

# Graphs and Charts

## Reading a Stock Market Report



CHAPTER 11

Trish is studying for an economics test and knows she will be asked questions about the stock market and stock listings. To help her, Cole prepares a table tracking three stocks over a three-day period. Then he prepares a set of tips and questions. See how well you would do on Cole's study guide if you were Trish.

	52-week		Stock	Sym.	Yield		PE	Vol. 100s	High	Low	Close	Net Chg.
	High	Low			Div.	%						
Day 1	25.75	16.50	Gartner	IT	1.19	7.0	17	11309	17.00	14.25	17.00	+44
	122.50	69.00	GenElec	GE	1.40	1.1	40	49631	121.13	118.06	119.25	-2.75
	78.50	38.94	GenMot	GM	2.00	3.1	9	14712	64.31	63.13	63.63	-1.69
Day 2	25.75	16.50	Gartner	IT	1.19	7.2	17	2682	18.50	14.25	16.31	-.69
	122.50	69.00	GenElec	GE	1.40	1.2	39	25220	122.50	115.63	118.00	-1.25
	78.75	38.94	GenMot	GM	2.00	3.2	8	8640	65.08	62.00	62.06	-1.57
Day 3	25.75	16.50	Gartner	IT	1.19	6.9	17	11861	18.00	15.00	17.31	+1.00
	122.50	69.00	GenElec	GE	1.40	1.2	39	67150	120.25	115.00	117.13	-.87
	78.50	38.94	GenMot	GM	2.00	2.9	14	23322	70.19	68.88	69.00	+6.94

- Identify the stocks and the information presented. Review the abbreviations key in the stock listing on page 287 of your textbook, then study Cole's table. (a) What company uses the symbol GM? \_\_\_\_\_ (b) What is the symbol for Gartner? \_\_\_\_\_ (c) How many shares of General Electric were sold on Day 1? \_\_\_\_\_ (d) On which day was the largest number of GE shares sold? \_\_\_\_\_ (e) What was the highest price paid for General Motors stock on Day 1 and for the past 52 weeks? \_\_\_\_\_
- Compute the value of your stock. (a) How much did one share of Gartner cost at the close of market on Day 1 and Day 3? \_\_\_\_\_ (b) Did Gartner's stock gain or lose value on Days 1 and 3? \_\_\_\_\_ (c) If you had bought 10 shares of Gartner at its lowest price on Day 1, how much would you have paid for it? \_\_\_\_\_ (d) How much would your 10 shares of Gartner stock be worth at the end of the trading day? \_\_\_\_\_ (e) If you had bought 10 shares of Gartner at its highest price on Day 1, how much would you have paid? \_\_\_\_\_ (f) Suppose that you own 100 shares of General Motors and 40 shares of General Electric. How much is your portfolio worth at the end of Day 2? \_\_\_\_\_ (g) Based on the change in stock prices, how much did its value fall between Day 1 and Day 2? \_\_\_\_\_
- Determine general trends in the stock market. Before buying a stock, a wise investor will track its performance to see if its price has been generally going up or going down. (a) Which of the three stocks is trading closest to its high price for the year? \_\_\_\_\_ (b) Which stock is trading closest to its low price for the year? \_\_\_\_\_ (c) Over the three days, which stock showed consistent downward changes? \_\_\_\_\_ (d) Over the three days, how much were 500 shares of Gartner worth at their peak? \_\_\_\_\_ (e) Over the three days, which stock showed the greatest price increase? \_\_\_\_\_

# Economic Detective

## Sylvestor and Frugala Investor



### Problem

December is approaching, and Sylvestor Investor is anticipating a year-end bonus of \$10,000. Sylvestor and his wife, Frugala, agree to invest the money rather than spend it. Sylvestor is so eager that he begins daytrading in November, losing almost the whole month's paycheck. Alarmed, Frugala packs up his computer and sends it to her cousin Wilder in the Australian outback. When his bonus arrives, Sylvestor has to find other ways to put his money to work.



### Investigation 1

Frugala immediately sends Sylvestor to the bank with his bonus check. There he places all \$10,000 in a savings account, promising himself not to settle for an interest rate of 2.9 percent for any longer than necessary. The bank's financial adviser suggests that Sylvestor consider certificates of deposit or possibly mutual funds, and Frugala suggests that he buy more life insurance. Wilder, in his thank-you letter for the computer, asks if he can borrow \$1,000 to invest in a drive-in theater his buddy wants to build. Sylvestor listens to the suggestions, but still wants to talk to a stockbroker.

1. What financial intermediaries does Sylvestor use or consider using? \_\_\_\_\_
2. Where would Sylvestor go to talk to a stockbroker? \_\_\_\_\_
3. How does speculation enter the picture? \_\_\_\_\_
4. If Sylvestor waits a year, how much will he have to invest? \_\_\_\_\_



### Investigation 2

Frugala is pleased when Sylvestor puts \$2,000 into 10-year state bonds and \$3,000 into 5-year AAA-rated bonds in Steady Hand Hardware, Inc. He buys the four state bonds at a 5 percent interest rate and the three Steady Hand bonds at a 6.5 percent rate. Sylvestor also buys two \$500 bonds from a high-tech firm at 7 percent, due in three years, at a total discount of \$50.

