MODULE

Welcome to the Stock Market!

Dive into the world of investing and learn why Albert Einstein describes compound growth as the strongest force in nature.

This module explains what stocks are, how they trade, and then examines one of the greatest stock investors of all time to help guide you as you begin your investing journey.

POWERED BY

Rapunzl

Key Takeaways From This Module

Guiding Questions

- What is a stock?
- How does the stock market work?
- Why should you invest in stocks?
- How are stock prices determined?
- When should someone start investing?
- How can I practice investing?
- What was the secret of Warren Buffett's success?

Enduring Understandings

- The way stocks trade & how this contributes to constantly changing prices.
- The benefits of being a shareholder and how investing provides superior returns to a savings account over time.
- Why Warren Buffett has been such a successful investor for so many years following a few simple principles.
- How compound growth can help any investor become a millionaire over time.

Key Terms About The Stock Market

Stock: A share of a company which is sold to investors and represents ownership.

Stock Market: A place for investors to buy & sell publicly traded companies' stock. This list includes the NASDAQ, S&P 500, & numerous indexes from around the world.

Stock Price: The current price per share for a company represents the price from the most recent transaction for a company's stock, determined by investors' Bids & Asks.

Dividend: A quarterly payment made to investors when large companies distribute a percentage of their profits to shareholders.

Volume: The total number of shares of a company's stock that trade on a specific day.

Liquidity: The ease with which an investor may sell their investment. Stocks are considered liquid investments, unlike real estate which is much more difficult to trade.

Supply & Demand: The amount of goods and services available (supply) compared to the amount of goods and services that people want to buy (demand)

Key Terms About Investing

Buy-And-Hold: An investing strategy where an investor buys shares in a company with the intentions of maintaining that position over a period typically longer than 12 months.

Greed & Fear: These are emotions that typically lead to losses, when investors get greedy they can lose sight of their investing philosophy & when investors are fearful they may sell out of positions prematurely and incur losses rather than riding out a market cycle.

Risk: The possibility of incurring a loss on your investment. Typically, the larger the potential return, the higher the risk of losing a portion, or your entire, investment.

Diversification: The concept of investing across various industries and asset classes to mitigate risk and avoid putting all of your eggs in one basket.

Stock Portfolio: The $10,000 simulated portfolio you receive on Rapunzl may be your first real-time stock portfolio! Dive into the investED section on our menu and when you feel ready, place your first trade and start your investing journey!

Understanding The Basics

Stock Market

The stock market is comprised of every publicly traded stock and provides a place for these investors to buy and sell shares of each company as time passes.

When companies grow large enough, they go through a process called an initial public offering allowing investors to trade it making the company **publicly traded.**

Share Of Stock

A share of stock represents a portion of ownership in a company. Investors initially purchase shares from a company in exchange for cash that helps the company grow.

Stock Exchanges

As the name suggests, Stock Exchanges are the platform where investors trade shares of stock with other investors. Exchanges in the US are open Monday through Friday, during the hours of 9:30AM to 4PM ET, except on holidays.

How Do Stocks Trade?

Stock exchanges are electronic marketplaces that connect stock buyers with sellers across the globe in real-time.

- When a Buyer wants to purchase a share of stock, they submit a Bid to an exchange. This represents the maximum an investor is willing to pay.
- When a Seller wants to sell a share of stock, they submit an Ask to an exchange. This represents the minimum price an investor would sell for.
- Exchanges match Buyer's Bids with Seller's Asks, trading stock between two parties whenever an investor's Bid matches another's Ask.
- The difference between a stock's Bid & Ask is referred to as the Spread. With a smaller spread, a stock is easier to trade without dramatically changing the stock's price. We describe this concept of "ease to sell" as **liquidity**.
- The number of shares which trade for a particular stock is called the **volume**.

What Are The Benefits Of Being A Shareholder?

As a shareholder you are a partial owner of the underlying company.

