

Stock Trading

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Instructions for Registering

- ▶ Go to www.marketwatch.com/game
- ▶ Click on the orange button that says "Join Now"
- ▶ Click on the link "Get your membership now"
- ▶ Fill out the registration form and submit it
- ▶ In order to confirm your email address, you will need to go to your email account and open the email from *Dow Jones*. Click on the link in the email to confirm your email address
- ▶ You will be taken to the login page. Enter your email address as the username and the password you chose during registration
- ▶ You are now at MarketWatch's home page and have finished registering your account

Trading Game

- ▶ After registering
 - Join the trading game: **sjufac2013**
 - The password is **hawkfac2013**

Common Stock

- ▶ What is common stock?
- ▶ **Residual Owners:** stockholders of a firm are the owners, who are entitled to dividend income and a prorated share of the firm's earnings only after all the firm's other obligations have been met
 - Stocks allow investors to tailor investments to meet individual needs and preferences
 - Stocks may provide a steady stream of current income through dividends
 - Stocks may increase in value over time through capital gains

Long and Short Positions

- ▶ Long Purchase
 - Investor buys and holds securities
 - Security – a tradable asset of any kind
 - **Buy low and sell high**
 - Make money when prices go up
- ▶ Short Selling
 - Investor sells securities they don't own by borrowing securities from broker
 - Broker lends securities owned by other investors
 - **Sell high and buy low**
 - Investors make money when stock prices go down

General Market Conditions

- ▶ Bull Market
 - Rising prices
 - Investor/consumer optimism
 - Economic growth and recovery
 - Government stimulus
- ▶ Bear Market
 - Falling prices
 - Investor/consumer pessimism
 - Economic slowdown
 - Government restraint

Trading Tip 1: Trading on News

- ▶ These trades are based on the news
- ▶ You have to trade like a headline chaser
- ▶ Find two firms which are in the news
- ▶ If the news is good, buy the stock, if the news is bad, short sell the stock
- ▶ You can find tickers for firms on finance.yahoo.com

Finance News Websites

- ▶ <http://www.bloomberg.com/markets/stocks/movers/dow/>
- ▶ <http://finance.yahoo.com/>
- ▶ <http://www.google.com/finance>
- ▶ <http://money.cnn.com/>
- ▶ <http://www.morningstar.com/>
- ▶ <http://www.zacks.com/>
- ▶ <http://blogs.reuters.com/breakingviews/category/equities>

Quotes

▶ Bid Price

- A stock may have many buyers at different prices
- The bid price is the highest price offered by the buyers to purchase a given security

▶ Ask Price

- A stock may have many sellers at different prices
- The lowest price at which a seller is willing to sell a given security

Basic Types of Orders

▶ Market Orders

- Orders to buy or sell stock at current ask price when order is placed
- Fastest way to fill order

▶ Limit Orders

- You set the price limit at which you are willing to buy or sell your stock
- If price limits are not met, order is not filled

Trading Tip 2: Trading in What You Know

- ▶ These trades are based on Peter Lynch's investment principle "*Invest in what you know*"
- ▶ Pick two products that you like or dislike
Which firms make these products?
- ▶ If the product is good, buy the stock, if the product is bad, short sell the stock


1-Year Returns of Familiar Stocks

Name	Ticker	Price 3/8/2012	Price 3/8/2013	1-yr Return
Nike Inc.	NKE	53.95	54.69	1.37%
McDonald's Corp	MCD	96.96	98.71	1.80%
Wal-Mart Stores	WMT	59.77	73.03	22.19%
Green Mountain Coffee	GMCR	62.40	52.87	-15.27%
Starbucks	SBUX	50.37	58.67	16.48%
Macy's	M	39.30	41.67	6.03%
Mastercard	MA	417.26	529.23	26.83%
Apple	AAPL	541.99	431.72	-20.35%
Exxon Mobil	XOM	84.83	88.97	4.88%
Johnson&Johnson	JNJ	64.85	78.19	20.57%
			Average	6.45%
S&P 500 Index	^SP500	1365.92	1551.18	13.56%

