MODULE 1

# 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

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# 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.

# 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 which is the initial issuance of a company's shares that can be **bought and sold in the public market.**

### 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 commonly referred as **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, **the quantity of shares that are publicly traded 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 indicates **positive** 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.

# Think About The Future

## Back To the Future

It is important to think about whether a company is “future-proofed.” You want to invest in companies that are in line with new trends and technologies. For example, A DVD company is not a great investment today.

## No Hype Beasts Here

Some companies grow because they are inherently well performing companies and others grow because of hype. The latter can be extremely volatile and requires extremely precise investment timing.

## Is it a Boomer or a Zoomer?

Earnings, margins and growth can tell you where a company lies in its life cycle. More mature companies can be a stable part of your portfolio while high growth startups can bring strong returns with risk.

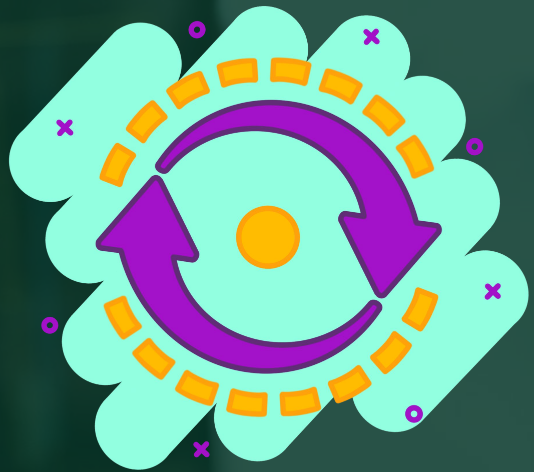
# Stick With What You Know

**The best investors become experts on the companies they invest in and typically seek out long-term investments that they feel comfortable holding for 10+ years.**

***Each investor has their own methodology. Some look for value. Others look for opportunities. In both cases, investors stick with investment strategies they understand.***

One of the greatest investors of all time, Warren Buffett is famous for not making investments in the technology space. It isn't because he doesn't believe in the industry; quite the opposite.

**Buffett doesn't invest in a lot of technology companies because he doesn't understand them & he's okay with the missed opportunity.**



# Don’t Be Hasty

Another critical aspect of the best investors is that they don’t get spooked by short-term market fluctuations. As a seasoned investor, you need to recognize that stock prices fall, sometimes it appears without reason.

During these moments, if the underlying reason for your investment and the company’s fundamentals are not impacted,..

**Why would you sell?**

**These moments could represent an opportunity to buy more of the stock at a discount. This is the concept of dollar-averaging and allows you to increase your gains when the company’s stock performs well.**

**Remember: If news comes out that negatively impacts your company and changes your investment thesis, do not wait. Research shows that ordinary investors statistically wait too long to sell stocks that are losing money.**

# Welcome To Compound Growth

## Early Is Better When Investing

If you invest $50 per week ($2600 per year) from the age of 18 until 55 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.

**If you invested $120 per week, you'd be a millionaire in 30 years!**

# 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.

Popular ETF providers include Vanguard, BlackRock, and State Street.

# 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** |

# 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.

# Key Takeaways From This Module

## CORE & FUNDAMENTALS

- A share of stock represents partial ownership of a company, and any investor can trade shares in publicly traded companies.
- Investors purchase shares of stock with the hopes that the stock will pay dividends or the price per share will increase.
- Investing is a long-term game that requires patience and research.

## APPLIED KNOWLEDGE

- 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.
- Compound growth can help any investor become a millionaire over time.

## RELEVANCE FOR YOU

- Anyone can become an investor in publicly traded companies, and compound growth benefits investors that start early.
- Investing helps you put your money to work so that you can begin earning passive income.
- The best investors focus on companies that they understand and believe will continue to grow in the future.