

Financial Foundations



Stock Market Contest

Financial Foundations

Stock Market



The Basics (1 of 2)

Why Invest in Stocks?

People invest in the stock market in order to get a return on their money. By investing in a company with excellent future growth prospects, individuals hope to increase the size of their assets in order to fund their retirement or other expenses. Stocks have traditionally provided a better return than parking your money in a savings account.

When you own stock in a company, you are actually a part-owner of that company. You may become an owner of McDonalds, Starbucks, eBay, Amazon.com, or any other publicly traded company. When you own the stock of a company you have the right to vote on certain company issues and you may also share in the profits of your company if they pay a dividend. A dividend is a portion of the profits of a company that are distributed to the shareholder for each share owned. Most stocks are traded on either the New York Stock Exchange (NYSE) or the NASDAQ market.

Supply and Demand in the Stock Market

The price of a stock is determined by supply and demand. When a company is doing well and its future outlook is bright, many investors may want to buy the stock and demand for the stock will increase. Since there are a limited number of shares available, the price will rise. Often times those who follow the company will see the price rising and will want to purchase the stock to get in on the action. This pushes the price even higher.

If the company reports problems or company earnings decline, investors often sell their stock and take their money elsewhere. In such cases, demand decreases while the supply of available shares will increase. The price naturally will fall. This often leads to further selling as other investors watch the price fall and decide to get out. The price falls even further.

Risk and Reward in the Stock Market

You could have bought eBay stock in 2001 at a split-adjusted price of under \$20.00 per share. At the time of this writing eBay was trading at about \$80.00 per share. Therefore, an investment of \$2,000.00 (100 shares) in 2001 would have been worth about \$8,000 in July of 2004. A return of \$6,000, or 300%, in 3 years is terrific! However, many people who had heard of eBay chose not to buy the stock in 2001. Investing would be simple if we could see the future.

The truth is that investing in the stock market is risky business. Sure, companies like eBay show us the profit that can be made when we choose to invest in a company that skyrockets in price. The other side of the coin is that many people invest in companies whose stocks earn a smaller profit, stay about the same price, or even lose money. If a company goes bankrupt your shares of stock in that company could become worthless. Even professionals are often unsuccessful in picking which stocks will rise in price. High risk stocks may offer a great potential reward, but you may also suffer a great loss.



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The Basics (2 of 2)

Mutual Funds

Mutual Funds are another way to invest in the stock market. A mutual fund is a basket of many different stocks that are chosen and actively managed by an investing professional. One benefit of owning a mutual fund is that since the fund owns a number of different stocks your risk as an investor is lessened. Your results depend on the performance of many companies, not just one. Your total return (profit or loss) is more likely to be average when you invest in mutual funds. The disadvantages of mutual funds may include high purchase fees (called loads) and professional management fees.

Exchange Traded Funds

Exchange Traded Funds, or ETFs, are a very popular alternative to selecting individual stocks or buying mutual funds. ETFs are a type of index fund that usually have lower fees than mutual funds and can be traded anytime during the day, just like a stock. They provide diversification also, which means that you enjoy the benefit of owning a group of stocks. This decreases your risk.

An example of an ETF is the Select Sector SPDR - Technology which has the ticker symbol XLK. This ETF focuses on holding stock in the technology sector. Some of its top holdings recently included Microsoft, Intel, Cisco, IBM, Verizon Communications, Dell, Hewlett Packard, and Oracle. You can own all of these stocks, and more, with this ETF and at the same time lower your risk and expenses. Another popular ETF is the NASDAQ-100 Index Tracking Stock (ticker symbol QQQ), which includes eBay, Pixar, Staples, Starbucks, Yahoo, and Ross Stores among its holdings. With one purchase you own a fund that owns many different companies. Learn more about ETFs at www.amex.com.

Research Your Investments

Two simple ratios that you can use to learn about a stock's value are Earnings Per Share (EPS) and the Price/Earnings Ratio (P/E). Earnings Per Share tells how much money the company has made in the last year for each share of its stock that is available. At the time of this writing eBay had Earnings Per Share of \$0.95. Find out whether \$0.95 per share is an improvement over the previous year and whether or not analysts expect Earnings Per Share to increase over the next several years.

The Price/Earnings Ratio is simply the price of the stock divided by the earnings in the last year. For example, eBay recently had a price of \$79.51. Divide that by eBay's earnings (\$0.95) and you get a P/E ratio of 83.7. This is a very high P/E and shows that eBay is a more risky stock to invest in. An average P/E might be closer to 20.

When picking stocks for a school contest it is always fun to choose a company that you like. Just remember, when investing your real, hard-earned cash, always thoroughly research your investment choices!! You may be better off investing in an index fund or ETF which does not require you to be a master stock picker. Good luck!!



