Lesson 14-2
Stocks

Why buy stocks?

- You can increase

- If careful, you can increase

Type of Stock	Characteristics
Income Stock	Company that pays a cash dividend higher than that offered by most companies. Stocks issued by telephone, electric, and gas utility companies; beta often less than 1.0.
Growth Stock	Corporations that are leaders in their fields, that dominate their markets, and that have several consecutive years of above-industry-average earnings are considered; pays some dividends. Investor awareness of such corporations is widespread, and expectations for continued growth are high. The P/E ratio is high; betas of 1.5 or more.
Blue-Chip Stock	A company that has been around for a long time, has a well-regarded reputation, dominates its industry (often with annual revenues of $1 billion or more), and is known for being a solid, relatively safe investment; betas are usually around 1.0.
Countercyclical Stock	A company whose profits are greatly influenced by changes in the economic business cycle in consumer-dependent industries, like automobiles, housing, airlines, retailing, and heavy machinery; betas of about 1.0. A stock with a beta that is less than .0 is called a **countercyclical** (or **defensive**) because it exhibits price changes contrary to movements in the business cycle, thus prices improve during economic downturns. Examples are cigarette manufacturers, movies, soft drinks, cat and dog food, electric utilities, and groceries.
Value Stock	A company that grows with the economy and tends to trade at a low price relative to its company fundamentals (dividends, earnings, sales, and so on) and thus is considered under-priced by a value investor; beta 1.0 to 2.0.
Large-Cap, Small-Cap, and Mid-Cap stocks	A company's size classification in the stock market is based on market capitalization. **Large caps** are those firms valued at or more than $10 billion. **Mid-caps** are $2 billion to $10 billion. **Small caps** is $300 million to $2 billion.
Tech Stock	A company in the technology sector that offer technology-based products and services, biotechnology, Internet services, network services, wireless communications, and more.
Speculative Stock	A company that has a potential for substantial earnings at some time in the future but those earnings may never be realized; betas above 2.0. Examples: computer graphics firms, Internet applications firms, small oil exploration businesses, genetic engineering firms, and some pharmaceutical manufacturers.

How to Evaluate Stocks:

1) Beta Value

- Use it to compare a

- It is a measure of

- If the Beta is:
  - _____: the stock goes up and down _____ as the whole market.
  - _____: the stock moves with the market but is _____ _____.
  - _____: the stock moves with the market but is _____ _____.
  - _____: the stock moves in the _____ to the whole market.

2) Earnings per Share

- It is helpful because investors can use it to

$$EPS = \frac{\text{Annual Earnings}}{\text{Number of Outstanding Shares}}$$

3) Price/Earnings Ratio

- It is an indicator of

- If it is stated as a percentage, it is referred to as the

$$P/E\ Ratio = \frac{\text{Current Price}}{\text{EPS (see formula above)}}$$

4) Dividend Yield

- It is helpful because it helps you

$$DY = \frac{\text{Cash Dividend per Share}}{\text{Current Price per Share}} \times 100 = \_\_\_\%$$

Should you buy this Stock?

Step 1: Find the beta to estimate the

Google it: larger beta = larger risk

Step 2: Find the

This year, the US risk is _____%

Step 3: Calculate your

Google the Tbill rate. Currently _____%

Required Rate of Return (RRR)=
Tbill Rate + (Beta x Market Risk)

Step 4: Find the stock's

- It is also called the

$$ACY = \frac{\text{Average annual dividend} + \frac{\text{Projected price} - \text{Current price}}{\text{number of years projected}}}{\frac{\text{Projected price} + \text{Current price}}{2}} \times 100$$

Step 5: Compare the _____ rate of return with the _____ rate of return on the investment.

- This is the point where you
-

Should you buy this stock?

- BUY if: ACY > RRR
- Don't buy if: ACY < RRR

SAVE THESE NOTES! They will help you in the future!!!!!!