

UGBA 98/198

Introduction to Investment

Spring 2009



Jack Wei

Lecture 2 – Understanding the Basics



No Cell Phones!



In the News



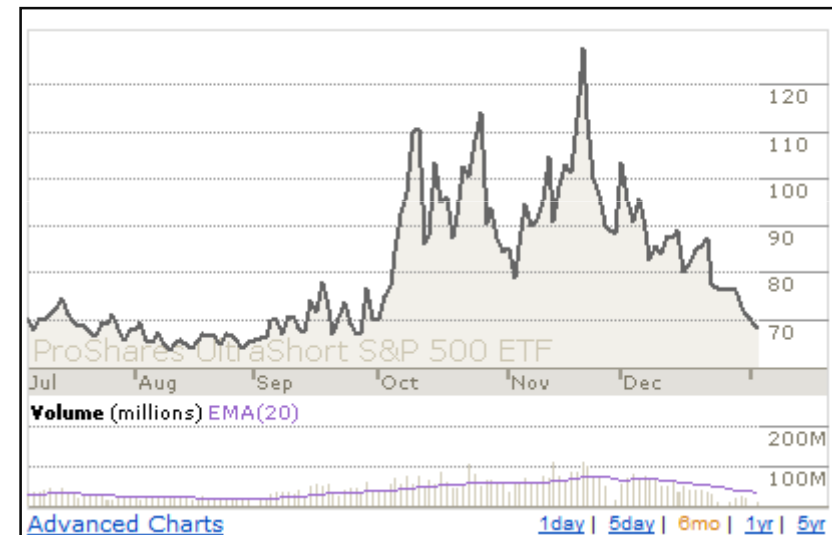
Investing Tip

Amateurs

- Do NOT invest until clear signs of recovery surface
- Bear markets are *vicious*



ProShares UltraShort S&P500 SDS:NYSE



Pros

- Glued to chair – no breaks... no joke
- Use **real-time quotes**

Stream: Active. Account [84304847] Symbols [20/20] QuickQuotes [5/5] Charts [0/5] TopTen [0] Option Chain [0/1] Help

Scottrader

Add Symbols Chart QuickQuote DowJones News Settings
Stock Lists TopTen MarketMovers Order Entry Save Layout

Selected list: None - Shortcuts - Buying Power: 15234.0 Positions 5 Open orders: 0 Refresh

Market Research Stock & ETFs Research Mutual Fund Research Research Tools Customer Service

Trading	Symbol	Last	PrevClose	\$Change	%Change	Last Size	High	Low	Bid	Ask	BxA Sizes	Last Ticks	Volume	Time
Buy Sell	IBM	86.386	84.16	+2.226	+2.64%	500	86.45	83.89	-86.37	86.39	2x2	++-++-++	2,459,705	11:59:15
Buy Sell	XOM	80.4699	79.83	+0.639	+0.80%	107	80.75	78.90	-80.45	80.47	5x13	+-+--+-+	12,734,501	11:59:15
Buy Sell	CVX	75.56	73.97	+1.59	+2.15%	300	75.83	73.58	-75.56	75.57	1x4	+-+--+-+	4,337,911	11:59:14
Buy Sell	MCD	63.12	62.19	+0.93	+1.50%	300	63.50	62.20	+63.12	63.13	1x3	++++++	3,059,809	11:59:15
Buy Sell	JNJ	60.18	59.83	+0.35	+0.58%	700	60.25	59.04	-60.17	60.18	1x4	+-+--+-+	4,086,144	11:59:15
Buy Sell	VVMT	56.85	56.06	+0.79	+1.41%	600	57.51	55.78	-56.84	56.85	16x13	-----	6,839,286	11:59:15
Buy Sell	CAT	45.91	44.67	+1.24	+2.78%	100	46.06	44.71	-45.88	45.91	11x6	++-++-++	2,595,415	11:59:15
Buy Sell	KO	45.68	45.27	+0.41	+0.91%	100	45.79	45.045	-45.67	45.68	2x22	+-+--+-+	2,664,931	11:59:01
Buy Sell	BA	44.48	42.67	+1.81	+4.24%	100	44.56	42.78	-44.47	44.49	5x6	++-++-++	2,247,529	11:59:14
Buy Sell	HPQ	36.32	36.29	+0.03	+0.08%	100	36.94	35.46	+36.32	36.33	13x14	++++++	6,028,571	11:59:08
Buy Sell	JPM	30.66	31.15	-0.49	-1.57%	100	31.56	30.47	+30.66	30.67	11x25	+-+--+-+	10,689,706	11:59:14
Buy Sell	T	29.1217	28.50	+0.621	+2.18%	200	29.26	28.43	-29.12	29.13	13x34	++-++-++	6,897,667	11:59:15
Buy Sell	DIS	23.37	22.69	+0.68	+3.00%	100	23.43	22.50	-23.37	23.38	3x22	+-+--+-+	2,813,174	11:59:14
Buy Sell	MSFT	20.01	19.44	+0.57	+2.93%	2417	20.04	19.37	-20.00	20.01	190x305	-----	17,098,495	11:59:14
Buy Sell	PFE	18.15	17.71	+0.44	+2.48%	700	18.18	17.70	-18.15	18.16	85x109	++-++-++	9,829,029	11:59:14
Buy Sell	GE	16.7396	16.20	+0.5396	+3.33%	6000	16.78	16.27	-16.73	16.74	13x114	+-+--+-+	21,838,009	11:59:14
Buy Sell	BAC	13.97	14.08	-0.11	-0.78%	700	14.18	13.71	-13.96	13.97	65x127	-----	35,914,304	11:59:15
Buy Sell	AA	12.24	11.26	+0.98	+8.70%	200	12.44	11.35	+12.24	12.25	15x49	+-+--+-+	14,991,601	11:59:15
Buy Sell	C	6.95	6.71	+0.24	+3.58%	300	7.08	6.75	-6.94	6.95	896x322	+-+--+-+	42,297,690	11:59:15
Buy Sell	GM	3.5822	3.20	+0.3822	+11.94%	297	3.63	3.45	-3.58	3.59	15x759	++++++	11,689,911	11:59:14

