Junior Achievement of South Dakota

JA Invest for Your Future

Privately Owned/Held Companies
- Usually owned by few people – often just one.
- Expensive to buy or sell – typically involving a lawyer.
- Hard to buy – detailed negotiations are necessary.
- Hard to sell – you must find a buyer.
- Examples: Local restaurants, professional services like doctor's offices, law firms, etc.

Publicly Owned/Held Companies
- Typically owned by many people (often millions!).
- Open to anyone buying a "share" of the company.
- Minimal legal work required - buy or sell stock in minutes.
- Buyer/Seller will probably never meet.
- Usually bigger companies like Walmart, McDonald's, Coca Cola, etc.

The **symbol** is usually an abbreviation.

AAPL	Apple
MCD	McDonald's
GOOG	Google
MSFT	Microsoft
WMT	Walmart

Stock Ownership
- A **"share"** of stock is part ownership of a company.
- Most companies on the stock market have millions of shares.
- Stock Symbols: Traders use symbols to refer to companies.
- **Initial Public Offering (IPO)** - the very first sale of a stock by a company that had been privately held.
  - For the company, it means it is getting a large influx of cash.
  - For investors, it is a new opportunity to invest. They look for: profitability, long-term growth potential, how the money will be used, company management, etc.

Stock Market
- The Stock Market (also called an "Exchange") is where shares of companies are bought and sold. There are many stock markets worldwide. The two largest and most famous: New York Stock Exchange (NYSE) is largest and most famous, located on Wall Street. NASDAQ (pronounced "Nazz-Dack") has many high-tech companies like Apple and Google.
- Why does the Stock Market matter?
  - Companies can sell stock to raise money.
  - Retirement accounts are usually funded by stocks.
  - Insurance companies invest and can charge lower premiums if investments go well.
- Ways to buy/sell/trade:
  - Buyers and sellers don't go to the Stock Exchange directly – they use a **Stockbroker** to complete transactions. A broker can be a person that you meet or call to execute trades.
  - Another way is to use **Investment Apps:** Robinhood, Vanguard, TD Ameritrade, and Fidelity are some examples of companies that offer user-friendly phone apps that can be used to manage your investments from your phone easily. Many apps offer lower transaction costs for investors, allow investors to purchase fractional shares, or even automate their investments.
  - You pay a **commission or fee** for every trade (buying OR selling). Fees are usually a flat amount per transaction. Commissions are usually a percentage of the trade amount, usually between 0.5% and 2%.
- How to make money with stocks: Until a stock is sold, the profit (or loss) is called "unrealized." This means it is not an actual profit (or loss) because the stock value could still change. Only when a stock is sold, is the profit (or loss) "realized."
- Two ways to make money:
  - Capital Gains: selling a stock for more than you paid for it. Summed up as **"Buy Low, Sell High."**
  - **Dividends**: Profits distributed to stockholders, who retain ownership of the shares. Paid for each share you own if stock is owned before and through the **Ex-Dividend Date.** Example: If you own 1,000 shares and there's a dividend of $2 per share, you'll receive $2,000 - and you still own the stock.
- Retained Earnings
  - Retained Earnings: Money a company is keeping for its use.
  - Reinvesting money in the business. i.e.: buying new equipment, paying off loans, saving it for later uses, etc.

Price Impacts

- Supply and Demand
  - When a lot of people want to buy something (high demand), the price goes up.
  - When fewer people want to buy something (low demand), the price goes down.
  - When there are more buyers (low supply), the price goes up.
  - When there are more sellers (high supply), the price goes down.
- Market Environment
  - Things that are viewed as good for business and the economy can push stock prices up. Examples: consumer confidence, low interest rates, political stability, strong sales of products, introduction of new products or services, things that make a company more profitable, etc.
  - Things that are viewed as bad for business and the economy can push stock prices down. Examples: inflation, unexpected bad news, unpredictable politics, weak sales, product recall, lawsuits, things that cause a company to lose money, etc.
- Bears & Bulls
  - Stock prices are always changing!
  - A **BULL market** is when the overall stock market prices are rising (or expected to rise).
  - A **BEAR market** is when the overall stock market prices are falling (or expected to fall).
  - Legend has it these were chosen based on how the two animals attack: A bull thrusts its horns upward. A bear swipes its paws downward.
- Stop-Loss Order: Protects an investor. You can put a Stop-Loss order on any stock in a portfolio for any amount below the current selling price. As long as the stock remains above this Stop-Loss amount, the stock remains in your portfolio. When the price falls to (or below) this point, the stock is sold automatically.

Retirement Planning

- There are many options: 401(k), 403(b), SEP (Simplified Employee Pension), IRA (Individual Retirement Account).
- Employer matching: The employer matches $1 for every dollar an employee puts in (up to a limit).
- **Diversification:** Owning different stocks in various industries that perform differently under a variety of economic conditions; it minimizes risk.
- **Mutual Funds:** A managed collection of stocks. Instead of tracking individual stocks, you track one fund. A portfolio manager makes all the decisions on the stock and when to buy/sell. They are constantly evaluating investment options. The funds invest in a number of stocks, creating a diverse portfolio to reduce risk to the investors.
- **Index Funds:** Think of an index as a basket, filled with many small pieces of different stocks. One example of an index is the S&P 500, which consists of stocks from the 500 largest companies in the US. An index fund is a type of investment that tracks or mimics the performance of a specific index. The benefits of investing in an index fund are that they provide diversification for your portfolio, they are considered low-risk, they are low costs because they don’t require a team of people to manage them, and they are a good option for long-term growth.

Risk and Reward

- The higher the risk, the higher the potential return.
- The lower the risk, the Lower the potential return.
  - Highest Risk: Collectibles, undeveloped real estate, aggressive growth stocks, etc.
  - Moderate Risk: Conservative stocks, mutual funds, income real estate, etc.
  - Low Risk: Government bonds, etc.
  - Almost no risk: Cash, savings accounts, CDs, money market accounts, etc.
- Younger investors can afford higher risk than older investors because they have more time to recover if loss happens.
- Being too conservative could hinder reaching your financial goals.