

# Stock Market Savvy

## Investing for Your Future

### Information for Educators from the New York Stock Exchange

The **New York Stock Exchange**, with the assistance of Lifetime Learning Systems, a division of Weekly Reader, is proud to present this free educational program, **Stock Market Savvy: Investing for Your Future**.

Specifically designed for middle school and high school students, this program includes eight reproducible activities that can be customized to the needs of your class. The goal is to introduce your students to the financial world of long-term savings and investment in stocks. Students will see that long-term savings through investment in the securities market is integral to the economy and their own personal lives.

This program will introduce students to the high-tech, exciting nature of the NYSE and the skilled market professionals that use state-of-the-art technology on the Trading Floor. They will also understand that the NYSE maintains high standards of conduct and integrity in the hybrid market to ensure fair trading in securities for all investors.

**Stock Market Savvy: Investing for Your Future** also helps students discover how to make informed investment decisions and understand why long-term savings through securities investment is important as they prepare for their future goals and dreams. Although the material is copyrighted, it can be reproduced for teaching purposes. Please complete and return the enclosed Educator Reply Card to receive future free educational programs and the enclosed survey to provide feedback on this program.

## Program Objectives

- Provide students with an understanding of the world of securities investment and its importance to their personal lives and private enterprise.
- Introduce students to the high-tech, exciting nature of the NYSE and the skilled market professionals on the Trading Floor and in the equities marketplace.
- Teach students about the high standards of conduct and integrity at the NYSE that ensures fair trading for all investors.
- Explore how supply and demand affects stock prices in the securities marketplace.
- Encourage teachers, students, and their families to explore the opportunities for long-term savings growth as active and informed investors.

### Target Audience

This program is designed for middle school and high school students in social studies, business, economics, consumer skills, or other relevant classes. It is helpful when teaching financial responsibility or for use in after-school stock or business clubs.

### Program Components

- This eight-page teacher's guide, which contains curricula objectives, background information, instructions for using the student activity masters, answers to the student exercises, and suggested extension activities
- Eight reproducible student activity masters
- Two different full-color wall posters for classroom display
- A teacher survey

### How to Use the Posters

Please display both posters in your classroom.

**Poster #1 (New York Stock Exchange):** This poster will familiarize students with the New York Stock Exchange and help them appreciate the role NYSE-listed companies play in their daily lives and the economy. Owning stock in a company means owning a piece of that business. Investments grow over time and this means young investors can create a great opportunity for future earnings.

**Poster #2 (How To Read Stock Tables):** One way to get a stock quote during the day is to look at the electronic tape on the Internet (at websites like [www.nyse.com](http://www.nyse.com)) or on television. These rolling lists of stock symbols and prices are continuously updated after each trade. For more information, you can also read a stock listing. This poster shows how to read NYSE stock listings in daily newspapers or on the Internet. It uses a newspaper stock listing to explain the various headings. Refer to this poster when your students begin Activity 3: "Understanding Stock Tables," which presents the stock listing as it might appear on the Internet. Remind students that the information is the same whether they're reading a stock listing in the newspaper or online.

## 1 Up Close and Personal The Stock Market & You

**Objective:** This activity introduces students to the securities market, helps them make a personal connection to the New York Stock Exchange hybrid market, and understand how public companies affect their daily lives.

- Begin by asking students what they know about the stock market. Explain that Wall Street in lower Manhattan is home to the New York Stock Exchange. Encourage students to visit [www.nyse.com](http://www.nyse.com) to learn about the history of the New York Stock Exchange.
- Find out how many students or their families own stock. Explain that their families might participate indirectly in the stock market through retirement accounts or 401(k) plans at their jobs.
- Explain that **stock** is a share of ownership in a business. Ask students to provide examples of things that they own. Then, explain that stock ownership provides risks and rewards to investors.
- Discuss why it is important to save. Have students consider things they want to save for now (computer games, clothes, sports equipment, DVDs). Then have them think about their future goals (college, car, house). Explain how their need for savings will increase as their goals become more expensive. Discuss that even at a young age investing in stock can be part of long-term financial planning that will lead to security and economic independence later in life.
- Distribute the activity sheet and have students work individually or in small groups to complete it. They should use [www.nyse.com](http://www.nyse.com), search the Internet, or check newspapers to find out if any of the companies they wrote down are NYSE-listed companies.
- Point out that some companies are harder to find because they are subsidiaries of larger corporations, known as parent companies. An Internet search will help students determine the parent company's listed name.
- After students complete the activity, compile a class list of NYSE-listed companies that manufacture or sell products and services associated with favorite student activities.

