## Up Close and Personal

# THE STOCK MARKET & YOU

**THE NEW YORK STOCK EXCHANGE** is at the very core of our private enterprise system and the economic stability of the U.S. and the world. The stocks that are bought and sold at the NYSE represent the companies that directly and indirectly touch every aspect of our lives. You'll find corporations that make computers, manufacture cars, build houses, provide entertainment, furnish medical services, and supply insurance. There are companies that invent, inform, and instruct, and corporations that buy and sell goods and services.

As you learn more about how the New York Stock Exchange operates, you'll discover how it is part of your everyday life. From the soft drink you sipped at lunch to the computer you used to e-mail your friends, many of the companies that manufacture or sell these products and services are listed on the New York Stock Exchange.

#### PART 1

Think about the clothes you're wearing, the computer you use, or what you had for lunch. Then, list the brand names of three products (for example, soft drinks, clothing, computers) that you buy or use regularly.

1	
2	
3	

Have you rented a video lately? Been to an amusement park? Or eaten at a fastfood restaurant? Each of these types of business performs a service. Think of the brand names of three services that you have used and list them below.

1.	
2.	
3.	

Now, list the brand names of three products, services, or businesses that you think you will need in the next 10 years.

1.	
2.	
3.	

## **Investing in Your Future**

Each of us has a set of goals that we want to achieve in our lives: going to college, getting married, buying a car or house, or taking a vacation. In order to achieve your goals, think about how much money you need to afford your "dreams." Create a timeline of your goals and write about how you plan to achieve them through long-term saving and investing.



Activity

#### PART 2

Now that you've listed your companies, answer the following questions on a separate sheet of paper.

- Using **www.nyse.com**, go under "Symbol Lookup" and find out which of the companies you listed are on the New York Stock Exchange. What are their NYSE stock symbols?
- Some of the brand products you listed might be harder to find because they are part of a larger company known as a parent company. Which of the companies you listed are part of larger companies? You can research parent companies at **www.nyse.com** or by searching the Internet, looking at product labels, reading newspapers, or interviewing adults.

## Stock Talk

# **MARKET TERMS**

Activity

**EVERY BUSINESS** has its own language. To understand the stock market, let's listen in on one family's breakfast conversation. Soon you'll be "talking the talk"!

- **JAMIE:** (teenager) Did you hear that the new model of the cell phone I got last year has a built-in MP3 player?
- **DAD:** It sure sounds like Talk2Me knows teens.
- JAMIE: Don't you own **stock** in Talk2Me? You should call your **stockbroker** to buy more. They make so many cool products!
- **MOM:** We bought stock when the company had its **initial public offering** a few years ago.
- **JAMIE:** What does that mean?
- **MOM:** Talk2Me went public so they could raise money, or **capital**, to expand and create new products like the MP3 phone.
- **DAD:** At the time, we only owned **bonds**, which are loans that investors make to corporations and governments. The lenders earn interest, and the borrowers get the money they need.

- **MOM:** We thought the value of communications industry stocks would grow over the long term. The stock market moves in cycles from a period when stock prices are generally rising, known as a **bull market**, to times when stock prices on the whole are falling, called a **bear market**.
- **JAMIE:** What makes stock prices rise or fall?
- **DAD:** Stock prices go up or down depending on **supply** and **demand**.
- **JAMIE:** What else influenced your choice in buying this stock?
- **MOM:** From our research, we also learned that Talk2Me pays its shareholders **dividends**, or money from it's profits. You're catching on...
- **JAMIE:** So does that mean I get a new MP3 phone?

#### **DIRECTIONS:**

After reading the dialogue, fill in the blanks using the key terms provided to test your knowledge of some common stock market terms.

- **1.** A/An \_\_\_\_\_\_ is the first time a company sells shares of itself to the public to raise capital.
- **2.** A/An \_\_\_\_\_\_ is when the prices of stocks are generally rising.
- **3.** A/An \_\_\_\_\_\_ is when the prices of stocks are generally declining.
- **4.** A professional who is licensed to buy and sell stock is a/an \_\_\_\_\_.
- **5.** When you own \_\_\_\_\_\_ in a company, you are a shareholder.
- **6.** From its profits, the Board of Directors of a company can declare a/an \_\_\_\_\_\_ to be distributed among the shareholders.
- **7.** Money, also called \_\_\_\_\_\_, is needed to expand a company.

