

Buy, Sell or Hold?

Suggested Grade

Grades 6-8

Suggested Time

50 Minutes

Teacher Background

In this lesson, students learn to use key resources to help them determine whether to buy, sell or hold a stock. This lesson includes tips on how to read a company's annual report and compare a company with others in the same industry.

An annual report provides information on what a company does, its financial performance, as well as its plans for the future. Companies with more than \$10 million in assets whose securities are held by more than 500 owners are required to file annual and other periodic reports by the Federal Securities and Exchange Commission.

You may want to discuss with the students how to obtain a company's annual report. You can use www.nasdaq.com, or the company's website, which usually contains a link to "Investor Relations" where you can access the annual report.

Vocabulary

Cyclical Stocks: Stocks of companies whose performance tends to mirror the economy. When the economy grows the stocks turn up, and when the economy falters the stocks fall. Automobile and housing sectors are good examples.

Industry: A group of companies producing similar products or services.

Net Income: Total earnings after all expenses and taxes have been paid.

Profit: What remains after subtracting a company's costs from its revenue. Profit is a company's reward for taking a risk and successfully producing what people want to buy at prices they are willing to pay.

Revenue: Revenue is the money collected for providing a product or service.

Sector: A group of stocks, often in one industry. The performance of any single stock in a sector can be measured against the performance of the group. Pharmaceutical companies, for example, are part of the health care sector.



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Performance Objectives

Students will be able to:

- Decide whether to buy, sell, or hold stock based on group and individual research.
- Compare and contrast companies based upon stock market statistical data.
- Create bar graphs that compare two companies' net income and revenue for a three-year period.
- Use the Internet to obtain annual reports and research companies.

Materials

Activity Sheet 1: Annual Reports—An Investment Tool

Activity Sheet 2: Comparing Companies Across the Same Industry

Springboard Activity

Create a three-column chart entitled "Making Portfolio Investment Decisions;" label the columns "Buy," "Sell," and "Hold."

Have students brainstorm why someone would take each action. Elicit reasons such as:

- People buy to make a future profit.
- People buy to save for retirement.
- People sell to collect their profits or protect against further loss because the stock price is dropping.
- People hold because historical trends suggest that over the long-term stocks have the greatest return.

Ask your students:

- How do you know the "right" action to take?
- How do you make educated decisions about your investments?

Procedure

Ask your students what factors they might consider when making the decisions to **buy**, **sell**, or **hold** a stock?

Explain that Annual reports provide good information on individual companies, but it is also important to research other companies in the same industry. This comparison is called to "sector analysis." Professional financial analysts carry out detailed analyses, but SMG teams can conduct a simplified analysis of their own.

Investors look at the following before deciding: to buy, sell, or hold:

- Look at the company's annual report
- Research the company's performance, including revenue and profit.



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- Compare information with the latest analyst report: Are revenues growing? Are they making a profit?
- Impact of current events; is there a new CEO, new projects, merger; etc.
- Check to see if the stock has a cyclical component.

Distribute *Activity Sheet 1: Annual Reports—an Investment Tool*.

Have SMG teams decide if they should buy, sell, or hold the companies' stock, based on the information given. If time allows, each team should share their decision-making process with the class, providing rationale for their decisions.

Distribute *Activity Sheet 2: Comparing Companies Across the Same Industry*.

In a class discussion have students explain what information is presented about the companies and how a potential investor can use that data to make investment decisions.

Ask SMG teams to answer the questions presented on the activity sheet.

SMG teams should share their answers with the class.

Assessment

Choose a stock from your SMG portfolio or one you are considering purchasing.

1. Check the company's revenue and profits and compare them to other firms in the same industry. This can be done either online or by obtaining annual reports. If other companies are doing much better, you would tend to sell? If they are doing worse, you would tend to hold?
2. Check for current events surrounding your companies.
3. Check how the sector is performing.

Based on your research write a journal entry that defends your decision to Buy Sell or Hold the stock.

Application

Research two companies within the same industry.

Check the two prior annual reports and compare the statistics to show how the company is currently performing.

Plan a persuasive speech that either motivates SMG team members to buy, sell, or hold.

Enrichment Activities

Have each student create a bar graph comparing revenues and net incomes over the past three years using data from *Activity Sheet 2: Comparing Companies Across the Same Industry*. This gives students a visual representation of how well the stock has performed.



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Have each student research two companies of their choice from the same industry and create a similar bar graph comparing the two over a period of years. Sometimes this information may not be adequate to decide whether to buy, sell, or hold. Have the students include other information they would want to have about the company before making a buy, sell, or hold recommendation to their team.

