LEARN THE BASICS
OF STOCK MARKET INVESTING
AND STRATEGIES IN 5 DAYS
AND LEARN IT WELL

STOCK MARKET INVESTING FOR BEGINNERS

CHAPTER SUMMARY

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Stock Market Investing for Beginners

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of Stock Market Investing and

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Learn It Well

(Chapter Summary)

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Chapter 1 Summary

Below are some summary points from Chapter 1.

- Stock market investment is a technique used by investors like Warren Buffet to grow their money and accumulate wealth.
- Some people earn a lot of money from the stock market while others end up losing huge amounts of money. This is the reason why you must be well-informed before you start investing your money.
- A stock is a part of a company. It is a form of security. If a business is a pizza, a stock is a slice of the pizza.
- Companies create and issue stocks to raise additional capital for expansion.
- When a company decides to sell stocks, it goes through a process called an Initial Public Offering (IPO). This process is also called "going public."
- A stock market is a place where stocks are traded.
- The stock market has two parts: the primary market and the secondary market.
- The primary market is where the stocks are created. The secondary market is where investors buy previously-traded stocks and sell stocks they already own.
- There are three types of stock markets, including stock exchanges, electronic communication networks (ECNs), and over-the-counter (OTC) markets.

- The stock markets have various players, including corporations, investors, brokers, online investors, financial authors, and financial advisors.
- There are two ways that you can make money out of your stock investment: dividends and capital appreciation.
- A dividend is a profit distributed among shareholders.
- Capital appreciation is the positive difference between a stock's buying price and its selling price. It is a form of investor profit.
- Common stock represents ownership of a company. Common stockholders have voting rights. This means that they have a say in how company policies are shaped, and they can elect board members as well. However, they are at the bottom of the payout hierarchy. This means that if the company assets are liquidated, they only get paid after the preferred stockholders get paid.
- A preferred stock acts like a bond. It is more expensive than common stocks and usually comes with dividends. When the company assets are sold, preferred stockholders get their share after creditors and bond-holders are paid.
- Stock prices are affected by many factors, including the law of supply and demand, company news, forecasts, scandals, mergers, and acquisitions.
- An index is a small sample of stocks of companies that are so big that they represent the overall health of the industry they belong to.

- A bear market is a condition when investors are so pessimistic that they end up selling their stocks. This drives down the stock prices.

- A bull market is a condition when investors are optimistic, so they want to invest in stocks.

- The SEC is a stock market regulator that protects investors from fraud and scams.

Chapter 2 Summary

Below are some summary points from Chapter 2.

To get started in stock market investment, you need to follow these steps:

- **Step 1** – Understand the difference between stocks and stock mutual funds.
- **Step 2** – Determine what your investing style is.
- **Step 3** – Set your investment budget.
- **Step 4** – Choose a brokerage firm and open an investment account.
- **Step 5** - Deposit money into your account and start investing.

There are many types of investment accounts that you can invest in, including a 401(k) plan, an IRA or individual retirement account, a tax brokerage account, a direct purchase plan, and a dividend reinvestment plan.

- The 401(k) plan is an employer-sponsored investment account. It has tax benefits. It comes with a matching program that allows employers to match their employee's contributions. This investment plan is inexpensive and hassle-free. You can simply sign up through your employer.

- The individual retirement account (or IRA) is a savings and investment account that comes with tax benefits. There are different types of IRA, such as the traditional IRA, the SIMPLE IRA, the Roth IRA, the spousal IRA, the self-directed IRA, the SEP-IRA, and the non-deductible IRA.

- The traditional IRA is a tax-deferred retirement investment account. This is something that you can open through a brokerage firm. You can use your traditional IRA fund to invest in mutual funds, stocks, and other securities.

- The Roth IRA is a tax-advantaged account. It is more flexible than the traditional IRA and offers more investment choices. You have to pay upfront taxes for your contributions, but you'll get a tax refund when you retire.

- The SIMPLE IRA is an investment account. It's also the acronym for Savings Incentive Match Plan for Employees Individual Retirement. It works a lot like the 401(k) plan in the sense that it also has a matching program. But, it's cheaper. Most small businesses offer this type of retirement plan.

- You should invest in a 401(k) plan if you're going to be in a lower tax bracket when you retire.

- The SEP-IRA (or simplified employee pension) is an investment plan for small business owners, self-employed individuals, and freelancers.

- The spousal IRA is just a regular traditional or Roth IRA. The difference is that it allows a working spouse to contribute to his/her non-working spouse's account.

