Hey Rookie!

We know how it feels to be new to the stock market. Somewhat intimidating. Super-confusing. Like a completely different language. We’re going to break down the basics, so you can understand how it all works and start investing for your future. It’s easy to get started, we promise. And kind of fun!
Ready to get started?

LEARN THE BASICS
In this book, we’ve answered new investors’ most-asked questions and defined a bunch of financial terms so you can start talking the talk.

MAKE AN INVESTMENT PLAN
Once you’ve got the basics down, you’re ready to put together your own plan. On pages 14-17, we’ve made it easy to fill in the blanks.

STOCK UP!
With Stockpile, you can easily and affordably buy, track and sell stock online. Check out how it works on pages 28-31.
What’s inside

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Why should I put my money in the stock market?

Investing in the stock market is a way to create wealth—for college, a house, retirement, a cast iron camel collection.
Historically, the stock market has returned an average of 9.8% a year. That’s significantly higher than most other investments. Of course, stocks rise and fall, so you’ll make money or lose money depending on the day. But it’s a smart investment if you’re in it for the long haul, ready to weather the ups and downs.

The sooner you start investing, the more likely you are to build some serious wealth. For example, let’s say at age 12, you start investing your babysitting money of $1,000 a year in the stock market. You do this for 10 years, until you graduate from college at age 22. You never put additional funds in the stock market after that. Assuming your stocks go up an average of 9.8% per year, that investment will be worth more than a million dollars by the time you turn 65. $1,107,393, to be exact.

(If you had put that same money in a mattress, guess how much you’d have at age 65? Yep, $10,000. Assuming no one else found it first.)
Why do stock prices go up and down?

It’s supply and demand. Prices go up when there are more buyers than sellers. Prices go down when there are more sellers than buyers.
But how do investors decide whether to buy or sell? For all kinds of reasons, and usually a combination. Here are just a few of the things that may lead to a stock going up or down.

- Earnings beat expectations
- Most of the market is up
- New CEO was brought in
- 5-star product review hit the news
- Killer new product unveiled
- Wall Street analyst recommends “strong buy”
- Head of product leaves company
- Profits are down
- Biggest competitor introduces better product
- Celebrity stock guru says “sell”
- Major political, economic or social event
- Rumors

It’s important to remember that stock prices will go up and down. And it’s really tough to predict exactly why or when. That’s why the stock market is best for investors who are willing to ride out the storms, rather than panic whenever their stocks tumble.
Which stocks should I buy?

Whoa there. Hold on. First up, you need an investment plan. (See page 14.)
INDEX FUNDS

Many investors like the simplicity of investing in index funds like the S&P 500, a collection of 500 companies that are representative of the overall stock market.

Buying an ETF gives you instant diversification so you aren’t putting all your eggs in one basket. The fund’s prospectus will tell you what kinds of stocks are in the fund, how the fund has been doing, and other important information.
INDIVIDUAL STOCKS

Many successful investors recommend investing in companies you know: What products or services do you use and love? Where do you shop or play?

Start by learning about the company. You can find lots of information on the company’s website and in news articles. More detailed financial information is available on the Stockpile website or mobile app, on sites like Google Finance, or in the Investor Relations section of the company’s website. Check out the Quarterly Earnings filings (called 10-Qs) and Annual Reports (10-Ks), which are detailed reports about the company’s financial performance and risks.
SOME QUESTIONS TO CONSIDER:

What does the company do?

How impressed are you with its products and services?

How is the company doing in the marketplace?

Do you think its best days are still ahead or does it feel overrated?

What’s the outlook for the industry?

Who leads the company?

How are they doing against the competition?

Is the business profitable?

Are earnings steady or volatile?

Was a big drop (or jump) in the company’s stock price an overreaction?

How much debt does the company carry?

What are the big risks to the business?

Do you have any insights into the company that other investors might not have?

Any red flags?
Can I get rich quick?
Yes!

Just kidding.

