What is a Stock?

Suggested Grade

Grades 6-8

Suggested Time

50 minutes

Teacher Background

When you buy stock, you become part owner of a company—whether you own one share or a thousand. As a stockholder you risk only the money you invest. If the stock price exceeds what you paid, your investment increases in value. If the stock price falls below what you paid, your investment decreases in value.

As a stockholder, you are entitled to collect dividends—a portion of the company's profits—if the company's board of directors declares dividends. Stockholders are entitled to vote on nominees to the company's board of directors and other important issues decided at annual or special stockholders' meetings.

Not all companies publicly trade stock. Privately held companies are owned by an individual family or a small group of investors. Mars Corp, the confectionary giant that makes Snickers, Skittles, and M&Ms remains privately held. The search engine company Google did not go public until 2005.

Stocks are bought and sold in marketplaces called exchanges. The Stock Market Game Program is an electronic platform in which students buy and sell simulated shares on the three major U.S. financial markets: the American Stock Exchange (AMEX), the New York Stock Exchange (NYSE) and the NASDAQ. Each exchange has listing standards—guidelines companies must follow to become, and stay, listed on the exchange. (See lesson, "What is an Exchange")

Vocabulary

Common Stock: Shares represent ownership in a corporation and give the right to vote for the company's board of directors and benefit from its financial success

Dividend: Part of a company's profits (earnings) that is pays as money or shares to stockholders. In The Stock Market Game™, any dividends received are listed in Transaction History and are included in the portfolio's total equity.

Earnings: Whatever profits or net income remains after subtracting the company's expenses from its revenue. A company's profit.

Initial Public Offering (IPO): An IPO is the first issue of stock for public trading made by a company.

Investor: Someone who purchases stocks, bonds, mutual funds and other financial instruments in hopes the investments will increase in value over time.

Parent Company: A company that owns enough voting stock in another firm to control management and operations.

Preferred Stock: Often pay a fixed dividend on a regular schedule. The prices tend to be less volatile than common stock. Preferred stocks tend to move with changing interest rates. Preferred stocks holders cannot vote on corporate matters.

Portfolio: A collection of investments owned by one individual or organization.

Private Company: A company owned by a person, family, or small group of investors that does not sell stock to the public.

Public Company: A company owned by investors who buy shares of stock usually through a stock exchange.

Risk: The chance of losing all or part of the value of an investment.

Risk Tolerance: An individual investor's ability to accept loss of some or all of the money they have invested. A person's risk tolerance is based on a number of factors including age, financial stability, amount of time before the invested funds are needed for other purposes, etc.

Stockholder: Also known as a shareholder is the owner of the stock.

Stock: A security that signifies ownership in a corporation and represents a claim on a part of the corporation's profit (or loss). Companies usually issue stock to raise money for a variety of reasons, including expanding or modernizing their operations.

Stock Exchange: Place/electronic platform where shares of are bought and sold.

Performance Objectives

The students will be able to:

- Define stock, investor, public company, private company, earnings and dividends.
- Compare public and private companies.
- Calculate gain and loss of sample stock sales.
- Write a profile of a public or private company

Materials

Fact Sheet 1: What is a Stock?

Activity Sheet 1: A Tale of Two Chocolate Companies
Activity Sheet 2: Team Activity: What is Stock Assessment?
Activity Sheet 3: Stock Market Calculations
Activity Sheet 4: Speaking of Stocks

Springboard Activity

Show or distribute Mars and Hershey candy bars to the class.

Ask: How are these similar? Different?

Discuss and then state: "Do you know that you can own part of one of these companies and if they do well so will you?" Each company is organized differently. Let's see which company you can purchase.

Procedure

Have the students read *Activity Sheet 1: A Tale of Two Chocolate Companies* and answer the accompanying questions.

Discuss the differences between public and private companies. See the answer key for *Activity Sheet 1.* Be sure to define stock and how a private company like Mars might expand and compete with the public Hershey Foods.

Novice Level

Organize students into SMG teams. Ask each team to define "stock" and list their definitions. Use these definitions to develop a preliminary class definition of "stock."

Distribute *Fact Sheet 1: What is a Stock*? Allow the students time to read. Have them underline phrases and sentences that help them define the different types of stock—preferred and common—and how an investor makes a profit from stock. (Answer: There are two ways—increased stock price or dividends.)

Have the class evaluate the initial class definition of stock and revise it based on their new information.

Apprentice Level

The companies that make many popular products are not always obvious. For example, Pepsico, known worldwide for its soda, also sells Quaker Oats cereal products. After completing the exercise above, have each team select a product, research its company and write a profile of the company. Search a company name on Yahoo! Finance (http://finance.yahoo.com) for an example of a company profile.

Create cards/a list with different company names for each team to pick to research.

