What is a stock?
A stock is a type of investment that signifies a partial ownership of a publiclytraded company. Each share of stock purchased is an equal portion of ownership in a company. When a company goes from being private to public, it basically breaks the company up into millions of parts (called shares), and puts a set price on each share, say 10 dollars. The founders, board members, employees, beginning investors, underwriters etc keep a certain percentage of shares. Then a set amount, say 30%, is put out for the general public to buy on the "stock market". As soon as the market opens, people begin to buy up the available shares, and as the day goes on the price goes up and down depending on what people are willing to pay for, or sell their shares for. Then every day the stock market is open, people can buy shares (if people are selling), or sell their shares (if there are buyers). The owners of most stocks also have voting rights in the company when big changes have to be made. There are also different types or classes of stock, which usually have different voting rights, and preferential treatment during bankruptcies or other major changes to a company.
How do I make money on stocks?
There are basically two ways. **1. You buy the stock for less than you sell it.** Most stocks can be sold anytime when a stock market is open. Most of the time, the bid price(what you want to pay for it) and ask price (what people want to sell for) remain very close to the market value (the average current price of the stock). There are different ways to buy and sell stocks (which are covered in the Stock Market Definitions Tool). **2. The stock pays a dividend.** A dividend is a set amount that the company pays to share holders. Each company determines what amount they pay (usually done as a percentage of their earnings), and when they pay it. Most stocks pay dividends every quarter; some pay twice a year, and some pay special dividends every so often (kind of like getting a bonus from your employer).
What is the stock market?
A stock market (also called a stock exchange) is the generic name given for the place you go to buy stocks, bonds, mutual funds etc. Imagine it as kind of like a large stock mall, with a bunch of stores inside that carry different kinds of stocks. Each small store is called an exchange, and they basically handle certain types of stocks. The Dow is basically the largest 30 companies in the U.S. The Nasdaq is basically where technology shares are listed. The S&P is basically a group of 500 various companies. Then there is the over the counter exchange where international, and small companies are sold. It is also important to remember that every country has its own stock market. When a company is "listed", it means that stock can be bought and sold only at a certain exchange. So if a company is listed on the Hong Kong, Korean, London etc. Markets than you have to have access to those markets in those countries (often traded using the local currencies).
How do I purchase a stock, and what is a broker?
A broker is a term used in many industries. A broker is basically the main person in charge of a real estate office, or a broker can be a specific person who has the ability to access a certain market (also called a brokerage house). To purchase a stock you need to open a special brokerage account, because they are designed to provide access to various stock markets. When you buy and sell a stock it is referred to as "Trading". There are numerous on-line companies that provide the ability for individuals to buy or sell various investments (which is easier and cheaper, but typically you need 500 US Dollars to start an account). You can also go to a company, and have an individual help you pick and choose investments. This usually costs you more money to purchase, and sell investments, but can be done right along with your regular banking. Hopefully these investment firms will provide more service than an internet-based account. Although doing your research is important, because there are many "professional money managers" that are not so "professional".

Isn't buying stocks the same as gambling?
First of all, any time you invest your money you are taking a gamble. Secondly, most definitions of gambling refer to the act of betting money on some intangible asset (like a poker game, athletic event, slot machine, raffle etc). This means you don't really own anything, but hope that, by chance, you will be chosen or win at some game. So in the truest since, yes buying stocks is a gamble. However unlike other forms of gambling, you actually own a portion of a tangible asset like a company, or basket of companies (like a mutual fund). The other area that sets buying stocks apart is that in most gambling it's an all or nothing deal. With stocks you can buy and sell at regular intervals, and if you don't like where the stock is going you can pull out and sell, without losing all your initial investment. Also if you own a dividend paying stock, you get money back regularly, even while you wait for the stock price to go back up.
I heard that it didn't matter whether you choose a stock, or just throw a dart at a list of stocks; either provides the same odds at winning.
This was talked about frequently back in the late 1990's during the internet boom days, when nearly every technology stock was advancing. This is also true during Bull Markets, which is when stocks go up regardless of whether the company makes money, or has the potential to make money. However, today it is important to research the companies you are interested in, to make sure they are stable, profitable and have good prospects for the future
Why are stocks so volatile, and why do prices fluctuate so quickly
There are many answers to this depending on who you talk to. However the answer lies in the ability of large investment firms to use computerized electronically generated trading machines to make decisions on what is bought and sold, often within seconds. The other lies in the use of the internet and other media outlets to distribute information on a massive basis. This amount of information both positive and negative can effect markets movement throughout the day. The other thing that has been affecting the market is the fact that we now live in an international market place. Today markets are tied to one another due to the fact that many companies serve the entire globe. This means if something goes wrong in one country it can affect companies around the world. Of course this is a concern, and can be intimidating to the average investor, but it should never stop you from investing in companies you believe in.
What do I look for in a good company
There are many things to look for, and ways to research a company, but remember these 6. **1. Does the company have potential to make money in the future?** Remember all stocks are traded on the outlook of the future. That is why a company can come out with a great earnings statement and make a trillion dollars, but still has a falling stock price. This is because the price is not about how good they have done in the past, but how good they may do in the future. **2. Price does matter.** What determines if a stock is "expensive" is not the price of the stock, but how the price of the stock is compared to the amount of money they make. This is why we have terms like PE (price to earnings) PEG (price to earnings to growth), Yield (amount of dividenddivided by earnings) and other metric used to determine the value of a stock (download our Stock Market Definitions Tool for further explanation). Just remember that a company needs to be making money, as well as have the ability to keep making money. **3. How well does the company manage its income, cash flow, debt and its ability to do better than its competitors?** Basically this means that if a company keeps spending more money than they make, uses more money to make things than sell them, has high debt and little cash, loses more money than it makes over the years, and always seems to be a step behind their competitors than its probably not a good company to buy. Remember just because a company sounds good doesn't mean it's a good stock to buy. **4. How good is the management?** This is very important in that even a good management team can perform well in a bad market or industry. Yet a poorly run company with a bad management team can bring down even what once was an exceptional company. So look out for constant revisions of earnings, signs of investigations or lawsuits, numerous product recalls, missed estimates, heavy debt loads, poor product image, and other signs that management is not doing their job. **5. Try to buy what you know.**It's easier to research and understand a company you are familiar with. You are more likely to be confident in buying their stock than in something you know little about. Also try to tune out all the constant drum

