

Investing: Stocks

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Stock ownership provides a way to keep or increase financial worth over time. This broad statement may not hold true for an individual stock nor the market as a whole during relatively short periods of time. But a diversified portfolio of stocks in growing businesses should provide inflation protection if you're willing to make a commitment for several years.

Shares of stock represent **ownership**. Your hope is that the company in which you own stock will grow and you will receive a fair return on your investment. Stocks can appreciate in value as profits are earned. Dividends, which represent an annual return on your investment, may also increase. In fact, one measure of quality in common stocks is to have a long record of earnings increases and frequent jumps in dividends.

The two major types of stocks are **common stocks** and **preferred stocks**. Common stocks generally have somewhat lower dividends but, unlike preferred stocks, retain full voting rights in the affairs of the company.

Characteristics of Stocks

Stocks have no maturity or expiration date. No guarantees are made with regard to repayment of your investment or payment of dividends. However, if the company thrives and makes a profit, so do you. Other investors will want to buy stock in the company, and you will be able to sell yours at a profit.

A distinction should be made between **investment** and **speculation** in stocks. When you speculate in stocks, gains are subject to chance. Small, unproven companies whose futures may or may not be bright are usually called speculations by the investment community. A successful speculation may return several times your initial investment in a few months; however, everything could be lost in an unsuccessful speculation.

Stock **investments** imply less risk. There is a historical record of assets, earnings and dividends. There is a base on which to build for the future. Success in stock investments may take longer and be less dramatic, but the rewards can be ample and the risks smaller than when you speculate.

Stock Investors Have Different Objectives

A conservative investor stresses **income**. The record of dividend payments is all-important, as are future earnings prospects so the dividend can be "covered" or even increased. Growth of assets – and, by implication, stock price appreciation – are less important as long as the downside risk is minimal. Investment sites on the Internet or investor newsletters such as *Value-Line*, which can be found at larger libraries, can provide information about current and historic dividend yields.

A more aggressive investor is interested in **growth of capital**. Growth stocks generally do not pay a

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high percentage of their earnings in dividends. Instead, the company reinvests some or all of its earnings in research and development to bring about more growth. This in turn can make your investment more valuable. If your stock increases in value and you have held it at least a year, the gain will be taxed at long-term capital gains rates when you sell. Currently (October, 2000), the maximum tax rate on long-term capital gains is 20 percent. Growth companies include many computer and other technology firms.

Other stocks are cyclical. When the economy does well, they do well, and vice versa. Housing, automobile, home furnishings and some retailing stocks are in this category. The objective of cyclical investments is to buy at the bottom of the price cycle and sell at the top. Timing is everything – results can be variable when one has to depend on human judgment (yours or someone else's) to determine price peaks and valleys.

Stock Transactions

Stocks can be purchased on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and the NASDAQ (National Association of Securities Dealers Automated Quotation) system, also called the over-the-counter market. An advantage of common stocks as an investment is that they can be bought or sold in a continuous market on any business day.

The Stock Exchange serves as the central marketplace. Most stock buy and sell orders are placed with brokers. Many brokerage firms maintain offices in major Arkansas towns and cities. Local brokers then contact other brokers who operate on the exchange floor. The “floor broker” attempts to match buy and sell orders for individual stocks. As soon as that's done, buyer and seller are notified that the purchase or sale has taken place. Prices fluctuate continually, based on supply and demand. If you do not presently have a broker, visit with your banker, accountant or a friend who invests in stocks and obtain their advice about who you might select to

handle your stock transactions. Then, if possible, meet with recommended brokers and talk about your goals (income or growth), how much you have to invest and services and charges. Select the broker who seems to best fit your needs.

Rules of Stock Purchases

Vast amounts of information are dispersed which attempt to deal with **what** stock should be purchased and **when** it should be purchased. The always-elusive goal is, of course, to make money. Everyone from the most-learned academicians, to sidewalk shoe shine boys have joined in this “game” over the years.

Your stockbroker can help suggest stocks in which “you might invest.” But in the final analysis, **your money will be on the line**. Plan accordingly. **Some of the more common stock investment rules follow:**

Investigate before you invest. Get as many facts as possible. Determine your buying and selling price zone.

Have the odds stacked in your favor. Recognize that you may be wrong, but invest only when you believe there is twice as good a chance for price advancement as decline.

Keep up with new developments. Even the best companies have ups and downs. A fundamental change in company outlook may mean the stock should be sold.

Be patient. Don't jump in and out with each wavering of the stock price. As long as the “big picture” is unchanged from when you made the initial investment, you do little except make the broker rich with constant buy and sell orders.

Watch trends for the entire economy. When you read newspapers or magazines, think about new developments that will affect certain industries and companies within those industries.

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