ECON Week 1 Assignments

Circle your instructor

Mr. Heffelfinger
Economics
Period
Assignment 1

Mr. Sundquist
Economics
Period 3 or 6
Assignment 1

Directions

This is a 4-week project that will be broken into weekly tasks leading up to managing an investment portfolio.
Week 1 – Introduction to investing
Week 2 – Preparing for investing/Research
Week 3 – Investing/graphing your investments
Week 4 – Monitoring your investments/graphing results

The first week (April 20-24) of work is as follows:

- Stocks – In my own words

  You must write an explanation of what stocks are in your own words. This is a one page write up. You are to explain in your own words what stocks are to someone that is not familiar with the stock market (say a younger brother or sister). Number each of the 3 parts of this paper as follows:
  1. What are stocks?
  2. Why do people invest in the stock market?
  3. Why does the value of stocks change?
- Mutual Funds – In my own words

  You must write an explanation of what mutual funds are in your own words. This is a one page write. You are to explain in your own words what mutual funds are to someone that is not familiar with mutual funds (say a younger brother or sister). Number each of the 4 parts of this paper as follows:
  1. What are mutual funds?
  2. What's the difference between mutual funds and stocks?
  3. Why do people invest in mutual funds rather than stocks?
  4. Why does the value of mutual funds change?
- Current event #1

  Either read a newspaper (USA TODAY, Wall Street Journal, or New York Times) or watch the local news for Financial News. Pay attention to one story. You need to type a 1-page discussion of a current event that has had a significant effect on the value of one or more of your future stocks. The first paragraph must be summarizing the event IN YOUR OWN WORDS. The second paragraph must be an explanation of how this event had an effect on the demand for your company's stock. Staple or cite the article to the back of your typed paper. The article must be from a reputable news source. You can watch the evening news as well when they discuss the financial news.

Below are the two articles to get you started and introduce investing and the stock market.

The pacing for this is built so that you complete each weeks work in that week and not wait until Week 4 to try and guess what your prices were that day. This project is to introduce you to the stock market and investing for beginners. Our hope is that you will see success in your stocks that you picked and continue after high school and college to invest.

If you have any questions during this project DO NOT hesitate to contact Mr. Sundquist or Mr. Heffelfinger. If you wait you may lose out on points.

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How to Invest in Stocks

We tell you everything you need to know to get started investing in stocks.

Matthew Frankel, CFP

Updated: Jan 27, 2020 at 10:52AM

First of all, congratulations! Investing in the stock market is the most reliable way to create wealth over long time periods. It might surprise you to learn that a $10,000 investment in the S&P 500 index 50 years ago would be worth nearly $1.2 *million* today.

With that in mind, there's quite a bit you should know before you dive in. Here's a step-by-step guide to investing money in the stock market to help ensure you're doing it the right way.

Investing checklist

1. Determine your investing approach
2. Decide how much you will invest in stocks
3. Open an investment account
4. Diversify your stocks
5. Continue investing

1. Determine your investing approach

You can invest in individual stocks if -- and only if -- you have the time and desire to thoroughly research and evaluate stocks on an ongoing basis. If this is the case, we 100% encourage you to do so -- it is entirely possible for a smart and patient investor to beat the market over time.

In addition to buying individual stocks, you can choose to invest in index funds which will track a stock index like the S&P 500. Or, you can invest in actively managed funds that aim to beat an index.

On the other hand, if things like quarterly earnings reports and some moderate mathematical calculations don't sound appealing, there's absolutely nothing wrong with taking a more passive approach.

When it comes to actively managed mutual funds versus passive index funds, we generally prefer the latter (although there are certainly exceptions). Index funds typically have significantly lower costs and are virtually *guaranteed* to match the long-term performance of their underlying index. Over time, the S&P 500 has produced total returns of about 10% annualized, and performance like this can build substantial wealth over time.

2. Decide how much you will invest in stocks

First, let's talk about the money you *shouldn't* invest in stocks. The stock market is no place for money that you might need within the next five years, at a minimum. While the stock market will almost certainly rise over the long run, there's simply too much uncertainty in stock prices in the short term -- in fact, statistically speaking, a drop of 20% in any given year wouldn't even be considered an unusual occurrence.