Drag and drop a symbol over any icon or chart, QuickQuote or trading window and release it for quicker access.

QuickQuote CI

Enter symbol: Go **17.185** **+0.335**

CI CIGNA CORPORATION COMMON STOCK

Last: 17.185 Last Tick: Down \$Chg: +0.335
Bid: 17.18 PrevClose: 16.85 %Chg: +1.94
Ask: 17.19 BxA Size: 8x2 LastSize: 100
High: 17.43 BxA Exch: PxP Exch: N
Low: 16.78 52WeekH: 56.98 Shrs Out: 271,100
Vol: 1,068,393 52WeekL: 8.00 Yield: 0

Financial Status Indicator: N Cusip #: 1255

Dividends Earnings BalanceSheet Calcs

QuickQuote COST

Enter symbol: Go **53.02** **+0.52**

COST COSTCO WHOLESALE CORPORATION COMMON STOCK

Last: 53.02 Last Tick: Up \$Chg: +0.52
Bid: 53.00 PrevClose: 52.50 %Chg: +0.99
Ask: 53.03 BxA Size: 7x2 LastSize: 100
High: 53.46 BxA Exch: QxZ Exch: Q
Low: 52.05 52WeekH: 75.23 Shrs Out: 433,100
Vol: 1,341,420 52WeekL: 30.70 Yield: 1.20

Financial Status Indicator: N Cusip #: 2216

Dividends Earnings BalanceSheet Calcs

QuickQuote SOL

Enter symbol: Go **4.86** **+0.45**

SOL RENESOLA LTD ADR REPRESENTS 2 ORDINARY SHARE

Last: 4.86 Last Tick: Down \$Chg: +0.45
Bid: 4.86 PrevClose: 4.41 %Chg: +10.23
Ask: 4.88 BxA Size: 50x9 LastSize: 800
High: 5.03 BxA Exch: IxP Exch: N
Low: 4.30 52WeekH: 29.48 Shrs Out: 59,200
Vol: 1,410,296 52WeekL: 2.06 Yield: 0

Financial Status Indicator: N Cusip #: 7597

Dividends Earnings BalanceSheet Calcs

QuickQuote FAZ

Enter symbol: Go **35.89** **+0.19** **1,576,933**

FAZ DIREXON FINANCIAL BEAR FUND EXCHANGE TRADED FUND

Last: 35.89 Last Tick: Down \$Chg: +0.19 Time Traded: 11:51:41
Bid: 35.89 PrevClose: 35.70 %Chg: +0.532% Annual Div: \$0.00
Ask: 35.91 BxA Size: 5x2 LastSize: 2200 Div PayDate: 00/00
High: 37.75 BxA Exch: PxZ Exch: P LastGtr EPS: \$0.00
Low: 34.76 52WeekH: 201.86 Shrs Out: NO DATA CurrGtr EPS: \$0.00
Vol: 1,576,933 52WeekL: 33.58 Yield: 0 PE Ratio: 0

Financial Status Indicator: N Cusip #: 25459V607 Linked chart

Dividends Earnings BalanceSheet Calcs HistCalcs Splits

QuickQuote XLF

Enter symbol: Go **12.45** **-0.17** **27,660,161**

XLF SELECT SECTOR SPDR FINANCIAL TRUST EXCHANGE TRADED FUND

Last: 12.45 Last Tick: Down \$Chg: -0.17 Time Traded: 11:51:41
Bid: 12.45 PrevClose: 12.62 %Chg: -1.347% Annual Div: \$0.00
Ask: 12.46 BxA Size: 1648x1878 LastSize: 100 Div PayDate: 10/10
High: 12.56 BxA Exch: TxT Exch: P LastGtr EPS: \$0.63
Low: 12.22 52WeekH: 29.93 Shrs Out: 96,121 CurrGtr EPS: \$0.60
Vol: 27,660,161 52WeekL: 8.67 Yield: 0 PE Ratio: 0