Ask

1. What other products do these companies offer?
2. When did these companies go public (i.e., have their IPO)?

3. On which exchange are they traded?

Master and Grand Master Levels:

Have teams select a product produced by a company that recently had an initial public offering (IPO). NASDAQ provides a list of IPOs: https://www.nasdaq.com/markets/ipos/

Ask

1. Why do you think the company choose to go public?
2. What has happened to the stock price since the IPO?
3. Would you invest in this company? Why?

Assessment

Novice and Apprentice Levels

Use *Activity Sheet 2: Stock Assessment Quiz* or *Activity Sheet 4: Speaking of Stocks* to assess their understanding.

Master and Grand Master Levels:

Have students list a favorite product and determine the company that makes it. Have them research that company's IPO—when the IPO took place, the initial stock price, what the company also made, etc. Finally, have the students chart how the stock has grown since the initial offering and decided whether, based on what they find, they would purchase this stock.

Application

Novice Level

Demonstrate problems 1 and 2 on *Activity Sheet 3: Stock Market Calculations*. Have students work on the additional questions. Students can also list 5 products, and the companies that make them, that their SMG team plans to purchase. Have them list the reason for each purchase.

Apprentice Level

Have students complete problems on *Activity Sheet 3: Stock Market Calculations*. Have the team present their findings for the five companies.

Master and Grand Master Levels:

Have a member from each team play the role of financial advisor and attempt to convince the class that the newly public company that his/her team researched is worth the class's investment.

Enrichment Activities

Novice and Apprentice Levels

Have students solve the problem:

> Steve wants to buy 100 shares of his favorite soft drink company, PepsiCo. One share of PEP costs $57.25. PepsiCo pays an annual dividend of $1.50 per share. How much will Steve have to pay for his 100 shares? How much is he guaranteed to make from this stock purchase?

Master and Grand Master Level:

Register for SIFMA Foundation's Invest It Forward program and invite a local financial professional into your classroom to speak to your students about IPOs.

Answer Key

Activity Sheet 1

1. Mars is a privately held company and Hershey is a publicly held company. What does this mean?

> Mars is a privately held company that is owned by a person, family, or small group of investors that don't sell shares to the public. Hershey's is a public company owned by investors who purchase shares of stock and become "part owners" in the company.

2. If Mars wanted to compete more aggressively, how could they raise the money to expand their business?

> The Mars company might consider becoming a publicly traded company and sell shares of the company to investors. If Mars wanted to remain private, they might consider borrowing money from a bank.

3. How can the Hershey Foods raise funds to expand their business?

> They could sell more shares of the company to investors; develop new products for individuals to invest in. They could also create or buy new companies that investors could buy shares of.

Activity Sheet 2

1. The government owns the stock market. F. While the government has agencies that regulate the markets, they do not own the market.

2. Only the very rich can buy stock. F. For many mutual funds provide an affordable way to invest in a diverse portfolio of stocks and other assets.

3. There is only one place you can buy stock in the United States. F. An individual can invest in stock through a brokerage firm or online.

4. Stockholders can only make money by collecting dividends. F. Stockholders make money on dividends and on the sale of their shares when the price of their stock is higher than what they initially paid.

5. People who invest in the stock market will always make money. F. There is always a certain amount of risk in any investment. Returns are not guaranteed.

6. People can only buy stock in public companies. T. Investors can only invest in companies that have offered their stock for sale to the public.

7. A dividend is a portion of the company's profits paid to its stockholders. F. A dividend is a portion of a company's profits paid out to all of its investors.

8. Stock can be purchased by any investor. T. Yes, stocks can be bought by any investor.

9. A company issues shares of stock in order to raise funds for expansion. T. Selling shares of stock is one way a company might fund its expansion and growth.

10. The New York Stock Exchange is where all stocks are traded. F. There are two US stock exchanges: the New York Stock Exchange and the NASDAQ.

11. Someone who bought a company's stock for $16.50 and sold it for $23.50, lost money on the investment. F. They sold it for more than they initially paid for it so they earned money.

12. An investor takes a risk when buying any stock. T. There is always risk associated with investing.

Activity Sheet 3

1. You made a profit of $ 1,425.00
Bought 100 X 47.75 = $ 4,775.00
Sold 100 X $ 62.00 = $ 6,200.00
$ 6200 (Sold) – $ 4775.00 (Bought) = $ 1,425.00 (Profit)

2. This investment was a loss of $ 585.34
Total price of purchase:
Bought 259 X $ 24.38 = $ 6,314.42
Sold 259 X $ 22.12 = $ 5,729.08
$ 5,729.08 (Sold) - $ 6,314.42 (Bought) = - $ 585.34

3. A profit of $ 1,126.00
Bought 100 X $ 57.12 = $ 5,712.00

Sold 100 X $ 68.38 = $ 6,838.00
$ 6,838.00 (Sold) - $ 5,712.00 (Bought) = $ 1,126.00

4. $ 23,495.23
175 shares Gillette X $ 71.38 = $ 12,491.50
189 shares General Electric X $34.25 = $ 6,473.25
86 share Hershey Foods X 52.68 = $ 4,530.48
$ 12,491.50 + $ 6,473.25 + $ 4,530.48 = $ 23,495.23

5. $1,425.00 - $ 585.34 + $ 1.126.00 = $1965.66

You could make money by holding the stocks and obtaining stock dividends paid by the companies.