We don’t know a get-rich-quick secret to the stock market. (If you find one, please email secret@stockpile.com)
My Investment Plan

MY FINANCIAL GOAL:

(e.g., college; down payment on a house; retirement)

HOW MUCH I’LL NEED

$(no, “a gazillion” is not a real number)

WHEN I’LL NEED IT:

- a few decades
- a decade
- a few years*

*If you’re looking for a return on your investment in a few years, the stock market may not be the way to go. It’s a better long-term investment.
Based on my goal and timing, my risk tolerance is:

Investments generally have a risk-reward trade-off. The more risk you’re willing to take, the greater the potential return on your investment. And the younger you are, the more risk you can take, because you have more time to ride out market downturns.

I’d rather not take too much risk

SO I’M LOOKING AT:

Conservative investments

e.g., companies that are older and more established, large cap, pay dividends, and have stock prices that are relatively steady

I’m willing to take more risk

SO I’M LOOKING AT:

Aggressive investments

e.g., companies that are younger, focused on growth, and have stock prices that are more volatile, but have had big increases historically
DIVERSIFYING MY STOCK MARKET PORTFOLIO:

You know the saying “Don’t put all your eggs in one basket?” That applies to investing too. To achieve the same gains with less risk, you’ll want to diversify your stock market investments. Spread your investments across different companies and different sectors — with a mix of value stocks and growth stocks, and maybe even some international stocks. That way, if one sector declines or one country’s economy faces a recession, you’ll have other investments to help offset your losses.

Some investors focus on index funds, where the stocks are picked for them. Some investors want to pick individual stocks themselves. Others choose a mix. For example, a diversified stock portfolio could look like this:
MY PORTFOLIO

HOW MUCH TO INVEST:

$  

Create your Stock Market Fund as soon as you can, and it’s ok to start small. It’s less important how much you invest, especially if you’re young. But the sooner you start, the more time you have for your investments to grow.
ADR
“American Depositary Receipt” (ADR) is a security that’s traded on a U.S. stock exchange and represents ownership of a foreign company, like BMW or Prada. You can buy or sell ADRs in your brokerage account the same way you buy or sell stocks.

Annual report
A report that gives people information about the company’s financial performance and activities for the preceding year. It’s like an annual report card for the company.

Balance sheet
A financial statement that summarizes what the company owns (assets) and owes (liabilities), and what amount is invested by shareholders (equity). A strong balance sheet means the company owns lots of assets and doesn’t owe much money to anyone.
**Blue chip stocks**
Stocks in large, well-established companies that are household names and have dependable earnings, like Coca-Cola, Verizon, and P&G. Most pay cash dividends to their investors.

**Brokerage account**
An account that allows you to hold cash and stock. An online brokerage like Stockpile provides a secure interface where investors can buy or sell stock.

**Bull market & Bear market**
It’s a “bull market” when stocks are rising. If a person believes stocks will go up, she has an optimistic “bullish outlook.” It’s a “bear market” when stock prices are falling. A person who believes stocks are going to go down has a pessimistic “bearish outlook.”

**Common stock**
The most common class of stock in a company, representing a claim to everything the company owns and earns. Investors get one vote per share to elect the company’s board of directors. If a company goes bankrupt, creditors and preferred shareholders get their share of any remaining assets before common stockholders do.

**Dividend**
Cash the company gives to its shareholders when it makes money. The cash shows up in your brokerage account automatically. Sometimes, companies issue stock dividends instead. In that case, you end up with additional stock in the company.
Earnings
A company’s profits. Companies report their earnings after the end of every quarter. People use these reports to help them understand how the company is performing and decide if the stock is worth buying. Stock analysts try to predict what a company’s earnings are going to be, and the stock price often increases or decreases as soon as earnings are announced, depending on whether the company beat or missed analysts’ estimates.

EPS
“Earnings Per Share” (EPS) tells you how profitable a company is. It’s how much profit the company earned for every share that’s out there. To figure it out, divide the company’s net income (its after-tax profit over the last four quarters) by the number of outstanding shares.

ETF
An “Exchange-Traded Fund” (ETF) is a collection of stocks that’s traded on stock exchanges. For example, an S&P 500 ETF includes the 500 stocks that make up the S&P 500 index; a China ETF includes stocks in Chinese companies.