Financial Status Indicator: N Cusip #: 81369Y605 Linked chart

Dividends Earnings BalanceSheet Calcs HistCalcs Splits

trading.scottrade.com zotero

Personal Finance Tip



Gasoline at \$1.6/gal **forever**



Oil futures



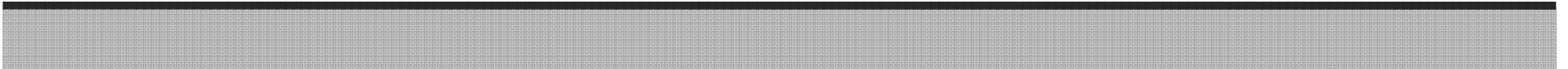
USO, DXO, DIG

Indirect investment - ETFs



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Basic Terms



Growth of \$1 Investment

Historical performance of major asset classes adjusted for impact of inflation (30 years: 1974–2003)



Equities & Fixed Income

Stock

- Share of ownership in a publicly traded company
- Value based on **expectations** of performance, i.e., corporate earnings
- Risky financial asset in short term → strong potential for long term growth

Bond

- Certificates of debt issued by the Federal government, states, corporations, etc.
- Purpose: raise capital through borrowing → **debt cheaper than equity**
- Issuer promises to pay face value plus regular interest by a future date



Common Stocks

▲ Corporate

- Raise financial capital
 - IPO (Initial Public Offering)
 - Secondary offering



▲ Investor

- Partial ownership (institutional)
 - Voting Rights
- Capital appreciation
- Cash flow (dividends)
 - Some offer dividends
- Share price heavily linked to firm earnings
- **Forward looking vs. trailing figures**

The past is meaningless

IPO, Secondary Offering

IPO

- Date: March, 2008
- Raised \$40 billion at \$42(?) per share



Secondary Offering

- Dilutes share value
- Raises much-needed capital



Preferred Stocks

- **Perpetual, fixed dividend** as main form of return. E.g. 39% annual yield
- No voting rights
- Collect assets before common shareholders in case of bankruptcy



- Lower risk
- Stock performance generally correlated with movement in company's bonds
- Ticker symbol varies

Exchanges, Brokers, Tickers

Exchanges



Brokers

charles SCHWAB

Scottrade
More broker for your money.

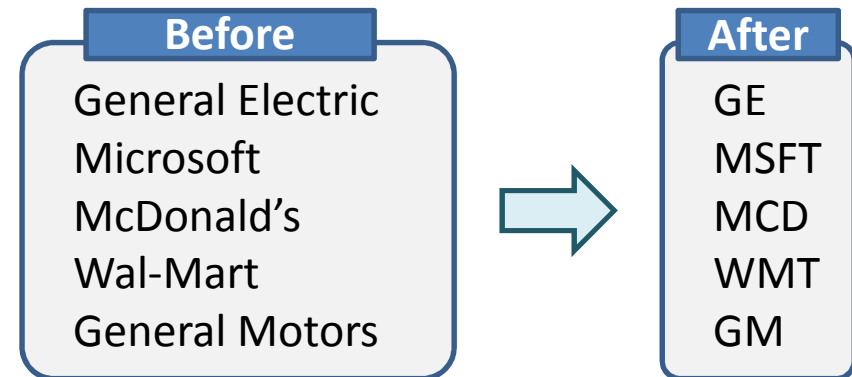
 **Fidelity**
INTERNATIONAL

 **AMERITRADE**

 **E*TRADE**
FINANCIAL®

Tickers

- Each security has a distinct ticker



Market Indices

▲ DOW 30 (DJI)

3m Co	55.50
Alcoa Inc	9.39
American Express Company	17.97
AT&T Inc.	27.83
Bank of America Corporation	13.53
Boeing Co.	40.12
Caterpillar Inc.	41.91
Chevron Corp	69.62
Citigroup, Inc.	6.78
E.I. du Pont de Nemours and Company	24.76
Exxon Mobil Corp	75.78
General Electric Company	16.11
General Motors Corporation	3.25
Hewlett-Packard Co.	34.68
Intel Corporation	14.23
International Business Machines	80.52
Johnson & Johnson	58.56
JP Morgan & Chase & Co	29.85
Kraft Foods Inc.	26.47
McDonald's Corporation	61.28
Merck & Co., Inc.	29.27



