Invest Ed®

Students Tracking and Researching the Stock Market

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Ever since first grade, my parents have given me a few dollars for every "A" on my report cards, instructing me to save it for college. Twelve years of perfect report cards later, and I have a collection of cash that wouldn't be able to pay for a single semester of tuition at most universities! I can only imagine how much more college savings I could have accumulated if my parents had invested that money instead of handing cash to their fiscally inexperienced child. For this reason, part of me wishes I had taken personal financial literacy before my final semester of high school. I could have made wiser decisions with my money by investing it and earning interest much sooner. I waited until my last semester, though, to retain more about finances as I go off to college. I plan on earning a degree in Parks and Recreation Management to become an interpreter for national parks. So, it's important for me to understand the financial world to develop and maintain savings for college payments and unexpected emergencies. Through the Invest Ed® program, I've gained a much greater understanding of the stock market, I've learned what to be cautious of when investing, and I've even gained some experience researching, purchasing, and tracking stocks. Everything I've learned in Personal Financial Literacy will doubtlessly help me make wise financial decisions as I enter adulthood and throughout my entire life.

At the beginning of the semester, I knew hardly anything about stocks and finance. I figured the "Dow being up" meant something good whenever my dad said it, but I only had a vague idea about what exactly that meant. So, during the first day of class, I paid careful attention to my teacher's explanations and surprised myself by how much I learned by the end of the period. I became excited that, by the end of the semester, I would finally have an understanding about how the market works! In fact, my project goal was simply to understand how the stock market works and to learn how to make profitable investment decisions. Unlike some classes, I understand the relevancy of a finance class. A large portion of the population doesn't understand the stock market, so having the opportunity to track and research stocks during high school has been a tremendously valuable experience. As I began researching stocks to add to my portfolio, I used an extremely helpful stock screener website called *Finviz* to isolate companies based on their market capitalizations, dividend yields, sectors, countries, and analyst recommendations. This screener made it very easy to remove stocks that didn't fit my criteria. For example, I focused first on companies with a mega or large market cap, and then mid-sized. To fit my specific criteria, each of my companies had a dividend yield of over one percent, had a "buy or better" recommendation by analysts, was based in the United States, and had a beta below 2. I made sure to diversify my research to reduce risk, however, by recording information about stocks from almost every sector. I also used *The Motley Fool* website to read articles about the top growth stocks for this year and the top stocks to purchase in specific industries, including the pharmaceutical industry. Using *Yahoo Finance*, I diligently wrote down each company's current price, one year target estimate, and dividend yield, among other things. I used these numbers to calculate each company's capital gain, capital gain rate, and total return. After I had researched 30 companies, I began narrowing them down to the ones I wanted to "purchase" with the virtual $500,000 I had been assigned. I again aimed to choose companies from each sector, heavily considering each company's capital gain rate and the overall feeling of dependability it presented. Finally, I added the top 18 companies I believed would help me reach my profit goal to my portfolio, leaving about $50,000 unspent so I could add money to my best performing stocks later on.

Of all the companies I researched, my personal favorite is definitely the Starbucks Corporation. Although the nearest Starbucks is almost an hour's drive away, it is home to one of my favorite drinks: the vanilla bean frappuccino. Since it's so far away though, a Starbucks drink is a rare and special treat. While researching Starbucks, I was privileged with the opportunity to discuss the company's history and outlook with Thad Wolgamott, a local financial advisor at Edward Jones®. Because of its attractively priced shares, growing dividends, and positive growth outlook, he gave the company a "Buy" rating. During my research, Starbucks had a dividend yield of 1.72% which was similar to that of most other companies I had researched. Its low beta of 0.73 suggested that its stocks weren't volatile in comparison to the rest of the stock market. The price/earnings ratio was 30.54 which told me I wouldn't be overpaying. Also, the total return rate was 12.8%, undeniably a rather profitable amount. Although famous for their coffee, Starbucks stores also offer smoothies, teas, fresh foods, and merchandise such as books and mugs. However, what most catches my attention is this company's declared mission: "To inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time." The company's devotion to ethical sourcing, environmental stewardship, and community involvement proves admirable, as well. For example, Starbucks supports farmer loans and forest conservation programs, helping to foster a better future for farmers and a more stable world climate. The company also practices recycling and the conservation of energy and water. In 2013 Starbucks made a commitment to hiring 10,000 veterans and military spouses by 2018 and have hired more than 8,800 to date. The company's popularity, ethical reputation, and meeting all of my criteria (along with my own fondness for frappuccinos) inspired me to purchase its stocks. Consequently, I was shocked when my investment quickly started *losing* money in my portfolio. This was perhaps in part due to the widespread boycotts in the United States that took place after Starbucks committed to hiring 10,000 refugees worldwide. This revealed Starbucks's willingness to risk losing business to make a bold statement about what it believes to be morally and ethically correct. I find this to be a respectable and definitely rare attribute of large companies. Witnessing this statement and public reaction leads me to believe that the Starbucks market may behave a bit sporadically in the future, but I don't believe that the company's moral decisions will severely harm its business in the long-run. The company's stocks have since been on the rise, and I have high hopes that my investment will once again become a profit.