- The direct stock purchase plan allows you to purchase stocks directly from issuing companies. This saves you a lot of money because you don't have to go through a broker.

- The dividend reinvestment plan, or DRIP, allows you to reinvest your dividend earnings. So, if you want your earnings to just keep on growing, you should choose this plan.

- The taxable brokerage plan is best for serious investors and high-income earners. But, if you're on a budget, it's best to go with employer-sponsored retirement savings and investment plans.

Chapter 3 Summary

To grow your wealth, you have to use an investment strategy that works for you. You can also mix and match different strategies. There are many investment strategies that you can use, including dividend investing, day trading, value investing, short-selling, and growth investing.

Value investing is one of the best investing strategies. It's used by seasoned investors like Warren Buffet. Its main principle is "buy low, sell high." Value investors actively look for undervalued stocks. They also invest in stable and established companies. They do not look at market trends, and they do not worry about stock price volatility. They do not care about stock market predictions.

Value investing is a great way to minimize risk, but it can cause you to lose the opportunity to earn huge capital appreciation profits from rising "superstar" companies.

Growth investing is the opposite of value investing. Growth investors place their bets on companies that are growing quickly. They are constantly searching for "unicorns" or the "next best thing" in business. To minimize risk, you have to sell a winning stock once it starts to go down. You must also build a diversified portfolio consisting of companies that are performing well in the stock market.

Growth investing gives you an opportunity to earn a lot of money, but it's risky, too.

Dividend investing is an investment strategy that involves investing in companies that pay dividends annually or quarterly. It's also important to choose a company with rising dividend payments.

Day trading is an investment strategy that involves buying and selling stocks on the same day. This strategy helps you profit from market volatility. It also gives you the opportunity to learn and sharpen your trading skills. The downside of this strategy is that it's time-consuming and you'll have to invest in an advanced trading platform.

Short-selling is an investment strategy where an investor profits from falling stock prices. The investor borrows stock from his broker and sells it at the current market price. Once the stock price goes down, he buys back the stock and returns the stock he borrowed. His profit is the difference between his selling price and buying price.

Short-selling is great because you don't have to pay for anything upfront. But, it's too risky. You won't know exactly if the stock goes down anytime soon. If the stock price does not go down, you'll end up with more debt than you can handle.

To lower the risk, you have to invest in companies with a low debt/equity ratio and a high margin of safety. These companies are financially healthy.

To maximize your earnings, it's best to diversify your investment portfolio and mix and match different strategies.

Chapter 4 Summary

To win big in the stock market, you have to invest in the right stocks. Otherwise, you'll end up losing a lot of money.

Set an investment objective. What do you want to achieve? You have to set financial goals like how much you want to earn in a year or in five years. You must also set non-financial goals like how often you want to travel or the experiences you want to be able to afford.

When you're choosing stocks, you have to consider different factors such as growth in earnings, stability, the company's market share, profitability, the P/E ratio, insider activity, the company's reputation, and the trustworthiness of the company executives.

To pick the right stocks, you have to invest in what you know and avoid over-hyped companies. These companies are usually overvalued and can't live up to the hype. You should also consider the stock price and the profit margin.

You need to sell your stocks once the price reaches its peak. This technique maximizes your profit.

Avoid overvalued stocks. Look at the PEG and the P/E ratios to determine if a company is overvalued.

- If a company has a high P/E ratio, it's overvalued.
- A company with a high PEG ratio is also overvalued.

You must also determine whether or not the company is in a cyclical industry. Companies in a cyclical industry are highly sensitive to economic cycles. Its price is high when the economy is good, and it decreases when there's a recession.

When the economy is great, cyclical stocks appear to have fast-growing revenues. This decreases its P/E ratio, giving you the impression that the stock is undervalued when, in reality, it's overvalued. When you're looking at the P/E ratio of companies in cyclical companies, don't regard it at face value. It can be deceiving.

If a stock's earnings yield is lower than the Treasury Yield (bond), it's overvalued.

Avoid buying overvalued stocks. It's also wise to sell overvalued stocks in your portfolio.

A stock position is the amount of stock an investor owns. There are two types of positions—long and short.

A long position involves buying a stock and paying for it upfront. A short position, on the other hand, involves borrowing stocks and selling them in anticipation of a price decline. Once the price drops, you buy stocks to cover what you borrowed. The difference between your selling price and buying price is your profit.

Writing put options is one great way to build your stock position. A put option is the right to sell a stock at a specific price. So, if you want to buy stock A for $20, but its current price is $30, you can write a put option and sell it. The buyer then has the right to sell you his stock when the price goes down to $20 before the expiration date of the contract. The buyer pays you a premium fee for your promise. If the price doesn't go

down and the contract is never executed, you can still keep your premium earnings.

