The Complete Beginner's Guide to Investing in Stock

How Owning Shares of Companies Can Help Build Wealth

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History shows that investing in stocks is one of the most profitable ways to [build wealth](https://www.thebalance.com/new-investor-s-guide-to-building-wealth-358060) over the long term. Nearly every member of the Forbes 400 list of the wealthiest Americans got there because they own a large block of shares in a public or private corporation. Learning to invest wisely and with patience over a lifetime can yield a portfolio far outpacing the most modest income.

1. [What Stock Is](https://www.thebalance.com/stocks-4073971)

A share of stock—sometimes called security or equity—is legal ownership in a business. Corporations issue stock to raise money and it comes in two varieties—common or preferred. Common stock entitles the stockholder to a proportionate share of a company's profits or losses. Preferred stock, meanwhile, comes with a predetermined dividend payment. [There's more that distinguishes the two types of stock.](https://www.thebalance.com/stocks-4073971)

1. [How to Make Money Investing in Stocks](https://www.thebalance.com/how-to-make-money-from-buying-stocks-357330)

An increase in stock price and dividends are two ways to profit from owning and investing in stock. Because these accumulate over time, just one year's investment in the right company—if held for 30 years—can [yield a solid return](https://www.thebalance.com/the-mathematics-of-getting-rich-by-investing-in-stocks-358105).

"The real money in investing will have to be made—as most of it has been in the past—not out of buying and selling, but out of owning and holding securities, receiving [interest and dividends](https://www.thebalance.com/building-wealth-with-dividends-rents-357896), and benefiting from their long-term increase in value." said Benjamin Graham, father of value investing. [This practice has created millionaires.](https://www.thebalance.com/how-to-make-money-from-buying-stocks-357330)

1. [How to Find Stocks for Your Portfolio](https://www.thebalance.com/finding-investment-ideas-for-your-portfolio-356325)

Investment ideas can come from many places. Ask your family members what products and services they are most interested in—and why. Look at trends in the world and companies that are in a position to benefit from them. Stroll the aisles of your grocery store with an eye for what is emerging. You can also seek guidance from professional research services such as Standard & Poor's and ValueLine. [Many online sources also exist for investment ideas.](https://www.thebalance.com/finding-investment-ideas-for-your-portfolio-356325)

1. [How to Buy Stocks](https://www.thebalance.com/how-to-invest-in-stocks-357630)

You can buy stock directly using a [brokerage account](https://www.thebalance.com/what-is-a-brokerage-account-356076) or app. Other options exist for those who are employed—either a [401k](https://www.thebalance.com/401k-retirement-plan-beginners-357115) plan or a [403b](https://www.thebalance.com/understanding-your-403-b-plan-357122) plan if you work for a non-profit[.](https://www.thebalance.com/understanding-your-403-b-plan-357122) Then there's the IRA—be it a [Traditional IRA](https://www.thebalance.com/traditional-ira-versus-roth-ira-356293), [Roth IRA](https://www.thebalance.com/traditional-ira-versus-roth-ira-356293), [Simple IRA](https://www.thebalance.com/simple-ira-plans-for-small-business-owners-and-employees-358015), or SEP-IRA account. You can also set up a [direct stock purchase plan](https://www.thebalance.com/buying-stock-without-a-broker-356075) or [dividend reinvestment plan (DRIP)](https://www.thebalance.com/dividend-investing-introduction-357452). Each type of account has [different tax implications.](https://www.thebalance.com/how-to-buy-stock-for-your-investment-portfolio-358103)

1. [How to Choose a Stockbroker](https://www.thebalance.com/the-new-investor-s-complete-guide-to-brokers-357412)

The two types of brokers are full-service and discount brokers. Full-service brokers tailor recommendations and charge higher fees, service charges, and commissions. Once an account is set up, a discount broker can allow you to do it yourself at minimal cost through their website and offers support online, by phone, or in a branch when needed. The cost of buying continues to decrease with the introduction of apps. Apart from cost, a distinguishing factor is the research provided.

1. [Why Stock Prices Fluctuate](https://www.thebalance.com/why-do-stock-prices-fluctuate-356347)

News events and earnings reports can change the perceived value of a company. Because the stock market functions as an auction, prices sometimes need to adapt for a trade to occur. When there are more sellers than buyers, the price will go down. Alternately, a stock that has more who want to buy than sell will experience a price increase. Buyers and sellers can be individuals, corporations, asset management companies, or others. Price fluctuations can be dramatic in just one day.

1. [Stock Market Capitalization (and Why You Should Care)](https://www.thebalance.com/stock-market-capitalization-101-357337)

A stock's market capitalization (cap) is its true value, the sum of the total shares multiplied by price. It has more meaning than the share price because it allows you to evaluate a company in the context of others of the same size in its industry. You can use a market cap as a filter to screen for companies to balance your portfolio. A small-cap company with stock capitalization of $250 million to $2 billion shouldn't be compared to a large cap, which ranges from $10 billion to $100 billion. [Market capitalization influences your investment returns.](https://www.thebalance.com/why-per-share-price-is-not-important-3140791)

1. [Why Stocks Split](https://www.thebalance.com/what-is-a-stock-split-356150)

A stock split is when a company increases its total shares and is frequently done on a 2-for-1 ratio. So, if you own 100 shares of a stock priced at $80 per share and worth $8,000, after the split you'll have 200 shares priced at $40 each, and still worth $8,000. Stock splits occur when prices are rising in a way perceived to deter smaller investors. They can keep the trading volume up by making it easier for a larger buying pool to trade. If you invest in a stock, [expect to experience a stock split at some point.](https://www.thebalance.com/understanding-stock-splits-3141376)

1. [What You Should Know About Stock Prices](https://www.thebalance.com/how-to-think-about-stock-prices-356146)

A $50 stock can be more expensive than an $800 stock because the share price means nothing on its own. The relationship of price-to-earnings and net assets is what determines if a stock is over- or under-valued. Companies can keep prices artificially high by never conducting a stock split, yet without having the underlying foundational support. Make no assumptions based on price alone.

1. [Dividends 101](https://www.thebalance.com/the-ultimate-guide-to-dividends-and-dividend-investing-357453)

Dividend investing refers to portfolios containing stocks that consistently issue dividend payments year-in and year-out. These stocks produce a reliable passive income that can be especially helpful in retirement. Dividend reinvestment is a way to accelerate portfolio growth. Still, you can't judge a stock by its dividend price alone. Sometimes companies will increase dividends as a way to attract investors when the underlying company is in trouble. Dividends are taxable.

1. [Why Investors Like Blue-Chip Stocks](https://www.thebalance.com/the-benefits-of-owning-blue-chip-stocks-356063)

Blue-chip stocks are popular because they typically have a decades-long track record for earning. "Blue chips" derived their name from Poker, where the most valuable playing chip color is blue. Shareholders like them because they tend to grow dividend rates faster than the rate of inflation meaning the owner increases income without having to buy another share. Blue-chip stocks are not flashy, but they have solid balance sheets and steady returns.

1. [Investing in Preferred Stock](https://www.thebalance.com/the-many-flavors-of-preferred-stock-356336)

Preferred stock is very different from shares of the common stock most investors own. Holders of preferred stock are always the first to receive dividends, and in cases of bankruptcy will be first to get paid. However, the stock price does not fluctuate (up or down) the way common stock does. Preferred stock is a hybrid of common stock and bonds.