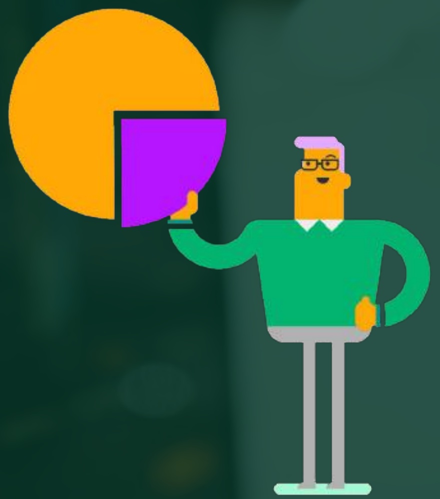
This provides you with some cool privileges and an opportunity to make money. As an owner of a publicly traded company, you can typically vote at annual shareholder meetings - although you need to own a lot of stock for your vote to really have influence.

So How Can You Make Money?

Your shares, commonly referred to as equity in a company, can help you make money in two ways:

1. If a company grows since you purchased it and increases their profits, then your percentage of the company will be worth more as well and you can sell it to other investors.

2. More established companies also distribute profits to shareholders in the form of **dividends**, which can provide an additional income stream for owning the stock!



SO HOW DO WE DETERMINE THE PRICE OF A STOCK?

Understanding Market Mechanics

Markets across the globe operate on a simple concept: **Supply and Demand**

SUPPLY

The supply of a company's stock is the total number of shares available to publicly trade. After an IPO, this value is fairly fixed, however, companies may buy back shares or issue additional shares to raise more capital.

DEMAND

The demand for a stock is expressed as investor appetite or investor interest and fluctuates as news changes investors' perceptions of a company's long-term growth every day.

If there are more investors that want to buy shares in a company than there are investors who are seeking to sell their shares, the price of the stock will increase.

Conversely, if there are more current shareholders that are seeking to sell shares than there are buyers it is likely that stock price will decrease.

What Influences Investor Demand?

When investors buy a stock, they want to make money: either through dividends or by selling the stock at a higher price in the future. Key factors investors consider are whether a company is profitable, if they have any competitive advantages, how quickly they are expected to grow, and if the company's stock trades at a discount relative to similar companies.

PROFITABILITY

Investors look for profitable companies because they are more likely to invest in growth or pay dividends to investors.

MARKET SHARE

Companies are attractive to investors if they have competitive advantages to help them control a larger portion of the total market for their product.

GROWTH

The faster a company is growing, the more investors will buy a stock and speculate about the future value & profits of the company.

VALUE

Investors search for quality companies with "cheap" stock prices that they expect to increase as more investors realize a company's value.

So What Does A Stock Price Tell Us?

Daily price movement is impacted by future earnings expectations. Rising stock prices mean longer term investor confidence. Conversely, decreasing prices reflect a negative future earnings outlook leading current investors to want to sell shares.

- **Market Cap:** Reflects the size of a company at any given time as a function of current stock prices multiplied by the number of shares that a company has.
- **Relative Value:** Reflects the value of a company by evaluating other companies' market caps to provide a relative value that accounts for current market cycles.

So What's The True Price?

Remember, a stock's price is always moving as investors buy and sell the stock. So the market price of a company today can be very different than the price tomorrow.

When you figure out what you think the true price of a stock **should be**, that's when you have an investment thesis.

WHAT CAN WE LEARN FROM THE WORLD'S GREATEST INVESTOR?

Warren Buffett

AKA “The Oracle Of Omaha”

- Net Worth: 88.2 Billion (Forbes on 2/4/21)
- Purchased his first stock at the age of 11
- 4th Richest person in the world in 2020
- The grandfather’s of Value & Buy-and-Hold investing
- Built wealth through the stock market and financial investments.

Words of Wisdom From Warren Buffett

BUY-AND-HOLD

"All there is to investing is picking good stocks at good times & staying with them as long as they remain good."