## 2 Stock Talk Market Terms

**Objective:** This activity introduces students to basic stock market terminology, familiarizes them with the special characteristics of the NYSE hybrid market, and explains why a company issues stock.

- Introduce this activity by explaining that the NYSE is a hybrid market where buyers and sellers of securities meet and compete for the best price for their customers. A trade takes place when the best bid meets the lowest offer to sell. Stock prices are determined by supply and demand.

- Conduct a mock class auction of different items (e.g., a CD, movie tickets, a night of no homework, etc.) to see how much students are willing to pay for them. Explain that the NYSE is a hybrid market. If they've used Internet auction sites, then they know that a seller puts an item up for sale and several people compete to buy the item. The same thing happens with stocks as buyers and sellers compete for the best possible price.
- Distribute the activity sheet, have students role-play the characters in the dialogue, and complete the activity. Review the answers as a class.

#### Answers

- |                            |             |
|----------------------------|-------------|
| 1. Initial Public Offering | 6. Dividend |
| 2. Bull Market             | 7. Capital  |
| 3. Bear Market             | 8. Supply   |
| 4. Stockbroker             | 9. Bond     |
| 5. Stock                   | 10. Demand  |

- Generate a class discussion using terms and topics presented in the activity. Explain that a company that wants to grow has several ways to raise funds and review the pros and cons of each method:
  1. The company owners can use personal funds to expand the business, but available funds will be limited and the business expansion will be relatively short-term.
  2. The company can borrow from a bank, but it can only borrow what it can prove it will be able to pay back at its current level of business. It will have to repay the loan plus interest almost immediately after it has received the funds.
  3. A company may issue bonds. A **bond** is an I.O.U. or loan from investors. Investors lend a company money and after a certain time the bond "matures" and the company then pays each investor the amount they invested plus interest. This option carries the burden of repayment with interest.
  4. A company can raise funds by selling shares of ownership in itself, called stock, to the public. When a stock offering is successful (many people buy the new stock), a company can obtain large amounts of capital and can use these funds immediately for expansion. Then, if profits increase, the stockholders will share in the company's success by receiving dividend payments. This option places no fixed limit on the amount of funds a company might raise and no restrictions on the opportunities for growth.
- Discuss reasons why a company might decide to **go public** (the process when a company offers shares of stock to the public for the first time): raise capital, expand operations, fund research and development, pay off debt, provide employees with benefits, and develop marketing strategies. Remind students that the purpose of issuing stock is to raise funds that will help a company grow. This, in turn, creates more jobs, generates additional revenue, contributes to the development of better products, and helps to promote general economic expansion.

### Extension Activity

Have students brainstorm ideas for a business that they could start and run (e.g., grass-cutting or pet-sitting business). Ask students to list some of their business expenses (e.g., lawn mower, pet food, flyers to advertise, etc.). Then, discuss how a business can raise the capital it needs: the students can invest their own money, borrow from the bank, issue bonds, or sell stock in the business to outside investors. Then, review what they will do with the profits (distribute among shareholders or save some of the profit and reinvest it in the business).