So, there's nothing much to lose.

Chapter 5 Summary

A brokerage account, as the name suggests, is an investment account that you open through a brokerage firm. You can use this account to buy and sell stocks in the stock market.

A brokerage account can hold different types of securities, such as common stocks, preferred stocks, bonds, mutual funds, REITs, ETFs, and certificates of deposit.

There are two main types of brokerage account—cash and margin. You need to pay for everything in real-time if you have a cash account. A margin account, on the other hand, allows you to borrow money from a broker.

There are two general types of brokers—discount and full-service. Discount brokers simply interact with you online. Full-service brokers, on the other hand, conduct face-to-face meetings on a regular basis.

If you want to save a lot of money, it's best to open a discount brokerage account. But, if you need guidance in choosing the right stocks, it's a good idea to choose a full-service brokerage firm.

You have to examine your broker's statement carefully to spot fraudulent activities or inconsistencies.

Chapter 6 Summary

Every time you want to buy or sell a stock, you'll receive a trade confirmation in the mail.

Your trade confirmation usually includes information regarding the name of the stock and its ticker symbol, the price per share, the total number of stocks traded, commission payments, account details, the net value of the transaction, and the type of order made.

You have to examine that carefully to make sure that your broker executed your order flawlessly.

You must also keep copies of your trade confirmations because you'll need them when you file your taxes.

Chapter 7 Summary

There are different trades that you can place with your broker, such as limit order, market order, stop order, stop-limit order, and trailing stop order.

A market order is the most basic order. It has to be executed immediately at the current market price.

A limit order is an order to either sell or buy a stock at a certain price during a certain time period.

An AON order, or all-or-none order, has to be carried out entirely or not at all. Hence, the name.

A stop order helps you manage your loss. It is an order to either buy or sell a stock once it reaches a certain price called the "stop price." It's similar to a limit order but different in the sense that stop orders minimize losses while limit orders maximize profits.

A buy-to-cover order is an order that's typically used in short selling. It's an order to buy stocks to cover the ones that were borrowed during a short sale.

A day order expires at the end of the trading day.

The stock exchange closes at 4:00 P.M, but you can still trade via the electronic communication network, or ECN, during extended trading hours—4:15 P.M. to 8:00 P.M. and 8:00 A.M. to 9:15 A.M.

GTC stands for good 'till canceled. This order remains active until the investor cancels it.

A trailing stop order helps you specify the amount of profit you're willing to let go.

A bracketed order bundles three orders.

You need to fill out a form to make an order.

To cancel an order, you need to log in to your account, go to the order, and click on cancel. This process varies depending on what type of brokerage account you're using.

Chapter 8 Summary

You must do comprehensive research to determine if a stock is a good investment. To do this, you must use two methods—macroeconomic analysis and microeconomic analysis.

To do *this*, you must first look at the worldwide trends. Are the global trends favorable to the stock you're purchasing?

You must also look at the interest rates. Higher interest rates often drive stock prices down.

Don't invest in a company that belongs to a cyclical industry. Cyclical sectors are susceptible to changes in the economy.

Micro-economic analysis involves extensive company research. You should look at the company's income statement. Is the business earning profits? You must also look at the company's products. Are they doing well in the market?

Chapter 9 Summary

To choose the right stock to invest in, you must look at the company's profitability.

You must also pick a company that has high returns and low or no debt.

Choose a company whose products have a strong competitive advantage. You would want to invest in a company with high customer loyalty rates.

Pick a company that keeps shareholders satisfied.

You must also look at the company's balance sheet.

Chapter 10 Summary

You'll eventually build a huge investment portfolio as you get better at stock trading and stock market investing.

You must use portfolio management strategies to grow your wealth and your investment portfolio.

Do not make an investment decision based on emotions. Use your brain, not your heart.

Diversify your investments. Invest in different stocks and other securities. If you can afford to buy a real estate property, do that also. Diversifying your investments helps to reduce risk.

Stop your losses by placing stop orders. This will help limit your losses. You can also do this manually. Sell your stocks when you notice that the price is going down.

Invest in companies that pay dividends. This could be a great source of income. Plus, companies that pay dividends are usually stable.

Don't hold on to your stocks for too long. Long-term stock investment is good, but sell your stocks when the time is right.

Take advantage of accounts that come with tax benefits. These accounts can save you a lot of money and they're easy to maintain, too.