Regardless of the economic climate, if the story for a company doesn't change, then you shouldn't sell.

When a stock price declines, you may want to invest more because you can purchase the stock at a discount.

VALUE INVESTING

"Know that price is what you pay but value is what you get"

The idea of value investing is to pay a discounted price for the value you receive.

Just because a stock has performed well and is expensive, doesn't mean it will continue to increase.

KNOW YOUR PRICE

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Just because a stock is cheap doesn't mean that it is a good investment.

Buffett says he would rather pay more for a good business, than purchase a mediocre business at a discount.

THINK LONG-TERM

"The best chance to deploy capital is when things are going down."

Market turbulence will happen, it is inevitable. The correct term for this is volatility.

Buffett believes you should mentally prepare yourself to not panic during downward moves, because if you sell at the bottom, you'll miss when stocks rebound.

Core Principles of Buffett's Investing

Warren Buffett is an avid supporter of...

Buy & Hold Investing
An investment strategy whereby an investor purchases an asset with the intention of holding it for a very long-time. This helps investors realize price appreciation and avoid short-term volatility that can frighten investors who trade more frequently.

Additionally, when Buffett searches for an investment, he looks for companies with a **durable competitive advantage**. This could mean cost advantages, a strong brand name, valuable intellectual property, or anything that makes a company unique & not easily replaced.

What Can We Learn From Warren Buffett?

Buy A Stock Like You'll Own It Forever

Reinvest Earnings For Compound Growth

Start Early & Keep Investments Simple

Research Companies & Always Think About The Long Term

Be Greedy When Others Are Fearful & Look For Discounted Value

Leveraging The Power Of The Stock Market

In the short-term, investing can be risky. **Just as quickly as you could make 30%, you could lose 50%.**

However, there are a few ways to capture the gains of the stock market without exposing yourself to as much risk.

The simplest way is to **"buy the market"**, which involves buying a portion of a pool of all companies listed on a stock exchange.

The strategy is simple, and returns, on average 10% per year.

HOW TO BUY THE MARKET

The simplest way to "buy the market" is to purchase an exchange traded fund (ETF) which tracks a basket of stocks.

ETFs sometimes own up to 5,000 different stocks, which allows investors to invest a small amount but remain exposed to the potential profits of the entire market.

Plus if one company struggles, you don't have to worry because you are fully diversified.

The Power Of Compound Growth

You may think that 10% per year doesn't sound like a lot, but let's introduce you to something Albert Einstein called the most powerful force in nature:

Compound Growth

A phenomenon that occurs when a value is increased by a fixed growth rate over time, creating **exponential growth.** For investors, compound growth accounts for **earning a return on your profits, as well as the initial investment.**

After just **5 years earning 10% in the market,** your investment of $10,000 will be worth more than if you left that same $10,000 **in the bank for forty years!**

YEAR	1% SAVINGS	10% IN THE MARKETS
0	$10,000	$10,000
5	$10,510	$16,105
10	$11,046	$25,937
20	$12,201	$67,274
25	$12,824	$108,347
35	$14,166	$281,024
40	$14,888	$452,592
50	**$16,466**	**$1,173,908**

The Sooner The Better, Start Your Investing Journey!

If you invest $50 per week from the age of 18 until 55 ($2,600) and earn an average of 10% per year, which is the historical return of the S&P 500, you will have $1,021,903 after investing only $96,200 over that same period.

Key Takeaways From This Module

CORE & FUNDAMENTALS

- A share of stock gives your partial ownership of a company
- Stocks are traded on exchanges, which are electronic marketplaces
- Stock prices fluctuate based on supply(of shares being sold) and demand(of shareholders looking to buy)

APPLIED KNOWLEDGE

- It's important to keep up with geopolitics and domestic affairs to understand how stock prices will change
- There are a few key strategies(slide 14) that will help you make well informed investments

RELEVANCE FOR YOU

- Starting to invest early is key
- Like Warren Buffett, you can become wealthy through thoughtful and consistent investments