and sold on an organized exchange. Each exchange has minimum requirements for a stock to ensure only reputable companies are used. The minimum standards include an evaluation of annual earnings before taxes, net assets, market value, number of common shares offered to the public, and number of stockholders owning 100 or more shares. 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. A diagram explaining the process of how a stock is bought and sold can be found on the *Language of the Stock Market* information sheet 1.12.2.F1 and on the *How a Stock is Bought and Sold* poster 4.19.6. There are four basic types of exchanges.

1. **The New York Stock Exchange** (NYSE) began in 1792 and is the largest exchange with the strictest company standards. There are 1,366 broker seats available to trade shares for the 2,800 companies who offer stocks on the NYSE. The average stock price is $33.00.  
   [www.nyse.com](http://www.nyse.com)

2. **The American Stock Exchange** (AMEX) began in 1849 and is the second largest exchange. It differs from the NYSE because its requirements are not as strict allowing it to list younger, smaller companies. The average stock price is $24.00.  
   [www.amex.com](http://www.amex.com)

3. **Regional Stock Exchanges** trade stocks to investors living in a specific geographical area. Regional exchanges include Boston, Cincinnati, Intermountain, Midwest, Philadelphia, and Spokane.

4. **National Association of Securities Dealers Automated Quotations** (NASDAQ) is an over-the-counter electronic stock exchange. The NASDAQ has more than 4,000 small American and foreign companies listed. The company requirements are not strict. The NASDAQ works by having two brokers negotiate a stock’s purchase and selling price. The price at which a stock is sold is the lowest price any broker will accept at the time. The average stock price is $11.00.  
   [www.nasdaq.com](http://www.nasdaq.com)

In this lesson, participants develop an understanding about stock market fundamentals. Participants learn what stocks are, risks associated with investing in the stock market, the various types of stock, and how stocks are classified. Participants learn how to use the fundamental measures to research a stock, how to read a stock quote, know what the stock market indicators are, and understand the process brokers use to buy and sell stocks on the organized exchange. The lesson can be completed with a terminology activity 1.12.2.H2, assessment worksheet 1.12.2.B1, or by playing *The Language of the Stock Market* trivia activity 1.12.2.G2.

BODY

1. Have participants read the *Language of the Stock Market* information sheet 1.12.2.F1 as homework the night before.

2. Have participants view the *Risk vs. Return Mobile* 4.19.7 or the *Investment Risk Pyramid* overhead 1.12.2.D1.
   a. Review the types of investments in each level of investing
      i. Level 1 – Financial Security (cash, CD's, savings accounts)
      ii. Level 2 – Safety and Income (bonds, treasury securities)
      iii. Level 3 – Growth (blue chip growth stocks, mutual funds)
      iv. Level 4 – Speculation (options, commodities, junk bonds)
   b. Describe level 1
      i. Low risk = low return, but the investor generally does not risk losing the initial investment money.
c. Describe level 4
   i. High risk = high return, the money earned could be substantial, but the risk of losing everything is high.

3. Give each participant $500.00. Ask the participants what level they could invest the $500.00 into for something which will provide higher returns with moderate risk.
   a. Participants should invest in level 3.
   b. Tell the participants they will be learning more about the stock market and how to research companies to invest their $500.00 during this lesson.

   a. Hand out the Language of the Stock Market worksheet 1.12.2.A1 for participants to complete during the presentation.

5. Slides 1-2
   a. The stock market is the core of the American economic system.
      i. Stocks are shares of ownership in the assets and earnings of a company.
      ii. If companies are doing poorly, their stocks are doing poorly. Therefore, poor stock performance serves as an indicator that the economy is not performing well (and vice versa).
   b. Stocks represent companies which touch every aspect of a person’s life.
      i. Every day a person uses hundreds of products from companies listed on the stock market.
      ii. Have each participant identify one product they used that day.
         1. Have them determine what company made the product
         2. Find the stock symbol and today’s price of the stock.
            a. Stock symbols and prices can be found on Yahoo Finance http://finance.yahoo.com
            3. This activity may be done as a class if a computer is available or can be done for a small 5 point homework assignment.

6. Slides 3-4
   a. Stress investing in the stock market is essential to portfolio diversification.
      i. Individuals should have money invested into the first two lower risk levels before beginning to invest in the stock market.

7. Slides 5-7
   a. Common stock is the most basic form of ownership of a corporation and it is what will be referred to throughout the remainder of the lesson.

