

Course of Study for Beginning Investors  
Understanding the Jargon

Course of Study for Beginning Investors

# UNDERSTANDING THE JARGON



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VOLUNTEER ADVISORY BOARD

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## Disclaimer:

All stock references are meant to be used  
for educational purposes.

No recommendation for purchase or sale  
is intended or implied.

*This presentation is being  
recorded for future use!*



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- STOCK MARKET DROPS 6%!
- THE DOW REACHES NEW HIGH!
- SELL OFF IN MARKET CONTINUES!
- PONZI SCHEME SINKS INVESTORS!



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COMMON COMMENTS ABOUT  
THE STOCK MARKET



The stock market is a dart game.

I work too hard for my money to gamble it away.

Only professionals can be in the stock market.

I wonder how you learn how to pick a stock?

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## TODAY WE'LL LEARN

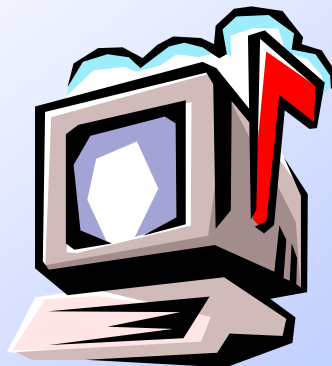
1. How the Stock Market provides a mechanism to share in company profits.
2. The basic vocabulary needed to study stocks.
3. Why price depends on perception as well as supply and demand.
4. How the BetterInvesting method provides a structure to evaluate and select stocks for maximum return.

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## WHAT A GREAT IDEA!



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## HOW DO WE GET STARTED?

What is needed:

- A factory? Maybe an office?
- Manufacturing Equipment?
- Parts?
- People?

*How do we get the money to get started?*

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## RAISING FUNDS

- Investors provide funding
- In return, investors receive a share of the company
- A new company is formed!
- Why would anyone invest?
  - Profit
  - Prestige
  - Power

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## WHAT HAPPENS NEXT?

- The Company GROWS!!!!
- We need more money to expand
- We sell shares to the public
  - IPO – initial public offering
  - “going public”
- We could also occasionally borrow money
- The Company GROWS again!

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	Private Co.	Public Co.
<i>Ownership</i>	Smaller group of investors	Large numbers of investors
<i>Buying/Selling</i>	Directly among investors	Directly or Through a third party
<i>Disclosure</i>	Not required	Government rules apply
<i>Rationale for choice</i>	Fewer government regulations; no need for extra money for expansion; closer control	Need to raise money for growth and/or expansion
<i>Control</i>	Relatively direct	Indirect through election of Directors

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Let's pause for some questions!



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WHY DO INVESTORS  
RISK MONEY  
IN A COMPANY?

FOR PROFIT

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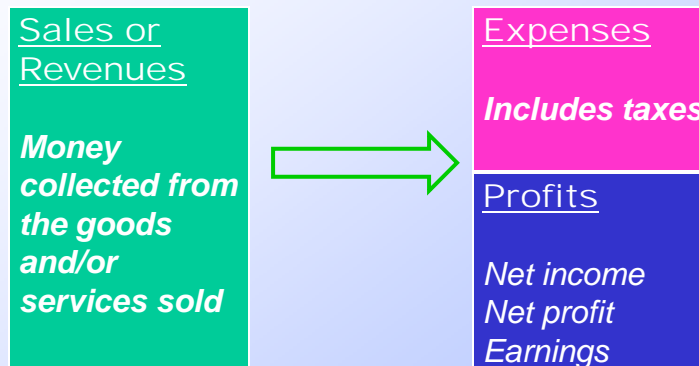
## DEFINING PROFITS

- Money is collected from the goods and services sold.
  - Sales or Revenues
- Expenses are subtracted from the sales.
- What is left are the profits
  - Net Income, Net Profit, or Earnings.
- These earnings belong to the shareholders.

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## A PICTURE OF PROFIT



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## MEASURING PROFIT

- Dividing the company's profits by the number of shares results in:

*EARNINGS PER SHARE*

- These are the earnings that belong to each shareholder as a result of owning a share.

## PROFITS ARE IMPORTANT

Over the long term....

- It starts with growth in sales
- Sales growth drives the bottom line earnings
- Earnings drive the Stock Price!

*Stock prices ultimately follow earnings !*

# AND PEOPLE INVEST...

To make

# MONEY!

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# THE STOCK MARKET

A Giant  
Supermarket  
for buying and  
selling Stock



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## WHAT IS WALL STREET?