1. (a) What is the maturity for each of the three bond groups Sylvestor buys? \_\_\_\_\_
- (b) The coupon rate? \_\_\_\_\_
- (c) The par value? \_\_\_\_\_
- (d) Which does he buy for less than par? \_\_\_\_\_

2. (a) Which of Sylvestor's new investments are municipal bonds? \_\_\_\_\_
- (b) Corporate bonds? \_\_\_\_\_
3. For which bond purchases did Frugala probably consult Standard & Poor's? \_\_\_\_\_



### Investigation 3

The financial adviser from Sylvestor's bank suggests a mutual fund that holds a number of popular stocks and gives him an investment report on the fund. Sylvestor's boss also offers to sell him company stock at a low price if he buys it within three months. After some thought, Sylvestor buys \$1,000 worth of Internet stock, \$1,500 worth of blue chip stocks, and \$800 worth of stock in a promising new sportswear company that reinvests its earnings in new growth. He keeps the remaining \$750 to buy company stock from his boss. Finally, he sits back and hopes for a bull market.

1. (a) Which of Sylvestor's stocks probably trades over-the-counter? \_\_\_\_\_
- (b) On the NYSE? \_\_\_\_\_
2. (a) For which investment potential does Sylvestor receive a prospectus? \_\_\_\_\_
- (b) An option? \_\_\_\_\_
3. From which stock may Sylvestor expect capital gains rather than dividends? \_\_\_\_\_
4. Why would Sylvestor hope for a bull market? \_\_\_\_\_



## Careers in Economics

# Stockbroker

Do you know anyone who turns up the TV volume when an announcer talks about the daily Dow Jones industrial average? Does anyone you know browse the business section of the newspaper to see how certain stocks are doing? If you do, these people probably own stocks or bonds that they bought with the help of a stockbroker. Most investors turn to a stockbroker when they get ready to buy or sell securities, or stocks and bonds.

### Who Employs Stockbrokers?

Stockbrokers work at brokerage and investment firms. There are many small brokerage and investment firms across the United States, but most stockbrokers work for a few very large firms with headquarters in major cities such as New York City, where the largest stock exchanges are located. Most stockbrokers work with a set of individual clients who depend on them for advice about buying and selling decisions. Some stockbrokers work with large investors such as the managers of pension funds or insurance companies. These stockbrokers often develop a specialized knowledge of certain financial products, such as stocks, commodities futures, or municipal bonds.

### What Does the Job Involve?

When an investor wants to buy or sell stocks, bonds, mutual funds, or other financial products, stockbrokers handle the actual transaction. They represent the investor in buying and selling securities. Stockbrokers generally rely on computerized trading systems in making transactions. Once the transaction is complete, the stockbroker calls the customer and sends a written confirmation indicating the final price for which the stock was bought or sold.

Stockbrokers may explain unfamiliar terms and trading practices or recommend new financial products to their customers. First and foremost, stockbrokers give advice on which securities best suit a customer's investment goals. A stockbroker spends

time building and maintaining a base of customers who rely on his or her assistance over a long period of time.

### What Are the Qualifications?

Most stockbrokers have at least a bachelor's degree. College courses in business, economics, and finance are helpful, and strong communication skills are essential. Many brokerage firms seek employees with demonstrated sales ability, particularly in such areas as real estate or insurance.

Stockbrokers must take exams to meet state licensing requirements and to become registered as representatives of their firm. Most companies provide training to help employees meet registration requirements. Newly hired workers at large firms may also receive classroom instruction in analyzing securities, public speaking, or sales techniques. Stockbrokers often attend workshops to learn about new financial products.

### How Do You Get Started?

If your school has an investment club, you may want to join it. Many community colleges and other local organizations offer inexpensive, short courses in stock market investment. Either activity will provide useful information on the process of investing. For more information, visit *Economics: Principles in Action* within the Social Studies area of the Prentice-Hall Web site. [www.phschool.com](http://www.phschool.com)

### Activity

Using business magazines such as *Fortune*, *Business Week*, and *Forbes*, research a company whose stock is traded on the New York Stock Exchange. Learn about the firm's current financial status and its outlook for the future. Find out the current price of its stock and how the price has changed over the past five years. Prepare a sales pitch you would give to a customer explaining the advantages and disadvantages of investing in this company.

## STOCK KEY TERMS

share

equities

capital gain

capital loss

stock split

stockbroker

brokerage firm

stock exchange

Nasdaq

OTC market

futures

options

call option

put option

bull market

bear market

The Dow

S&P 500

Great Crash

speculation