Quotation from Yahoo

International Business Machines Corporation (IBM) - NYSE

211.30 ↓ **1.06 (0.50%)** 10:56AM EDT - Nasdaq Real Time Price

Prev Close:	212.36	Day's Range:	210.10 - 211.44
Open:	210.96	52wk Range:	181.85 - 215.90
Bid:	211.22 x 300	Volume:	955,923
Ask:	211.27 x 100	Avg Vol (3m):	3,820,010
1y Target Est:	225.76	Market Cap:	235.44B
Beta:	0.61	P/E (ttm):	14.68
Next Earnings Date:	18-Apr-13 	EPS (ttm):	14.37
		Div & Yield:	3.40 (1.60%)

Tips for Successful Online Trades

- ▶ Know how to place and confirm orders
- ▶ Verify stock ticker symbols
- ▶ Use limit orders
- ▶ Check orders before submitting—you pay for typos
- ▶ Don't get carried away
 - Follow a strategy
 - Don't churn
 - Avoid or limit margin orders
- ▶ Open accounts with two brokers
- ▶ After completion double-check orders after for accuracy

Using Behavioral Finance to Improve Investment Results

- ▶ Don't hesitate to sell a losing stock
- ▶ Don't chase performance
- ▶ Be humble and open-minded
- ▶ Review the performance of your investment on a periodic basis
- ▶ Don't trade too much

Additional Information



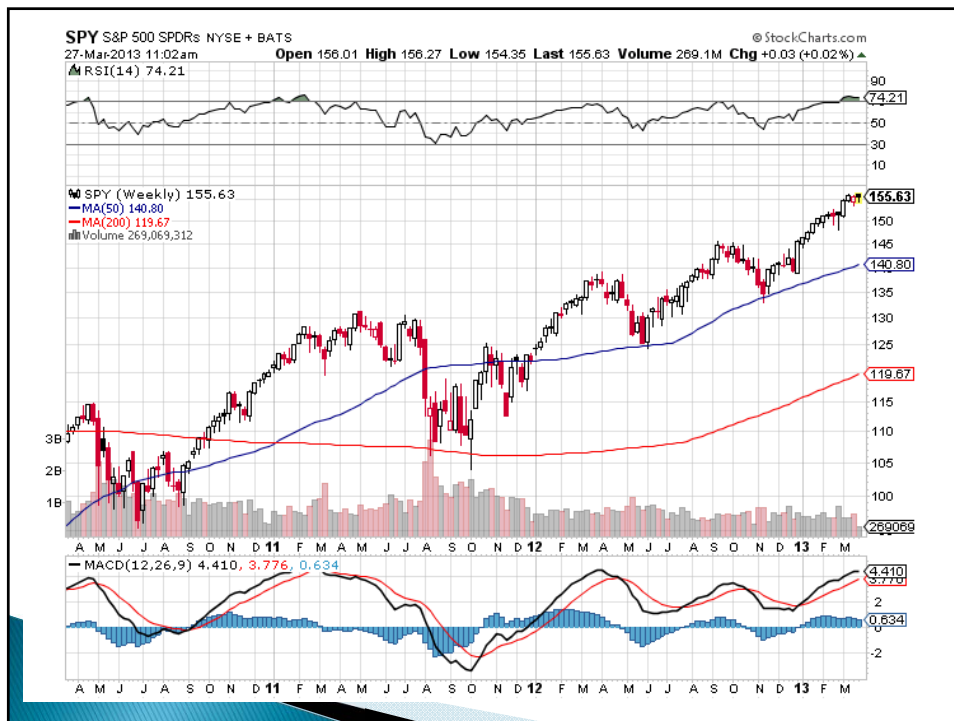
Trading Tip 3: Trading Using Charts

- ▶ These trades are based on charts (technical analysis)
- ▶ Pick two stocks
- ▶ Look at the their charts on stockcharts.com or finance.yahoo.com
- ▶ If you think the pattern suggests upward movement, buy the stock
- ▶ If the pattern suggests downward movement, sell the stock