▲ S&P 500

- Most important index along with DJI



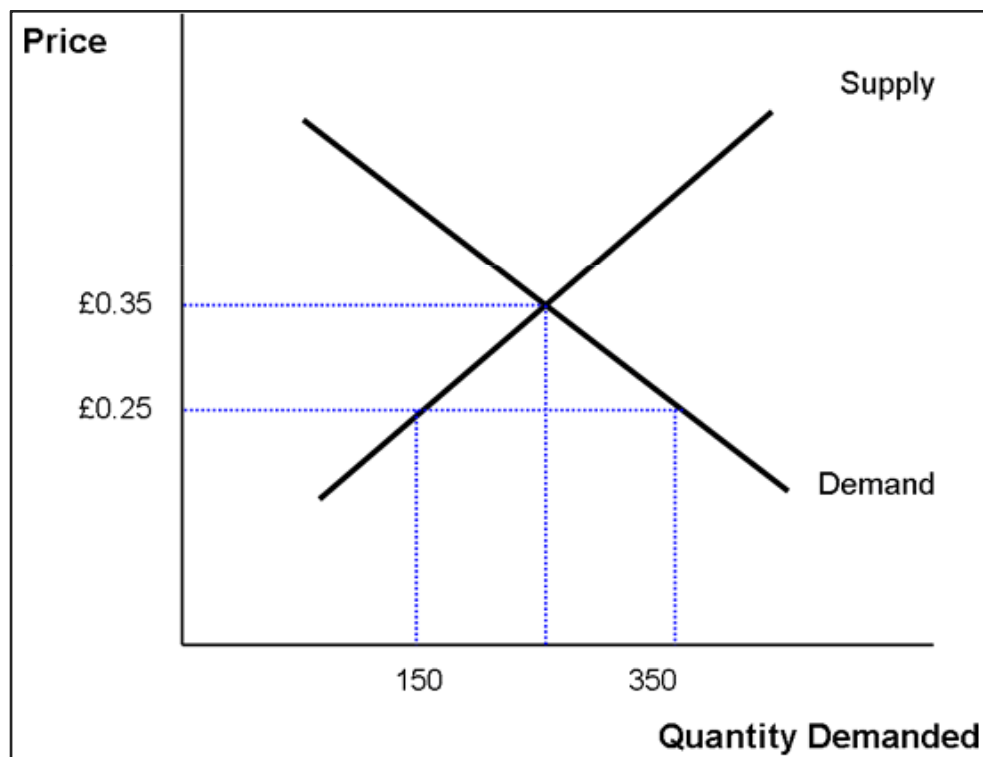
▲ NASDAQ Composite

- Tech-heavy index



Supply & Demand

Share prices increase when buying interest > selling interest



Factors (incomplete)

- Earnings power
- Transparency
- Economy
- Insider activities

Basic Terms

15.93/0 Bid/Size	21.00/0 Ask/Size	0.00 Price Open
16.11 Previous Close	0.00 Day High	0.00 Day Low
1.00 Beta (5yr)	38.52/4/2/08 52wk High/Date	12.58/11/20/08 52wk Low/Date
169.1 Billion Market Capitalization	10.5 Billion Shares Outstanding	92.10 Volatility Avg (20 day)
94.3 Million Avg Vol (10 day)	7.6x P/E Ratio	2.11 EPS (TTM)
0.31 (1/26/09) Declared QRTR Div ?	7.70% Yield	12/24/2008 Ex-Date