Ask your students: Do the stock-price fluctuations of one company make you more nervous than that of the other? Explain.

The students may also plan a persuasive speech using visual displays to persuade the audience to buy, sell, or hold using the bar graphs.

Answer Keys

Activity Sheet 1:

Examine the following charts. Based on the information supplied, answer the questions below.

Internet Company: AAA

	2017	2018	2019
Revenue	1,625,097	3,574,517	3,756,668
Net Income	237,879	839,553	1,213,022

Current 52 Week High and Low: \$39.78/\$30.30

Current Cost Per Share: \$38.49

What have you learned about AAA from the data provided?

The cost of the company's share is near its 52 Week High.

What conclusions can you draw about AAA by comparing the net income to the revenue over three years? Does this make you more or less interested in investing in AAA? Explain

Answers may vary.

You are looking to invest in an Internet company. Would you buy shares in this company? Explain.

Answers may vary.

Telephone Company: AB&C

	2017	2018	2019
Revenue	42,197	37,827	34,529
Net Income	7715	(13,082)	1,865

Current 52 Week High and Low: 62.04, 26.00

Current Cost Per Share: 25.11



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You currently own 100 shares in AB&C that you bought in 2018 at 57.90. Would you buy, sell or hold? Explain.

Answers may vary.

Gas and Electric Company: IT'S ELECTRIC!

	2017	2018	2019
Revenue	132,226	134,641	152,866
Net Income	14,167	15,002	15,236

Current 52 Week High and Low: 37.75, 32.67

Current Cost Per Share: 35.80

You own 100 shares in IT'S ELECTRIC! Which you purchased in 2004 at \$32.67 per share. Would you buy, sell, or hold? Explain.

Answers may vary.

Activity Sheet 2:

AAA Inc.			
	2017	2018	2019
Revenue	1,625,097	3,574,517	3,756,668
Net Income	237,879	839,553	1,213,022

Current 52 Week High and Low: 39.78, 30.30
Cost Per Share: 38.49

The Techies, Inc.			
	2017	2018	2019
Revenue	1,465,934	3,189,223	4,219,468
Net Income	105,648	399,119	1,093,189

Current 52 Week High and Low: 379.17, 161.31
Cost Per Share: 395.12

1. Compare the two Internet companies. What do you notice about each? Which company appears to be doing better? If you did not own any stocks in either company, which company would you buy stock in? Why?

Answers may vary: Both companies are near their 52 Week High, but AAA Inc. is closer, AAA Inc.'s net income is higher compared to that of The Techies, Inc.

2. On Activity Sheet 1: Annual Reports – An Investing Tool, you looked at AAA Inc. and decided whether to buy, sell, or hold its stock without looking at other companies in the same industry. The Techies Inc. is an Internet company and a major competitor of AAA Inc. You currently own 100 shares of AAA Inc. Based on



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what you now know about both companies, would you buy, sell, or hold AAA Inc.? Explain.

Answers may vary.

3. Currently you own 50 shares in The Techies, Inc. that you bought in 2017 at \$10.54. Would you buy more, sell your shares, or hold? Explain.

Answers may vary.



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Activity Sheet 1: Annual Reports—An Investment Tool

Examine the following charts. Based on the information supplied, answer the questions below.

Internet Company: AAA

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Net Income	237,879	839,553	1,213,022

Current 52 Week High and Low: \$39.78/\$30.30

Current Cost Per Share: \$38.49

What have you learned about AAA from the data provided?

What conclusions can you draw about AAA by comparing the net income to the revenue over three years? Does this make you more or less interested in investing in AAA? Explain

You are looking to invest in an Internet company. Would you buy shares in this company? Explain.



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You own 100 shares in IT'S ELECTRIC! Which you purchased in 2019 at \$32.67 per share. Would you buy, sell, or hold? Explain.



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Activity Sheet 2: Comparing Companies Across the Same Industry

AAA Inc			
	2001	2002	2003
Revenue	1,625,097	3,574,517	3,756,668
Net Income	237,879	839,553	1,213,022

Current 52 Week High and Low: 39.78, 30.30
Cost Per Share: 38.49

The Techies, Inc.			
	2001	2002	2003
Revenue	1,465,934	3,189,223	4,219,468
Net Income	105,648	399,119	1,093,189

Current 52 Week High and Low: 379.17,
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Cost Per Share: 395.12

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