

# Stock Basics

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# What are stocks?

- Stock is a share in the ownership of a company
- It represents a claim against the company's assets (things they own) and earnings
- As you acquire more stock of a company, your ownership stake becomes greater

# Being an owner.

- Being one of the many owners (**shareholder**) means you have a claim to everything the company owns – even though it may be a tiny value
- Companies who offer stocks can either be a private company or a public company

# Private company

- A private company is a company that is not listed on a stock exchange
- They offer potential investors an opportunity to invest into their company based on the number of shares they have available and a price per share determined by the private company
- Example: 50 shares for \$10,000 or \$200 per share

# Public company

- A corporation that trades stocks on a stock market
- A corporation issues stocks and makes them available to the general public for the purpose of raising funds so they can expand or grow the business

# Proving Ownership

- Historically, to prove that you were a shareholder of a company you would have received a stock certificate
- Today, your ownership is maintained electronically

# Risk vs Reward

- When investing in stocks, a person has to be aware of the risk involved
- An investment that is high risk is an investment where the potential investor has an opportunity to earn high profits or, on the other hand, experience great losses
- Low risk investment means gains and losses will be minimal to moderate

# Attracting Investors with Dividends

- Companies try to persuade potential investors by offering them the promise of dividend payments
- A **dividend** is the distribution of a portion of a company's earnings to their shareholders

# Main Types of Stocks

- There are two main categories of stocks:
  - Common stock
  - Preferred stock
- Common Stock – this type of stock is the one that most companies issues
- Investors get one vote per share of ownership to elect the Board of Directors
- Yields the most returns compared to other investments
- **If bankruptcy of the company occurs, common stockholders have to wait until others are paid before they receive any remuneration**

# Preferred Stock

- Ownership in a company without voting rights
- Can receive a fixed dividend as long as they own the preferred stock
- When a bankruptcy occurs, preferred shareholders will receive remuneration
- A disadvantage, the company can purchase back their stocks whenever they want and for any reason