Bid - what you're able to sell at

Ask - what you must pay

Difference → spread

Beta – volatility against market

>1 more volatile

<1 less volatile

Market Capitalization - # shares times share price

Volatility Avg – percent move

P/E Ratio – to be discussed

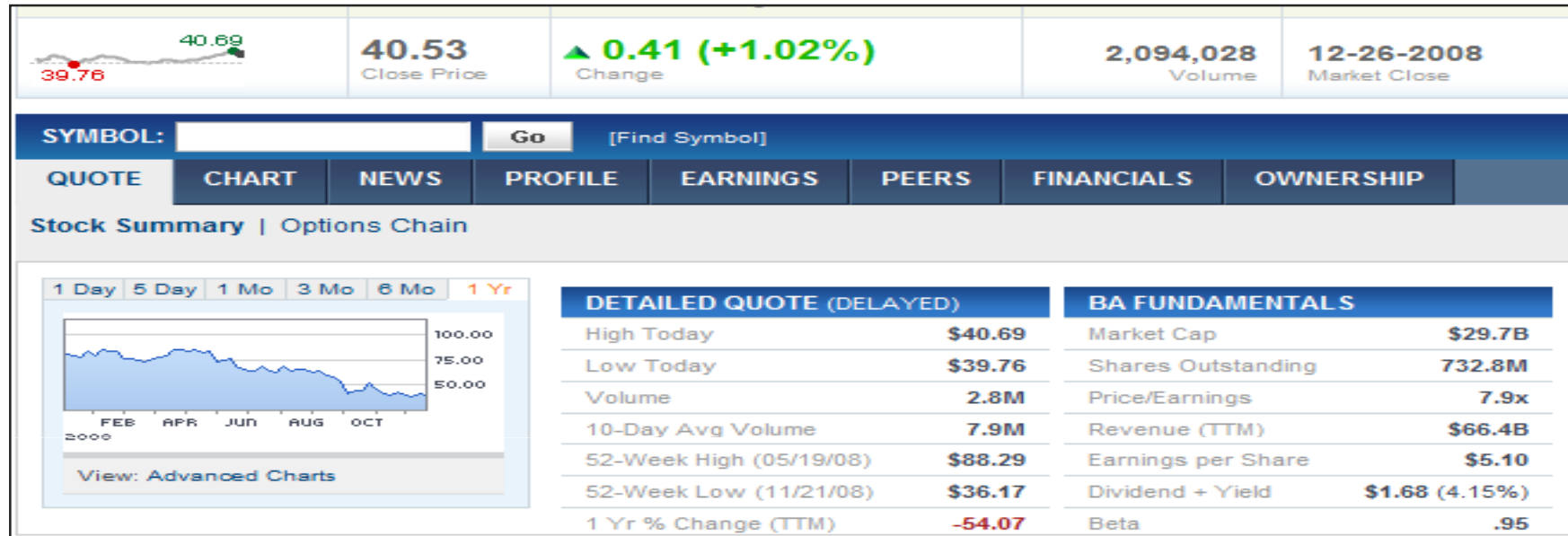
EPS - to be discussed

QRTR Div – quarter payout per share

Yield – annual yield

Ex-date – “expiration” date → no dividend received; must hold by 12/23

Valuation



Market capitalization

$$\$40.53 \times 732.8\text{M} = 29.7\text{B}$$

Earnings per share (EPS)

Net income for the last four quarters

Critical

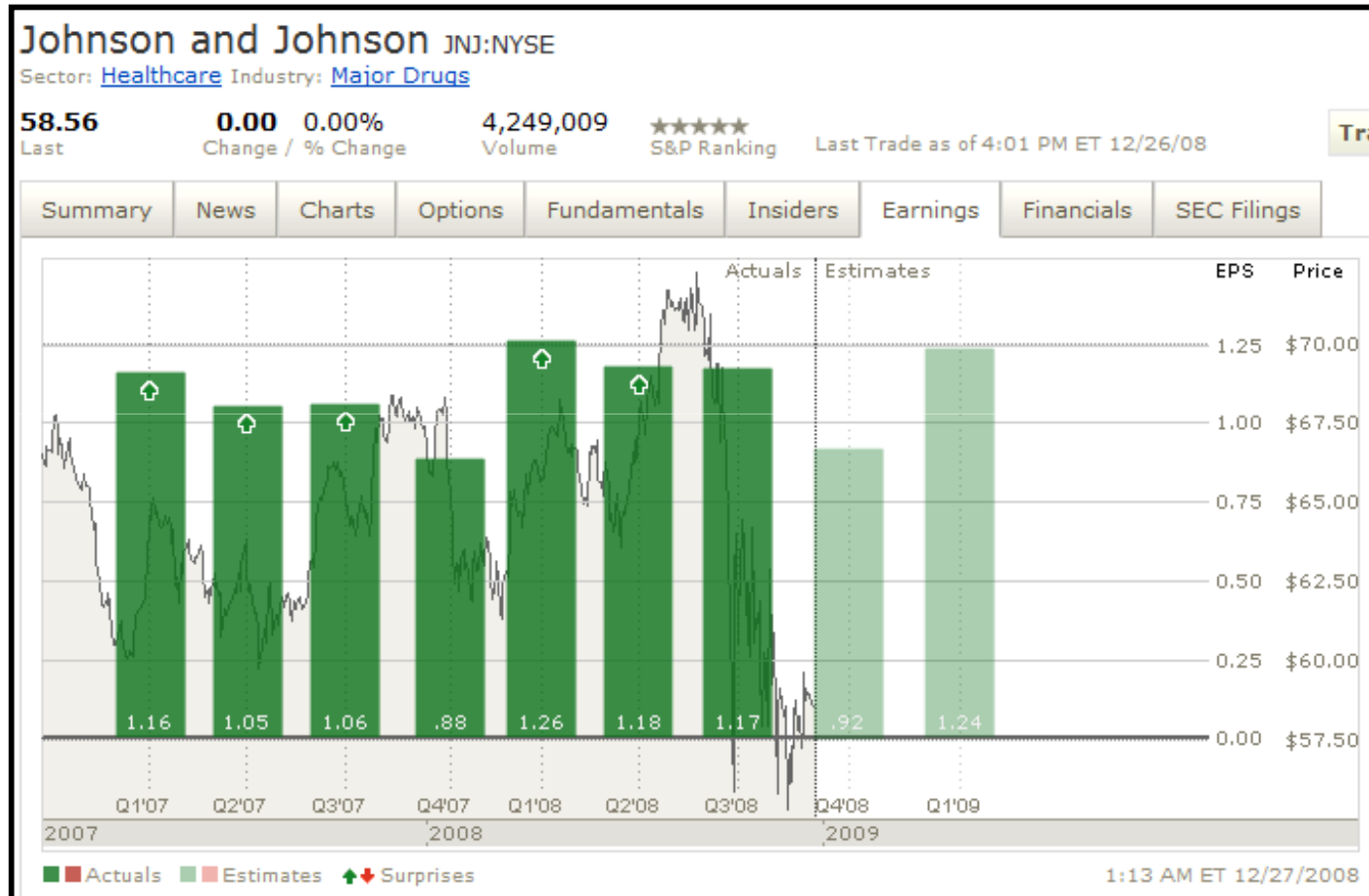
P/E ratio

$$\text{P/E (TTM)} = \text{Share price} / \text{EPS}$$

Ex-date

First day on which investors purchasing stock won't receive dividend

EPS, P/E



$$\begin{array}{r}
 .88 \\
 1.26 \\
 1.18 \\
 \underline{1.17} \\
 \text{EPS} = 4.49
 \end{array}$$

$$\begin{array}{l}
 \text{P/E} = 58.56 / 4.49 \\
 = 13.04
 \end{array}$$

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Corporate News



Earnings Report

- Reflects company performance
 - Net income, EPS, guidance, etc.
- Released quarterly – four quarters/year
 - Normally Jan., Apr., Jul., Oct.

