

Invest Ed[®]
Students Tracking and Researching the Stock Market

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“Earn thousands per year by working part-time from home!” “Enter our sweepstakes for a chance to win five thousand dollars a week... for LIFE!” These ads and others like them have flooded my television screen for years. The ads show examples of “real people” claiming to have earned buckets of money with little labor on their part. In reality, the salary figures shown in the commercials are not guaranteed for everyone, and the probability of winning a sweepstake is minimal. Therefore, I would quickly mute the television or change the channel and discard these ads without a second thought. Unfortunately, I used to apply my skepticism to the stock market as well. I figured investors were throwing their money away on “get rich quick” schemes and could not fathom how people were investing their money in an unstable stock market. However, my negative mindset changed when my Honors Pre-Calculus class began participating in the Invest Ed[®] program. In this program, students are given \$500,000 in pretend money to invest in stocks of their choice. Once the stocks are selected, the students create a portfolio of the purchased stocks and track their gains or losses on their initial investment over four weeks. Since I have signed up for Invest Ed[®], I have been acquiring the basic facts of the stock market as well as expanding my knowledge on investing money shrewdly for the long-term.

In order to choose stocks for my portfolio, I needed to learn how to evaluate stocks. On the Invest Ed[®] website, I discovered a clip from their “Investment Minute” television series titled “Don’t Invest on Appearances Alone.” The video strongly urged viewers to thoroughly research the company in question before purchasing its stock and not to make decisions based solely on its popularity or “good looks.” I utilized this advice when scrutinizing stocks, but I still required more information to enhance my

research process. My Pre-Calculus teacher, Mrs. Lynn Steidley, informed me that a diversified stock portfolio is optimal for a successful return on my investment. Investing in a diverse set of stocks would reduce the risk of sharp losses if one sector was performing more poorly than the others. As I later discovered, sharp losses and gains in the stock market can also be fueled by the emotions of investors. My father informed me that investor reactions to corporate earnings reports, world events, the price of oil, etc. can drive the stock market up and down. Diversification can insulate my stock portfolio from swings caused by investor emotions. Therefore, I diversified my portfolio by including at least one stock from various sectors such as consumer staples, technology, health care, energy, and utilities. As a result, my portfolio experienced overall growth despite fluctuations in the market.

Another component crucial to my diversification was specifying the number of cyclical and non-cyclical stocks that would comprise my portfolio. Cyclical stocks are constantly fluctuating, being high when the economy is growing and consumer confidence is up, but they tend to decline in times of economic uncertainty and when the consumers are cautious about investing their money. Examples of cyclical stocks include car companies, electronics companies, and equipment sales. Non-cyclical stocks are usually not affected by the state of the economy because they include consumer commodities such as utilities, food, and oil. For example, the demand for these necessities in hard times does not decrease as much as the demand for cyclical stocks. Due to the steady downturn of the economy over the past few years, I picked a greater number of non-cyclical stocks for my portfolio, and I carefully examined any cyclical stocks that I was interested in purchasing.

Considering all of the above factors, I went to Yahoo! Finance and the Motley Fool websites to tie all of my research together. On Yahoo! Finance, I looked at each stock's profile, historical share prices, interactive charts, headlines, company events, key statistics, competitors, income statement, balance sheet, and cash flow. Also, I looked to see if companies had shown a record of steady growth and relative stability through economic turbulence. To verify my stock choices, I read several articles about each company on Motley Fool. They gave beneficial information on the past, present, and projected performance of the companies I was researching. The articles also provided input on whether or not to buy shares in each stock depending on the personality of the investor. This counsel was important to me due to my conservative nature. If Motley Fool said the stock was for risk-lovers only, I quickly abandoned the stock and began searching for an alternative. If the information in each of these categories met the criteria previously described, I chose to purchase shares in that stock.

Out of the ten stocks I selected for my portfolio, Abbott Laboratories proved to be the one that significantly increased the return on my investment. A manufacturer of numerous healthcare products, Abbott Laboratories was founded in 1888, with its headquarters located in Abbott Park, Illinois. A sampling of its products includes drugs used to treat diseases such as Crohn's disease, epilepsy, and rheumatoid arthritis. Besides providing medications, Abbott also builds equipment designed for diagnostic procedures and has its own line of nutritional foodstuffs. Although Abbott Laboratories is located in the United States, its products are globally sold and distributed to hospitals, pharmacies, and other facilities. Due to the diversity in the company's products, Abbott

has a greater chance of success if a certain sector in the healthcare industry begins to lose money. Furthermore, the company has shown stable and steady growth for over one hundred years, and the price-to-earnings ratio (P/E) for the last twelve months is 13.56. According to Mrs. Steidley, this is within the acceptable range of five to fifteen. A P/E ratio represents the ratio of money spent on each share per every dollar received as a return. It is best to invest in a company with a low P/E ratio because the amount of return increases as the ratio decreases. In addition, I purchased the stock while it was increasing and it continued to increase as I anticipated. This anticipation was based upon the aging baby-boomer generation. As stated on the American Geriatrics Society website, almost 15% of the American population will be older than 65 by the year 2015. This increase will create a great demand on the healthcare system, causing the demand for medical supplies to climb. In Abbott's case, my reasoning seemed sound because the stock experienced significant growth.