- NYSE: New York Stock Exchange
- NASDAQ: National Association of Securities Dealers Automated Quotation (System)
- OTC: Over the counter exchanges for smaller companies

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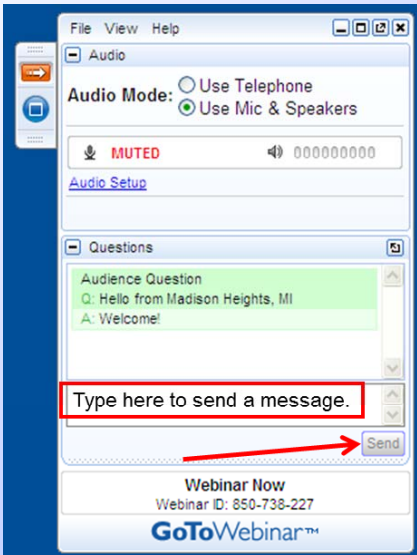
## MEASURING THE MARKET

- Dow Jones Industrial Average
  - 30 stocks of all types of businesses
- S&P 500 Index
  - 500 stocks from the NYSE & NASDAQ
- NASDAQ Composite Index
  - Heavily weighted with technology stocks
- Russell 2000
  - Represents smaller companies

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## TICKER SYMBOLS

- New York Stock Exchange (NYSE) – 1-3 letters

ABT	Abundantia
T	AT&T
COH	Cohesion
GE	General Electric

- NASDAQ – 4 or more letters

CTSH	Cognizant Technology Solutions
NEOG	Neogen
BELFA	Bel Fuse

ATTENTION:  
 TICKER  
 SYMBOL RULES  
 HAVE CHANGED

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## COMPANY INFORMATION

**ABBOTT LABORATORIES** (NYSE: ABT)  
**NEW** Real-time: 50.00 ↑ 0.78 (1.58%) 3:59pm ET

Last Trade:	<b>49.92</b>	Day's Range:	49.34 - 50.35
Trade Time:	Jan 16	52wk Range:	45.75 - 60.86
Change:	↑ 0.70 (1.42%)	Volume:	12,845,910
Prev Close:	49.22	Avg Vol (3m):	9,095,320
Open:	49.56	Market Cap:	77.45B
Bid:	N/A	P/E (ttm):	17.13
Ask:	N/A	EPS (ttm):	2.91
1y Target Est:	61.00	Div & Yield:	1.44 (2.90%)

SOURCE: YAHOO! FINANCE

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## PRICE OR QUOTE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09 ↓ 0.22	↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	A F L A C INC	58.60 ↑ 0.49	↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03 ↓ 0.02	↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The 58.60 in the trade column represents the price (in dollars) paid for this stock the last time it traded.

It will change during the trading day.

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## CLOSE OR CLOSING PRICE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09 ↓ 0.22 ↓ 0.37%		50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60 ↑ 0.49 ↑ 0.84%		52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03 ↓ 0.02 ↓ 0.28%		6.81 - 14.48	0.65	10.77	N/A

When the market is closed, this number represents the final price from the last trading session.

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## CHANGE OR PRICE CHANGE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09 ↓ 0.22 ↓ 0.37%		50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60 ↑ 0.49 ↑ 0.84%		52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03 ↓ 0.02 ↓ 0.28%		6.81 - 14.48	0.65	10.77	N/A

The upward green arrow and the .49 shows that this stock's price increased \$.49 from the previous day's closing price.

The column next to it represents the gain (or loss) as a percentage of the price at the close of the previous trading day.

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## 52-WK RANGE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

These numbers represent  
the highest and lowest prices for the stock  
in the preceding 52-week period.

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## EPS OR EARNINGS PER SHARE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The 3.61 represents the Earnings per Share (EPS) for the last,  
or trailing, twelve month period (TTM).

This number will not necessarily be the last fiscal year's EPS.

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## DIV/SHR OR DIVIDEND PER SHARE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	A F L A C INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The .96 figure represents the dividend per share paid by this company. It is a dollar figure and is similar to interest on savings that you might receive from a bank.

N/A means not applicable and indicates the company does not pay a dividend.

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## P/E OR PRICE TO EARNINGS RATIO

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	A F L A C INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The P/E is a ratio (fraction) that is used to compare stocks.

P/E is the current stock price divided by four quarters of earnings.

The P/E values on the chart are calculated by using the most recent four quarters or trailing twelve months (TTM) earnings.

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## P/E OR PRICE/EARNINGS RATIO

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
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Price/Earnings (P/E) ratios can be thought of as how much an investor is willing to pay for \$1.00 of a company's earnings.