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Ticker Symbols

Below is a list of ticker symbols that are used when searching for the price of a share of stock. Ticker symbols with 1-3 characters represent companies listed on the New York Stock Exchange (NYSE). Four characters are used for symbols listed on the NASDAQ stock exchange. Identify the company represented by each stock market ticker symbol.

- | | | |
|----------------|----------------|----------------|
| 1. EBAY _____ | 16. SBUX _____ | 31. ZQK _____ |
| 2. WMT _____ | 17. PEP _____ | 32. G _____ |
| 3. DELL _____ | 18. SPLS _____ | 33. LUV _____ |
| 4. OO _____ | 19. GE _____ | 34. RBK _____ |
| 5. YHOO _____ | 20. NKE _____ | 35. HDI _____ |
| 6. COST _____ | 21. MSFT _____ | 36. JNJ _____ |
| 7. BKS _____ | 22. XRX _____ | 37. YUM _____ |
| 8. FDX _____ | 23. TASR _____ | 38. WWY _____ |
| 9. HD _____ | 24. MCD _____ | 39. UPS _____ |
| 10. DIS _____ | 25. INTC _____ | 40. WEN _____ |
| 11. F _____ | 26. ET _____ | 41. HSY _____ |
| 12. AAPL _____ | 27. TOY _____ | 42. PIXR _____ |
| 13. CC _____ | 28. KO _____ | 43. BBY _____ |
| 14. K _____ | 29. NOK _____ | 44. AXP _____ |
| 15. AMZN _____ | 30. IBM _____ | 45. TGT _____ |



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Company Spotlight

1. Company Name: _____

2. What is the ticker symbol for this company? _____

3. Does this company primarily provide a product or service? _____

4. In a short paragraph, describe the product or service provided by this company? _____

5. Last Trade: _____

6. 52-Week Range: _____

7. Average Volume: _____

8. Price/Earnings Ratio (P/E): _____

9. Earnings Per Share (EPS): _____

10. Why did you decide to invest in this company? Be specific and give more than one reason.



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Answer Key

Company Spotlight Sample

1. Company Name: _____ **eBay** _____
2. What is the ticker symbol for this company? _____ **EBAY** _____
3. Does this company primarily provide a product or service? _____ **service** _____
4. In a short paragraph, describe the product or service provided by this company? **eBay is a** _____
_____ **company that provides the technology and services that allow people to buy and sell** _____
_____ **goods using the internet. They receive a fee for listing the items to be sold and a** _____
_____ **percentage of the selling price.** _____
5. Last Trade: _____ **\$79.51** _____
6. 52-Week Range: _____ **\$49.87-\$94.13** _____
7. Average Volume: _____ **8,909,181 shares** _____
8. Price/Earnings Ratio (P/E): _____ **83.34** _____
9. Earnings Per Share (EPS): _____ **.954** _____
10. Why did you decide to invest in this company? Be specific and give more than one reason.

_____ **Answers will vary.** _____



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Stock Picks (1 of 2)

I. Stock Purchases:

Date: _____

Beginning Cash: \$10,000

	Company Name	Ticker Symbol	Price	# of Shares	
1)	_____	_____	_____	x _____	= _____
2)	_____	_____	_____	x _____	= _____
			Commission (\$15.00 each trade)	-	_____
			Remaining Cash		_____

II. Stock Portfolio Value if Stocks Were Sold Today: (Mid-Year Check)

Date: _____

	Company Name	Ticker Symbol	Price	# of Shares	
1)	_____	_____	_____	x _____	= _____
2)	_____	_____	_____	x _____	= _____
			Commission (\$15.00 each trade)	-	_____
			Remaining Cash (see above)	+	_____
			Total Cash if Stocks Were Sold		_____

Financial Results of Selling Today:

Total Cash - Beginning Cash = Profit (Loss)