- **8.** \_\_\_\_\_\_ is the quantity or amount of a product that is available.
- **9.** A/An \_\_\_\_\_\_ is a loan, or an I.O.U., that investors make to corporations and governments which pays interest over a fixed period of time.
- **10.** How much of a product or service that is in \_\_\_\_\_ can affect the stock price.

KEY TERMS	
Stock	Supply
Bond	Demand
Bear Market	Stockbroker
Bull Market	Dividend
Capital	Initial Public Offering

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# Understanding **STOCK TABLES**

**STOCK TABLES** keep investors up-to-date on what's happening in the market. Stock tables, both the electronic versions on the Internet and long columns of small print found in newspapers, provide information about the stock of publicly traded companies. Here's an example of a stock table for XYZ Communications that might be found online.

		XYZ COMMUNICATIONS						
SYMBOL: XYZ								
LAST TRADE			CHANGE					
10	105.28		+0.33					
TODAY'S								
OPEN	HIGH	LC	)W		VOLUME			
105.00	105.80	103	3.35		3,976,700			
SHARES OUTSTANDIN	IG PREVIOUS DAY	VIOUS DAY'S CLOSE		52-WEEK				
			HIGH	4	LOW			
1,737,418,000 104.95		5	134.94		80.06			
PRICE/EARNINGS RATIO	D:	21.77						

#### **DIRECTIONS:**

After reading the stock table, answer the following questions:

- **1.** How much would you pay if you had bought 100 shares of XYZ at the last sale?
- **2.** What was yesterday's closing price for XYZ?

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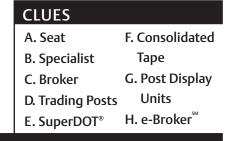
**3.** How many shares of XYZ were traded since the market opened this morning?

- **4.** What would the total dividend be on 300 shares of XYZ?
- **5.** If you bought 100 shares of XYZ at the lowest price of the year and sold it at the highest price of the year, how much money would you make (excluding any taxes or commission fees)?

Activity

## Ready, Set, AUCTION

**THE TRADING FLOOR** of the New York Stock Exchange is a whirlwind of activity during market hours. But despite the activity, it's a wellorganized, tightly regulated place of business. Here, market professionals supported by advanced technology represent the orders of buyers and sellers to determine prices according to the laws of supply and demand. The technology enables market professionals to perform their jobs quickly and efficiently.



Activity

#### **DIRECTIONS:**

Match the clues provided with their NYSE Trading Floor definition. You can visit www.nyse.com for help.

- **1.** \_\_\_\_\_ This market professional oversees the orderly trading of specific stocks and stands outside the trading posts on the Trading Floor.
- **2.** \_\_\_\_\_ This high-speed system is continuously updated to provide the last sales price and volume of any securities transactions in listed stocks to the public.
- **3.** \_\_\_\_\_ Most stock orders reach the Trading Floor through this electronic orderrouting system. After the order is completed in the auction market, an execution report is transmitted back to the NYSE member firm.
- **4.** \_\_\_\_\_ This market professional, located in the booths around the perimeter of the floor, buys and sells securities for the general public. Orders are electronically routed to trading posts, booths, or handheld computers.
- **5.** \_\_\_\_\_ This represents membership in the NYSE and the right to trade on the NYSE Trading Floor.
- **6.** \_\_\_\_\_ All buying and selling of stock occurs at these 17 stations staffed by specialists and trading assistants on the Trading Floor.
- **7.** \_\_\_\_\_ A wireless, handheld tool used by floor brokers to receive orders and improve the flow of information between customers and the point of sale.
- **8.** \_\_\_\_\_ These high-definition screens, located above the trading posts, provide a variety of information about each stock that is traded at that location.

## The Opening & Closing Bell<sup>™</sup>: Where the Action Starts & Ends

What do Muhammad Ali, Uncle Sam, the World Wrestling Federation, and the New York Yankees have in common? They have all rung the opening or closing bell of the New York Stock Exchange. Usually the bell is rung by a visiting head of state, a dignitary, or a CEO of a listed company celebrating an event or offering a new product line. Ringing the bell, which signals the start and close of the trading day, is part of the NYSE's rich heritage and is considered an honor. Using **www.nyse.com**, or searching the web, identify three bell-ringers and explain why they were selected. Write your answers on a separate sheet of paper.



www.nyse.com

## Anatomy of a

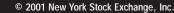
TRADE

**FROM THE MOMENT** the opening bell rings at 9:30 a.m. to the closing bell at 4:00 p.m., market professionals are busy buying and selling securities, supported by 21st century technology that speeds and secures each transaction. It is the interaction between humans and technology that makes the New York Stock Exchange conduct business efficiently, ensuring equal opportunity to all investors. But each transaction must follow a certain path to completion.