8. Slides 8-16
   a. Understanding what classification a stock has is important to understanding the risk associated with the stock and matching the stock to an individual investor’s needs.
      i. A risk taker investor would want a speculative stock. A conservative investor would want a blue chip stock which has a record of consistency.
      ii. Someone who is about to retire or needs the investment to continually be paying them dividends would want to chose an income, countercyclical, or blue chip stock.
   b. Individuals need to have a diversified stock portfolio by investing in a variety of stocks from each category to meet an individual’s investment needs.
      i. This is essential in case the economy changes or a specific stock does poorly so a person does not lose everything.
   c. Stocks can move between categories as a company changes.
      i. Microsoft is a technology company which began as a speculative stock and has now matured into a growth stock.
   d. Stocks may also have characteristics of more than one classification.
      i. An income stock may also be a countercyclical stock.

9. Slides 17-22
a. To understand the risks associated with a stock and to find a stock which matches the individual investor’s needs, he/she must know how to research stocks.

b. There are more than 7,000 stocks available making careful research very important.

10. Slides 23-33
   a. This could be supplemented by pointing to the *How to Read Stock Tables* bulletin board 4.19.5 for each item.
   b. Each day newspapers and Web sites report how each stock performed.
   c. The Wall Street Journal is the most widely read newspaper for reporting transactions.
   d. Being able to read a stock quote is essential to tracking a stocks performance and understanding traits in the stocks performance.

11. Slides 34-36
   a. There are several indicators which indicate how well the stock market and the economy are doing.
   b. Watching the trends is helpful to understanding how the market is doing overall and what to expect from a stock’s performance.

12. Slides 37-43
   a. After a person has determined what stock and how much they would like, they must call a broker.
      i. A broker is essential because the stock market is regulated so only individuals with licenses may buy and sell stocks on the organized exchange.
      ii. Most brokers work for large investment firms.

13. Ask participants to describe what they think the New York Stock Exchange is like.
    a. Most will say it is a scene of frantic activity with people yelling, wearing funny colors, and making hand gestures.
    b. The market floor is actually a very organized system based upon the laws of supply and demand.
    c. Show the *How a Stock is Bought and Sold* poster 4.19.6.
    d. Explain the process which occurs between the order being placed with a broker and the order being confirmed.
       i. Educators choose to have the participants perform the skit which describes this process and correlates with the poster.
          1. Skit is in the *New York Stock Exchange Lesson Plan* 1.12.4.

14. Discuss how the buying and selling of stocks is based upon the economic principals of supply and demand.
    a. **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.
    b. **Demand** is the relationship between prices and the corresponding quantities of a good or service buyers are willing to purchase at any given point in time.
    c. If there are many shares and few buyers, the stock price is low. If there are a few shares and many buyers, the stock price is high.

15. To demonstrate supply and demand, bring 3 similar objects to class (3 different candy bars, CD’s, etc.). Try to have 1 object many participants would want and another object most would not like. Tell the participants each object represents a different stock.
    a. Give each participant a handful of money. (Amount each participant receives can vary).
    b. Ask the participants who wants each object.
       i. Write the object name on the board and how many participants wanted it.
    c. More than one participant will probably want each object.
    d. State “X” number of participants wanted each object (the demand) but there is only one available (the supply).
    e. Ask them how to solve the dilemma of how to fairly determine who should get each object.
       i. First come first serve, lottery, money, need, auction, sharing, etc.
    f. Tell the participants that they are the buyers and the educator is the seller of the object.
g. The seller would like to receive as much money as possible for the object and therefore is going to auction it off to the highest paying buyer.

h. Auction each object off and record the selling price on the board.
   i. Participants may try to get into teams to pool their money.
   j. The objects with the most demand should go for the highest selling price.

CONCLUSION

1. Because of the large amount of terminology, have participants play the Terminology Challenge 1.12.2.H2 to review.
   a. (Before class) Cut apart one Stock Market Terminology worksheet 1.12.2.H2 along table lines. Be sure to separate terms from their definition. Roll each piece up and place inside a balloon.
   b. (During class) Pass balloons to participants until none are remaining. Have participants blow up and tie balloons. Each participant needs one balloon. All remaining balloons are placed in one area of the classroom. On GO, participants pop their balloons and search for the individual with the matching information. Once they find the person with the matching information they both go to the educator or chosen individual to check their match. If correct, both participants receive one point and they must get another balloon and try to find the match again. If incorrect, participants return to hunting for their information. When all balloons are gone and every term is defined, points are calculated.

