

# Preface

This book is my personal attempt to make a difference in the current problem that exists when it comes to investing in stocks. The problem is how to start investing successfully? If you believe that investing is not for you, keep this book. If you think it is hard to understand, read this book. If you want to start building your wealth, start with this book.

Investing is something that every individual should have some degree of knowledge. Regardless of your profession, income level, or even age (as soon as you learn basic algebra, investing is something you can pick up quickly). Everyone's goal, I would assume, is to become successful, to obtain higher salaries, to obtain a better quality of life. Whether is for you or your loved ones, the desire to become wealthier is embedded in most of us as humans. For this reason, investing holds the key to attain that level of wealth we desire. If you invest in your body and you will become healthy, invest in your classes and you will get better grades, invest in your money and you will get wealthy.

This book covers the essence of what investing really entails but will go in detail for one type of investment, which is Stocks. Stocks have a reputation of being risky because they are perceived as a gamble. Ironically, even experts treat it as gambles countless times. If that was the case, buying stocks would be the same as buying lottery tickets. Just a decision based out of chance. If chance would be the deciding factor on stocks, the number of millionaires from stocks and lottery should be similar, and it's not. In fact, the research shows that 70 percent of lottery winners end up bankrupt [1]. The reality is that stocks are a form of investment that will forever change the way you look at money.

So now that I have said all of these, you might ask: How do I start then? Keep reading and by the end of this book you will have the tools to turn a small monetary sum into the wealth you deserve.

Remember, investing is not a gamble. You are not predicting the future out of luck. You are predicting the future out of knowledge. And that knowledge is what I have come to share with you, and everyone else who wants to learn.

Be wise, be eager, and always be a learner.

-The author

# Introduction

## Why use this?

I imagine you want to make some extra money. Whatever your goal might be, whether is to obtain luxury, travel around the globe, or bring financial freedom to your life, everything will start to materialize as soon as you finish and understand this guide.

I would personally like to thank you for purchasing this guide and reassure you that it will offer you everything you need to have a strong understanding regarding stock trading. My motivation to write this, is based offering an updated guide to teach not only how to invest, but how to think like an investor as well. When I first started buying stocks, back in university, I found that many definitions were confusing, tutorials were mainly just people rambling on stuff that did not help, and if you really wanted to get professional education you needed to pay a lot.

After researching for many years in books and I believe that there is still not an **updated, quick, cheap, and straight to the point** guide in how to buy or sell stocks. Many people get scared about buying stock, and many people find this topic taboo, but this guide, if read thoroughly, will give you everything you need to start from zero and build up as much as you wish from there.

The biggest misconception that I have seen in between investors is that apparently there is two only options: Buy or Sell. Because of this rather “simple” approach to stocks, people overlook the underlying details that are needed to take a decision about purchasing stock. In order to be a successful investor, you need to dedicate to the following: Time and Learning.

Buy or sell stocks should be one of the very last thoughts into stock investment. However, many individuals treat the market as a horse race where you should be either selling or buying at an outrageous pace. This idea of stocks is not how the market should be analyzed. Before investing money, you need to invest your time into your brain.

In case you did not know, buying learning tools such as this one, is a great investment. And this will be the steppingstone you need in order to reach your desired wealth. Learning about the stock market is filled with definitions and information that is often not needed to understand a concept. Even worse, I have read many stories that tend go farther on the storytelling rather than concept-explaining. I am personally a fan of examples so you will find some exuberant ones to understand this guide.

I have often read that “a couple of monkeys playing darts can predict the stock market better than average people”. Guess what? I am here to tell you the right mentality and the right approach to understand, visualize, rationalize stocks, and beat monkeys.