Another important aspect related to investing in stocks is risk tolerance. Before beginning my research, I completed a risk tolerance quiz on the Rutgers website. My score placed me in the bracket of the very conservative investors. This is important because if I only included risky stocks in my portfolio and their prices began to fall, I would panic and quickly sell my stocks to preserve what money I had left. I would be more likely to opt for a guaranteed gain on my investment, even if negligible, rather than risk my money on a stock that could lose all its value. Thus, I carefully chose my stocks based on my investor personality, which meant including only companies that had seen steady growth over the long haul. As the tracking process began, almost every stock gained significantly in value, and this trend continued throughout the four week tracking

period. Furthermore, the losses that occurred were nominal compared to the net growth of my portfolio, so I decided that I would retain all of my original stock choices. As a result, my portfolio increased in value and matched my risk assessment well.

By setting a reasonable investment goal for this project, I also learned how to apply this goal to future investment opportunities. A 5% return on my investment of \$500,000, which equates to \$25,000, was the goal for my Invest Ed[®] project. I reached my target, with my rate of return being slightly greater than 5%. Furthermore, I can apply the 5% return goal for real investments as well. For example, I plan on working for a company that provides a 401K retirement plan and would like to select solid investments from within that plan in order to retire comfortably. The total would be \$1.2 million, and since I would be living off the 5% interest rate of the \$1.2 million, the latter could be invested outside the stock market where it would not lose value. Above all else, my most important achievement was expanding my knowledge of the stock market, learning to make wise decisions about long-term investing, and being able to apply my knowledge throughout my life in order to attain financial security.

One of the principle dangers in investing is the threat of being scammed. My Pre-Calculus class watched the video “Anatomy of a Fraud – Catching a Con in Pottawatomie County” to learn how to recognize different types of frauds and how to prevent ourselves from falling victim to them. The video recalled the true story of how the residents of Shawnee were conned out of millions of dollars in the biggest Ponzi scheme in Oklahoma to date. In a Ponzi scheme, unsuspecting investors receive their returns from the investments of similar investors instead of collecting a legitimate return off an actual investment into a company. Bill Hickman of Hickman Agency, a trusted

and successful businessman in Shawnee for more than twenty years, lured local residents into investing their life insurance money through his company. They were hooked on his claims of sky-high return rates, and Hickman raked in over eight million dollars. Fortunately, the skepticism of a potential investor helped bring down Hickman and his agency. Suspecting the claims of being too good to be true, the investor contacted the Oklahoma Securities Commission. The Commission investigated and found no documentation concerning legal investment activities. Hickman was arrested and sentenced to 150 years in prison for securities fraud, which is the telling of lies and half-truths to separate the money from the investor. To avoid becoming a victim of investment fraud, I learned to be wary of unrealistic claims such as “tax-free returns” and investments that have a very high return rate. Also, I learned I should never place my money in a transaction I do not thoroughly understand. Furthermore, the seller needs to be able to answer questions like the following, “What is your business history?” “How much of a profit are you making?” “Who are some people who have invested in your business, and may I have their names and numbers?” If the seller does not satisfactorily answer these questions, I need to back out of the deal and immediately call the Oklahoma Securities Commission at 1-405-280-7700. They will be able to tell me if the seller is a licensed professional, if he or she has ever engaged in securities fraud, and if the securities being sold are registered. Following these simple steps will guarantee the safety of my money and prevent me from falling prey to any type of investment fraud.

Now that the tips to investing wisely for a long duration are clear, the stock market is no longer one of my phobias. I realize that the stock market is in a volatile

state at the moment, but with thorough research and patience, selecting profitable companies to invest in is a relatively easy task. Additionally, I have learned that diversification among stocks protects my overall investment from losing considerable value in the event of a significant downturn in a certain sector of the market. Creating investment goals has taught me to establish realistic expectations for my future financial situations. Furthermore, learning to control my emotions will help prevent me from pulling my investments out prematurely. Most importantly, I will not delay in contacting the Oklahoma Securities Commission if I sense an investment deal is fraudulent. Through the Invest Ed[®] program, I have learned that time is of the essence. Investing a small portion of my money into the stock market now and gradually increasing that amount over time will greatly improve whatever financial straits I may be in. Therefore, I will start investing now in order to secure my financial future.