

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 9 Stocks

### Reviewing Key Terms: Complete the Sentence



**DIRECTIONS:** Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- |                        |                    |                       |
|------------------------|--------------------|-----------------------|
| A. private corporation | D. blue-chip stock | G. bull market        |
| B. income stock        | E. cyclical stock  | H. bear market        |
| C. par value           | F. penny stock     | I. current yield      |
|                        |                    | J. earnings per share |

1. Stock that is considered a conservative, safe investment is called \_\_\_\_\_.
2. A(n) \_\_\_\_\_ occurs when investors are pessimistic about the economy and sell stocks.
3. The assigned dollar value that is printed on a stock certificate is the \_\_\_\_\_.
4. Stock that has a market value that tends to reflect the state of the economy is called \_\_\_\_\_.
5. \_\_\_\_\_ are a corporation's net, or after-tax, earnings divided by the number of outstanding shares of common stock.
6. A company that issues stock to a small group of people is called a(n) \_\_\_\_\_.
7. A(n) \_\_\_\_\_ occurs when investors are optimistic about the economy and buy stocks.
8. A stock that pays higher-than-average dividends compared to other stock issues is a(n) \_\_\_\_\_.
9. \_\_\_\_\_ is the annual dividend divided by the investment's current market value.
10. New companies or companies whose sales are very unsteady issue \_\_\_\_\_, which typically sells for less than \$1 a share.

# CHAPTER 9 Stocks

## Understanding Key Concepts



**DIRECTIONS:** On a separate sheet of paper, answer the following questions.

1. What is a preemptive right and how does it benefit the stockholder?
2. Explain the three ways investors can make money from common stock.
3. Compare the advantages and disadvantages of preferred stock and common stock.
4. Carmen wants to invest in a corporation whose potential earnings may be higher than the average earnings predicted for other companies. In other words, she wants a growth stock. What characteristics should Carmen look for in a corporation?
5. What is the difference between a large-cap stock and a small-cap stock?
6. Kelvin Company has 1 million outstanding shares of common stock and net earnings of \$650,000. What are Kelvin Company's earnings per share?
7. How do many companies use initial public offerings (IPOs)? Would you invest in IPOs? Explain your answer.
8. Bonnie wants to sell her shares in a fairly small software company and use her proceeds to buy Microsoft stock. In which marketplace will she conduct her transactions? Why?
9. Danny has an account with a brokerage firm, and his account executive does a lot of buying and selling of stocks in Danny's portfolio. The value of Danny's stocks has remained relatively constant yet he pays a lot in commissions. What is going on with Danny's account and what would you advise him to do?
10. Mai received \$10,000 in gifts for her graduation from high school and wants to begin investing in the stock market. Which investment strategy would you recommend? Why?

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## Activity 1: Factors Affecting Stock Prices

### SKILLS ACHIEVED

Reading, Writing, Acquiring and evaluating information, Organizing and maintaining information

**OBJECTIVE:** Examine what causes stock prices to rise or fall.

You learned in Chapter 9 about the factors that influence the rise and fall of a stock's price. Use the lines provided to list these factors. Write the factors that cause a stock's price to rise on the arrow pointing up. Write the factors that pressure a stock's price to fall on the arrow pointing down.

Financial Web sites and stock advisory services such as Value Line, Standard & Poor's, Moody's Investors Service, and Mergent Financial Investors Service all contain historical information about the stock prices. Choose a stock that interests you and find information about it in one of these resources.

1. Which stock did you choose?

\_\_\_\_\_

2. Is the price rising or falling?

\_\_\_\_\_

3. Which of the factors you listed seem to be responsible for the changes in price?

\_\_\_\_\_

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## Activity 2: Evaluating Stocks



### SKILLS ACHIEVED

Reading, Math, Problem solving, Decision making, Acquiring and evaluating information, Organizing and maintaining information, Interpreting and communicating information

**OBJECTIVE:** Evaluate various stocks for their investment potential.

Obtaining and evaluating information is a key to making wise stock investments. In this activity, you will assemble financial information on some well-known companies, organize it, and use it to evaluate investments.

On the next page, you will find a chart with space for information about the stocks of several well-known companies. Use the financial section of a major newspaper or the Internet to find the information. Then answer the following questions.