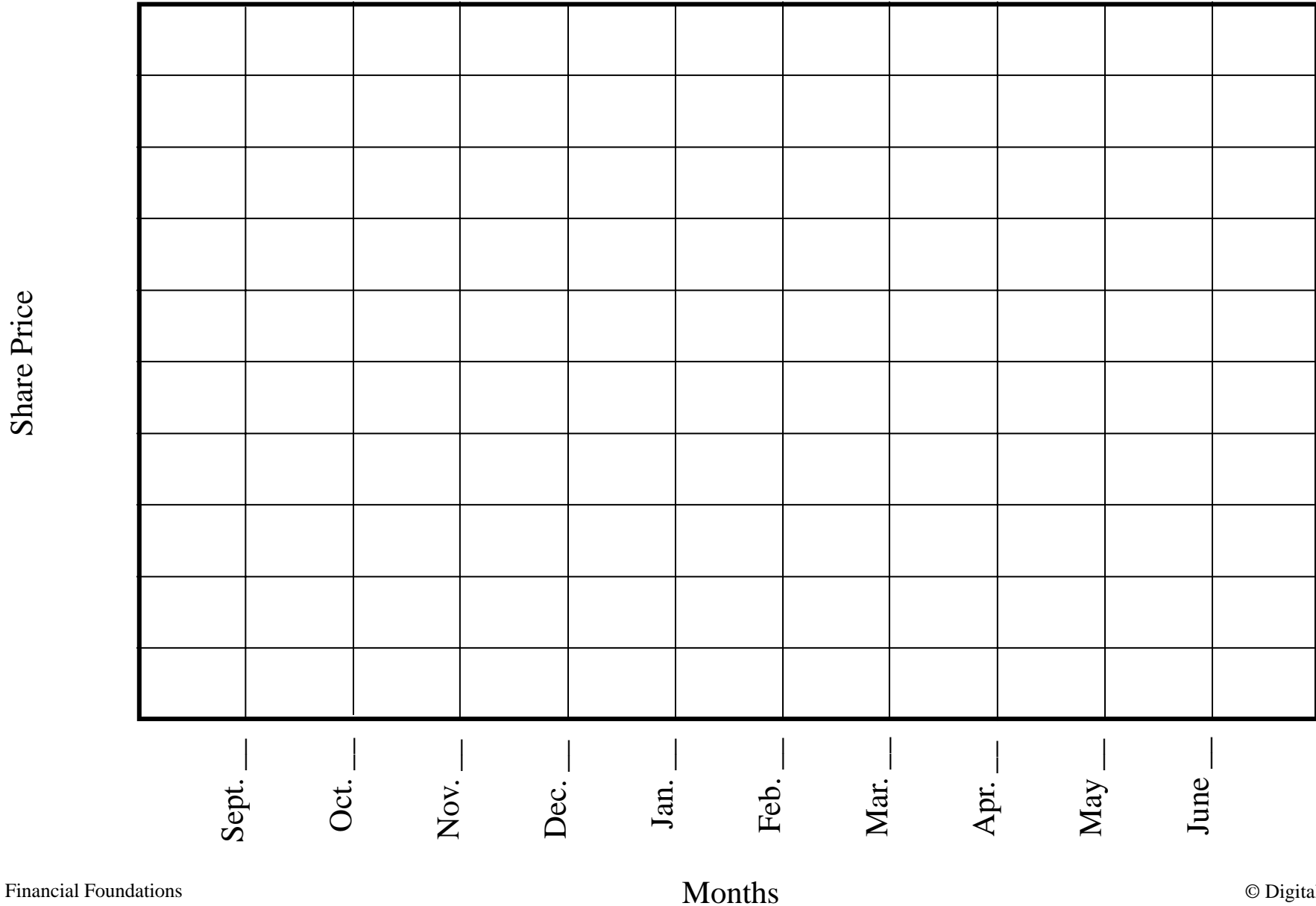
_____ - _____ =



Stock Performance Line Graph

Company Name _____

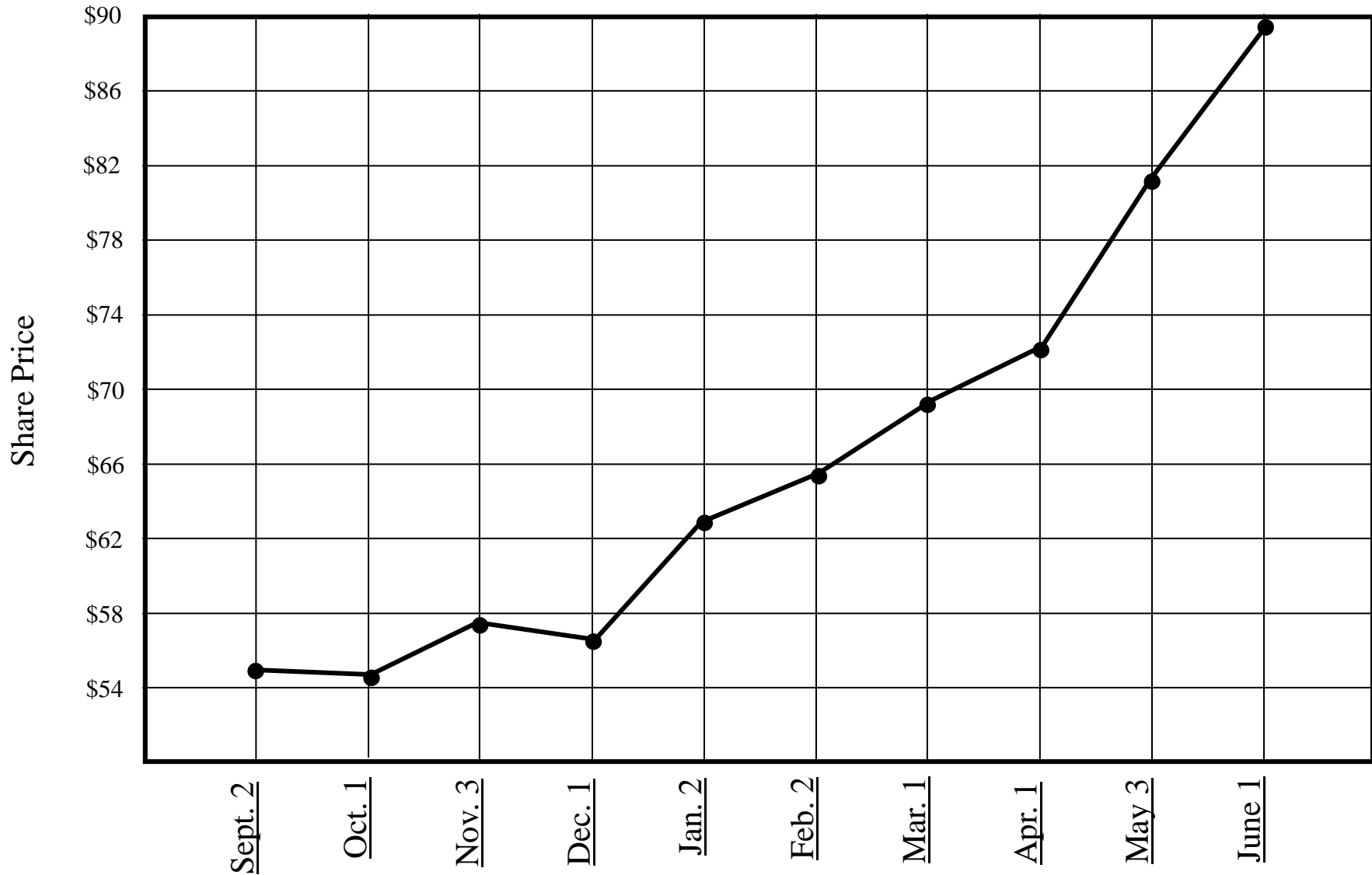
Dates: From _____ to _____



Stock Performance Line Graph - Sample Key

Company Name eBay

Dates: From 9/2/2003 to 6/1/2004



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Teacher Tips

(1 of 3)

Financial Foundations Curriculum: Financial Foundations is a set of lessons designed to promote financial literacy within the context of the mathematics curriculum. The lessons are designed to be used individually or as part of an overall financial literacy program. Lessons focus on some of the key topics related to the earning, saving, spending, investing, and giving of money.

Lesson Description: The Stock Market Contest is designed to teach students the basics of investing in the stock market. Students read two pages for basic background knowledge, choose two companies to invest in, track and graph their stocks using the worksheets provided, and reflect upon the learning that has taken place during the year. Students may work individually or in groups of two. Promote this fun and educational contest with your students and award prizes to the top investors.

Math Content: Percents, Decimals, Line Graphs

Time Required: 1-2 hours spent in class and at home throughout the year

Stock Market includes:

- * 2 Stock Market Basics sheets
- * 1 Stock Market Ticker Symbols sheet and 1 Answer Key
