

From Wall Street to Main Street, It Pays to Know the Market

As worker stock ownership rises, basic knowledge of the market takes on new importance.

Do you own stock? For most working people the answer is probably “yes,” even if they don’t know it.

For about seven years now, the big story in the United States has been the continued growth of the economy. Even though the boom has primarily benefited the already well-off and vast inequalities in wealth remain, one effect of this expansion has been a significant growth in the number of households that have a stake in the financial markets. Even if working people own no stocks as individuals, labor-management pension plans are major shareholders, representing one of the biggest pools of investment capital in the world.

In 1983 19 percent of U.S. households owned equities. Between 1983 and 1999 the number of individuals owning stock, either directly or through mutual funds, increased by 85.6 percent, from 42.4 million to 78.7 million. As of January 1999, an estimated 48.2 percent of U.S. households owned equities. All of this makes it more important than ever that working families understand the ins and outs of the market.

To help clarify some of the financial jargon, the *Journal* presents these **Answers to Frequently Not-Asked Questions** about stocks, stock exchanges and some terms used in the financial news. Web site addresses are also provided for further information.

Q: What is stock?

A: Stock represents ownership interest (or equity) in a company. Shares of stock are given to those who invest in the business by providing capital to the company. Each

share represents a piece of the company’s assets and earnings, a unit of participation by the stockholder.

Q: Are there different kinds of stock?

A: A company may issue different kinds of stock, each of which gives different rights to the owners. Common stock differs from preferred stock. Preferred stock usually pays a fixed dividend and gives the owner a priority claim on earnings and assets if the company fails. Owners of common stock may vote on matters such as the election of directors. If the stock pays dividends, they are paid after the preferred stockholders.

Q: What is a “blue-chip” stock?

A: This is stock in a nationally known company with a long record of profit growth and dividend payment and a reputation for quality management, products and services.

Q: What is a mutual fund?

A: This type of fund pools the money of its investors to buy a variety of securities. Open-end mutual funds sell as many shares as its investors wish to buy. A closed-end fund offers a fixed number of shares and usually trades on an exchange.

Q: What is a dividend?

A: A dividend is a portion of a company’s profit designated by the board of directors to be paid to shareholders. A stock selling for \$25 per share with an annual dividend of \$1.00 per share yields the investor 4 percent.

Q: What is a stock exchange?

A: In the United States, stock exchanges are formal organizations composed of members who use the facilities to “exchange” stocks. These exchanges are regulated by the U.S. Securities and Exchange Commission (SEC). The two major national exchanges are the New York Stock Exchange (NYSE) and the American Stock Exchange (AMEX).

Q: What is the New York Stock Exchange? (<http://www.nyse.com>)

A: The New York Stock Exchange was founded in 1792. It is the largest auction market exchange in the United States for buyers and sellers to conduct business through their brokers. Located on Wall Street in New York City, it is home to more than 3,000 companies with more than \$16 trillion in global market capitalization. More than two-thirds of NYSE companies were listed on the exchange within the last 12 years, including some leading U.S. companies, midsize and small-capitalization companies, and a growing number of non-U.S. companies.

Q: What is an auction market?

A: An auction market is one where the prevailing price is determined through the free interaction of prospective buyers and sellers, as occurs on the floor of the NYSE.

Q: What is the NASDAQ? (<http://nasdaq.com/>)

A: The National Association of Securities Dealers Automated Quotation (NASDAQ) System began trading in 1971. It was the first electronic stock market, and is one of the fastest growing stock markets in the United States. It is not the U.S. over-the-counter (OTC) market but was created to automate the OTC market. (The OTC market is a decentralized market of geographically dispersed dealers linked by telephone and computer screens. OTC stocks are those not listed on a stock exchange. For further information, visit <http://www.otcbb.com>.) In addition to small, growing companies, many large, household-name companies trade through the NASDAQ market. The NASDAQ structure is based on independent dealers (called “Market Makers”) competing for investors’ orders. Two factors distinguish

the NASDAQ market from traditional markets: the competing Market Makers and its sophisticated computer and telecommunications network.

Q: What is the American Stock Exchange?
(<http://www.amex.com/>)

A: The American Stock Exchange is the second-largest floor-based exchange in the United States. Like the NYSE, it is an auction market offering a mix of common and preferred stocks, corporate and government securities, options and warrants on equities and stock indices, and innovative derivative products.

Q: What is a ticker symbol?