2. Review key concepts discussed during the lesson.
   a. Stock
   b. The relationship between risk and return.
   c. The two types of stock.
   d. The different stock classifications.
   e. What things to look for when researching a stock.
   f. What each element of a stock quote represents.
   g. The three indicators which represent how the stock market is doing overall.
   h. How stocks are bought and sold.

ASSESSMENT

Language of the Stock Market worksheet 1.12.2.A1
   - This worksheet is designed to accompany the PowerPoint presentation 1.12.2.G1 and information sheet 1.12.2.F1.

Language of the Stock Market Assessment 1.12.2.B1
   - This assessment is designed as a final exam to the stock market lesson. It has been written for a higher level of thinking. To do well, participants must be present at the lecture and the educator must have reviewed the little points in the lesson for each slide of the PowerPoint presentation.

*Note to educator: A good follow-up assessment to this lesson is to do the Tracking a Stock lesson plan 1.12.5 where participants research a stock, track it for six weeks, and do a presentation about their company and the success of the stock.

MATERIALS

Language of the Stock Market worksheet – 1.12.2.A1
Language of the Stock Market Assessment – 1.12.2.B1
Stock Market Terminology – 1.12.2.H2
Investment Risk Pyramid – 1.12.2.D1 or Investment Risk Mobile – 4.19.7
Language of the Stock Market information sheet – 1.12.2.F1
Language of the Stock Market PowerPoint presentation – 1.12.2.G1
How to Read Stock Tables bulletin board – 4.19.5
How a Stock is Bought and Sold Poster – 4.19.6
Three objects for the supply and demand demonstration
$500.00 bills
Balloons
Optional: Language of the Stock Market Trivia PowerPoint 1.12.2.G2

RESOURCES

Web sites to look up stock symbols and quotes
- Yahoo finance http://finance.yahoo.com
- MSN www.moneycentral.msn.com
- Wall Street Journal www.wsj.com
- Motley Fool www.fool.com

Stock Exchanges
- New York Stock Exchange www.nyse.com
- American Stock Exchange www.amex.com
- National Association of Securities Dealers Automated Quotations (NASDAQ) www.nasdaq.com

Stock Market Indicators
- Dow Jones Industrial www.djindexes.com
- Standard & Poor 500 Composite Index www.standardandpoors.com
- NASDAQ www.nasdaq.com
Directions: Complete the following worksheet in conjunction with the *Language of the Stock Market* information sheet 1.12.2.F1 or PowerPoint presentation.

1. What is the definition of a stock? (1 point)

2. What are two reasons companies like to issue stock? (2 points)

3. What is the definition of a dividend? (1 point)

4. What is the relationship between risk and return? (1 point)

5. The two basic types of stock are _____________ and _____________. (2 points)

6. What are three ways the value of a common stock can change? (3 points)

7. How are dividends for preferred stocks paid? (1 point)

8. What is the difference between common and preferred stock? (1 point)

9. What types of companies are classified as a growth stock? (1 point)
10. What unique characteristic do income stocks have? (1 point)

11. Why is a value stock viewed as an investment bargain? (1 point)

12. If the economic business cycle is up, what is probably happening to cyclical stock prices? (1 point)

13. Why are utility and grocery companies generally classified as countercyclical stocks? (1 point)

14. Speculative stocks have potential for very substantial earnings and therefore are very ________ risk. (1 point)

15. What type of company is classified as being a blue chip stock? (1 point)

16. Why is understanding the book value of a company important to researching a stock? (1 point)

17. What is the definition of earnings per share? (1 point)

18. What does the price/earnings ratio represent? (1 point)

19. What is the difference between a high and low P/E ratio? (2 points)

20. What does beta measure? (1 point)

21. The year to date percent change is measured from what date? (1 point)

22. What is the definition of dividends per share? (1 point)
23. What is the equation for dividend yield percentage? (1 point)

24. If the price/earnings ratio of a company is 43 to 1, what does this mean? (1 point)

25. What does close represent on a stock quote? (1 point)

26. What are the three indicators of the stock market? (3 points)

27. What is the difference between bull and bear markets? (2 point)

28. What is the job of a broker? (1 point)

29. Why do organized exchanges have minimum requirements? (1 point)

30. What are two characteristics of the NYSE? (2 points)

31. How is the American Stock Exchange different than the NYSE? (1 point)

32. What does NASDAQ stand for? (1 point)
LANGUAGE OF THE STOCK MARKET ASSESSMENT

Name___________________

Date___________________

Class___________________

Directions: Complete the worksheet by following the directions in each section after completing the Language of the Stock Market lesson.

