



# Stock Markets

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## Countdown


- 1 What is the difference between a private company and a public company? Which of them is listed on a stock market?
- 2 What information does a stock index, like the *FTSE 100* or *S&P 500* contain?
- 3 Where can you find the stock market indices below? Match the indices with the cities where they are based, one of the cities matches with two indices.

1 Dow Jones  
2 FTSE 100  
3 Nikkei  
4 CAC 40  
5 DAX

6 Hang Seng  
7 NASDAQ  
8 Bovespa  
9 MICEX  
10 Straits Times Index





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- 4 Look at the news items below. Which sectors of the market would they affect the most? Would they have a positive or negative effect on these sectors?

Central bank cuts interest rates

Oil prices hit a 2-year high

Consumer debt levels  
continue to rise

London wins Olympic bid

- 5 Who do you think are the biggest investors in the stock markets?

## Reading

### Stock markets

When a university in Moscow invited an equity broker to the university to introduce students to the stock market, they asked students for questions to find out what they wanted to know about markets.

- 1 Look at the list of questions students submitted online below. First, work in pairs and see how many of the questions you can answer together before you read the text.
- 1 What is the difference between a *share* and a *stock*?
  - 2 What rights do you get if you buy a company's shares?
  - 3 What is a dividend?
  - 4 Who decides how much dividend to pay?
  - 5 Why do some companies not pay dividends?
  - 6 What are the two main ways shareholders make money from shares?
  - 7 How does a company become a listed company?
  - 8 What is an IPO?
  - 9 What does it mean when an investment bank 'underwrites' a company's shares?
  - 10 What is the difference between a primary listing and the secondary market?
  - 11 What is the role of the market regulators?
  - 12 What is a rights issue?
  - 13 When a company makes a rights issue, the share price usually goes down. Why is that?





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Every day people buy and sell about £16bn of shares on the stock market in London. But what exactly are they buying?

Basically, when you buy a share you become an owner of part of that company. The English markets use the word 'share', the American markets also use the word 'stocks'. As a shareholder or stockholder, your investment gives you rights to vote at the annual company meeting (the AGM) and to receive a percentage of the profits that a company will hopefully make.

The profit is distributed to you as a dividend, usually paid twice a year. This is because the Board of Directors who run the company decide each year how much of the profit to give back to the shareholders as a return on their investment and how much to retain for the company to use to invest in new projects. Some very big companies do not pay dividends because they feel that the profit made by the company is better retained in the company to grow that business. That way, the shareholder benefits long term because if the company succeeds, the shares will increase in value. So when they sell the shares they will get a higher price.

That is why an investor in shares expects to make two kinds of return: a dividend and a capital increase when they sell. The value of the shares, of course, changes every day as people trade the stock, and so the market capitalization or total value of the company is never constant.

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What do they do on the stock market every day? Basically, the biggest markets in the world, like Wall Street, try to value companies every day according to the economic prospects of the company and the progress of the economy. A company that wants to offer its shares to the public must first come to the market through an IPO, an Initial Public Offering. When it has this 'listing' the price of the shares can be 'quoted' every day in trading.

This initial offer to investors is organized by an investment bank which supports the company and organizes the first day of trading. They work, of course, with the market regulators, like the Financial Services Authority (FSA) in the UK or the Securities and Exchanges Commission (SEC) in the US, to make sure that the company follows all the regulations and the company is not trying to defraud investors. The investment bank will 'underwrite' the shares by promising to buy the shares if no other investors are interested. Market participants call this first offer a primary listing. Once a stock has a quoted price, investors can buy and sell the stock every day, so the stock exists in what they call 'the secondary market'.

Sometimes companies need to raise more capital to grow their business and then they can issue new shares in what is called a rights issue. By selling new shares, the company, of course, is getting new money, but at the same time it also means that each individual share in the company is now worth less because it represents a smaller percentage of the whole company.

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## Professional skills

### Investment strategies



Online brokers' websites are full of discussion boards for investors to discuss their investment strategies. Have you ever visited one?

- 1 Look at these tips from an online forum in which people explain their investment strategies. Work in pairs. Which **three** of these strategies do you think could be the most successful? Why would they work better than the others?

- a If you want to invest in the markets, you should spread your risks by investing in several companies in different sectors. That way you reduce your exposure to any one company.
- b I believe that it is best to invest in large international companies with strong brands. Small companies are just too risky.
- c Take Warren Buffet's advice (the famous US investor): 'Be fearful when others are greedy and greedy when others are fearful'.
- d The only way to make money on the markets is to invest your money for at least five years. Buying and selling quickly – or day trading – is just a way to lose your money.
- e The best way to invest in the stock market is to invest in a general fund, in which a manager decides which shares to buy or sell.
- f Watch the discussion boards for good stories about companies. Then 'buy on the rumour, sell on the news'.

