Stock Market Basics

What are stocks?

A stock is a share in the ownership of a company. Stock represents a claim on the company's assets and earnings.

As an owner or shareholder, you are entitled to your share of the company's earnings as well as any voting rights attached to the stock.

Why do companies issue stock?

At some point every company needs to raise money. Companies can either borrow it from somebody or raise it by selling part of the company.

By issuing stock, the company does not have to pay back the money or make interest payments.

What does the shareholder get out of the deal?

The shareholder gets the hope that the shares will be worth more in the future.

If the company does well, the stock will probably increase in value. If the company does not do well, the shareholder may lose the money he or she invested.

What’s an IPO?

IPO stands for Initial Public Offering. It’s the first time the stock is available to the public to purchase.

The stock exchange is a secondary market.
The primary market is a stockbroker.

What is a dividend?

A dividend is money that a company pays to its stockholders from the profits it makes.

Not all companies pay dividends to their stockholders. The only way shareholders in these companies make money is to sell the stock at a higher amount than they bought it at on the open market.

What is the difference between common and preferred stocks?

Common stock is the type most people purchase. It represents ownership of a company and a claim on part of the profits. Investors get one vote per stock.

Preferred stocks don’t have the same voting rights, but investors are usually guaranteed a fixed dividend. If the company is liquidated, they are paid off first.

How do stocks trade?

Most stocks are traded on exchanges such as the National Stock Exchange (NSE) or Bombay Stock Exchange (BSE). Mumbai is a physical location whereas NSE or BSE is a virtual market.

Exchange is a place, where buyers and sellers meet and decide on a price for a stock. Think of it as a flea market where buyers and sellers come together and agree on a price for a product.

The Stock Exchanges

On the NSE/BSE, orders come in through brokerage firms and flow down to the floor brokers who go to a specific spot on the floor where the stock trades.

At this spot, there is a ‘specialist’ whose job is to match buyers and sellers. Prices are determined by the auction method. The current price is the highest price someone will pay and the lowest price someone is willing to sell for.

The Stock Exchanges

NSE & BSE are virtual markets called as “over the counter (OTC) market. It has no central location or floor brokers. Trading is done through a computer and telecommunications network of dealers.

These market makers provide continuous bids and ask prices within a prescribed percentage spread for shares for which they are designated to make a market. They usually maintain an inventory of shares to meet demands of investors.

What sets the prices on a stock exchange?

Market forces changes stock prices every day. Share prices change because of supply and demand.

If more people want to buy a stock (demand) than sell it (supply) the price goes up. If more people want to sell than buy, the price goes down.

What makes people want to buy one stock and not another?

The price of a stock indicates what investors feel a company is worth.

The most important factor that affects the value of a company is its earnings. Earnings are the profit a company makes. Public companies must report the earnings on a quarterly basis. If a company has done well, the stock price will likely rise. If not, it will drop.

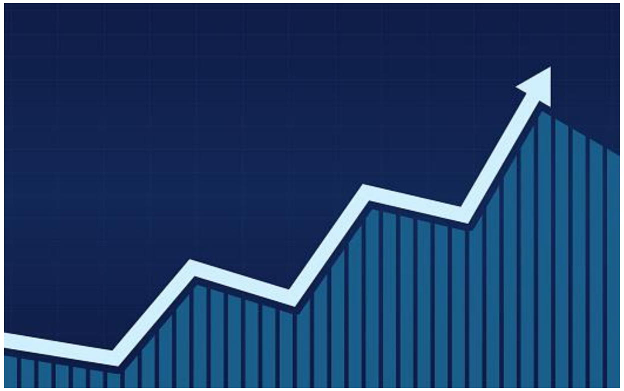
What else might influence the price of a stock?

Many times, current world events have an impact on the price of stocks.

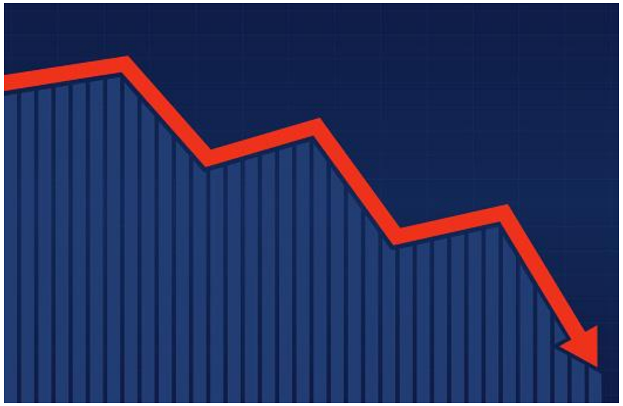
For example, after COVID breakout in year 2019-20 most of the world markets crashed as there was a fear of world economy growth may halt & there will be huge impact on company’s business thus earnings for uncertain period, so investors preferred booking profits or taking out money from stock markets.

What about all these animals?

The Bull – a bull market is when the economy is doing well, the GDP is growing, and stock prices are rising. The bull market charges ahead.



The Bear – a bear market is when the economy is bad, recession is looming and stock prices are falling.
A bear market hibernates and moves slowly.



Summary

Stock means ownership.

You can gain or lose on your investments in stocks markets, so one should invest wisely.

The two main types of stocks are common & preferred.

Stock markets are places where buyers and sellers come together.

Stock prices change according to supply and demand.

Both Bulls as well as bears can make money in stock markets.