

## Investing In Stocks

There are two types of stock shares: common and preferred. When you own a public company's common stock, you are entitled to vote in the election of company officers and on other important matters, and often you receive dividends on your shares. Common stock is usually riskier than preferred stock. Because of this, it offers greater potential returns and losses.

As a shareholder of preferred stock, you would not usually have voting rights, but you would receive a fixed dividend, which would be paid to you before common stockholders are paid. But owners of preferred stock pay for that privilege--usually your dividends wouldn't increase when the company's profits increase. When a company does well, the price of its preferred stock tends to underperform its common shares. However, when a company fails, preferred stockholders are ahead of common stockholders in recouping their investment.

The stock price is the amount at which you can buy one share of a public company's stock at a given moment. Outside events can make the price of a stock rise or fall. For instance, if another company or a big investor wants to buy the company you're invested in, the company's share price could rise quickly on that news. On the other hand, if your investment is in a pharmaceutical company and its competitor wins government approval for a drug similar to one that your company manufactures, the company's stock price might tumble. Other forces that can affect stock prices include interest rates, national and international issues or events, foreign exchange rates, financial forecasts, and new technologies. Retail stocks, for example, are subject to declines during recessions.

The terms Large-cap, mid-cap, and small-cap refers to the issuing company's market capitalization that is the overall value of all shares of the company's stock. Stocks are also categorized by the way they perform. Growth stocks are shares of companies that have exhibited relatively fast growth in earnings, which generally causes the stock price to go up. Keep in mind, though, that growth stocks are the most volatile and are just as likely to go down in price quickly. That's because growth companies are typically in new or fast-growing industries such as the high-tech sector. Growth stocks are considered riskier and often pay you lower or no dividends but appeal to investors who will accept more volatility and risk in hopes of a greater appreciation in share price over time.

Income stocks, on the other hand, are characterized as those that would pay you high and regular dividends. Stable and well-established industries, including utilities and financial institutions, typically produce income stocks. Blue chip stocks is the name applied to large, well-known, well-established companies with good reputations.

Value stocks are those considered to be selling at lower prices or "undervalued" because the companies that issue these shares have had business setbacks or are out of favor with investors. Value stocks have been known to outperform growth stocks in slow markets — and vice versa. But there is still a risk with value stocks because not all companies recover from setbacks. Stocks are often referred to by a combination of the characteristics discussed above, such as shares of a "small-cap value" stock or of a "mid-cap growth" stock.

Dividends are the distribution of a company's profit or earnings back to the company's shareholders, or stockholders--the people and firms that have purchased that company's stock. Dividends are another way you can share in a company's growth; they are usually distributed quarterly. Most companies offer dividend reinvestment plans, which means that instead of paying you by sending you a check or depositing the money into your account, the amount of the dividend is used to buy more shares of the company's stock in your name. This is a good way to increase your investment in the company over time.

Utilities are an example of an industry with traditionally high dividend rates. Growth stocks and small cap stocks, on the other hand, tend to offer little, if any, dividends to their shareholders, as any profit the company makes is poured back into the growing company.

When selecting stocks, it's good to keep in mind factors that could influence the company's performance--and, therefore, the investment.

### How to Read the Stock Tables in the Newspaper

1	2	3	4	5	6	7	8	9	10	11
High	Low	Stock	Div.	Yld %	P-E Ratio	Volume 100s	High	Low	Close	Net Change
<b>52 Week</b>										
167.50	22.63	Dell			48	95803	166.90	162.25	164	+4
9	33	Intel	.12	0.1	23	166698	90.75	88	89.50	+1.25
38.80	22.35	Sears	2.02	5.1	15	17969	39.87	37.12	39.50	+2.12

### What It Says

**Columns 1, 2, 3** During the last 52 weeks, the highest price paid for a share of Sears common stock was \$38.80 and the lowest was \$22.35.  
High, Low, Stock

**Column 4** Sears stock pays \$2.02 yearly in dividends per share.  
Dividends

**Column 5** The yield is a stock's dividend expressed as a percentage of the share price, often rounded to one decimal point. At today's closing price, the \$2.02 dividend paid by Sears represents an annual return of 5.1%.  
Yield

**Column 6** The price to earnings ratio is the latest closing price divided by the latest 12 months earnings per share. At today's price, the P-E ratio for Sears is 15. In general, low P-E stocks tend to have higher dividend yields and less risk.  
P-E Ratio

**Column 7** On this day, 1,796,900 shares of Sears stock changed hands.  
Volume in 100s

**Column 8, 9, 10 and 11** During the trading day, the price for Sears was as high as \$39.87 per share and as low as \$37.12. The final price was for \$39.50, which was \$2.12 more than the final price on the previous day.  
High, Low, Close, Net

*Figures in this chart are an example only.*

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