## 3 Understanding Stock Tables

**Objective:** This activity focuses on how to read stock tables in a newspaper or on the Internet.

- Ask students to describe what it means to be an informed investor. Recommend reading financial newspapers, magazines, and websites for investment information. Explain that stock market activity is reported through a variety of indexes which measure the state of the economy. When you hear "the market was up," people are referring to an index. One of the best known and most widely cited indicators is the **Dow Jones Industrial Average** which tracks the stock prices of 30 major "blue chip" companies.
- Explain to students that being an informed investor also means understanding how to read stock tables. The traditional way to check stock tables is in the business section of newspapers. Today, this information is also available in real-time format on the Internet. Explain that the Internet has revolutionized how people retrieve their stock information.
- Refer your students to Poster #2: "How to Read Stock Tables" and review what the various headings mean. The poster shows how stocks are read in newspapers and online, using a newspaper stock listing to explain the various headings. On the activity sheet, students will be presented with a stock table as it might appear online. If your students are interested in seeing examples of actual online stock listings, have them log on to [www.nyse.com](http://www.nyse.com).
- Distribute the activity and review the answers as a class. This activity can be customized to match the skills of your class. Create additional math questions to challenge the class.

#### Answers

- |                |               |
|----------------|---------------|
| 1. \$10,528.00 | 4. \$168.00   |
| 2. \$104.95    | 5. \$5,488.00 |
| 3. 3,976,700   |               |

### Extension Activity

Have students look up an NYSE-listed company that interests them on [www.nyse.com](http://www.nyse.com) and answer the same questions that they did in Activity 3: "Understanding Stock Tables."

## 4 Ready, Set, Hybrid Market

**Objective:** This activity is designed to familiarize students with the skilled market professionals who work on the Trading Floor and the advanced technology that delivers fast, efficient, and cost-effective trade executions. The NYSE is governed by a precise set of rules and regulations and also uses technology to maintain continuous market surveillance to ensure fair and efficient trading.

- Introduce this activity by explaining what it means to have a **membership** on the Exchange. A membership is a property right that gives you the right to trade. Remind students that NYSE-listed companies don't own memberships.
- Explain to students that securities are traded by highly skilled market professionals who have qualified for membership in the NYSE. There are different types of membership in the NYSE and each one serves a different purpose on the Trading Floor:
  1. **Floor brokers** constitute the largest single membership group of the NYSE. They receive their orders electronically on the Trading Floor either at their trading booth location or on mobile, wireless handheld computers.
  2. **Specialists** serve as the contact point between brokers with buy and sell orders in the NYSE's hybrid market. Each NYSE-listed stock is allocated to a specialist, who trades only specific stocks at a designated location called a *trading post*. The number of stocks traded by an individual specialist varies according to the total activity of the stocks. These professionals are responsible for overseeing the orderly trading of specific stocks to maintain the market's fairness, competitiveness, and efficiency.
- Ask students how technology has changed their lives. Explain that the NYSE has evolved into the most technologically advanced equities market in the world. It uses technology to support and enhance human judgment, trading over 1.6 billion shares daily.
- Explain that over the last 213 years, the NYSE has used technology to improve service, increase trading, and maintain a fair trading environment. For example, in the decade following the Civil War, the stock ticker (invented by Thomas Edison) and telephones increased trading and opened Wall Street to investors across the country. In 1975, the **consolidated tape** was introduced as a worldwide reporting system of price and volume data for trades in all markets in which the securities trade. Today, through a sophisticated electronic network called **SuperDOT**<sup>®</sup>, 95% of orders make their way to the specialists' workstations on the Trading Floor. About 5% of orders are walked out by brokers to the specialists (these are large, institutional orders). As the NYSE evolves toward a paperless Trading Floor, floor brokers are using wireless, handheld devices called **e-Brokers**<sup>SM</sup> to receive orders, improve the flow of information between customers and the point of sale, and manage their inventory.

- Explain that the high-definition **post display units**, the computer monitors above the trading posts, contain a variety of information about the stocks that are sold there (stock symbol, last sale, net change, bid and offer, and volume).
- Distribute the activity sheet and encourage students to visit [www.nyse.com](http://www.nyse.com) to learn more about the technology and to experience an exciting 3-D view of the NYSE Trading Floor. Review the answers as a class.

### Answers

- |      |      |
|------|------|
| 1. B | 5. A |
| 2. F | 6. D |
| 3. E | 7. H |
| 4. C | 8. G |

## 5 Anatomy of a Trade

**Objective:** This activity focuses on how a stock is traded at the NYSE as students place the steps in chronological order.