Answer questions 1-7 about stocks
1. Joe is 20 years old, a risk taker, and has $500.00 to invest. He wants to invest his money into a technology stock which has potential for high returns but also is high risk. What level of investing is this on the investment risk pyramid? (1 point)

2. What is one reason why the stock market is the core of the American economic system? (1 point)

3. The owners of Giggles Toy Company have determined they would like to expand their product line but need to have money to grow. What is one option they have to raise the funds and why would it be a popular option? (2 points)

4. Before investing in the stock market, an individual’s portfolio must include what two types of investments? (2 points)

5. Sandy has chosen to invest in Bright Idea Energies, a utility stock with very low risk. What is she giving up by having a low risk investment? (1 point)

6. Joey is retired and needs dividends to be paid on his stock investment. Therefore, he chose to invest in Strand Union stock. The fixed value dividend of $50.00 per quarter is stated on his stock certificate. Is Strand Union stock a common or preferred stock? (1 point)

7. Samantha owns Riverside Technologies common stock. As a new company, it chooses to reinvest dividends instead of paying the shareholders. What are three ways the value of Samantha’s stock could change? (2 points)
Match the following stock characteristics of companies to the classification they would have. (7 points)

<p>| | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
</table>

A Bridger Creek Golf began in 1903. It is a nationally recognized company who, for the past 80 years, has had a consistent record of quality golf clubs, good management, paying dividends, and continues to be profitable.

B In the past 2 years, the economy has been doing poorly. Therefore, people are traveling less and a Flying High airline has seen a dramatic decrease in income.

C Sprucin’ It Up clothing line began in 1946. It has a history of consistent, strong earnings and many assets with stores in every state. However, the stock price remains very low.

D Quench the Thirst soft drink company began in 1970. Since it began, it has rapidly grown into one of the top soft drink companies in the industry introducing a new product every other year. Dividends are usually reinvested to continue expansion.

E The Nation’s Cure research company began fifteen years ago. It continually does cutting edge research and is on the way to finding the cure for cancer.

F Keep Out the Cold utilities company is one of the leading energy companies in the nation. It began in 1942 and is well established. The company consistently pays high dividends to its shareholders each quarter.

G In the past three years, the economy has done very poorly. However, Everyone Has to Eat grocery stores have continued to do well.

Answer both parts of questions 15-18 about researching a stock.

15. Candice has decided she would like to invest in the stock market and is researching Perspectives Gadget Company. When looking at the company’s annual report she learned Perspectives has $3,827,198 in assets and $629,387 in liabilities. What can these two numbers tell an individual about a company? What is the mathematical answer? (2 points)

16. When looking in the newspaper, Candice discovered Perspectives earned $384,281 after taxes last year and has 75,000 shares of common stock. What are Perspectives’ earnings per share and why is this information important to know? (2 points)

17. If Candice knows the P/E ratio for Perspectives is 23 to 1, what does this tell her about earnings and what company classification would Perspectives have? (2 points)
18. The beta for Perspectives is +1.3. If the market was up 10%, what should Candice expect to happen to the value of the stock? (1 point)

Examine the stock listing below and answer questions 19-23

<table>
<thead>
<tr>
<th>YD %</th>
<th>52-Week High</th>
<th>Stock</th>
<th>Div</th>
<th>YLD %</th>
<th>P/E</th>
<th>Vol 100s</th>
<th>High</th>
<th>Low</th>
<th>Close</th>
<th>Net Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>-50.6</td>
<td>14</td>
<td>AAR</td>
<td>.10</td>
<td>2.2</td>
<td>15</td>
<td>1479</td>
<td>4.51</td>
<td>4.4</td>
<td>4.45</td>
<td>-.027</td>
</tr>
<tr>
<td>+23.6</td>
<td>23</td>
<td>PER</td>
<td>.02</td>
<td>.8</td>
<td>6</td>
<td>355</td>
<td>6.2</td>
<td>5.92</td>
<td>6.00</td>
<td>+.25</td>
</tr>
<tr>
<td>+42.5</td>
<td>28</td>
<td>GDI</td>
<td>.32</td>
<td>1.3</td>
<td>22</td>
<td>5445</td>
<td>7.23</td>
<td>7.0</td>
<td>7.15</td>
<td>+.42</td>
</tr>
</tbody>
</table>