1. Which stocks have the three highest PE ratios? \_\_\_\_\_

The three lowest? \_\_\_\_\_

2. Which three stocks are trading at nearest their 52-week highs? \_\_\_\_\_

Their 52-week lows? \_\_\_\_\_

3. Which three stocks pay the highest yield? \_\_\_\_\_

The lowest yield? \_\_\_\_\_

4. Which stock do you feel would be the best investment? Why?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Which stock do you feel would be the worst investment? Why?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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	Ticker Symbol	Current Price	52-week High	52-week Low	PE Ratio	Yield
Intel						
Microsoft						
Ford						
General Electric						
Coca-Cola						
Wal-Mart						
Amazon.com						
Chevron-Texaco						
Wells Fargo						
Disney						

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## Math-Building Skills: Dollar-Cost Averaging



**DIRECTIONS:** *Martin has been buying shares of PlantMania, a garden center chain, using dollar-cost averaging. He buys \$100 worth of stock at each purchase. Below are the prices of a share of the stock on the dates he made his purchases. How many shares did he buy on each date? Assume that he is able to buy fractions of shares and that he pays no commission for his purchases. Round fractions up to two decimal points.*

Date	Price of a Share	Number of Shares Purchased
5/1/05	\$12.50	_____
8/12/05	\$12.10	_____
1/6/06	\$13.25	_____
4/16/06	\$13.87	_____
8/22/06	\$14.92	_____
2/16/07	\$14.25	_____
7/7/07	\$15.68	_____
12/28/07	\$16.22	_____
4/8/08	\$16.92	_____

For the following questions, assume the stock does not pay a dividend.

1. What is the total number of shares he now owns? \_\_\_\_\_
2. What is the average overall per-share price of his stock? \_\_\_\_\_
3. What is the value of his investment on the last purchase date? \_\_\_\_\_
4. What is the percentage total return? \_\_\_\_\_

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## Finance Online: Comparing Blue-Chip and Income Stocks



Chapter 9 states that blue-chip stocks are issued by the strongest and most respected companies, but that companies with income stocks offer higher-than-average dividends. What is the actual difference between these two kinds of investments?

To find out, visit the Web site of a company that issues blue-chip stock and of one that issues income stock. Choose companies that the chapter designates for each kind of stock, or explore the Internet to find the names of other stocks labeled blue-chip or income. Then answer the questions below.

Keywords Used	Site Names	Web-Site Addresses	Information Offered

1. List the names of the blue-chip stock company and the income stock company you researched. What are the most recent market values of their stock?

\_\_\_\_\_  
\_\_\_\_\_

2. What dividend did the blue-chip stock pay last quarter? What did the income stock pay?

\_\_\_\_\_  
\_\_\_\_\_

3. Assume that each company pays the same dividend for four quarters. Which company offers the higher current yield? (Remember:  $\text{Current Yield} = \text{Annual Dividend} \div \text{Market Value}$ )

\_\_\_\_\_  
\_\_\_\_\_

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## Your Financial Portfolio Worksheet



### Investing in Stock

Choose a stock you would like to invest in and research it. You can get stock information about a company in the financial section of major newspapers, the Internet, and from the companies themselves. You can also find information from *Standard & Poor's Stock and Bond Guide*, *Mergent's Handbook of Common Stocks*, or *Value Line Investment Survey*.

#### Take Stock of Your Future

Company name and address	
What type(s) of product(s) or service(s) does the company provide?	
What was the highest price paid per share during the past 52 weeks?	
What was the lowest price paid per share during the past 52 weeks?	
What is the current price paid per share?	
What is the price-earnings (PE) ratio?	
What are the company's earnings per share for the last three years?	
Is the company currently paying dividends? If so, how much?	
Have profits increased over the last seven years?	
List any additional information from a stock advisory service, such as <i>Standard &amp; Poor's Stock and Bond Guide</i> .	

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What type of stock would you be interested in purchasing? Explain why.

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Do you think the company you chose to research would be a wise investment choice? Explain your answer.

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# CHAPTER 9 Stocks

**Software  
Activity  
(Optional)**

## Spreadsheet Application

### Comparing the Performance of Stock Investments



**OBJECTIVE:** Evaluate the performance of securities using numeric measurements for investment yield, current return, total return, capital gain, and earnings ratios.

#### Practice Situation

Phillip owns the following stocks and wishes to evaluate the performance of his investments. He read recently that many stock analysts predict declining returns on pharmaceutical and medical stocks for the near future. Phillip wants to verify for himself that this trend is occurring. He presents the following data on his portfolio. Calculate the current yield, current return, capital gain, total return, earnings per share, and price-earnings ratio for both of Phillip's investments for the past two years. Compare the performance of each stock for each year and then answer the questions that follow.