Beat
Positive

Miss
Negative

In-line
Neutral



Watch for guidance during recessions

Bellwether Companies

Wield power to lift and drag entire markets

Why?



Indicators of economic performance



Microsoft®

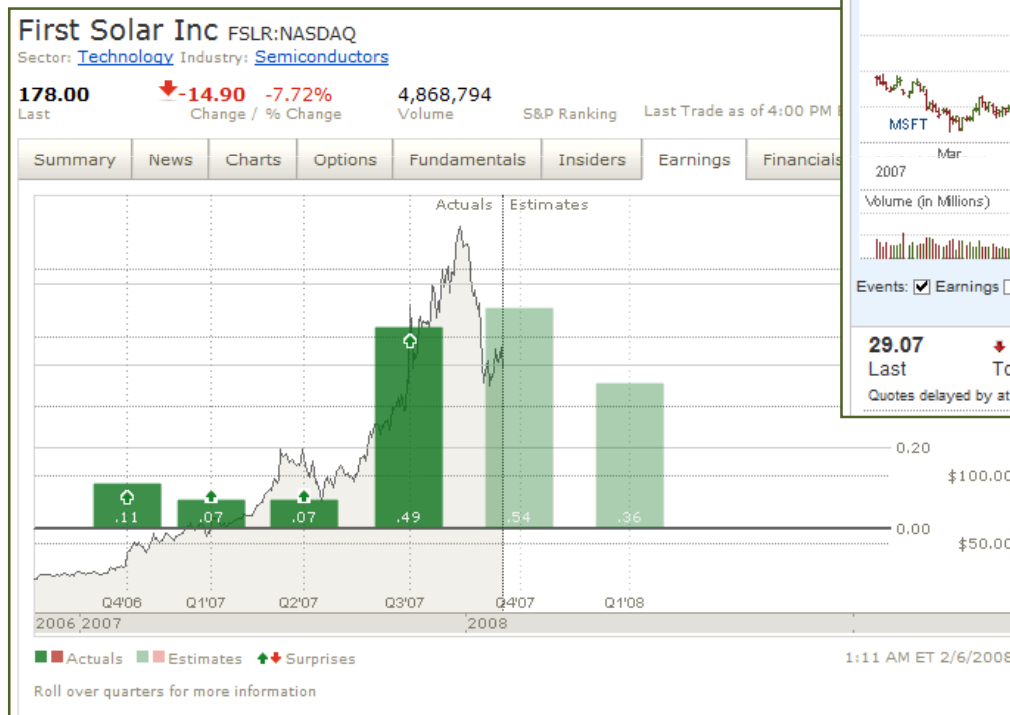


ExxonMobil



Estimates - Beat

FSLR and MSFT
exceeded expectations



Estimates - Miss

MOS and GOOG
missed expectations



Beats but guides low

AAPL beat estimates but gave weak guidance



M&A

- Merger: two companies combine businesses
 - Cost reduction
 - Increased market share
 - Entry into new field
- Acquisition: one company buys another
 - Buyer pays premium (15%, 25%, 40%, etc)
 - Buyer's share Price tumbles
 - Potential Driver of Overall Market

Bank of America.



WELLS
FARGO



WACHOVIA

M&A

Rohm and Haas Company (Public, NYSE:ROH) - [Add to Portfolio](#)

64.76

+2.97 (4.81%)

Jan 2 - Close

Open: 62.02

High: 65.01

Low: 61.54

Vol: 3.27M

Mkt Cap: 12.64B

52Wk High: 76.50

52Wk Low: 44.13

Avg Vol: 4.22M

P/E: 20.26

F P/E: 14.03

Beta: 0.32

EPS: 3.20

Dividend: 0.41

Yield: 2.53

Shares: 195.20M

Inst. Own: 80%

After Hours: 64.05 -0.71 (-1.10%) - Jan 2, 7:09PM EST

NYSE Real-time data - [Disclaimer](#)

Compare

Settings

[Historical Prices](#)

[Link to chart](#)