The higher the P/E value, the more the investor is willing to pay.

Faster growing, higher quality companies usually carry higher P/E values.

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Let's practice these terms!



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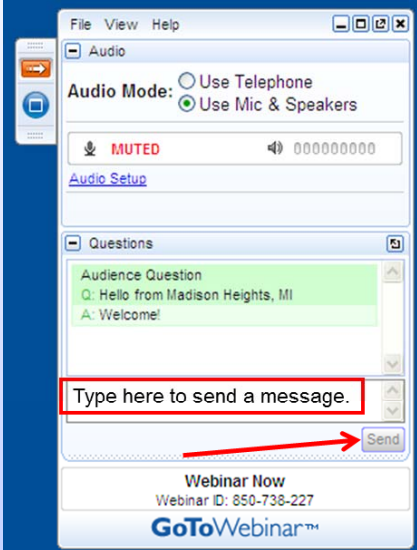
NAME	TICKER/ SYMBOL	TRADE/ PRICE/ QUOTE	CHANGE	52-WEEK RANGE	EPS	P/E
ABBOTT LABS	ABT	59.62	+0.92	50.09 - 61.09	2.68	22.23
AFLAC	AFL	55.31	-0.46	51.71 - 68.81	3.61	15.32
COACH	COH	31.19	+0.13	23.22 - 50.95	2.17	14.35
COGNIZANT TECHNOLOGY	CTSH	30.77	-0.29	23.37 - 43.00	1.32	23.29
GENERAL ELECTRIC	GE	29.80	+0.28	25.60 - 42.15	2.15	13.86
JOHNSON & JOHNSON	JNJ	71.33	+0.14	61.17 - 71.90	4.12	17.31
KNIGHT TRANSPORTATION	KNX	10.09	-0.39	14.30 - 21.89	0.60	31.61
NEOGEN	NEOG	27.28	-0.15	19.33 - 28.50	0.81	33.80

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Let's pause for some questions!

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## SUPPLY AND DEMAND CAN INFLUENCE PRICE / VALUE

- Beanie Babies



- World Series Tickets

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## SUDDEN CHANGE IN PRICE



Announcement of iphone

January 9, 2007

Jan 8 = \$85.47      Jan 9 = \$92.57

Apple's price up over \$7.00

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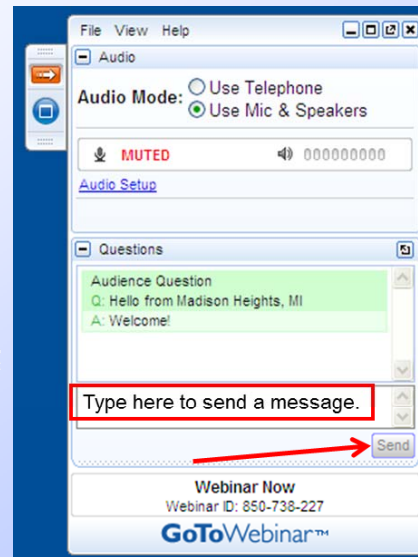
## FACTORS AFFECTING PRICE

- Good news
  - New product
  - Lower oil prices
  - Economic recovery
- Bad news
  - Product recall
  - Lawsuit
  - Recession



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Let's pause  
for some  
questions!



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## WHERE DO WE GO FROM HERE?

- We know some basic terms, some “investing jargon”.
- We understand some market psychology.
- Is there an investing methodology which allows us to invest for the long-term?
- Are there tools which will help us make investment decisions?



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BetterInvesting believes  
that you should ...

# INVEST REGULARLY

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BetterInvesting believes  
that you should ...

**REINVEST ALL  
EARNINGS**

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BetterInvesting believes  
that you should ...

**BUY  
HIGH-QUALITY  
GROWTH STOCKS  
AT FAIR PRICES**

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BetterInvesting believes  
that you should ...