A: This is a symbol composed of letters that uniquely identifies a stock, mutual fund or other security. Stocks with symbols of up to three letters are listed on the NYSE and AMEX exchanges. Securities with symbols of four letters are listed with NASDAQ; a fifth character is added to NASDAQ stocks to identify the security as other than a single issue of common stock or capital stock. Symbols of five letters ending in X identify mutual funds. (NOTE: The stock tables in general circulation newspapers may use abbreviated company names instead of ticker symbols.)

Q: What is the P/E ratio, and how do you calculate it?

A: The P/E ratio is the price-to-earnings ratio, the ratio of a company's share price to its per-share earnings. You calculate the P/E by dividing the price per share by annual (or 12-month period) earnings per share. The P/E provides an indication of the value of a stock and fluctuates as investors change their minds about how a company's earnings will perform. You use the P/E as an indicator of how much the market as a whole is willing to pay per dollar of earnings for that particular stock. The higher the P/E, the more investors are paying and, therefore, the more earnings growth they are expecting.

Q: What are market indexes?

A: Market indexes serve as yardsticks by which you can measure stock performance in various categories. There are numerous investment indexes around the world for stocks and other securities.

Dow Jones Industrial Average (DJIA): This is the oldest stock price measure in continuous use. An index of 30 large (blue-chip) companies representing different sectors of the economy—food, computers, telecommunications, financial services, etc.—with the intention of representing the U.S. stock market as a whole. The Dow's sister indexes are the Dow Jones Transportation Average (DJTA) and the Dow Jones Utilities Average (DJUA).

NYSE Composite Index: This index tracks the performance of all common stocks on the NYSE. It also tracks the performance of four subgroup indexes—utility, finance, transportation and industrial.

NASDAQ Composite Index: This index

measures the price movement of all domestic and non-U.S. common stocks on the NASDAQ market. It also contains six industry indexes: industrial, bank, insurance, other finance, utility and transportation.

AMEX Composite Index: Tracks the composite value of all stocks traded on the American Stock Exchange.

S & P 500 Index: This is a frequently cited index of 500 stocks of leading companies in leading industries. Many investors measure the performance of their stocks against the S & P 500. This index is issued by Standard & Poor's, a provider of independent financial information and credit ratings to the world's financial markets. ■

HOW TO READ STOCK TABLES

Stock tables report on the previous day's market results. You can find stock tables in the business section of many large, general circulation newspapers and on the Internet, where you can track stock performance throughout the day with about a 20-minute lag time. For more detailed information on stocks, indexes and a wide range of market indicators, consult financial newspapers, such as *The Wall Street Journal* and *Investor's Business Daily*. Among other tables, you will find listings for the Dow Jones, NYSE, AMEX and NASDAQ. These pages may also contain guides to help you read the tables. For the following generic example, a newspaper-style table was used.

52 WEEK Hi	Lo	Stock	Div	Yld	PE	Sales 100s	High	Lo	Last	Chg.
d63	41 ¹ / ₂	XYZ	.88	2.1	24	647807	44 ⁻³ / ₈	41 ⁻¹ / ₈	41 ⁻¹⁵ / ₁₆	-6 ⁻¹³ / ₁₆

Stock: Often, the company name is condensed and listed instead of the actual ticker symbol.

Hi Lo: XYZ's high and low prices during the past year are listed at the far left of the table. The stock has sold as high as \$63 per share and as low as \$41-1/2. (Footnote "d" indicates this is a new 52-week low for this stock. Footnotes are included in a stock-reading guide with the stock tables.)

Div: This reports the current annual rate of dividend payment, unless footnotes specify something else. XYZ pays a yearly cash dividend of 88 cents per share.

Yld: This is the yield percentage, which calculates what percentage return the 88-cent dividend represents. XYZ's dividend equals 2.1 percent of the company's stock price.

PE: The price-to-earnings ratio, which is 24 for XYZ.

Sales 100s: How many shares of XYZ stock traded hands the previous day. Add two zeros to 647807 to get the total—64,780,700 shares.

Hi, Lo and Last: These columns show the high, low and last price for the previous day.

Chg.: This shows how much the stock price fell or rose for the day compared with the last price for the day before. XYZ's price fell \$6-13/16.

For more information on stock market terminology, readers can find easy-to-understand books and magazines at bookstores, libraries and on the Internet. Financial web sites exist which provide, among other things, interactive tutorials and articles to help understand market dynamics. ■