Activity Sheet 4

1. Stock represents shares of ownership in a company.

2. Companies that decide to sell stock on the stock market are called public companies.

3. People who own shares of a company are called stockholders.

4. Private companies are owned by families or a small number of investors and do not issue stock to the public.

5. When you invest your money, you buy an item hoping it will increase in value over time.

6. A dividend is part of the company's profit that the board of directors decides to distribute to its shareholders.

7. If a stockholder sells his/her shares for less than he or she paid for them, the stockholder has experienced a loss.

8. Answers may vary. Students should use as many in the word box as possible. A sample response might be: "A stock represents shares of ownership in a company. Companies that sell stock on the stock market are called public companies. Private companies do not sell stock on the stock market. People who invest in stocks are called stockholders. Sometimes, a company's board of directors distribute to its shareholders a part of the company's profits. This is called a dividend. You don't always make money investing in stocks. Sometimes you experience a loss when your stock losses money.

Activity Sheet 1: A Tale of Two Chocolate Companies

Mars, Inc.

It all began in 1911 in the kitchen of Frank and Ethel Mars in Tacoma, Washington, where they made and sold a variety of butter-cream candies. In 1920, after visiting a local drugstore with his son Forrest, Frank was inspired to produce a version of chocolate and malted milk that could be enjoyed anywhere. The result was the Milky Way bar. It was an immediate success!

Together the Mars family created their own company that later produced many other world-famous confections, including Snickers and M&M's. These candies were the foundation of what became a global snack food business. Their business was further strengthened when, while working in Europe during the '30s, Forrest Mars created a protective candy coat to stop chocolate from melting. M&M'S were born; their success was ensured when they were adopted as a staple ration for US forces. Today, M&M'S are famous all over the world.

By the 1970s, the Mars Company was known for a variety of businesses classified into four distinct areas: snack food, food, pet care, and drinks vending and electronics. Over the years Mars has grown from a small kitchen production line to a multi-billion dollar business. Mars' products bear a variety of well-recognized names including TWIX, Snickers and M&Ms in snack foods, Pedigree, Whiskas, Cesar and Sheba in pet care and Uncle Ben's in foods. Mars remains a privately held, family company.

The Hershey Company

Raised in rural Pennsylvania, Milton S. Hershey had little formal education and was nearly bankrupt by the time he was thirty. Nonetheless, Milton created the multi-billion dollar company known today as Hershey Foods.

The company began as a small subsidiary of Milton's Lancaster Caramel Company. Using chocolate-making equipment purchased at the 1893 Columbian Exposition in Chicago, Milton's company produced baking chocolate, cocoa and sweet chocolate coatings for the parent company's caramels. After building his own milk-processing plant and working day and night for three years, Milton became the first American to develop a formula for manufacturing milk chocolate. It was affordable, tasted good, and remained fresh for a long time. No wonder it was an immediate sensation!

Milton went on to become one of America's wealthiest individuals and a successful entrepreneur whose products are known all over the world. He was a visionary builder of the town, which bears his name and, a philanthropist whose generosity continues to touch the lives of thousands of people.

Through technology, modernization, and new product development, the Hershey Company has grown spectacularly. Today, the Hershey Company, like its counterpart the Mars Company, is a leading snack food company and the largest North American manufacturer of chocolate and non-chocolate confectionery products, as well as other related grocery products. Unlike the Mars Company, Hershey Foods is publicly traded. This means the public can become part owners in the company by purchasing its stock.

Based on the reading above answer the following questions:

1. Mars is a privately held company and Hershey is a publicly held company. What does this mean?

2. If Mars wanted to compete more aggressively, how could they raise the money to expand their business?

3. How can the Hershey Foods raise funds to expand their business?

Activity Sheet 2: Team Activity: What is Stock Assessment?

Team Questions: Write T next to the following statements that are correct; F for those that are incorrect. Earn a bonus for writing a reason or example to prove why a true statement is correct; correct a false statement to make it accurate.