DIVERSIFY

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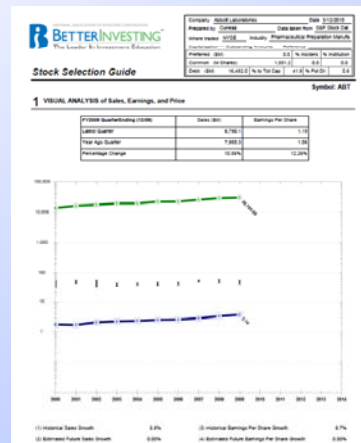


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The BetterInvesting Stock  
Selection Guide (SSG)

Organizes all of the jargon to  
determine answers to two key  
questions:

1. Is the stock a quality  
growth stock?
2. Is it selling at a fair value?



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# Course of Study for Beginning Investors

## Understanding the Jargon

### Course of Study for Beginning Investors

The SSG is:

- A Tool
- A Guide to Your Judgment

The SSG is not:

- A Black Box
- A Substitute for Study and Judgment

**2 EVALUATING Management**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Last 5 Year Avg
Price/Share (10/20)	28.91%	21.78%	24.39%	23.31%	23.89%	22.89%	22.26%	20.83%	21.98%	21.98%	22.02%
Yield Before Taxes (10/20)	31.02%	28.83%	30.19%	28.48%	28.83%	28.48%	27.61%	26.88%	28.49%	28.28%	28.12%

**3 PRICE-EARNINGS HISTORY as an indicator of the future**

This shows how stock prices have fluctuated with earnings and dividends. It's a building block for forecasting earnings like future stock prices.

Year	A	B	C	D	E	F	G	H
1. 2009	10.00	17.00	2.40	25.10	15.50	1.00	23.70	2.82
2. 2008	49.47	39.10	2.10	19.70	15.40	1.10	48.60	2.94
3. 2007	59.00	48.70	2.80	21.10	17.20	1.070	45.84	2.81
4. 2006	61.00	45.20	3.00	18.00	15.70	1.000	40.00	2.82
5. 2005	57.00	43.20	3.20	18.34	15.00	1.000	41.70	2.72
6. 2004	21.00	17.00	3.40	14.70	12.10	1.000	21.00	2.72
7. AVERAGE	42.50	36.10	2.80	18.50	14.90	1.000	39.70	
8. AVERAGE PRICE EARNINGS RATIO	18.7							
9. CURRENT PRICE EARNINGS RATIO	14.8							

**4 EVALUATING RISK AND REWARD over the next 5 years**

Assuming you are realistic and use realistic return rates, calculations are made of how high and how low the stock might get. The above chart shows the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS**

High Price: 0.00 X Estimate High Earnings/Share: 0.00 = Forecasted High Price \$: 0.00

**B LOW PRICE - NEXT 5 YEARS**

High Price: 14.54 X Estimate Low Earnings/Share: 1.74 = Forecasted Low Price \$: 0.00

**C DIVIDEND - COMP 20% YIELD**

Forecasted High Price: 0.00 Minus Forecasted Low Price: 0.00 = 0.00 Range: 30% of Range: 0.00

**D UP-BIAS DOWN-BIAS RATIO POTENTIAL GAIN VS. RISK OR LOSS**

High Price: 0.00 Minus Present Price: \$4.52 = \$4.52

**E PRICE TARGET** (This shows the potential market price appreciation over the next five years to include interest income.)

High Price: 0.00 = 0.00 X 100 = 0.00 = 100 = +100.00 % APPRECIATION

**5 5-YEAR POTENTIAL**

This compares price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A Present Full Year Dividend**: 1.700 = 0.03 = 3.33% Present Yield

**B AVERAGE YIELD - USING FORECAST AVERAGE P/E**: 0.00 = 0.00 = 0.00% AVERAGE YIELD - USING FORECAST AVERAGE P/E

**C COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E**: 0.00 = 0.00 = 0.00% COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

### Course of Study for Beginning Investors

The screenshot shows the BetterInvesting.org website. A pink oval highlights a promotional box that says "Make It Easy... Select quality growth stocks and mutual funds." Below this, it lists "Stock Analysis Tool Trial Version (no CC req'd)", "Mutual Fund Tools Demo", and "Stock Selection Guide Demo".

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**tools.betterinvesting.org/stockanalysis**

The screenshot shows the search interface on the BetterInvesting website. At the top, there is a navigation bar with the logo, 'ONLINE TOOLS', 'Trial Version', and links for 'Not a member? JOIN NOW' and 'Member? UPGRADE HERE'. Below this is a search section titled 'Choose the Company to Study'. It has two columns: 'Enter Ticker or Company Name' and 'Or select a company based on'. The first column has input fields for 'Ticker:' and 'Company:'. The second column has dropdown menus for 'Size/Growth:' and 'Sector:'. Below these fields is a text instruction: 'Click "Find" button to list companies =>'. To the right of this instruction are two buttons: 'Find' and 'Clear'. The 'Find' button is circled in pink. At the bottom of the page, there is a footer with copyright information and links for 'Privacy Policy', 'Contact Us', and 'Site Map'.

