Collected By Kelly Wu

How does the stock market work?

https://www.youtube.com/watch?v=p7HKvqRI_Bo

Basic: Buying a stock is like buying a share of the company, it makes the investor a partial owner of the company. Anyone who believes a company might be profitable might buy a stock.

Overview of the increase of stock price:
Investors buy stocks → Companies have the money to grow → More buyers see potentials and start buying stocks → The demand for the stock increases, the price increases → The company has a higher market value and investors benefit from it.

Overview of the decrease of stock price:
For some reason a company seems to be less profitable → The investors think their stock value is going to decline → They sell the stocks before the price drops → Stocks are sold, demand goes down, stock prices drop → The company's market value goes down.

What affects stock prices?

https://wall-street.com/trading-basics-factors-influence-share-prices/

Essentially: The changes in stock prices are all caused by demand and supply of stocks.
When supply > demand (more sellers than buyers), price goes down;
When supply < demand (more buyers than sellers), price goes up.
People's prediction of the stock is going to affect their decisions to buy and sell, then affect demand and supply. These are the factors that affect people's predictions:

1) Bank's interest rates. For example, if banks have high rates for savings account, people will just put money in savings, instead of buying stocks, then demand goes down.
2) Economy situation. Fluctuations in the economy feature what are commonly referred to as booms and depressions. Under favorable conditions share prices are at their peak and their lowest point is experienced during depressions.
3) Confidence in the company:
- Changes in production technology: This depends on the social situation. For example, when technologies develop and smart phones appear, old phone companies seem less profitable, and people do not want to buy their stocks.
- Management of the company: If management consists of experienced professionals with a proven track record, share prices are likely to be higher. If the management that takes over a company lacks integrity, share prices tend to fall.
- Bad publicity. For example, if there are bad news and scandals about a company, people do not expect the company to be profitable and are less likely to invest.
- New laws and trade policies: For example, if there is a new las against some products that a company make, people do not expect the company to be profitable.
4) Randomness. There is nothing changing in the market situation, investors just decide to withdraw the money for other usages.