

Buy, Sell, or Hold?

Suggested Grade

Grades 9-12

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. Most company websites provide "Investor Relations" links where their annual reports and quarterly financial information are available.

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

- Draw conclusions on whether to buy, hold, or sell based on group and individual research.
- Compare and contrast companies based upon stock market statistical data
- Math: Analyze basic financial data.
- Technology: Students will use the Internet to obtain annual reports and research companies across the same industry.

Materials

Activity Sheet 1: Comparing Companies Across the Same Industry

Springboard Activity

Ask students to create a three-column chart named "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 students: How do you know the "right" action to take? How do you make educated decisions about your investments?

Procedure

Ask students to search for an analyst report for a company in your portfolio. They are specifically looking for the analyst's recommendation regarding whether to buy, sell, or hold. Next, have them locate a copy of the most recent annual report from that company.

Elicit a list of the types of information available in an annual report. Afterwards, inform them that in addition to looking at annual reports of individual companies, it is extremely important to research other companies in the same industry. This is referred to "sector analysis."

Ask your students to check the revenue and profits of a company in their portfolio and compare them to other firms in the same industry. If the other companies are doing much better, you would tend to sell, if they are doing worse, you would tend to hold



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Next, ask your students to check current events surrounding the company they are holding, also check how the sector is performing. This is important because if a sector is growing, they still may want to purchase the stock despite its currently poor peer performance. If the sector is collapsing, you may sell even if the stock is currently out-performing their peers.

Assessment

Novice and Apprentice

Have students compare two stocks from the same industry. Instruct them to write a paragraph on what action they are going to take with the stocks; buy, buy and hold, hold or sell.

Master and Grand Master

Have students develop a rubric for each of the stocks in their portfolio. They should answer: How their companies compare to other companies in the same industry and sector? What actions will they be taking - buy, sell or hold?

Application

Novice and Apprentice

Begin by distributing *Activity Sheet 1: Comparing Companies Across the Same Industry*. In a class discussion, have students explain what information is being presented about the companies and how a potential investor can use the data presented. The students can work independently or in their SMG teams.

Master and Grand Master

Have SMG teams do a financial analysis of each of the companies currently in their portfolio or that they plan to purchase. In addition to sector information and the company's annual report, what other indicators should they review when making informed decisions? Each team should develop a rubric showing what financial information is most important to them. How do each of their stocks compare to those in the same industry or in the same sector? Have students go to websites such as Yahoo! Finance or TheStreet.com to see other types of statistical analysis.

In the rubric, have them include their action, either to buy, sell or hold.



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Enrichment Activities

Have the students take the data from *Activity Sheet 1* and create a bar graph that compares the revenues and net incomes over the past three years. This will give students a visual representation of how well the stock has done and project results into the future.

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

Answer Key

Activity Sheet 1:

XYZ

	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

EFG

	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, 161.31

Cost Per Share: 395.12

1. Company XYZ has much cheaper stock than EFG. The Revenue of XYZ has stalled in 2003 whereas the revenue in EFG has continued to increase. Finally Company EFG is making a much bigger profit than XYZ.
2. I would sell my stock in XYZ and buy stock in EFG because EFG is more profitable. The big problem will be the cost of the stock which is 10 X as great.
3. See answer above
4. I could sell the shares and make a huge profit and maybe invest the money to diversify the portfolio. I could also keep the stock a little longer since the company is doing well and its price continues to rise.



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Activity Sheet 1: Comparing Companies across the Same Industry

XYZ Company

	2016	2017	2018
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

EFG Company

	2016	2017	2018
Revenue	1,465,934	3,189,223	4,219,468
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1. Comparing 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? Why?



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2. EFG is an internet company and a big competitor of XYZ. You currently own 100 shares in XYZ. Based on the information above, would you buy more, sell or hold XYZ? Why or why not?

3. Based on the information provided, if you did not own EFG would you buy it? Why or why not?

4. You own 50 shares in EFG that you bought in 2002 at \$10.54. Would you buy more, sell your shares, or hold? Explain your action.



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