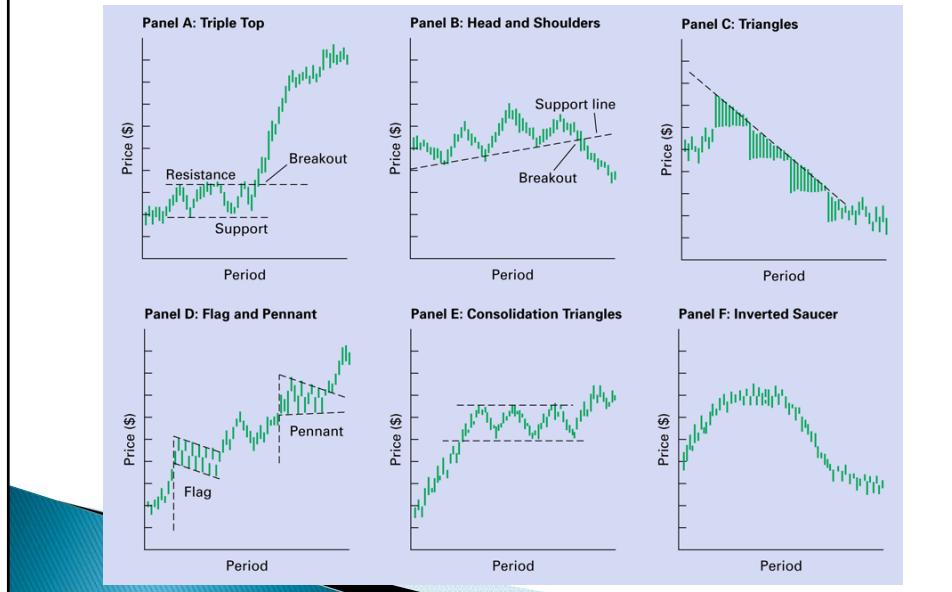
Charting Tools Websites

- ▶ Plot the performance of stocks over a specified time period
- ▶ Examples:
 - Barchart.com
 - BigCharts.com
 - Stockcharts.com





Some Popular Chart Formations



Types of Stock

- ▶ **Blue Chip Stocks:** financially strong, high-quality stocks with a long and stable record of earnings and dividends
 - Companies are leaders in their industries
 - Relatively lower risk due to financial stability of company
 - Popular with investing public looking for steady growth potential, perhaps dividend income
 - Provides shelter during unsettled markets
 - Examples: AT&T, Chevron, Johnson & Johnson, McDonald's, Pfizer

Types of Stock (cont)

- ▶ **Income Stocks:** stocks with a long and sustained record of paying higher-than-average dividends
 - Good for investors looking for relatively safe and high level of current income
 - Dividends tend to increase over time (unlike interest payments on bonds)
 - Some companies pay high dividends because they offer limited growth potential
 - More subject to interest rate risk
 - Examples: Duke Energy, Conagra Foods, Sara Lee, Altria Group

Types of Stock (cont)

- ▶ **Growth Stocks:** stocks that experience high rates of growth in operations and earnings
 - Have sustained rate of growth in earnings above general market
 - Investors expect higher price appreciation due to increasing earnings
 - Riskier investment because price may fall if earnings growth cannot be maintained
 - May include blue chip stocks as well as speculative stocks
 - Typically pay little or no dividends
 - Examples: Netflix, eBay, Berkshire Hathaway, Starbucks

Types of Stock (cont)

- ▶ **Tech Stocks:** stocks representing the technology sector of the market
 - Range from speculative stocks of small companies that have never shown a profit to blue chip stocks of large companies that are growth-oriented
 - Potential for attractive returns
 - Considerable risk and volatility
 - Difficult to put value on due to erratic or no earnings
 - Examples: Microsoft, Cisco Systems, Yahoo!, NVIDIA, SanDisk, Electronic Arts

Types of Stock (cont)