## Keep in Mind.

Aside from this initial introduction, every piece of information will be presented sharp and to the point (it is indeed, my style of writing and thinking). Thus, you might find that there is a **lot of information to be retained**. In these cases, is recommended for the early beginners to have this guide with them while making initial purchases. In fact, I would strongly recommend reading this guide more than once. This guide also has some quick examples where you can see how different stocks behave and what is the appropriate mentality when looking at them. This guide is a kick-start for stock investing and is aimed to provide a background from the very early ground. Literally starting on what an investment is, and how there are many types of investments. Once you have all the right tools, it will be just matter of time to start growing your wealth. You will be more than surprised to see how many investors do not know the basic ideas behind investment. We delve into many characteristics that investors usually do not consider, and why are those important. Some examples include: **Why companies use Stock, why economy matters in stock selection, why psychology plays a decisive role in investors and many more.**

Whether you know nothing about the stock market, or have many years of expertise, this book is made to offer a comprehensive exploration of the right mindset that is needed to become a successful investor. However, this mindset starts by having a **solid understanding about the roots of investing**. Thus, this book will aim to provide a structured mentality to tackle any future stock investments you can have in mind.

# Chapter 1: What is Out There to Invest In?

## The Basics

In simple words: Investing is putting your money in something (stocks, gold, currency, cars, etc.) that will retain its original value and give you extra money (called interest, dividends, etc.) after certain time. When you begin to research, you need to understand that there are many types of investments. Many people believe that investing refers to a certain thing only, and that is not the case. One of my favorite definitions of Investment comes from G. Malkiel: “*I view investing as a method of purchasing assets to gain profit in the form of reasonably predictable income (dividends, interest, or rentals) and/or appreciation over the long term*” [2]. Many examples come to mind that can serve as an investment. Real state, if you invest money to obtain a property and rent it out, in the long term you will generate income. Invest in gold, wait a couple of years and sell it for a higher price that you originally bought it for. Invest in stocks, and in the long term you will end up with many dividends that will come from the company. The more investments you have, the higher the rate of return will be. Think about it as plating fruits, the more seeds you plant, and the different variety of fruits you choose, the more fructiferous your results will be. The best thing about multiple investments, is the fact that if one is not being successful, you can still profit from others. Some forms of investments are:

**Bonds:** This investment type is a form of “loan” that is given from the investor to the company. Bonds are different from stocks because these are “secured”. Thus, a company is legally liable to pay out bonds to the current bond-holders in the case of bankruptcy. Bonds only pay off interest rate (which varies from companies). One main disadvantage of bonds is that the amount of money you receive will always be independent on how well the company is doing. Bonds could be considered the same as bank loan. However, the investor is the bank, the bond is a loan, and the customer is the company.

**Real Estate:** This investment focuses on buying physical properties and obtaining money by either renting them out or selling them out. The importance of real estate lies in that they offer a strong source of income that is independent of a company. However, it depends on other factors such as the property conditions, location, and more.

**Foreign Exchanges:** This type of investments involves buying a currency (or money from other countries). The value of foreign exchanges depends heavily on economy, and also offers a slow growth. Recently it is a method not highly recommended.

**Cryptocurrencies:** This type of investment is a new way of moving money. Simply put, money is invested on a virtual currency that is independent of the country it is in. Cryptocurrencies have been adopted by many companies as a form of legitimate payment. An advantage or disadvantage (depending on perspective) that comes from cryptocurrencies is that they are always available for trading, all year.

If you are interested in investing on any of those categories, I have provided at the end of the book many recommendations on other types of investments to keep growing from multiple income sources.

## Stock Investments

Stocks can be referred as shares or equity. Stocks represent ownership from a company in exchange for money. Thus, when you buy a stock, you are claiming a percentage of ownership. There exist cases where is possible to take whole possession of a company by simply gathering stocks. For this reason, sometimes, you read the news that say, “company X is **repurchasing** stocks”. This is referred to as **Stock buybacks**. What this means, is that the owners of the company are getting their stock back to the company because it might be dangerous that a high percentage of these stocks is allocated with a different person rather than the current owner. If that happens, a new owner could obtain the company by owning more than 50% of the stocks. For this and many more reasons, companies can sell their ownership in the form of stocks and repurchase it back as they need.

**Dividends:** These are an incentive for people to buy their shares. This incentive offers a constant amount of money being paid up to the shareholders (or stock owners) at a regular interval. The time of pay and the number of dividends is different for every single company. They tend to offer these depending on their financial situations. If the company needs to raise money quickly, using dividends are an enticing option.