- Explain to students that when they check the price of a stock, they're checking a quote. Like an auction, there are two prices: a **bid** and an **asked**. If you want to buy a certain stock for \$30, that's your bid. The person who owns the stock wants to sell it for the highest price possible, say \$30.04. This is the offer or asked. The difference between the bid and asked price is called the **spread**.
- Explain that investors must indicate the type of order they want to place when buying or selling stock. Some common types of orders include: A **market order**, which tells the broker to buy or sell at the best price currently available, and a **limit order**, which tells the broker to buy or sell at a specific price or better. The broker will try and get the best possible price for the customer, but can't sell below or buy above the specified figure.
- Reemphasize the roles of the market professionals and their interaction with the NYSE technology. While a stockbroker (often another term for financial consultant) can make investment recommendations, and the NYSE technology speeds and safeguards the transactions, the investor must take the ultimate responsibility for understanding his or her investments.
- Distribute the activity sheet for the class to complete and then have students take turns going through the correct order.

### Answers

- 3, 1, 4, 6, 5, 8, 7, 2

### Extension Activity

*Invite a member of a local brokerage firm to talk to the class about his or her job and finance as a career. Have students prepare questions in advance of the visit.*



## 6 Market Cycles What Drives Stock Prices

**Objective:** This activity explores how supply and demand drive stock market prices in the NYSE hybrid market. Students also discover how outside events and news can affect the NYSE's hybrid market.

- Introduce this lesson by asking students what influences stock prices. Explain that different events can move a company's price up or down. Industry factors that drive stock prices include earnings or sales growth, new product releases, leadership changes, or legislation. Outside forces and world events like new competition, economic news such as interest rates and inflation, government policy changes, natural disasters, or weather can also affect stock prices.
- Remind students that the laws of supply and demand determine stock prices in the securities markets. Provide examples that they can relate to (old baseball cards, popular sneakers or fashion trends, electronic toys, gasoline). To familiarize students with the concept, you can also talk about the affect of rumors or speculation. Relate rumors to supply and demand and discuss how they can affect market cycles.
- Then explain that the supply of stocks is based on the number of shares a company has issued. The demand is created by people wanting to buy those shares from investors who already own them. If people think they will make more money on a stock, they will want to buy it. But supply is limited, and not everyone who wants to own a company's stock can. The more that people desire to own a stock, the more they will be willing to pay for it.
- Help students understand that an awareness of current events can help them become educated investors. While investors and analysts decide whether a stock is worth buying by examining the financial health and profit history of a company, they also look at how news events can influence stock prices by their effect on supply and demand.
- Distribute the activity sheet and have students work in small groups to analyze the impact of the news events. Review their answers as a class, drawing upon the suggested answers that follow.

### Answers

1. With the orange crop supply reduced by the lack of rain, the bottlers' costs will rise as companies pay a premium for the oranges they need. The companies will probably have to raise prices for their products to offset increased expenses, but will need to be careful that they don't price orange juice so high that they lose customers. Ask the students to discuss how weather and natural disasters can affect the price of the foods we eat, and in turn, the companies that provide that food.
2. Stock prices in battery companies will rise as battery-powered vehicles become more popular as a way of saving on gas and reducing pollution. Have the students discuss what gas companies might do to compete with growing interest in battery-powered cars (Reduce pollutants in gasoline? Cut gas prices?).
3. A big movie can generate a large, profitable merchandising tie-in chain reaction among toy, clothing, food, and many other manufacturers. And a flop can result in a similar chain reaction of losses for all those companies. Have the students discuss the kinds of tie-ins that occur, and their short- and long-term economic effects.
4. Competition is a fact of life for any company. Unless Digital Dream can find a way to cut costs, it's likely that it will lose customers to its competition, and will face dwindling profits. The competition will be enjoying the profits of successful new products. Discuss with the students the need for companies to invest some of their profits in research and development to find new products and improve existing ones.