19. What was the cost of PER stock at closing? (1 point)

20. According to the price/earning ratio, which stock is averaging the most earned money? (1 point)

21. What is the volume of AAR stock? (1 point)

22. If an individual wants to purchase a growth stock that is paying low dividends or none at all for the potential of large future earnings, which stock would they choose? (1 point)

23. Which stock lost value from the previous day? (1 point)

The table below shows Jacob’s stock portfolio.
Complete the math to determine how much Jacob invested into each stock (3 points)

<table>
<thead>
<tr>
<th>Stock</th>
<th>Number of Shares</th>
<th>Purchase Price</th>
<th>Dividends</th>
<th>Amount Invested (# of shares x purchase price)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamilton Industries</td>
<td>100</td>
<td>$23.40</td>
<td>$0.35 quarterly</td>
<td></td>
</tr>
<tr>
<td>Johnson Parks</td>
<td>136</td>
<td>$36.54</td>
<td>$0.56 quarterly</td>
<td></td>
</tr>
<tr>
<td>Over the Moon Homes</td>
<td>200</td>
<td>$7.05</td>
<td>$0.00 quarterly</td>
<td></td>
</tr>
</tbody>
</table>

Use the table about Jacob to answer questions 27-30

27. What is the total amount invested by Jacob? (1 point)
28. If Jacob decided to sell Over the Moon Homes for $12.06 per share would Jacob make a profit or a loss? How much? (2 points)

29. How much does Jacob receive per year in dividends from Hamilton Industries? (1 point)

30. If Jacob owned Johnson Parks for five years and received dividends each quarter how much money would Jacob have earned in dividends? (1 point)

Answer questions 31-35 about the stock market

31. The Dow has indicated the stock market has been down for the past 20 months. What kind of economy is the market in, bear or bull? (1 point)

32. Janice is researching how well the stock market is doing overall. What is the most accurate indicator she should look at? (1 point)

33. Eddie decided he would like to purchase 125 shares of Running Wild stock. Who has the ability to enable Eddie to purchase the stock? (1 point)

34. Identify the four stock exchanges. (4 points)

35. The stock exchange is based upon the economic laws of what two things? (2 points)
Investment Risk Pyramid

1. Financial Security
   - Savings Bonds, Certificates of Deposit, Cash Value Life Insurance, Annuities, Pension Funds, Money Market Accounts, Bank Accounts

2. Safety and Income
   - Corporate Bonds, Preferred Stock, Treasury Securities, Government Bonds

3. Growth
   - Blue Chip Stocks, Growth Stocks, Real Estate, Mutual Funds

4. Speculation
   - Speculative Stocks, Junk Bonds, Collectibles, Options, Futures Contracts

Increasing potential for high returns
Increasing risk
## Stock Market Terminology

