Module 1 Article

Earning In The Stock Market

Key Terms

- **Short Selling**: Investors can bet on the decrease of a share's value by "shorting" it. This is another way to make money in the market, albeit much riskier than traditional investing, as it involves borrowing from a financial institution. If the "bet" goes awry, there is infinite potential for loss.
- **Stock Purchase Plan**: Some employee payment plans include shares of company stock at a discount.
- **Blue-Chip Stocks**: Blue chip stocks are those offered by large, financially reputable and generally well-established companies. They are not always high growth stocks, but provide stable returns.

Put your Money to Work

There are two ways to make money from investing in stocks. First, if you buy a stock that appreciates or rises in value from when you bought it, then you make the difference in profit when you sell. Traders try to realize short term gains by watching market movements and constantly buying and selling shares as prices rise and fall throughout the day. Investors take a more long term approach, utilizing the slow but steady growth of the market as a whole to compound their gains over 15 or more years.

There are pros and cons to both strategies, and as an individual investor you can even combine the two to determine your personal investing style. However, it is well documented that staying in the market leads to more consistent realized gains over time. Read on to learn why patience is a virtue in the markets.

Playing the Long Game

Good companies will increase their revenues over time, regardless of temporary challenges. As such, it's important to stick your investments out even through periods when share prices seem to lose value. An example from recent history is Apple's performance during and since the 2008 financial crisis. Like most companies, Apple's stock took an unfortunate dip that year. However, investors who maintained their position in the company from then until now would have generated a more than 2000% return.

Along with consistent share price growth, you are more likely to realize dividend income if you stay in the market for longer periods of time. While some companies already commit to quarterly dividends, the payout can increase based on company performance during a specific year or quarter.

For example, in 2004, Microsoft announced a special dividend price of $3.00 per share - as compared to $0.16 - due to positive financial conditions in the company. These periods can be very difficult to predict, so staying in the market gives you the greatest chance of reaping such rewards.

To harness the overall market's average annual return of about 10%, buying into index funds or ETFs(exchange traded funds) is a great strategy. Both are composed of dozens or more stocks that are diverse either across the market or within a specific sector. As long as you stay invested, Index funds and ETFs provide a simple way to tap into the market's natural growth.

The Bottom Line

Selling previously purchased shares at a higher price and receiving dividend payments are the two main ways to make money from stocks. Staying in the market long term is a proven way to realize consistent and significant gains. You can "buy the market" and diversify your holdings through ETFs and index funds.