Enter ticker here

Add

☐ Nasdaq

☐ Dow Jones

☐ S&P 500

☐ LZ

☐ EMN

☐ DD

☐ POL

☐ ALB

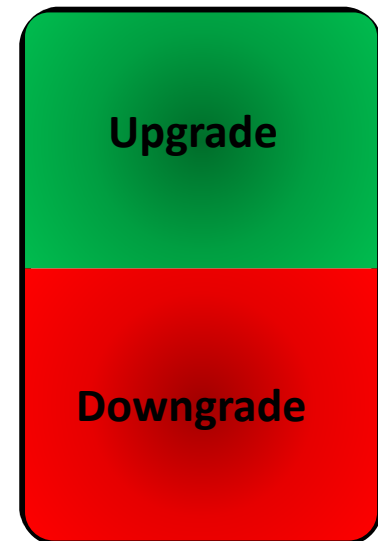
☐ DOW

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [YTD](#) [1y](#) [5y](#) [10y](#) [Max](#)

Jul 03, 2008 - Jan 02, 2009 +19.5 (43.08%)



Analysts



Star Analyst – Meredith Whitney



Star Analyst – Meredith Whitney



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Politics, Economic Data

The Federal Reserve

- Ben Bernanke
 - A name that will live in infamy?
or
 - One of the brightest Fed chairs?
 - Widely blamed for leading US economy into recession - early 2008
-



- Board of Governors consists of five members
- Pay close attention to their speeches and meetings

Interest Rates



Rates

- Tighter money circulation
- Appreciation of the Dollar
- Higher borrowing cost
- Monetary weapon to fight deflation

Economic Growth



Rates

- Looser money circulation
- Depreciation of the Dollar
- Inflation
- Confidence boost