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stock Market</strong></td>
<td>A general term used to describe all transactions involving the buying and selling of stock shares issued by a company.</td>
</tr>
<tr>
<td><strong>Stock</strong></td>
<td>A share of ownership in the assets and earnings of a business.</td>
</tr>
<tr>
<td><strong>Stock Certificate</strong></td>
<td>The piece of paper a shareholder receives representing their ownership of a stock.</td>
</tr>
<tr>
<td><strong>Portfolio Diversification</strong></td>
<td>An individual who has a variety of investments tools to decrease risk.</td>
</tr>
<tr>
<td><strong>Investment Risk</strong></td>
<td>The uncertainty about the outcome of an investment.</td>
</tr>
<tr>
<td><strong>Rate of Return</strong></td>
<td>The increase or decrease in the original purchase price of an investment.</td>
</tr>
<tr>
<td><strong>Common Stock</strong></td>
<td>Shares or units of ownership in a public corporation. The shareholder has voting rights in the corporation.</td>
</tr>
<tr>
<td><strong>Stock Split</strong></td>
<td>Shares owned by existing stockholders are divided into a larger number of shares.</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>Distributions of earnings paid to stockholders.</td>
</tr>
<tr>
<td><strong>Preferred Stock</strong></td>
<td>Shares which pay fixed dividends and have precedence over common stock.</td>
</tr>
<tr>
<td><strong>Par Value</strong></td>
<td>The fixed value stated on a preferred stock certificate which indicates the dividends which will be paid to the shareholder.</td>
</tr>
<tr>
<td><strong>Market Price</strong></td>
<td>The amount a willing buyer will pay a willing seller for a stock.</td>
</tr>
<tr>
<td><strong>Growth Stock</strong></td>
<td>A stock from a company which has a consistent record of relatively rapid growth and earnings in all economic conditions.</td>
</tr>
<tr>
<td><strong>Income Stock</strong></td>
<td>A stock which pays higher than average dividends because the company chooses to retain only a small portion of the profits.</td>
</tr>
<tr>
<td><strong>Value Stock</strong></td>
<td>Stock from a company which has a low market price considering historical earning records and value of current assets.</td>
</tr>
<tr>
<td><strong>Countercyclical Stock</strong></td>
<td>Stock from a company which gives consistent records of returns even when the economy is suffering because their product is always in demand.</td>
</tr>
<tr>
<td><strong>Cyclical Stock</strong></td>
<td>A stock which is greatly influenced by changes in the economic business cycle.</td>
</tr>
<tr>
<td><strong>Speculative Stock</strong></td>
<td>A very high risk stock from a company with potential for substantial earnings in the future.</td>
</tr>
<tr>
<td><strong>Blue Chip Stock</strong></td>
<td>Stock from nationally recognized companies which dominate the industry often having annual revenue of $1 billion or more.</td>
</tr>
<tr>
<td><strong>Book Value</strong></td>
<td>Net worth of a company.</td>
</tr>
<tr>
<td><strong>Earnings Per Share</strong></td>
<td>How much income a company has available to pay in dividends and reinvest as retained earnings on a per share basis.</td>
</tr>
<tr>
<td><strong>Price/Earning Ratio</strong></td>
<td>Relationship between the price of one share of stock and the annual earnings of the company.</td>
</tr>
<tr>
<td><strong>Beta</strong></td>
<td>A measure of a stock’s volatility compared to changes in the overall stock market.</td>
</tr>
<tr>
<td><strong>Year to Date</strong></td>
<td>Stock price percent change from January 1st.</td>
</tr>
<tr>
<td><strong>52 Week High</strong></td>
<td>The highest price a stock was sold for in the past 52 weeks.</td>
</tr>
<tr>
<td><strong>52 Week Low</strong></td>
<td>The lowest price a stock was sold for in the past 52 weeks.</td>
</tr>
<tr>
<td><strong>Stock Ticker Symbol</strong></td>
<td>A stock’s abbreviated trading symbol name.</td>
</tr>
<tr>
<td><strong>Dividends per Share</strong></td>
<td>Total cash paid to common stockholders per share.</td>
</tr>
<tr>
<td><strong>Dividend Yield Percentage</strong></td>
<td>The dividend expressed as a percentage of the price of the share.</td>
</tr>
<tr>
<td><strong>Volume 100’s</strong></td>
<td>Number of transactions to the share on the reported day, represented in hundreds.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>High Selling Price</td>
<td>Highest selling price of one share of stock from the previous day.</td>
</tr>
<tr>
<td>Low Selling Price</td>
<td>Lowest selling price of one share of stock from the previous day.</td>
</tr>
<tr>
<td>Close</td>
<td>The price of the last share sold for the day.</td>
</tr>
<tr>
<td>Net Change</td>
<td>Difference between the closing price of the share from the prior day and the current day.</td>
</tr>
<tr>
<td>Dow Jones Industrial</td>
<td>Oldest indicator of the ups and downs of the stock market. Lists the 30 leading industrial blue chip stocks.</td>
</tr>
<tr>
<td>Standard and Poor’s 500 Index</td>
<td>Tracks the stock market activity for 500 stocks.</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>Monitors fast moving technology and financial services stocks. Usually the companies are smaller and transactions occur over an electronic market.</td>
</tr>
<tr>
<td>Bear Market</td>
<td>The market is doing poorly and investors are not confident in the economy. Investors are not purchasing stocks and are selling what is already owned.</td>
</tr>
<tr>
<td>Bull Market</td>
<td>The market is doing well and investors are optimistic about the economy and purchasing stocks.</td>
</tr>
<tr>
<td>Broker</td>
<td>A person who is licensed to buy and sell stocks, provides investment advice, and collects a commission on each purchase or sale.</td>
</tr>
<tr>
<td>New York Stock Exchange</td>
<td>The oldest and largest exchange with the strictest company standards.</td>
</tr>
<tr>
<td>American Stock Exchange</td>
<td>The second largest exchange with less stringent requirements allowing for younger, smaller companies to be listed.</td>
</tr>
<tr>
<td>Regional Stock Exchange</td>
<td>Stocks traded to investors who are living in a specific geographical area.</td>
</tr>
</tbody>
</table>