Here are some examples of money that would be much better off in a high-yield savings account than the stock market:

- Your emergency fund
- Money you'll need to make your child's next tuition payment
- Next year's vacation fund

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- Money you're socking away for a down payment, even if you will not be prepared to buy a home for several years

Asset Allocation

Now let's talk about what to do with your *investable* money -- that is, the money you won't likely need within the next five years. This is a concept known as asset allocation, and there are a few factors that come into play here. Your age is a major consideration, and so are your particular risk tolerance and investment objectives.
Let's start with your age. The general idea is that as you get older, stocks gradually become a less desirable place to keep your money. If you're young, you have decades ahead of you to ride out any ups and downs in the market, but this isn't the case if you're retired and reliant on your investment income.
Here's a quick rule of thumb that can help you establish a ballpark asset allocation. Take your age and subtract it from 110. This is the approximate percentage of your investable money that should be in stocks (this includes mutual funds and ETFs that are stock-based). The remainder should be in fixed-income investments like bonds or high-yield CDs. You can then adjust this ratio up or down depending on your particular risk tolerance.
For example, let's say that you are 40 years old. This rule implies that 70% of your investable money should be in stocks, with the other 30% in fixed income. If you're more of a risk-taker or are planning to work past a typical retirement age, you may want to shift this in favor of stocks. On the other hand, if you don't like big fluctuations in your portfolio, you might want to modify it in the other direction.

3. Open an investment account

To invest in stocks, you'll need a specialized type of account called a brokerage account.
These accounts are offered by companies such as **TD Ameritrade**, **E*Trade**, **Schwab**, and many others.
And opening a brokerage account is typically a quick and painless process that you can do in a matter of minutes. You can easily fund your brokerage account via EFT transfer, by mailing a check, or by wiring money.
The brokerage account opening process is generally quick and painless, but there are a few things you should consider before choosing a particular broker:

Type of account

First, determine the type of brokerage account you need. For most people who are starting out in the stock , this means choosing between a standard brokerage account or an individual retirement account (IRA). The main considerations here are *why* you're investing in stocks and how easily you want to be able to access your money.
If you want easy access to your money, are just investing for a rainy day, or want to invest more than the annual IRA limit, you'll probably want a standard brokerage account. Both account types will allow you to buy stocks, mutual funds, and ETFs.
On the other hand, if your goal is to build up a retirement nest egg, an IRA is a great way to go. These accounts come in two varieties -- traditional or Roth. IRAs are very tax-advantaged places to buy stocks, but the downside is that it can be difficult to withdraw your money until you get older.

Compare costs and features

The majority of online stock brokers have eliminated trading commissions, so most (but not all) are on a level playing field as far as costs are concerned.
However, there are several other big differences. For example, some brokers offer customers a variety of educational tools, access to investment research, and other features that are especially useful for newer investors. Others offer the ability to trade on foreign stock exchanges. And some have physical branch networks, which can be nice if you want face-to-face investment guidance.

There's also the user-friendliness and functionality of the broker's trading platform. I've used quite a few of them and can tell you firsthand that some are far more "clunky" than others. Many will let you try a demo version before committing any money, and if that's the case, I highly recommend it.

4. Choose your stocks

First off, if you're looking for some great beginner-friendly investment ideas, here are five great stock ideas to help get you started.

Of course, we can't go over everything you should consider when selecting and analyzing stocks in a few paragraphs, but here are the important concepts to master before you get started.

- Diversify your portfolio
- Only invest in businesses you understand
- Avoid high-volatility stocks until you get the hang of investing and *always* avoid penny stocks
- Learn the basic metrics and concepts used to evaluate stocks

It's a good idea to learn the concept of diversification, meaning that you should have a variety of different types of companies in your portfolio. However, I'd caution against too much diversification. Stick with businesses you understand -- and if it turns out that you're good at (or comfortable with) evaluating a particular type of stock, there's nothing wrong with one industry making a relatively large proportion of your portfolio.

Flashy high-growth stocks may seem like great ways to build wealth (and they certainly can be), but I'd caution you to hold off on these until you're a little more experienced. It's wiser to create a "base" to your portfolio with rock-solid, established businesses.

If you want to invest in individual stocks, you should familiarize yourself with some of the basic ways to evaluate them. Our guide to value investing is a great place to start. There, we help you find stocks trading for attractive valuations. And if you want to add some exciting long-term growth prospects to your portfolio, our guide to growth investing is a great place to begin.

5. Continue investing

Here's one of the biggest secrets of investing, courtesy of the Oracle of Omaha himself, Warren Buffett. *You do not need to do extraordinary things to get extraordinary results*. (Note: Warren Buffett is not only the most successful long-term investor of all time, but he is also one of the best sources of wisdom that you can apply to your investment strategy.)

The most surefire way to make money in the stock market is to buy shares of great businesses at reasonable prices and hold on to them for as long as they remain great businesses (or until you need the money). If you do this, you'll experience some volatility along the way, but over time you'll produce excellent investment returns.

Article 2

Best Stocks for Beginners: Making a Starter Portfolio

Are you looking to buy your first stocks? Here’s what you need to know.

Matthew Frankel, CFP

Updated: Feb 12, 2020 at 2:53PM

If you are ready to buy your first stocks but aren't sure which ones to choose, you've come to the right place. There are a few characteristics of stocks that are good for beginners, as well as some practices beginners should specifically avoid when selecting the first companies for their portfolios.