- 2 Work in pairs. Discuss these questions.

- 1 Do you think it is worth investing in shares? Or is it just 'gambling', like the lottery?
- 2 Which companies or sectors would you invest in today? Why?





## • Language spot

### Describing consequences

When we talk about the consequences of events we can use first conditional sentences with *If ...*. We can ask and answer questions in this way:

*What will happen if the government nationalizes the biggest banks?*

*If the government nationalizes the biggest banks, shareholders will lose their money.*

We can change the probability by using these modal verbs:

**should – high probability**

*If the government nationalizes the biggest banks, customers should feel more confident.*

**may / might – lower probability**

*If the government nationalizes the biggest banks, top managers may lose their jobs.*

Write three different answers for these questions using the modal verbs above and the phrases below each question.

#### EXAMPLE

*What will happen if the Chinese economy slows down?*  
investors

*If the Chinese economy slows down, investors will / may sell their shares.*

- 1 What will happen if the Chinese economy slows down?
  - a company profits
  - b the price of steel and metals
  - c unemployment
- 2 What will happen if a flu virus spreads around the world?
  - a shares in airline companies
  - b sales of pharmaceutical drugs
  - c business travel and trade
- 3 What will happen if the US government does not support its car industry?
  - a workers
  - b car suppliers
  - c foreign car producers





## Speaking

### News briefings

If you work as a trader on the stock market, every day will start with a news briefing in which the analysts interpret the day's news for the share traders.

- 1 Look at the morning news announcement from Reuters, the news agency, below and the analyst's notes on the probable effects that follow. Mark each of the effects P (positive) or N (negative).

Supermarkets and shop owners protest as government bans all petrol-driven cars from city centres.

#### Analyst's notes

- the demand for electric vehicles \_\_\_\_\_
- profits of big supermarkets in city centres \_\_\_\_\_
- the share price of car battery manufacturers \_\_\_\_\_
- sales of petrol car manufacturers \_\_\_\_\_

- 2 Look at how one analyst presents their comments in a morning briefing. Complete the model using the information from the news announcement and analyst's notes above.

#### MORNING BRIEFING

Reuters today announced \_\_\_\_\_

This will have a **significant impact** on share prices this morning.

#### POSITIVE EFFECTS

On the one hand, this will probably **lead to** an increase / decrease in \_\_\_\_\_

Equally, this will probably **result in** an increase / decrease in \_\_\_\_\_

#### NEGATIVE EFFECTS

On the other hand, this will certainly **lead to** an increase / decrease in \_\_\_\_\_

At the same time, this will **result in** an increase / decrease in \_\_\_\_\_

#### CONCLUSION / RECOMMENDATION

As a result, we believe we should buy \_\_\_\_\_

and we should sell \_\_\_\_\_





## It's my job

1 Work in pairs. Discuss the questions.

- 1 Have you ever used Internet blogs to find out about a job you would like to do in finance?
- 2 What can you learn from blogs that you can't learn from a job advert?

2 Which things does Jim find most exciting and which are most frustrating? Make notes and compare with a partner. Do you both agree with Jim's view?

### Jim Chung

**Job** Junior equity analyst at an investment bank

**Location** New York

I just wrote this blog to give other students an idea of my life on the stock markets here as a typical equity analyst in New York. Here's my routine:

**6:00** Check the computer for early morning news announcements. I have to prepare a report on a small technology company for the morning briefing with the sales team at 7. Have to chase company data on sales. Deliver the report successfully and have time to grab a coffee before returning to my desk.

**9:30** As the market opens, I watch to see what happens to the share price of the company I just reported on. I got it right! The stock is up and the phone begins to ring as sales people want info on the company.

**1:00** Lunch with the head of another fast-growing software company at Juno's Bistro. Order a great meal but I have no time to eat it, since I am asking questions all the time and trying to reach a conclusion about the company's prospects to tell my boss.

**2:00** Draft a report to my boss on the meeting. Check the market again for any news announcements. Prepare some figures on a possible takeover.

**4:30** Market closes but then there is a news announcement from one of the companies I am responsible for. That means a long night since I know my boss will want to discuss it before he leaves so I won't get back home before 10. No time for the gym!







## Vocabulary

### Reading the financial press

If you want to research a company to invest in, you can look online or in a newspaper at the *share price tables*. But what kind of information do you want to know?