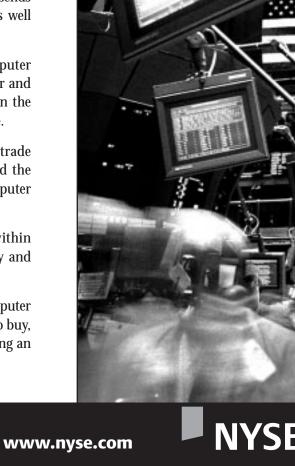
## **DIRECTIONS:**

To understand the role of the market professionals and how a stock is traded at the NYSE, place the following steps in chronological order from the time Amanda Smith, the investor, decides to buy 100 shares of Great Computer Company stock to the time the order is executed.

- The stockbroker gives Amanda the current market price of Great Computer Company and she instructs the stockbroker to buy 100 shares.
- Amanda Smith of Hartford, CT, decides to buy Great Computer Company stock. She calls a local stockbroker who works for a firm that is a member of the NYSE.
- The broker sends the order to the Trading Floor of the NYSE electronically via the SuperDOT® System to the specialist's workstation or through Broker Booth Support System<sup>™</sup> (BBSS<sup>™</sup>) to the broker's handheld computer.
- After the transaction is executed, the specialist's workstation sends notice to Amanda's firm (the buyer) and to the seller's firm, as well as to the consolidated tape so that a written record is made.
  - At the trading post, the specialist that handles Great Computer Company stock makes sure the transaction is executed in a fair and orderly manner. Amanda's order competes with other orders in the Great Computer Company at the point of sale for the best price.
- The transaction is processed electronically. Amanda receives a trade confirmation from her broker's firm describing the trade, and the exact amount she owes for the 100 shares of Great Computer Company plus any applicable commissions.
  - The transaction is reported by computer and appears within seconds on the consolidated tape displays across the country and around the world.
    - Amanda asks her stockbroker the current price for Great Computer Company stock. The broker checks the quote (the highest bid to buy, the lowest offer to sell) for Great Computer Company stock using an electronic market data system.







## Market Cycles

# WHAT DRIVES STOCK PRICES

**I'VE GOT IT – YOU WANT IT.** That's the basis of supply and demand. But how much I have of any one item and how much you need of that item will affect the price. News events can trigger a change in stock prices when they affect the laws of supply and demand. That's why news reports flash instantly to the Trading Floor of the NYSE. Sometimes companies can't control the supply they have to offer. Sometimes, it's the demand side.

#### **DIRECTIONS:**

Read these fictional news headlines, and decide whether you think the stock prices will go up, down, or stay the same. Mark your decision in the appropriate box and describe how and why stock prices will be affected, identifying the companies, products, and services impacted.

Activity

NYSE

#### The Daily Exchange.com http://www.thedailyexchange.com **1. Florida in 4-Month Drought** NEWS What happens to the stock prices of companies that bottle • HOME orange juice? • **BUSINESS** □ Increase □ Decrease □ No Effect • EDUCATION INTERNATIONAL 2. Battery-Powered Vehicles Are Car of Choice: • LIFESTYLES **Consumers Save on Gas, Cut Down Pollution** NATIONAL What happens to stock in battery companies? • NEWS □ Increase □ Decrease □ No Effect POLITICS • SCIENCE 3. Hollywood Big Budget, Mega-Movie Flops • SPORTS What happens to the stock in the company that owns the rights to sell merchandise tied to the film? • TECHNOLOGY □ Increase □ Decrease □ No Effect • WEATHER 4. True Tech's Products Compete With Digital **FEATURES** Dream's at 25% Less Cost • AUTOS What happens to the stock in each company? • ARTS **True Tech:** $\Box$ Increase $\Box$ Decrease $\Box$ No Effect BOOKS **Digital Dream:** □ Increase □ Decrease □ No Effect MOVIES • TRAVEL **IN THE NEWS** FASHION Look at newspaper or magazine headlines or follow television news • HOME broadcasts. List three news stories and indicate whether they may • DINING increase, decrease, or have no effect on stock prices. Describe which companies, products, services, and industries you think will be affected.

www.nyse.com

## Market Regulation

# **PROTECTION FOR ALL INVESTORS**

**THE NYSE TRADING FLOOR** is a hectic place, but the activity is closely monitored to ensure a fair and orderly market. Safeguards are built into the system through a series of rules and regulations that govern the transactions and the professionals who work in the securities industry.