#### Rudland Pharmaceuticals

6/1/2006–5/31/2007

Purchased 160 shares at \$38/share on 6/1/2006

Annual dividends paid: \$1.62 per share

Market value at 5/31/2007 = \$41.00

Rudland Pharmaceuticals reported net earnings of \$2,200,000 with 200,000 outstanding shares of common stock

6/1/2007–5/31/2008

Annual dividends paid: \$1.55 per share

Market value at 5/31/2008 = \$37.00

Rudland Pharmaceuticals reported net earnings of \$2,100,000 with 220,000 outstanding shares of common stock

#### A&R Medical Technologies

6/1/2006–5/31/2007

Purchased 220 shares at \$35.50/share on 6/1/2006

Annual dividends paid: \$1.85 per share

Market value at 5/31/2007 = \$38.00

A&R Medical Technologies reported net earnings of \$750,000 with 100,000 outstanding shares of common stock

6/1/2007–5/31/2008

Annual dividends paid: \$1.55 per share

Market value at 5/31/2008 = \$36.00

A&R Medical Technologies reported net earnings of \$765,000 with 120,000 outstanding shares of common stock

#### Spreadsheet Directions

1. Start your spreadsheet software program and open problem SA09.xls.
2. Using the data presented for both stocks for the period 6/1/2006–5/31/2007, calculate the following:
  - Current Yield
  - Current Return
  - Capital Gain
  - Total Return
  - Earnings per share
  - Price-earnings ratio

*Note: Format your calculated amounts for Current Yield as a Percentage, 2 decimal places. Format your calculated amounts for Current Return, Capital Gain, Total Return, and Earnings per share as Currency, 2 decimal places. The price-earnings ratio amounts should be formatted to Number, 2 decimal places.*

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- Using the data presented for the period 6/1/2007–5/31/2008, calculate the same performance measurements for both stocks.
- When you have completed your calculations, save your work to a new file labeled SA09\*\*\*.xls. (Replace \*\*\* with your initials.)
- Print out a copy of your work if your teacher has instructed you to do so.

### ***Interpreting Results***

- What was the total return for Rudland Pharmaceuticals stock for the year ended 5/31/2007?  
For the year ended 5/31/2008? \_\_\_\_\_
- Is Phillip's Rudland Pharmaceutical stock investment experiencing an increase or a decline in total return? \_\_\_\_\_
- What was the current yield for A&R Medical Technologies stock for the year ended 5/31/2007? For the year ended 5/31/2008? \_\_\_\_\_

### ***Drawing Conclusions***

- Based on your calculations for these two years, would you agree with the opinions of the stock analysts? Are Phillip's investments experiencing a decline in performance and returns? Explain.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- Phillip wonders whether he should consider selling his stock. What other issues should Phillip consider as he evaluates his investment returns and goals?  
\_\_\_\_\_  
\_\_\_\_\_

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### SELF-ASSESSMENT QUIZ

**DIRECTIONS:** Identify the letter of the choice that best completes the statement or best answers the question.

1. Corporations must do all the following things for their stockholders *except* (A) hold an annual meeting (B) pay dividends (C) report earnings (D) provide details on sales.
2. Why do corporations split their stock? (A) to keep stockholders happy (B) to increase the stock's market value (C) to decrease the stockholders' investment (D) to set an ideal price for the stock.
3. Of the following choices, the investment with the greatest risk is (A) common stock (B) preferred stock (C) government bonds (D) a savings account.
4. Stock considered to be a conservative and safe investment is known as (A) growth stock (B) small-cap stock (C) blue-chip stock (D) income stock.
5. Which company's stock do financial professionals consider a cyclical stock? (A) Home Depot (B) Ford (C) Southwest Airlines (D) General Electric.
6. For information on a company's stock prices, the most up-to-date of the following sources is (A) Kiplinger's (B) a quarterly report from company headquarters (C) the company's home page on the Internet (D) a financial report from Moody's Investor Services.
7. The current yield of an investment equals the annual dividend divided by the investment's (A) current market value (B) capital gain (C) current return (D) earnings per share.
8. An investor purchases securities from a corporation through an investment bank in a(n) (A) securities exchange (B) primary market (C) secondary market (D) over-the-counter market.
9. Which request lets an account executive decide when to buy or sell a security and at what price? (A) limit order (B) stop order (C) market order (D) discretionary order.
10. An investor can buy stock without going through an account executive by (A) reinvesting dividends (B) dollar cost averaging (C) buying on margin (D) selling short.