Fractional shares
Less than one full share of stock. Stockpile allows you to buy and sell fractional shares, so you don’t have to wait until you have enough money to buy an entire share in order to be a shareholder in a company.
**Growth stock**
Stock in a company that’s expected to grow its earnings at a rate higher than the market average. A growth stock usually doesn’t pay a dividend, because the company chooses to reinvest it in the company.

**Index fund**
A type of ETF that tracks a stock index. Instead of picking and choosing the investments in the fund, it holds some or all of the stocks in an index. For example, the S&P 500 index fund holds a diverse set of 500 U.S. stocks that are meant to be representative of the overall stock market. A Nasdaq index fund holds stocks that are more technology-focused. ETFs give you instant diversification into a large number of stocks and tend to deliver the market’s average performance.

**IPO**
An “initial public offering” is the first time a company sells its stock to the public. After an IPO, you can buy or sell the company’s stock in your brokerage account.

**Market cap**
How much the entire company is worth in dollars, according to the stock market. To figure out a company’s market cap, multiply the stock price by the total number of shares that are outstanding. A company’s market cap helps investors understand a company’s size and investment risk. Historically, small cap companies have experienced higher growth potential with higher risk, while large cap companies have experienced slower growth with lower risk.
Portfolio
What you own in your brokerage account. Your portfolio includes all of your stocks, ADRs, ETFs, and cash.

Preferred stock
A class of stock that represents ownership in a company. If a company goes bankrupt and assets are liquidated, preferred shareholders get their share before common shareholders. Preferred shareholders usually don’t have voting rights.

Price-earnings ratio
The company’s stock price divided by its profits (also called its “earnings”). If two stocks have the same share price but one has higher earnings, many investors would say it’s the better deal because it has a lower P/E ratio. Smart investors use the P/E ratio as one of several tools to value a company.

SEC
The “Securities and Exchange Commission” (SEC) is a U.S. government agency that protects investors from fraudulent companies and unfair dealings in the stock markets. It was created after the stock market crash of 1929.

Shareholder
A part owner of the company (also called “stockholder”). You become a shareholder of a company when you buy its stock. You’re entitled to any dividends the company issues, and if you own at least one share, you can attend shareholder meetings and vote to elect the company’s board of directors.
Stock
Represents ownership in a company. It comes in units called shares.

Stock split
Companies often split their stock if the share price gets too high. Dividing up the company into more shares makes each share more affordable. In a 2 for 1 stock split, the company doubles the number of shares and each one is worth half as much.

Stock market
Where stocks, ADRs, and ETFs are bought and sold. The most important exchanges in the U.S. are the New York Stock Exchange and the Nasdaq.

Stock ticker symbol
A unique combination of letters (and sometimes numbers) that’s a shorthand name for the company’s stock. For example, Apple trades on the Nasdaq using the ticker symbol AAPL.

Valuation
The process of determining what a company’s stock is worth. Analysts usually look at things like the company’s management, the market value of its assets, its capital structure and the potential for future earnings.

Value stock
Stock that is considered to be underpriced relative to the company’s earnings or other factors.
With Stockpile, you can buy fractional shares of stock in publicly traded companies. That means rather than buying an entire share of stock, you can get just the amount you want.
You can pick from more than a thousand stocks

including Amazon, Tesla, Apple, Nike and Disney.
Stockpile also offers ETFs for Gold, Nasdaq, S&P 500 and more.
With your Stockpile brokerage account, you can easily

**track, buy, and sell your stock.**

Each trade costs just 99 cents, a lower fee than what you’d pay at traditional brokerage firms.
We get that investing in the stock market can feel intimidating for first-time investors. So we offer

**financial education resources** —

whether you’re 8 or 80 — to help teach the basics.
Still feel like a rookie?

If so, don’t sweat it—you’re not alone. The best way to learn how to invest is to start doing it. Start small, don’t overextend yourself, and do it regularly for the long haul.

**WHERE TO KEEP LEARNING**

stockpile.com/learn

Investopedia.com
Investor.gov

The Motley Fool Guide to Investing for Beginners

Jim Cramer’s Stay Mad for Life: Get Rich, Stay Rich