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Here's a rundown of what you should look for and stay away from when choosing your first stocks, as well as a few examples of excellent beginner-friendly stocks to help get your search started.

What makes *great* beginner stocks?

Stocks are a great way to build wealth over time, but not all stock investments are appropriate for beginner investors. We'll get to some of the characteristics that beginners should avoid later, but for now, let's take a look at some of the things beginners should look for when evaluating stocks.

Sustainable competitive advantages

You might hear experienced investors talk about the concept of a "wide moat," especially if you're reading anything about Warren Buffett's investment style. Just as a wide moat around a castle makes it difficult for enemies to invade, a company should have a "wide moat," too: a sustainable competitive advantage that will prevent competitors from stealing that company's market share.

These types of advantages can take many forms, but they aren't terribly difficult to spot if you know what to look for. The majority of sustainable competitive advantages typically fall into one of these categories:

- **Network effects** -- In simple terms, a network effect occurs as more people use a service or product, and the product or service itself becomes more valuable and desirable as a result. Think of companies like **Facebook** (NASDAQ:FB). As more and more people join Facebook, it becomes more difficult for people *not* to use the platform in their daily lives.
- **Cost advantages** -- A business can have a few different types of cost advantages. For example, an efficient distribution network can make it cheaper for a company to get its product around the country. A well-known brand name can give a company the ability to charge more than rivals. Or a proprietary manufacturing process can make it cheaper to produce a product. **Coca-Cola** (NYSE:KO) is a great example. Not only does the company have a massive and efficient distribution network, it has one of the most recognizable and valuable brand names in the world.
  High switching costs are another potential advantage in this category -- if it costs a customer or client a ton of money to switch to a competitor, the original vendor will have an easier time maintaining market share.
- **Intangible assets** -- In addition to a brand name, patents are a great example of an intangible asset that can protect a company against its competitors. For example, having a portfolio of more than 44,000 patents is one of the main reasons **Blackberry** (NYSE:BB) still has quite a bit of value even though it doesn't sell many phones these days.

Other advantages to look for

In addition to sustainable competitive advantages, there are a few other things a beginner might want to seek out when picking stocks:

- **Sector leader** -- Most of the best starter stocks are either the leader in their respective businesses or very close to it. (You will note this later on in this article when we give some good beginner-friendly stock examples. There's a time and place to invest in up-and-coming companies, but it's smart to save those for after you've learned the ropes.)
- **Mature business** -- Beginners should focus on companies that have been around for a while and are out of the rapid-growth stage. Consistent revenue and profit growth are more important considerations than home-run growth potential for beginning investors.
- **Dividend growth** -- This is the most optional characteristic on the list, as there are some *great* beginner-friendly stocks that don't pay dividends. **Berkshire Hathaway** (NYSE:BRK.A) (NYSE:BRK.B) is a great

example. However, if a stock does pay a dividend, an established track record of dividend growth is an excellent characteristic for long-term-focused beginning investors to look for.

Three basic metrics beginners should know

To be perfectly clear, knowing how to identify great *businesses* is more important than being able to identify cheap stocks for beginners. A great business will typically be a good long-term performer, even if you buy in at a bit of an expensive valuation. On the other hand, a bad business that you invest in at a cheap valuation will seldom work out well.

Having said that, once you've learned how to find good candidates for beginners to invest in, some basic metrics can help you narrow them down:

- **P/E ratio** -- The price-to-earnings ratio is the most widely cited valuation metric, and for good reason. It's an easy way to compare similar businesses. Simply divide a company's current share price by its last 12 months' worth of earnings. You can also use the projected earnings over the next 12 months to calculate the *forward* P/E ratio. The key point to know is that P/E ratios are most useful when comparing businesses in the same industry -- such as comparing **ExxonMobil** (NYSE:XOM) and **Chevron** (NYSE:CVX).
- **PEG ratio** -- Companies grow at different rates, and failure to take this into account is one of the key shortcomings of the P/E ratio. The *price-to-earnings-growth ratio,* or PEG ratio, levels the playing field. Simply divide the company's P/E ratio by its projected earnings growth rate. For example, a company with a P/E of 30 and a 15% expected growth rate would have a PEG ratio of 2.0. Like the P/E ratio, the PEG ratio is most useful for comparing companies in the same industry but with different growth rates.
- **Payout ratio** -- The payout ratio is a good metric for dividend investors to know and is the company's annual dividend rate expressed as a percentage of its earnings. For example, if a company paid out $1.00 in dividends per share last year and earned $2.00, it would have a 50% payout ratio. A payout ratio can tell you if a company's dividend is sustainable or if a dividend cut could be possible.

