The Stock Market for Dummies

The stock market is a place where stocks, bonds, or other securities are bought and sold. When you buy stocks or shares in a company you gain part ownership in that company. In today's world people buy stocks in order to gain dividends on money that they have invested. Some advantages of buying stocks over bank deposits; money-market funds or bonds are that stocks have a long historical track. Although the disadvantages of buying stocks are that the market fluctuates very often and the stocks are never guaranteed so you may loose all of the money you have invested.

Before deciding on what type of stock you are going to purchase, you must determine what type of investor you are. There are two types of investors: technicians and fundamentalists. Technicians are investors that tend to buy and sell stocks very quickly. These investors are not interested in book values, dividends or earning although they study the price patterns of that certain stock. Fundamentalists are investors that look for long-term growth in a company. They consider such factors as earning, dividends and book values and are as interested in the price patterns because they are in for long term growth so they know that the market will fluctuate.

When you are buying stocks there are three different types that you may choose from: penny stocks, growth stocks and blue chip stocks.

Penny stocks are stocks from a company that has almost no chance of developing into a big company and the stocks are of very little monetary value. These stocks for example would be a chain of local pizza stores that would never make it into the big market of restaurants, such as Pizza Hut, but would do well in it's local market.

Growth stocks are companies that have a high potential to achieve great success, but they can also be very risky investments because they not are well established. An example of this type of company would one that invents a product that may make a big impact on the market (similar to when air bags were invented those stocks probably rose drastically). These stocks would be the intermediate level in the purchasing of stocks.

The highest level of stock purchasing is buying blue chip stocks. These stocks are of companies that are very well established and have almost no chance of its' stocks dropping drastically. Some of these stocks would be of companies such as McDonald's Corp., General Motors Corp., Coca-Cola Co., etc. Although blue chip stocks are the best stocks to invest in, they can also be very expensive limiting you to only buy a few of that companies shares.

Often when the price of a stock plateaus, the company decides to "split" its stock. When this occurs, you receive more stock for the money you have already invested. But when your company's stock splits "two-for-one," you get twice the amount of stock but the value of that stock depreciates by 50%. Reverse splitting means that the stock doubles in value although you only get to keep half the stocks you had before. Any way the stock may split, you will not lose your money.

In any company's stock there are two different types of stocks you can buy: Common Stock and Preferred Stock.

Common stock in a company shows you that you own a fraction (called a share) of a company. Since common stock has a high potential for gain, common stock holders are the last persons to receive their dividends after those who own preferred stock.

Preferred stock is sold to the public after all the common stock is sold. Companies who are going out of business have to pay out their preferred stock owners first because they have paid a higher premium for that same stock. Preferred stock owners only receive a fixed dividend payment, making it the only drawback for people to purchase this type of stock.

After you have decided what type of stock to purchase, you must find a broker. This person will only take orders to buy and sell stock tickets. Every brokerage firm has two types of brokers. Stockbrokers help by giving advice on investing and by doing research on stocks. Discount brokers are the "middle man" of buying and selling stocks and do not research or give advice. After you find a broker all that you have to do is give him, or her, a call when wanting to buy or sell your stock.