**Undervalued:** This means that the company has a stock price that looks low, and it will increase within time. Defining a stock as undervalued is totally arbitrary; somebody could be telling you that and be wrong. However, if you find truly undervalued stocks and invest in them, then you are in the right track to become wealthy!

**Overvalued:** The opposite of undervalued, in this case it is not recommended to buy overvalued stocks because you would be paying money for a stock that is more likely to go down later.

## Where are Stock Transactions made?

Finally, let us clarify what is “the market.” Before, it used to be a physical place where physical (paper) transactions occurred. Now everything is done digitally, so the idea of the “market” doesn’t really have to mean a physical place. There exist many markets in the world. Many countries have different markets. In the United States, the most famous one is the New York Stock Exchange (NYSE). This guide is focusing on the NYSE only. However, many strategies and most investment types are the same for any other market. These markets have explicit “trading hours” that depend on which location the market is. For NYSE, trading hours go from 9:30 am to 4:00 pm EST (Eastern Time).

Now that we have all the basics for stock investment, we need to swim into the idea of why stocks exist on the first place. If we understand the necessity of stocks for a company, we start to understand how to choose from these “potentials sources of income”.

## Why do stocks exist?

If you have taken a basic accounting course (not required) you will know that everything for starting a business revolves around the **Basic Accounting Equation**:

$$\text{Assets} = \text{Liability} + \text{Owners Equity}$$

This equation says that all the goods or values that the company has (known as assets), is equal to the amount of debt (liabilities) and equity (stocks) that the company currently possesses. There is no need to go in detail for this equation (there are entire books about it) because it is mainly used to understand how to manage a company [4]. However, it is important to note that the **Assets** represent everything on the company: assets include all their possessions (buildings, machines, anything that you can purchase) and profits. While Assets go up, Liability and Equity will go up as well. **When profits are high, the Assets side goes up, and so does the Owners Equity, which means that you, as an investor, benefit from that.** However, at the “early” stages of a company, to make profits, it is needed to first get some borrowed money in the form of liabilities (bank loans, etc.) and/or owners’ equity (stocks, etc.). So, if you want to company to become bigger, you would need bigger financing sources to fund your projects, products and services.

One key difference in between liability and owner’s equity is this: **Liabilities are secured, and Owners Equity are risky.** For example, the bank gives the company money, in exchange of a fixed interest rate for their services. Then, the company is legally obligated to pay this. However, for equity, the company is not obligated to pay shareholders (investors) anything in the case the company goes bankrupt.

Companies sometimes don’t like the interest rates offered, the amount of money provided by banks, or the terms of contracts, and **that is why** offering owners’ equity (selling stock) is a great source of funding money. In the case of selling stock, the incentive for shareholders is that, if the company is doing good, our initial investment will be increasing. Another incentive are the dividends that were mentioned. Other reasons to sell stock instead of acquiring loans is that companies need more money than what they can obtain from liabilities (loans) and they rely on owner’s equity.

**How is stock price determined?** There are many definitions that are given for Stock Prices, some are simple, and some are complicated. Let us start with the simple one first, take **how much the company is worth** (this number is also called total value, market capitalization or simply market cap). This number is usually determined from the basic accounting equation as the “assets” side. Then, just divide this number by the total number of shares available (or **outstanding shares**), and that is the stock price. For example, if the market cap of a company is worth 1 Million dollars, and there are 200,000 shares on that company. The price is roughly  $\frac{1,000,000 \text{ dollars}}{200,000 \text{ shares}} = 5 \text{ dollars per share}$ . The number of outstanding shares is usually determined by the company’s needs so each company will make as many shares available to the public as they need **The stock price has more to it than just a number and will be explained later in Chapter X.**

Finally, not all companies have stocks on the market for sell. These types of companies are known as **Private Companies** because they do not see value in obtaining funding from stocks. Companies

with stocks on the market are known as **Public Companies**. Companies can have many reasons to be either private or public, an example could be that their products are doing extremely well so that they never needed extra funding. Another would be that a person or an entity that has more than enough money to run the company is not worried about funding for the future. When companies go from Private to Public, an **IPO or Initial Public Offering** occurs, which announces the day that a stock is available to sell along with its initial stock price (these events caught the eye of many investors, and newspapers).