You can learn many other investing metrics, some of which can help you find value stocks and some that can help you evaluate fast-growing companies. You can learn as you go, but these should help you get started.

Stocks beginners should *avoid*

The last thing we need to cover before we get into some examples of great beginner stocks is what you should avoid as a beginning investor (and, in some cases, even when you become an experienced investor). Investing in the wrong type of stock can make your portfolio's value look like a roller coaster ride and can even cause you to lose your entire investment.

With that in mind, here's what you'd be wise to stay away from at first:

- **Rapidly growing companies** -- This is especially true for companies yet to turn a profit. Growth investing can be a *great* way to build wealth, but growth investing can be volatile. It's a good idea to wait until you've built up a base to your portfolio and understand stock evaluation a little better before you try to invest in the next big thing.
- **Penny stocks** -- Loosely defined as stocks that have market capitalizations (total market values) of less than $200 million, have share prices under $5.00, or don't trade on major exchanges, penny stocks should be avoided by *all* investors, not just beginners.
- **IPOs** -- IPOs, or initial public offerings, are how companies become publicly traded. Investing in newly public companies can be highly volatile and is generally not a good way for beginners to buy stocks.
- **Businesses you don't understand** -- Here's a great rule of thumb that works for beginners and expert investors alike. If you can't clearly explain what a company does and how it makes money in a sentence or two, don't invest in it. There are literally thousands of publicly traded companies to choose from, and you should be able to find plenty of opportunities in easy-to-understand businesses.

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Five examples of great stocks for beginners

Now for the fun part. With the good and bad characteristics we've discussed in mind, here are some excellent stocks for beginners to consider:

1. **Berkshire Hathaway** -- Berkshire Hathaway is a conglomerate with more than 60 wholly owned businesses, including household names such as Geico, Duracell, Dairy Queen, and many more. The company also has a massive $230 billion stock portfolio, much of which was hand-selected by Warren Buffett, arguably the most successful investor of all time. Berkshire specifically targets businesses and stocks with durable competitive advantages and has a fantastic 55-year track record of executing on its vision of using its businesses to generate capital to reinvest in other businesses and stocks.
2. **Amazon** (NASDAQ:AMZN) -- Amazon is a great beginner-friendly stock for a few reasons. First of all, it is the clear leader in its fields. One of the largest retailers of any kind in the entire world, Amazon makes up nearly half of all U.S. e-commerce sales, and it is also the dominant provider of cloud services to businesses. The company is growing impressively and has several of the competitive advantages we like to see (network effect and cost advantages in particular).
3. **Alphabet** (NASDAQ:GOOGL) (NASDAQ:GOOG) -- As a beginning investor, it wouldn't be surprising if you haven't heard the name Alphabet before, but it's likely you've heard of the company's main subsidiary, Google. As the dominant leader in internet search, Google has an effective duopoly on internet advertising, along with Facebook. Its massive stockpile of consumer data makes its ads extremely effective, and it's tough to imagine any competitor stealing any significant percentage of the market. And Google has the second-most-valuable brand name in the entire world, with an estimated value of more than $130 billion, according to *Forbes*. The fact that Google's brand has become synonymous with internet search and several other functions gives tremendous pricing power when it comes to selling ads.
4. **AT&T** (NYSE:T) -- AT&T is one of the leading players in wireless communications and has built itself quite a media presence with acquisitions of DirecTV and Time Warner in recent years. The upcoming wide rollout of 5G technology should be a nice tailwind for years to come, and the company has a fantastic track record when it comes to dividends. AT&T pays a dividend that's well above the industry average, and it has increased the payout for 34 consecutive years.
5. **Intuitive Surgical** (NASDAQ:ISRG) -- Intuitive Surgical is a healthcare company that makes surgical robots and is the clear leader in the space. There are tens of thousands of doctors trained on the company's da Vinci surgical robots and more than 4,400 of the robots installed worldwide. As more surgical applications are found for the technology, these machines become more valuable to the hospitals that own and use them.

How to get started

Once you've decided that you want to buy stocks, the next step is to open a brokerage account, fund the account, and buy the shares. After you've done that, it's important to keep a long-term mentality -- if your stocks go down, for example, it can be very tempting to panic and sell. Remember how carefully you chose your stocks, and avoid selling your stocks without fully exploring the company's situation.

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Stock Market Score Sheet Week 1

__/10 Stocks – In my own words
Each of the three questions are typed (or written) and answered in complete sentences, and proper grammar was used. 1 Page Minimum.

__/10 Mutual Funds – In my own words
Each of the four questions are typed and answered in complete sentences, and proper grammar was used. 1 Page minimum.

__/10 1st Current Event
- __/3 ½ page summary of your article
- __/3 ½ page relating the article to your portfolio and the effect what you read about may have on the economy.
- __/4 Cite or staple the article to your write up.