### Extension Activity

*Have students review national and international news headlines or news broadcasts to determine which types of industries they might monitor for investment. Also, encourage students to check interest rates and determine how they will affect stock prices.*

## 7 Market Regulation Protection for All Investors

**Objective:** This activity focuses on the integrity and self-regulation of the NYSE, its zero tolerance for inappropriate conduct, and how this works to ensure fair trading for all investors. The NYSE places the highest importance on fairness and on earning and keeping the trust of its investors.

- Distribute the activity sheet and have students review the pyramid of regulatory agencies. The market protects and maintains itself through the combined efforts of four groups that comprise the regulatory pyramid:
  1. The **U.S. Congress** forms the peak of the regulatory pyramid. Congress created the SEC and other organizations to protect and enforce fair trade on U.S. securities markets.

## 8 Getting Started Investing

2. On the next level is the **Securities and Exchange Commission (SEC)**, the federal watchdog agency that regulates and strictly enforces conduct of every organization participating in U.S. securities markets.
  3. On the next level is the **NYSE and other self-regulatory organizations**. The NYSE is the most active self-regulator in the securities industry. Its extensive rules, policies, standards of conduct, and comprehensive high-tech surveillance of its member organizations and the investment community ensure operation at the highest levels of fairness and integrity. Over a third of NYSE employees work in regulation.
  4. The broad base of the pyramid consists of **individual brokerage firms** that are members of the securities markets. Self-regulation, the way the securities industry monitors itself to create a fair and orderly trading environment, begins with the strict rules of conduct enforced by these firms.
- Explain that this network of regulation is designed to detect, investigate, and punish all forms of improper conduct to ensure fair trading to all investors.
  - Explain that NYSE **StockWatch** is a state-of-the-art computer surveillance unit that continuously monitors the stock market for unusual trading patterns.
  - Distribute the activity and have students base their answers on the questions provided, specifying the appropriate agencies involved.

### Answers

**Case Number 1:** The NYSE's self-regulatory system would have detected the firm's fraudulent activity and taken appropriate action against it.

**Case Number 2:** Both the SEC and the NYSE's self-regulatory system would investigate this type of fraud. The NYSE's market surveillance system would detect the friends' attempt at an insider purchase of Super Soda, discovering that they graduated from the same college, live near each other, that Karen bought a lot of shares before the stock price jumped, and Janice worked for the firm that provided advice on the merger. The SEC would get involved because they can also prosecute insider trading. These agencies would monitor the suspicious transaction and prosecute the friends.

**Case Number 3:** The brokerage house would have disciplined the broker for violating rules of conduct of the firm and the NYSE would have taken disciplinary action as well.

**Objective:** This activity challenges students to carry out a process-oriented assignment, researching companies, and making investment decisions as they begin to build a portfolio. Students can work individually or in teams to research companies for investment.

- Distribute the activity and explain the concept of a portfolio (a person's investments). If you're a professional photographer, you have a portfolio of your work. If you're an investor, you have a group of investments, which include stocks, bonds, and other securities.
- Stress the importance of being an informed investor and remind students that the majority of people invest in stocks to build long-term savings.
- Explain to students that they're going to research three companies from different sectors. Encourage them to consider investments in companies that interest them. They should consider the financial health of companies whose stock they want to purchase and pay attention to news events. They can use [www.nyse.com](http://www.nyse.com), the Internet, the library, newspapers, magazines, and annual reports to obtain their information.
- Students should fill in the activity sheet and then write a report based on their research. Write the following questions on the board that students should consider when researching: How is the industry sector doing? What is the history of the company and how has it changed? (e.g., What did the company originally manufacture/sell or what service did it originally provide? Does it still provide those products or services? What other products and services does it provide today?) When did the company start and when did it go public? Who is the President or CEO? Where is it based? How many employees does it have? Does it have an international division? What was its profit and debt last year? Did the company issue any dividends in the last five years? What was the company's price change over the last year?
- As students complete this activity, they will begin to recognize how their education and personal interests influence the informed decisions they make about purchasing stock.

### Extension Activity

*Two weeks after students complete this assignment have them compare how their stocks have done. Ask them: Would you make any different decisions on stocks you bought? Did any outside event affect your stock? Could you have foreseen it? What would you add to your portfolio?*