- ▶ **Speculative Stocks:** stocks that offer potential for substantial price appreciation, usually due to some special situation such as a new product
 - Companies lack sustained track record of business and financial success
 - Earnings may be uncertain or highly unstable
 - Potential for substantial price appreciation
 - Stock price subject to wide swings up and down in value
 - Examples: Facebook, Sirius XM Radio, Dreamworks Animation, Liberty Media, NitroMed, Under Armour

Types of Stock (cont)

- ▶ **Cyclical Stocks:** stocks whose earnings and overall market performance are closely linked to the general state of the economy
 - Stock price tends to move up and down with the business cycle
 - Tend to do well when economy is growing, especially in early stages of economic recovery
 - Tend to do poorly in slowing economy
 - Best for investors willing to move in and out of market as economy changes
 - Examples: Alcoa, Caterpillar, Genuine Parts, Lennar, Brunswick, Timken

Types of Stock (cont)

- ▶ **Defensive Stocks:** stocks that tend to hold their value, and even do well, when the economy starts to falter
 - Stock price remains stable or increases when general economy is slowing
 - Products are staples that people use in good times and bad times, such as electricity, beverages, foods and drugs
 - Gold stocks are a form of defensive stock
 - Best for aggressive investors looking for “parking place” during slow economy
 - Examples: Walmart, Checkpoint Systems, WD-40

Types of Stock (cont)

- ▶ *One Up on Wall Street* by Peter Lynch
 - The Slow Growers
 - The Stalwarts
 - The Fast Growers
 - The Cyclicals
 - Turnarounds
 - The Asset Plays

Types of Stock (cont)

- ▶ Market Capitalization
 - U.S. stock market segments based on stock market capitalization:
 - Small-Cap Stocks: less than \$2 billion
 - Mid-Cap Stocks: \$2 billion to \$10 billion
 - Large-Cap Stocks: more than \$10 billion

Investment Strategies

▶ The Passive Strategy

- No over–under valuation, no market timing, minimize costs
- Buy–and–Hold
 - Investors buy high–quality stocks and hold them for extended time periods
 - Goal may be current income and/or capital gains
 - Investors often add to existing stocks over time
 - Very conservative approach; value–oriented
- Index Funds
 - Efficient markets, cost efficient, tax advantage

Investment Strategies (cont)

▶ The Active Strategy

- Security selection
- EPS Critical
- Growth and Value stocks
- Sector rotation
 - Industry momentum
- Market timing
 - Risky. Missing 16 days in 100 years you miss 2/3 of the cumulative returns

Investment Strategies (cont)

- ▶ *Accounting for Value* by Stephen Penman
 - One does not buy a stock, one buys a business
 - When buying a business, know the business
 - Price is what you pay, value is what you get
 - Part of the risk in investing is the risk of paying too much
 - Understand what you know and don't mix what you know with speculation
 - Beware of paying too much for growth
 - Return to fundamentals; prices gravitate to fundamentals (but that can take some time)

Investment Strategies (cont)

- ▶ *Expectation Investing* by A. Rappaport & M.J. Mauboussin
 - Investing is a game against other investors
 - Try to understand the forecast that explains the market's valuation, in order to accept it or reject its asking price
 - Any disagreement is likely to lie in the growth forecast
 - Does the growth forecast look about right?

Investment Strategies (cont)

- ▶ Price/Earnings (P/E) Approach
 - Future price is based upon the appropriate P/E ratio and forecasted EPS
 - Simple to use and easy to understand
 - Widely used in stock valuation

$$\text{Stock price} = \text{EPS} \times \text{P/E ratio}$$

Margin Trading

- ▶ Uses borrowed funds to purchase securities
- ▶ Your currently owned securities used as collateral for margin loan from broker
- ▶ Margin requirements set by Federal Reserve Board
 - Determines the minimum amount of equity required
 - On \$5,000 purchase with 50% margin requirement, investor puts up \$2,500 and broker will lend remaining \$2,500

Margin Trading (cont)

- ▶ Advantages
 - Allows use of financial leverage
 - Magnifies profits
- ▶ Disadvantages
 - Magnifies losses
 - Interest expense on margin loan
 - Margin calls