- * 1 Stock Market Company Spotlight and 1 sample Company Spotlight
- * 2 Stock Picks recording sheets and 1 Stock Market Contest Rules sheet
- * 2 Stock Performance Line Graphs (one not labeled) and 1 Sample Graph
- * 1 Stock Market Performance Evaluation sheet
- * 3 Stock Market Teacher Tips sheets

Materials Needed: None

Suggested Grade Level: 5th - 8th +

Teacher Testimonial:

The Stock Market lesson teaches students the mechanics of stock market investing and allows them to watch, track, graph, and evaluate their investment choices. Students enjoy investing in some of their favorite companies and I try to reward those whose stocks have outperformed the rest.

Teacher Tips:

- * The Stock Market lesson is designed to be used at the beginning, middle, and end of the year.
- * Use all of the components of the Stock Market lesson or just choose the parts that seem most useful to you.
- * Use the Stock Market Basics pages to provide investment background as necessary.
- * The Stock Market Ticker Symbols sheet is a fun activity that will introduce students to the idea of representing company stocks with ticker symbols. I usually allow students to work in groups to try and figure out the name of the company from its symbol. Many of the companies can be guessed from their symbols. I then allow students to share their answers and I reveal to them any that they cannot figure out (or give them hints). This activity is optional but the students have always enjoyed it. Use this activity after The Basics pages.