beat from the news, experts and stock analysts. Remember many have an invested interest in whether the stock goes up and down, and very little interest in whether you make or lose money. So try to stay within the areas you are comfortable with, and if you want to expand your horizons, make sure you do your homework first.

6. Try to stay diversified. Yes you can make lots of money doing or buying just one thing. However once you have made money,it's usually safer to spread you money out in various areas. Like they say do not put all your eggs in one basket. Even if it's a big basket. So try to buy stocks in different industries, stocks that pay dividends, trade in different markets even internationally and look at buying some index, electronically traded funds, bonds, precious metals, and mutual funds.

I heard the term Buy and Hold is Dead, what does this mean?

Buy and hold is basically an investment style that says when you buy a stock, you need to hold it for a long time like 5 years and more. Of course this has worked well for some, and not so well for others. In today's competitive market it is important to keep your eye open, and sell stocks if various fundamentals have changed. Typically people sell stocks when they become afraid, need the money, or the reason they bought it has changed. Some stocks like technology and biotechnology (smaller drug stocks), can move up, and go down quickly. Many times they never reach their highs again or they get bought out by another company, or fail miserably altogether. Other stocks like utility companies, consumer goods, and large pharmaceutical companies stay pretty consistent and generally do not have wild swings. So there are many reasons to buy and sell stocks, but keeping to the 6 rules found above can help you decide whether you want to buy them and when you want to sell them.

What is day trading, and is it a good idea.

Day trading is when people buy and sell stocks on a regular basis, and only hold them for a short period. There are pros and cons of day trading, and it seems there are more pros than cons during bull markets. However if you are going to become a day trader, quit your job and go for it full time. If you don't, it's like swimming with sharks, but using the doggy stroke.

Why should I buy stocks

Well first of all you have to do something with your money. Hiding it under your mattress is never a good idea, because every year it loses value (due to inflation, which makes the price of things go up over time). Spending all the money you earn is a bad idea, because at some time you will not have the ability to earn money by working. Finally if you want to make money, the best way is to make your money, make money for you. One way your money can make money is to buy things that have the potential to go higher after you buy it. Since stocks are easy to buy and sell, and you actually own a piece of a real company, they make good investments. A well run company that is increasing profits, and providing a service or product people need has a better chance of going higher than most other investments. Also many dividend-paying stocks are paying more than bonds. These companies actually pay you money, as you wait for the stock to go higher. Yes there is the potential to lose money on the stock market. However the stock market, over time, has proven to be a consistent way to increase your wealth, more any other asset class (outside of possibly real estate or owning your own business). So don't let fear stop you from investing at least some of your money in the stock market.

I hear people talking about yield all the time, what is yield?

Yield is the amount of money a stock or bond pays you on a regular basis. We call these dividends for stocks,and certain stocks pay you a set amount of money determined by the amount of shares you own. A dividend is the set amount of money companies pay back each year to share holder (usually every quarter).The amount is determined as a percentage figure and we call this percentage a yield. The yield is determined by the amount of money they pay, divided by the amount the company earns. Most dividends are paid by larger and more mature companies(as well as REIT, ETF and other entities). Newer and fast growing companies usually do not pay a dividend, and a company can stop paying them at any time, or even change the amount. For bonds the effective interest rate is known as yield.

What are some good resources for investors?

Well there are many, but to name a few: Financial Times, Investor's Business Daily, and the Wall Street Journal provide great print and internet based news. Great on-line sites include Yahoo Finance, The Street, Bloomberg, Zack's, Seeking Alpha, Investopedia, and the Motley Fool. Good news channels are CNBC, Fox, CNN and BBC business. Online Brokers include: Ameritrade, Scot trade, OptionsXpress& E-Trade. Brokerage Firms include:

Goldman Sachs, Paine Webber, and MorganStanley Dean Witter.