Stock Market Game: How do I pick a winner?

Go to: http://finance.yahoo.com

Activity: Evaluate the Risk and Reward Factors for your potential stock companies.

Task: Using Yahoo Finance link, for each of the companies under your consideration, enter the company name in the "Quote Lookup" search box and click "Go"

Volatility:

- View their stock price over time by viewing their chart (graph) by clicking on 1Y, 2Y, and/or 5Y for trends in stock price
- How has the stock price fluctuated over time?
- How many shares are traded on average?

Market Analysis:

- Click on the "Analysis" link of any stock to check the analysts' recommendations such as strong buy, moderate buy, etc. for your company on Yahoo Finance. View the following charts:
    - Recommendation Trends
    - Recommendation Rating
    - Analysis Price Targets
    - Upgrade vs Downgrade History

Price/Earnings (P/E) ratio:

Next, look at the "**Price/Earnings" (P/E) ratio** on your company's stock table in Yahoo Finance. This ratio indicates what investors think of the firm's earnings' growth and risk prospects. For newer companies, this ratio could be very high. Eventually, this ratio will improve as the growth rate catches up with earnings. The P/E ratio tells you whether a stock's price is high or low relative to its earnings. The higher the P/E the more the market is willing to pay for the company's earnings. Some investors read a high P/E as an overpriced stock and that may be the case, however it can also indicate the market has high hopes for this stock's future and has bid up the price. Conversely, a low P/E may indicate a "vote of no confidence" by the market or it could mean this is a sleeper that the market has overlooked. Generally, a high P/E **ratio** means that investors are anticipating higher growth in the future. The current average market P/E **ratio** is roughly 20 to 25 times earnings. Companies that are losing money do not have a P/E **ratio**.

Statistics

- Next, select **<u>“Statistics” link</u>** for your company on Yahoo Finance. Here, evaluate the risk factor of their pick.
    - First, look for “**<u>Beta</u>**.” The higher the [beta](), the more ups and downs of the share prices compared with the overall stock market. If students don’t like to take a risk, they can pick a company with beta closer to one. (Note: The market beta = 1; Beta = 1.5 means the stock is 50% more volatile than the market.)

    - Second, look for “**<u>Market Capitalization or market cap</u>**”. The higher the market cap, the larger the company's financial strength and the lower the risk.
        - **Market capitalization** is just a fancy name for a straightforward concept. Quite simply, it refers to the value of a company, that is, the market value of its outstanding shares. This figure is found by taking the stock price and multiplying it by the total number of shares outstanding. For example, if Potbelly Corporation (PBPB) was trading at $20 per share and had 1 million shares outstanding, then the market capitalization would be $20 million ($20 x 1 million shares). It's that simple. A common misconception is that the higher the stock price, the larger the company. Stock price, however, may misrepresent a company's actual worth. If we look at two fairly large companies, IBM and Microsoft, we see that at the time of writing their stock prices are $29 and $22.75 respectively. Although IBM's stock price is higher, it has about 1.73 billion shares outstanding, while MSFT has 10.68 billion. As a result of this difference, we can see that MSFT's market cap of $242.97 billion is actually quite larger than IBM's $50.17 billion. If we compared the two companies by solely looking at their stock prices, we would not be comparing their true values, which are affected by the amount of their outstanding shares

    - Third, review the company’s **Financial** Highlights chart:
        - What was the company’s **<u>Revenue</u>** this past year?
        - What was the company’s **<u>Quarterly Revenue Growth</u>** (%)? Have they increased or decrease in revenue?
        - What is the company’s **<u>Profit Margin</u>**
            - Margin = Net Income / Revenue
            - Note: The higher the profit margin, the better. Not many companies have a margin over 20%, but Microsoft and Intel are two exceptions.
        - What is the company’s **<u>Return on Equity</u>** (ROE)?
            - ROE = Net Income / Shareholder’s Equity
            - Note: The higher the ROE, the better. An ROE over 20 indicates a strong competitive position in the business.
        - What is the company’s **<u>Debt to Equity Ratio</u>** (D/E)?
            - D/E = Long-term Debt / Shareholder’s Equity
            - Long-term debt means the amount borrowed by the company that will be paid back in a time period over one year
            - Note: A D/E of 25% or less is considered safe while above 50% means the company has been borrowing too much money and runs a risk of not meeting loan payments.
        - What was the company’s **Dividends** distributed per share?

Company News

- On "Summary" page, scroll down to read up on company, industry or market news to gauge what has affected your company's stock price over time.
- Finally, visit the **companies' Web sites** and learn about their products, customers, business plans, and management teams.

Stock Market Portfolio Decision Time

- At the end, you will have to decide on your Stock Portfolio for the Stock Market Game based on your judgment of the risk and reward expectations. Complete the chart below on 10 company stocks' that you are interesting in investing in.

FACTORS								
Company Name	**Symbol**	**Current Market Price**	**52 Week Low**	**52 Week High**	**P/E ratio**	**Beta**	**Dividend**	**Market Cap (Value of Company)**
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								