Economic Growth

One of the most important political news

Interest Rates

Dow Jones Industrial Average \$DJI:Dow Jones Global Indexes

Sector: N/A Industry: N/A

9,034.69

Last

↑258.30

Change / % Change

2.94%

719,019,000

Volume

S&P Ranking

Last Trade as of 4:30 PM ET 1/2/09

Summary

News

Charts

Options

Fundamentals

Insiders

Earnings

Financials

SEC Fi

Time Range

Upper Indicators

Lower Indicators

Chart Style

Compare

Events

Tools

Dec 16, 2008

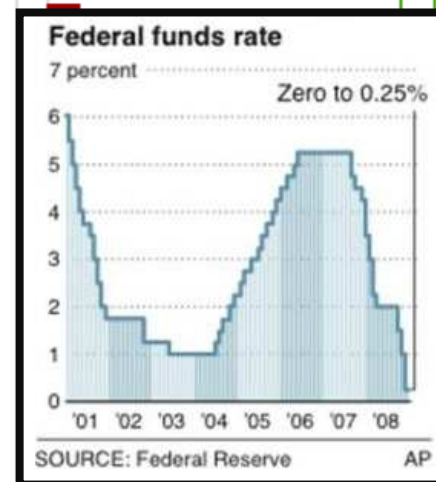
Open **8,566**

High **8,959**

Low **8,566**

Close **8,924**

Volume **1,320,822,000**



AVERAGE NDX

'15

December

'22

'29

9,000

8,800

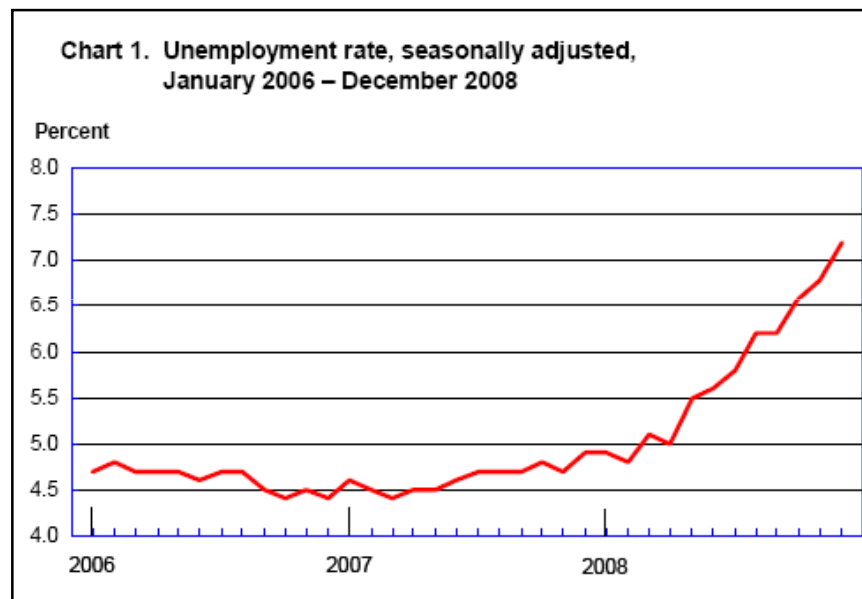
8,600

8,400

8,200

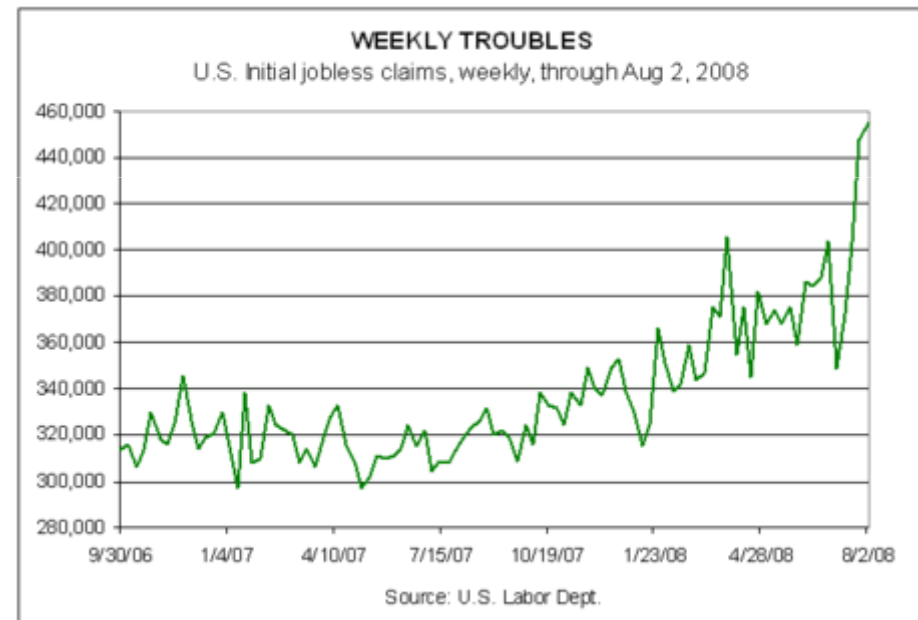
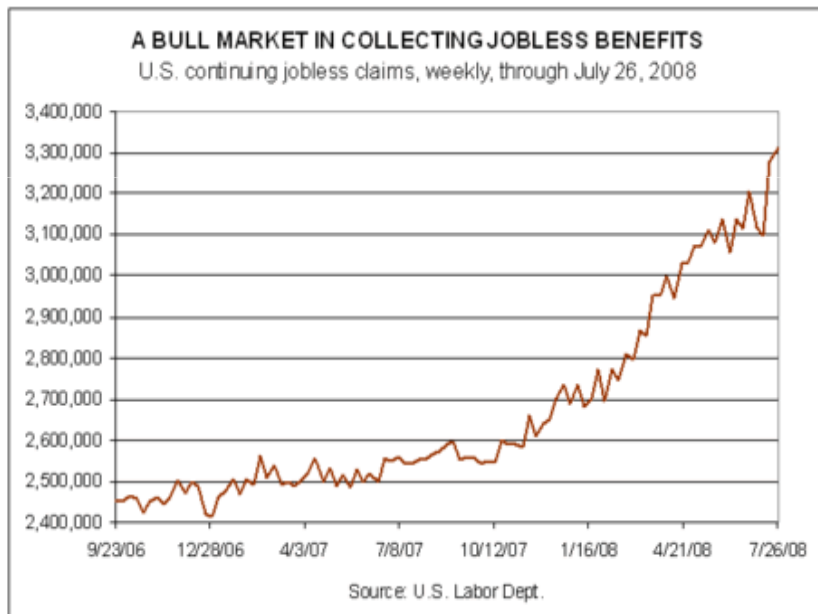
Employment Report

- Released first Friday of every month.



Weekly Jobless Claim

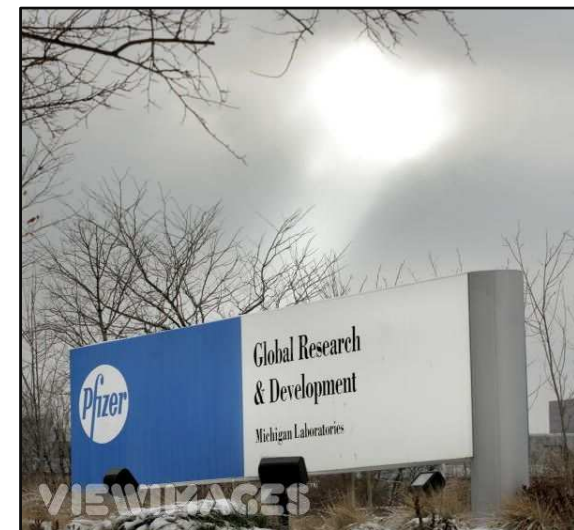
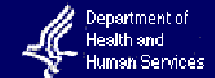
- Released every Thurs.
- Precursor to unemployment report



FDA Rulings



U.S. Food and Drug Administration



Legislations

- Congressional hearings
 - Citi, Merrill
- Anti-trust rulings
 - EU: iPhone
- Subsidies
 - Ag
- Tax breaks



Government Contracts

Morgan Stanley



NORTHROP GRUMMAN

Raytheon (RTN)



Raytheon Co RTN:NYSE

Sector: [Conglomerates](#) Industry: [Conglomerates](#)

52.00

Last

↑ **0.96** 1.88%
Change / % Change

1,753,491
Volume

★★★★
S&P Ranking

Summary

News

Charts

Options

Fundamentals

Insiders



Online Resources

- CNBC.com
- TheStreet.com
- Investopedia.com
- MoneyAndMarkets.com
- fleckensteincapital.com
- The Motley Fool
www.fool.com

