

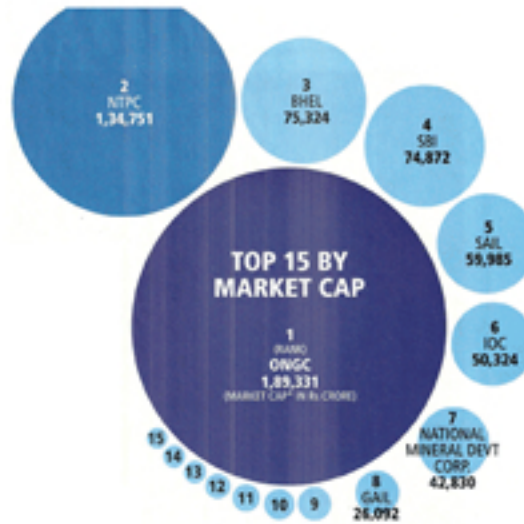
Owning stock in a company is like owning a portion of the company. This means assets and earnings are partially yours. With stock, you also get voting rights. All stock owners are represented by the company's board of directors.



All stock are traded on exchanges, like the New York Stock Excahnge or NADAQ. Exchanges are marketplaces where stock buyers and traders can come together and easily trade shares. Most exchanges are now automated by computers.



Stock prices change based on the supply and demand in the market. Usually, a stock's price (or valuation) reflects the current value of the company as well as the future growth.



To understand the real value of the company, one should look at the market capitalization, not the share price. Market capitalization is defined as the number of outstanding shares multiplied by the current share price. This is important because a company with a high share price, but very few shares outstanding could be worth less than a company with a slightly lower share price, but has many shares outstanding.



Stocks and companies are classified by industries and sectors. Sectors are broken down into defensive and cyclical. Industries are broken down further from sectors into more specific groups of companies.



Brokerage firms are financial institutions that facilitate buying and selling of securities on exchanges. They do this for both retail investors, like you and I, as well as institutional clients.



Diversification in the stock market is important. If you were to keep all your eggs in one basket, you could be subject to high volatility associated with a few number of stocks. Most experienced investors recommend having about 20 stocks in a balanced portfolio.