Betterinvesting.org

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The screenshot shows the search results page on the BetterInvesting website. The search form from the previous slide is visible at the top, with the 'Find' button circled in pink. Below the form is a table titled 'Click on a Row to Select'. The table has four columns: 'Company Name', 'Ticker', 'Sector', and 'Size'. The first row of the table is circled in pink. Below the table, there is a footer with copyright information and links for 'Privacy Policy', 'Contact Us', and 'Site Map'. In the bottom right corner of the table area, there is a text box that says '20 Items Found', which is also circled in pink.

Company Name	Ticker	Sector	Size
Abbott Laboratories	ABT	Healthcare	Large
Aeropostale, Inc.	ARO	Consumer Cyclical	Medium
Caterpillar Inc.	CAT	Industrials	Large
Cisco Systems, Inc.	CSCO	Technology	Large
Cosch, Inc.	COH	Consumer Cyclical	Medium
Coca-Cola Company	KO	Consumer Defensive	Large
Deckers Outdoor Corporation	DECK	Consumer Cyclical	Medium
Gamestop Corporation	GME	Consumer Cyclical	Large
Hewlett-Packard Company	HPQ	Technology	Large
Intuitive Surgical, Inc.	ISRG	Healthcare	Medium
LKQ Corporation	LKQ	Industrials	Medium
Medco Health Solutions, Inc.	MHS	Healthcare	Large
Merck & Co. Inc.	MRK	Healthcare	Large
Neogen Corporation	NEOG	Healthcare	Small
Penske Automotive Group, Inc.	PAG	Consumer Cyclical	Large

Betterinvesting.org

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# Course of Study for Beginning Investors

## Understanding the Jargon

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**Getting to Know the Stock Selection Guide**  
A 7-Part Webinar Series  
Beginning January 25  
Register Now

**HELLO my name is SSG**

You're just a click away!

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**Beginner Investor Courses**

**Getting to Know the Stock Selection Guide**  
A 7-Part Webinar Series - Continues Through April 12

**Why Invest in Stocks**  
1/25/2011, 8:00 PM - 9:30 PM EST  
Cost: Free  
[Review Recording](#) (Registration required)  
This introductory class discusses the rationale for long-term equity investing, the value of financial freedom and how BetterInvesting principles can be applied to becoming a successful investor.  
**Handouts**  
[Why Invest - 2 slides per page handout](#) (PDF)  
[Why Invest - 6 slides per page handout](#) (best for printing) (PDF)

**Understanding the Jargon**  
2/1/2011, 8:00 PM - 9:30 EST  
Cost: Free  
[Register Now](#)  
[More Information](#)  
**Handouts**  
[Understanding the Jargon 2 slides per page](#) (PDF)  
[Understanding the Jargon 6 slides per page](#) (best for printing) (PDF)

**Introduction to the Stock Selection Guide Series (5 sessions)**  
7:30 PM - 9:30 PM ET

February 8 - Selecting the Best Companies  
February 22 - Determining a Fair Price  
March 8 - Estimating Future Growth  
March 22 - Estimating Future P/Es  
April 12 - Review/Q&A Wrap-Up

Cost: \$40 for BetterInvesting Members  
[Register Now](#)  
[More Information](#)

START ANY TIME - ALL SESSIONS ARE ARCHIVED!

**www.betterinvesting.org/IntroSSG**

Register for the upcoming classes on Getting to Know the SSG.

Also access the recordings and handouts from this class and *Understanding the Jargon* when they're posted.

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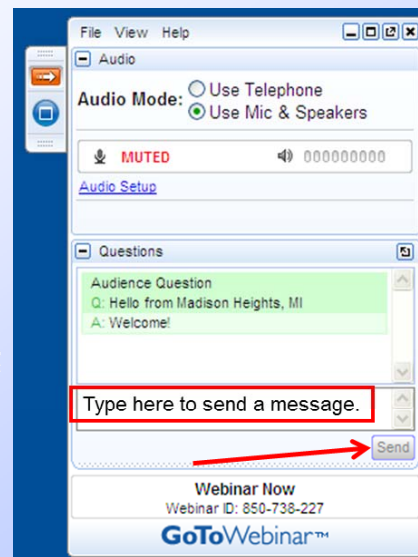
## LET'S RECAP

1. People buy stocks to make money.
2. The Stock Market provides a mechanism to share in company profits.
3. There is basic vocabulary you need to know to study stocks.
4. Price depends on perception as well as supply and demand.
5. The BetterInvesting method provides a structure for evaluating and selecting stocks for maximum return.

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