THE STOCK MARKET MADE EASY

Even A Kid Can Understand It

What is the stock market?

A *stock* market is a *type* of market. Like other markets, such as a *farmer's* market, where fruits, vegetables and other *farmed* goods are traded for cash… the *stock* market is a place where *stocks* are traded for cash.

Why do businesses enter the stock market?

Entering the stock market is a way for a thriving business to raise capital to grow. So, if Apple Carts R Us wants to increase its distribution of apple carts from Arizona to nearby Texas and New Mexico, for instance, it may choose to 'go public' and enter the stock market. Motives for joining the stock market can run the gamut from speculative (I want to grow and improve my new company!) to expansive (I'm a proven company, and now I want to expand my distribution to nearby areas) and can run the gamut.

What does it mean for a company to 'go public'?

When a company 'goes public', they choose to make all of their company revenue and expenses public. This is a way of letting the public know what's *under the financial hood* of this particular company. So, when Apple Carts R Us decides to 'go public', they must make *all* of their income, expenses and tax information public, so that potential shareholders know what they are investing in and can make a good choice. Going public is putting your company and everything 'under the hood' on display, much like *farmers* put their apples and lettuce on display at the *farmer's* market.

What does it mean to buy stock?

Buying stock means that I am *investing* in a company. This means that I am giving that company money in exchange for a *share* in that company.

Is a share in a company the same as owning a part of that company?

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Yes, although the amount of ownership that a share represents can vary *massively*, depending on the company. Apple Carts R Us might give its shareholders 1,000,000 shares, representing 10% of its entire company. That means that if you have all 1,000 shares, you own 0.01% of the company. This gives *all* the shareholders a 10% stake in the company… but individually, that may not amount to much.

What do I *get back* for owning stock in a company?

Depending on the company, owning stock can mean that you get special perks, such as dividends (meaning if the company makes money, you make money) or discounts in that company. However, not all companies offer this. For companies that do not offer dividends, you make money when you buy a stock whose value later increases beyond your initial investment, at which time you can sell your stock for a revenue.

What is a dividend?

A dividend is a percentage of revenue that *some* companies pay back to shareholders. If you own 1,000 out of 1,000,000 stocks for Apple Carts R Us, and Apple Carts R Us has given shareholders a 10% stake in the company, your 1,000 shares entitle you to 0.01% of Apple Carts R Us' revenues for a certain period. So, if this year Apple Carts R Us makes $100,000 in revenue, at a 0.01% revenue stake, you will earn $10. If you own 10,000 shares, you will make $100.

How do I make money on my shares?

Generally, you can expect to make money on your shares when the **demand** for that share increases. Demand is an interesting thing, and can be affected by several factors.

Let's say that demand is increased by a company's profitability. If the company you invest in makes *more money* this year than last, the stock value *may* go up. Let's say Apple Carts R Us is a new company on the market. After looking at their revenue year over year, you think "Wow, this company's sales have been going up every year. I believe with the current health trend, and with more farm-type communities cropping up, that apple cart sales are going to continue to go up in the future. I am going to buy 1,000 shares today in Apple Carts R Us."

The following year, you find out you are right. Apple Carts R Us has increased their revenue by 25%. Last year, they did $100,000 in revenue, and this year they have done $125,000 in revenue. As a result, the demand for stock in Apple Carts R Us increases. In

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the case of Apple Carts R Us, their increase in sales makes them a more popular company and demand for their shares goes up. This does not always happen, but in their case… it does.

When you initially bought your 1,000 shares, they were worth $10 each. Now, entering their second year as a publicly traded company, your shares are worth $15 each. So, your original investment of $10,000 ($10 x 1,000) is now worth $15,000 ($15 x 1,000). If you sell now, you will make $5,000 profit. You look at their current sales trend and decide that you will wait another year to sell. This is a risk. If something goes wrong next year – let's say the wood distributor they are using runs into a woodworm problem and then can suddenly no longer sell as many apple carts, their sales and reputation may take a hit. If you believe their reputation is solid and can handle anything that comes their way, you may choose to maintain, or just sell a *portion* of your shares. The choice is yours.

How do stock prices go up and down?

As described above, stock prices go up and down depending on the public's *opinion* or *valuation* of a company. A company may not actually be good at making money, but the public may like it, or believe it is 'cool', and therefore… that company can stand to sell a lot of shares. However, whether those shares translate into revenue for the shareholders will depend on how that company performs in the long run. Being 'cool' in the short term may mean the company goes under in the future. This is why investing in solid companies is so important.

How useful was this document to you? Feel free to contact me on Facebook and let me know! For more information on stocks, or to have this spelled out even more simply, check out this classy, no-brainer video explanation to make the stock market even clearer than before:

The Stock Market for Dummies – Video with easy-to-understand graphics: https://www.youtube.com/watch?v=F3QpgXBtDeo

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