

The Basics of Stock Investing

Understanding the fundamentals so that we make smarter choices.

The Stock Market in a Nut Shell:

The “stock market” refers to companies that make their equity shares available to buy and sell in public marketplaces called stock exchanges. Public investors aim to buy shares that can be sold later at a higher price, hoping to earn a profit based on the stock’s increased value. While the many stock exchanges across the globe vary in size and age, the United States’ New York Stock Exchange is by far the largest in the world. All a person needs to become an investor in the stock market is an appropriate brokerage account and acceptance of the risk of possible losses in their search for profits. Stock investments are uninsured, meaning there is no government agency to protect us from the risk of loss.

Stock Exchanges

There are many stock exchanges in the world, the largest of which tend to be located in regions with dynamic economies. While a publicly traded company may list their stock on multiple exchanges, individual exchanges often differ in how they conduct price valuation, how transactions are made, and what types of financial securities are traded. Although this content revolves around the basics of trading stocks (a type of equity security), many exchanges provide infrastructure for the trade of other financial security types such as debts and commodities. Here are some of the world’s largest exchanges based on total dollar value of outstanding stock shares (market capitalization):

Largest Stock Exchanges:

- New York Stock Exchange (**NYSE**)
- National Association of Securities Dealers Automated Quotations (**NASDAQ**)
- Tokyo Stock Exchange (**TSE/TYO**)
- Shanghai Stock Exchange (**SSE**)
- Hong Kong Stock Exchange (**SEHK**)

Brokerage Accounts

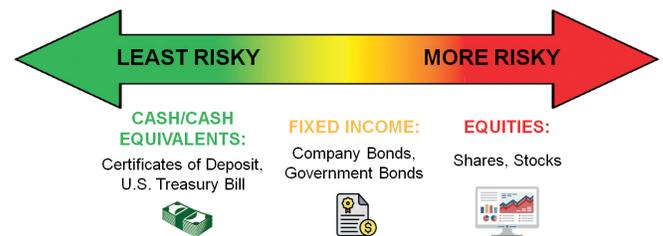
New investors must open and fund a brokerage account with a registered investment firm in order to gain access to investment markets like stock exchanges. This account is used to manage the investor’s buying/selling and any income made is taxable as a capital gain. The many investment firms available vary by range of services and costs, and charge either a commission per transaction or an annual fee for active portfolio management. The fee structure depends on the type of account that is opened. Many of today’s popular options are e-brokers, allowing investors to use online apps and robo-advisors to manage their portfolio.

Evaluating Stocks

A key point for any stock investor is understanding and accepting the risk of potential loss involved. In comparison

to other financial investments, stocks have a higher level of risk as their prices fluctuate more and there is no insurance to protect your initial investment.

INVESTMENT TYPES BY RISK



Our potential for return depends on the success of the companies we’ve invested in and, thus, the stock exchange’s valuation at the time of selling vs. our purchase price. While the ability to profit has much to do with the timing of these transactions – i.e. buying low and selling high – our ability to forecast the success of a stock depends on many factors.

Reading Stock Quotes

A stock quote reflects important statistics that detail the stock’s performance in the market over time. These stats are based on dollar value, time, and trade volume, offering investors a form of retrospective measurability for growth/success. While there are many places to find stock quotes for any exchange, it is still up to the investor to do their own research. Consider these performance statistics before transacting:

- **Today’s price range** – value at market open vs. current price
- **Previous day’s price range** – value at market open vs. market closing on the prior trading day
- **52 week price range and average** – value over the past year
- **Volume of trading** – number of shares bought and sold over time

Other Investment Evaluation Tips:

- Pay attention to business and financial news to find signs of profitable business sectors and companies
 - Compare a company's stock price to that of its competitors in the same industry
 - Imagine investing early in the technology juggernauts of today like IBM, Apple, and Google
- Follow stock indexes to identify “big movers” and market trends
 - Stock indexes track the performance of a group of specific companies
 - For example, the well-known S&P 500 index reports tracking of the 500 largest publicly traded companies in the U.S.
 - Other examples: Dow Jones IA, Nasdaq Composite
- Consider how you can diversify your portfolio
 - Remember the adage: don't put all of your eggs in one basket
 - Investing in different companies across different business sectors can help reduce the risk of loss to a degree

Beyond Individual Stocks

While “cherry-picking” individual company stocks is a common practice, there are other ways to invest your money in the stock market. Consider these commonly traded investment vehicles:

- Mutual Funds – A portfolio of diversified stocks, bonds, and other securities maintained by a professional investment broker
- Exchange Traded Funds (ETF) – Similar to mutual funds where trading follows an associated index
- Exchange Traded Notes (ETN) – Unsecured debts that are traded like stocks

Quick Glossary

The world of investments comes with a lot of verbiage and jargon. This glossary could help you understand some of the verbiage you may find in your market research:

- **Commodities** – a security type based in products like raw materials/agriculture products; i.e. gold, corn, and oil
- **Financial Securities** – negotiable financial instruments that hold some type of monetary value

- **Index** – used to measure and track the performance of some group of assets in a standardized way
- **Market Capitalization** – total dollar value of outstanding stock shares, commonly used to describe the size/value of a stock or stock exchange
- **Risk Tolerance** – the degree of variability in returns that an investor is willing to endure when it comes to planning investments
- **Share** – used to describe the units of stock, largely synonymous with the word “stock”
- **Stock** – financial equity securities that denote ownership in a publicly traded company
- **Stock Exchange** – marketplaces where equity securities like stocks are bought and sold

General Tips

Along with doing your own research to determine the stocks that may be worth your investment, cultivate a relationship with experts you can trust. Take full advantage of the services your brokerage firm may offer, especially if those services are already covered by the fees you pay. Remember that as your life changes, your risk tolerance and overall financial picture can change with it. In today's world, you have live broker agents and robo-advisors at your fingertips – it's up to you to create any advantage possible when considering where and how you'll invest.

For More Specific Guidance

If you'd like personalized investment guidance that suits you specifically, consider scheduling time with a CFS* Truliant Financial Advisor for consultation and planning.

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Stock Comparison Worksheet

Complete this worksheet with details from stocks you are considering to buy. Organizing your research this way will help ensure you are comparing important performance statistics before investing!

	Stock 1	Stock 2	Stock 3
Stock Name			
Symbol			
Today's Date			
Current Time and Price	—	—	—
Today's Open Price			
Previous Day's Close Price			
52 Week Range	—	—	—
Notes (Reasons to buy or wait, related news, patterns, etc.)			