1. The government owns the stock market. _________
2. Only the very rich can buy stock. _________
3. There is only one place you can buy stock in the United States. ________
4. Stockholders can only make money by collecting dividends. ________
5. People who invest in the stock market will always make money. _______
6. People can only buy stock in public companies. ________
7. A dividend is a portion of the company's profits paid to its stockholders. ________
8. Stock can be purchased by any investor. _______
9. A company issues shares of stock in order to raise funds for expansion. ________
10. The New York Stock Exchange is where all stocks are traded. _______
11. Someone who bought a company's stock for $16.50 and sold it for $23.50, lost money on the investment. _______
12. An investor takes a risk when buying any stock. _______

Activity Sheet 3: Stock Market Calculations

1. You purchased 100 shares of Brand X Company at $47.75 per share. A year later you sell your 100 shares for $62 per share. Did you make a profit or lose money? How much money did you make or lose? Explain how you calculated your answer.

2. You purchase 259 shares of Sonic Ohm Corporation for $24.38 per share. What is the total cost of your purchase? You later sell your shares at the current market price of $22.12. Did you make a profit or was this a losing investment? How much money was your profit or loss? Explain how you calculated your answer.

3. Shares in Brand Y Coffee sold for $57.12 per share eighteen months ago; you purchased 100 shares. You just sold your shares at $68.38 per share. How much profit did you make on the sale?

4. You own a total of 450 shares in three companies. The number of shares and their current prices are: 175 shares of Company 1A—$71.38 per share for shares; 189 shares of Company 2B —$34.25 per share; and 86 shares of Company 3C — $52.68 per share. What is the value of your portfolio?

5. Using the information from questions 1, 2, and 3 above, determine your total profit or loss from the sale of stock in Brand X, Sonic Ohm Corporation, and Brand Y Coffee.

6. Could you have made money on the stocks you owned without selling them? How is that possible?

Activity Sheet 4: Speaking of Stocks

Fill in the correct vocabulary word or term in the paragraph below using the word bank provided at the bottom of the page. Note that some words may be used twice in this paragraph.

1. ___________________________ represents shares of ownership in a company.
2. Only ________________________ traded companies are able to sell ownership in their companies through a large market place known as a__________________________.
3. People who own shares of a company are called________________________.
4. Some companies are owned by families or a small number of investors and do not issue stock to the public. These companies are known as _________________held companies.
5. Owning stock in a company is one way you can _______________________ your money; you could also ________________in mutual funds or real estate.
6. A __________________________ is part of the company's _____________ that the board of directors decides to distribute to the_______________________.
7. If a stockholder sells his/her shares for less than he or she paid for them, the stockholder has experienced a _______________________.

WORD BOX				
Stock	Dividend	Invest	Stock Market	Public
Stockholders		Profit	Loss	Private

Fact Sheet 1: What is a Stock?

Stocks represent a share of ownership in a publicly held company. The stockholder has a claim on the assets of a company in exchange for the money paid to purchase the stock. As an owner, the stockholder is sharing the wealth AND the risk of ownership with other owners of the company. No matter how few shares of stock you own, you are part owner of the business.

Typically, a company issues stock in order to raise money to expand and build their operations. The company goes to a financial services firm that specializes in underwriting an initial public offering (IPO) of stock to help them with this process. The financial firm gives the company the money it needs to expand, and issues stock. This stock is sold to the public in what is known as the secondary market. Stockholders, also called shareholders, are people who buy the stock.

People buy stock to earn dividends and with hope of selling the stock at a higher price than they originally paid. Stockholders may receive part of the company's profits through dividends. Public companies are not obligated to pay dividends, but most do. Stockholders have limited liability; that is, while they can lose the money they invested to buy the stock, they are not responsible for the company's financial debts should the company fail.

A stockholder should make investment decisions based on his/her "risk tolerance." All investments have some risk. A somewhat risky investment with great growth potential might be a good for someone who is 28 and financially stable, but not for someone who is 60 and plans on retiring in five years. A 28-year-old has time to regain losses before retirement; the 60-year old may not.

Stocks are traded on stock exchanges. The two major U.S. exchanges are the New York Stock Exchange and the NASDAQ. Both are located in New York City. Stocks usually trade in lots of 100; anything less than 100 called an "odd lot." Stocks can range in price from a few dollars to hundreds of dollars per share.

A publicly traded company pays increased taxes in the form of corporate income tax. Each state has its own rules regulating public companies. Public companies must also comply with rules and regulations imposed by the securities industry as well as the federal Securities and Exchange Commission (SEC). They must also submit an annual report to the SEC outlining all their financial information.

There are two types of stock, common and preferred. When you own common stock your shares represent ownership in the corporation. They give you the right to vote for the company's board of directors, and benefit from its financial success. Some corporations issue preferred stock in addition to common stock. Preferred stocks often pay a fixed dividend on a regular schedule. The price of preferred stock tends to be less volatile than that of common stock. Preferred stocks tend to move with changing interest rates. Unlike owners of common stock, owners of preferred stocks are not entitled to vote on corporate matters.