No U.S. industry regulates itself as carefully and thoroughly as the securities industry. In addition to the tough standards and requirements for professionals on the Trading Floor, a powerful pyramid of regulatory agencies monitors activities in the securities markets. Regulations protect the integrity of the market, member firms, and investors.



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Securities and Exchange Commission (SEC) supervises financial marketplace, enforces federal anti-fraud protections

NYSE and Other Self-Regulatory Organizations set trading rules, ensure accuracy of information, monitor trading activity, enforce standards of conduct

Individual Brokerage Firms ensure professional qualifications and standards of conduct

THE REGULATORY PYRAMID

#### **DIRECTIONS:**

Refer to the regulatory pyramid to solve the cases below. The questions provided will help you determine outcomes for each scenario. Write your answers to these cases on a separate sheet of paper.

## Case Number 1

The brokerage firm, Lots O' Bucks, is a member of the NYSE. Lots O' Bucks recommended Computer Gizmos Inc., a company that makes computer games, to its customers. They said Computer Gizmos had just received a huge infusion of capital when in fact the company was desperately searching for money to stay afloat. The brokerage firm sold large amounts of stock based on this false recommendation.

- What agency will be involved in monitoring this situation?
- How do you think this fraudulent trading activity affects the fairness of the market?
- What do you think will likely happen to Lots O' Bucks?

## Case Number 2

Karen, a stockbroker who works for a NYSE member firm, met her friend Janice for lunch. The two friends, who graduated from college together and now live near each other, were always looking for ways to make some money. Today, Janice had a hot tip. "Buy stock in Super Soda — and buy me some too because it is about to be taken over by a large beverage company, Fun Drinks Inc.," she urged. The following week the stock price soared and the two friends made a fortune. Janice worked for an NYSE member firm that provided investment banking advice on the merger.

- What agencies will get involved?
- How does "inside information" affect the fairness of the market?
- How does preventing securities trades based on insider information protect your investments?

## Case Number 3

Individual stockbrokers are not permitted to post messages or recommendations concerning securities via the Internet without approval from their employer brokerage firm. But in a two-week period, Stuart, a broker for MNO brokerage house, secretly posted 16 electronic messages in the chat room of an Internet website for investment news, about XYZ, a company listed on the New York Stock Exchange. During the time he was sending electronic messages about XYZ, he executed 67 trades of the stock for his customers. He also bought and sold XYZ stock for himself, his wife, and his mother.

- What agencies will get involved?
- Why is there a rule that requires firms to monitor communications and recommendations about securities to the public or posting information on the Internet?
- What effect might his actions ultimately have on shares of this stock owned by his customers?



## **Getting Started**

**INVESTING YOU'VE JUST BEEN GIVEN \$5,000 BY YOUR GREAT-AUNT.** She tells you to spend it any way you want. Should you use it to buy a new computer? Maybe use it as a down payment for a car? Or take a trip to Disney World?

You make a smart move and decide you want your money to grow. You are ready to invest. What do you do next?

- **1.** Close your eyes and point your finger at the stock pages to find a stock to buy?
- **2.** Ask your little sister?
- 3. Read, research, study and then make your choice?

Of course, the right answer is number 3, although you might ask your little sister just to get an idea of popular trends.

## PART 1

Choose three companies from different sectors that interest you (entertainment, technology, telecommunications, food, cosmetics, transportation, etc.) and fill in the information that you obtain from your research. If you need additional room, take notes on a separate sheet of paper. Then, based on your research, write a report on separate sheets of paper analyzing these companies and graph their stock prices for the past six months.

Company Name:	Company Name:	Company Name:
Symbol:	Symbol:	Symbol:
History:	History:	History:
Management:	Management:	Management:
		Products:
Income Analysis:	Income Analysis:	Income Analysis:

## PART 2

- **1.** Comparing the information you've found from your research, which companies would be a good investment? Why? Which ones might not? Why?
- **2.** Many stock analysts think it is important to build a portfolio of varied stocks from different sectors. Explain why.
- 3. How will you build your portfolio from the stocks you have researched?



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