## Different Stock Investment Types

Now that you understand the basics of how companies use and run by stock, we need to understand what kinds of stock exists. **Many people specially at an early stage of investment, believe that there is only one type of stocks to buy, but that is not true.** It is recommended to have a **portfolio** (or collection of investments) that has different sources of income.

The different types of investments and their definitions are the following:

**Common Stock:** This is also known as Public Stock, and this were explained previously in this chapter. This investment represents a form of financing for a company that will offer benefits to investors if the company is successful.

**Penny Stocks:** This definition can vary from the source, but usually, penny stocks are the same as a Common Stock that has a value of \$5 or less. This type of Stocks is important to distinguish from common stock because these are way riskier to invest on.

**ETF (Exchange-Traded Fund)’s:** These are basically a “collection” of different investing options (called securities as well). ETFs can be made of stocks, bonds, and many more. The key of ETFs is that many financial assistants (who work in a building) are in charge splitting your money in different options to maximize your profit. **You are not in charge of where the money specifically goes to.** For ETFs or any collection of securities, your money will grow based on percentages as a combined sum. This is because the investors in charge of your money can use it in many companies.

**Mutual Fund:** These are also a “collection” of different investing options. However, Mutual Funds only trade at the end of the day price. **With this in mind, we could say that Mutual Funds only change once a day, and ETFs constantly change throughout the day.** The Mutual Funds can be made of bonds, stocks, and more. The key of Mutual Funds is that many investors oversee splitting your money in different options to maximize your profit. **You are not in charge of where the money specifically goes to.**

**Index Fund:** To explain this investment, we need to understand what an index is. **An index is a collection of stocks only.** There are many index types, and one of the most popular is the S&P 500. This index has the most popular 500 stocks available in the market and has a **historic record of always going up on the long-term.** Now, an Index Fund is a general term to refer to any type of index. If you are investing on the S&P, you are investing on an Index Fund. Index Funds are classified as a Mutual Fund because it also has a “collection” of investing options. Many investors



use the S&P as a “benchmark”. So, if your portfolio grows faster than the S&P, you are officially “beating the market”.

**Preferred Stock:** This type of investment is like Common Stock. The main difference is that when a company pays off dividends, the company is legally liable (or responsible) to pay out the money to their preferred stock members. Common shareholders do not have this privilege, so if the company either goes bankrupt or decides to not give money to the shareholders, there is nothing to do about it.

Feel free to delve deeper in other investment options or investigate more about the ones mentioned. The key to be a good investor is to **know really well what you are investing in**. Even though many investment types were described, it is important to note that the tools on the next chapters are mainly focused on Common Stock. Some examples in the guide include penny stocks, ETF’s or more, but to fully invest on those is recommended to read more about them. The tools offered next can be of help for other types of investments but not necessary all of them. Many tools in this guide will not be efficient when entering real estate, but efficient in selecting penny stocks. **It is always recommended to learn about other types of investments because the more sources you invest in, the higher profits you can get.**

Now, let us look at retirement. Many individuals are not aware of how retirement accounts work. Well, there are many types of retirement accounts such as an **IRA, 401k and 403b**. When you put money in these accounts, they get saved and get invested on the types of investments that were listed earlier. Sometimes, your plan might let you deposit money in specific areas like stocks, bonds real estates and more (called asset allocation). However, sometimes when people are not sure how the investment works, they just let the company in charge of the 401k/403b to invest at their judgement. What makes a retirement plan different from simply saving on a savings account are two things: taxes, and accessibility. The money you get for your retirement plan gets deducted from your monthly payments before taxes so that they quantity you get is **not affected by taxes**. The accessibility part means that **the money is not available** to you even on emergency cases until the date of retirement is reached. So, this would seem like an extreme savings account.

However, we must look at another type of aid option which is: Social Security. This type of plan is not an investment, but money that gets collected from taxes and is used to provide another form of retirement to workers in the U.S. The problem is that many researchers believe that Social Security will not have enough money in the future to provide to all the retired people in the country (research it if you don’t believe it!) [2]. The reasons and explanations are not related to an investment (these are more government related, so out of the scope of this guide), but we need to understand that investments are a backup plan to Social Security.

<https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html>