- 1 Work with a partner and make a list of four key things you need to know about a company before you consider investing in it.

#### EXAMPLE

1 *the share price*

2 \_\_\_\_\_

3 \_\_\_\_\_

4 \_\_\_\_\_





2 Share price tables use a lot of financial expressions. Look at the table below and match the labels in the table with the definitions 1–9. Put the correct numbers 1–9 in the spaces in the table. One of the items in the table doesn't have a matching definition. Which one?

- 1 the number of shares traded yesterday
- 2 the percentage return you can expect to receive each year for investment in each share
- 3 the price you must pay for one share today
- 4 the total value of the company yesterday
- 5 the code you need to look up the shares online
- 6 if the share price increased or fell yesterday
- 7 the area of industry in which the company works
- 8 the relation between the earnings made by the company on each share and the current price of the shares
- 9 the highest price paid by investors for a share this year

3 Now, using the information in the table, answer these questions.

- 1 If you wanted to buy 200 shares in BP today, how much would it cost you? (Note in the UK share prices are quoted in pence so 100p = £1.)
- 2 If you bought the shares at the lowest price for the year, how much did you pay?
- 3 If you sold the same shares today, how much money have you made?
- 4 If you bought 200 shares today, how much money would you expect to earn in dividends?
- 5 How many shares in BP were traded yesterday?

( ) Sector: oil & gas

( ) Symbol	( ) Current price	( ) Change on day	( ) 52-week high	( ) 52-week low	( ) Dividend yield	( ) p/e Price/ Earnings ratio	( ) Market cap. £UK	( ) Volume 000s
BP	450p	+23	657	347	9%	5.2	81bn.	72,848





## Writing

### An analyst's report

Stock market analysts, who often work for investment banks or brokers, write regular reports on companies to update clients on recent performance. They then publish recommendations to *buy, sell, or hold* the stock. These reports strongly influence stock market prices.

- 1 Read the analyst's report on Boggle below. Look at the four headings and write each heading in the correct place in the report.

Sector outlook

Share price performance

Recommendations

CEO's statement

- 2 Look at the expressions *in italic* used in the report below. Match the expressions a–k with the functions 1–6 below. Some of the functions match with more than one expression.

- 1 companies giving news and information about themselves
- 2 predicting the future
- 3 describing recent share price performance
- 4 making comparisons
- 5 describing consequences
- 6 making recommendations

- 3 Your boss has asked you to update the information on your company's website. Check the recent press releases from the software sector below.

### Software sector news

#### Microphose shock!

Microphose reports big fall in profits and rise in investment costs. Share price down from \$24 to \$21 this morning. Fall now is 40% over 12 months compared with 22% fall for the NASDAQ.

#### Outlook poor for Microphose

Analysts turn negative on the computer sector as sales forecasts show only 5% growth over the next 3 years.

#### Chairman's warning

Chairman warns of difficult market conditions as mobile applications begin to take market share from traditional personal computer market. Promises to invest in new products to boost profits.

#### Analysts advise 'sell'

Analysts move recommendations on Microphose from buy to sell setting a target price of \$23 per share. Analyst Dave Sweetman at Goldman Sachs explained that the high cost of investing in new products will result in lower profits over the next few years.





## Analyst report

Company name: **BOGGLE**

Sector: **Internet technology**

Current share price: **390** target price: **480**

52-week high: **570** 52-week low: **330**

Recommendation: **buy** / sell / hold

1

Over the last six months, Boggle's share price has increased by 20%<sup>a</sup>. This is due to a sharp rise in advertising revenue and a big increase in new customers.

The performance compares with a fall<sup>b</sup> for the S&P 500 index of 18%.

2

The outlook looks positive<sup>c</sup> for the whole Internet sector. Most analysts remain bullish<sup>d</sup>, with Internet advertising taking market share from traditional press and TV commercials. The online sector is projected to grow<sup>e</sup> by 60% over the next three years.

3

At a recent press conference, the company announced<sup>f</sup> that Boggle was facing difficult economic conditions in the global market. However, CEO Eric Bulwark commented that<sup>g</sup> the launch of new projects, like the upgrade of Boggle phones, will certainly lead to<sup>h</sup> a rise in sales. At the same time, Boggle has promised to cut costs and reduce investment in equipment and property. This will probably result in<sup>i</sup> an increase in profits.

4

We believe that Boggle's shares will outperform the S&P 500 index over the next twelve months. We have moved Boggle from hold to buy and we recommend buying<sup>j</sup> up to a \$480 target share price. We would advise clients to buy<sup>k</sup> now on weakness.