In personal financial literacy class, I also studied different types of fraud and specific fraud situations that have happened in Oklahoma. The first thing I did was research to differentiate between Ponzi and pyramid schemes. In both situations, investors earn money solely from the contributions of future investors. However, pyramid scheme participants usually know the arrangement; Ponzi scheme participants are generally unaware that they are involved in a scheme and believe they are earning returns from their investment. Later, we watched three films in class provided by the Oklahoma Securities Commission about frauds in Oklahoma. These documentaries described the frauds of Bill Hickman, Marsha Schubert, and Matthew McClintock. Two of these, Hickman and Schubert, were both arrested for running Ponzi schemes. Hickman made promises of 80% returns to investors on his television commercials, but in actuality, he robbed 160 people of a total $8 million and was sentenced to 150 years in prison. Investors only got about 10% the amount they invested back after the scheme. Similarly, Schubert collected a total of $9.5 million from 250 investors. However, she cooperated with the police after being convicted, helping to allow 90% of investments to be recovered and receiving only a 10-year prison sentence. Matthew McClintock ran a different kind of scheme. McClintock targeted women around his age via dating websites who were in difficult financial situations. He gained their trust and convinced them he was a skilled day trader. These women would then send him money to invest, but he kept it for himself, just like Hickman and Schubert. He was eventually investigated, convicted, and sentenced to seven years in prison. I also watched a short video from the Investment Minute Television Series provided by the Oklahoma Securities Commission about affinity fraud. In these situations, con artists scam people of identifiable groups, such as a particular religion. They pretend to be a member of the group and present an emotional appeal to gain the trust of the real members. From all of these videos, I learned what to watch out for and how to detect a fraud scheme. For example, I learned that a con artist usually fits in well with the community, but his words and expressions can give him away. I must pay attention to brokers who promise big payoffs but aren't easy to understand. I should also ask hard questions without being intimidated, and I should never invest too quickly. I also learned that I can even research a financial agent through the Oklahoma Securities Commission to make sure he or she actually has a license to work in that position. After investing money with a brokerage firm, I should only write checks to—and accept checks from—that firm, *not* a specific agent. Furthermore, I always need to investigate when my broker leaves a firm. I should also receive formal statements at least quarterly. I'll be cautious if my broker takes a long time to move his money or keeps asking me to sign more papers. Lastly, the most important tip about fraud is probably this simple proverb: If it sounds too good to be true, it probably is.

Investing is not simply an easy way to make guaranteed money; it can be risky and therefore should be approached cautiously. This has to do both with fraud and the volatility of stocks, and for both reasons I've learned how important it is to become well-educated about any place I invest my money. At the beginning of the semester, I took a "risk tolerance quiz" and received an average score. I was not surprised by this; I'm willing to take small risks but not huge ones. My risk tolerance was reflected in my portfolio after I purchased my stocks. I had made sure to carefully implement the method of horizontal diversification—investing in commercially unrelated products—by placing my money in 8 different sectors and 16 different industries. This diversification helped protect my money because when one sector took a hit, I still earned profit from the other sectors. I also spread my money throughout my stocks pretty evenly, only investing more in certain companies that I was more confident about and less in companies that made me feel more uncertain. For example, I invested the largest amount of money in Apple, Inc.—and even purchased more of its stocks later—because of its worldwide popularity, its long establishment (40 years, to my surprise!), and its consistently high returns. However, in reality, I wouldn't invest all of my money into the stock market. There are many different places (with different levels of risk) to invest money, such as savings accounts, bonds, or certificates of deposit (CD's), to name a few. Savings accounts are nearly risk free except for the possibilities of hidden penalty fees or inflation whittling away at the original value. Although bonds are generally considered "safe," money can be lost if someone is forced to sell a bond for less than he originally paid for it. Certificates of deposit are practically risk free as well, since the only risk is inflation. However, CD's are more likely to offer higher interest rates than savings accounts. It's a good idea to invest money in different places like this to minimize risk and maximize returns. This process is called vertical diversification. It's clear that I'm not a huge risk taker; I don't want to lose money for nothing! Because of this, I held on to my stocks that performed badly, and I didn't sell any of my stocks. Many people immediately get scared that they'll lose more money, so they quickly take out their ill-performing investments. I believe, though, that more often than not, stocks will go back up after they take a hard hit, and there's usually no reason to give up so quickly and consequently lose hard-earned money. As the old saying goes, "Good things come to those who wait," and patience is key when it comes to investments.

Before taking a personal financial literacy class, I didn't have any knowledge about how to research stocks. I believed that people just invested money in their favorite companies or popular ones; but thanks to the Invest Ed® program, I now know what aspects of a stock I should take note of. I also learned how to make calculations to determine how much money a stock is expected to earn which will help me decide which stocks to purchase as an adult. Before, I didn't know much about fraud situations either, besides my mom's general advice of "Don't trust anyone." However, this semester, I learned the *specific* red flags to watch out for and actions to take when investing with someone that I would have been completely unaware of otherwise. Thanks to the Invest Ed® program, I gained the opportunity to combat my hesitations and distrust of the stock market by making decisions where risk was involved and tracking the results of those decisions, which were, for the most part, profitable. The returns in my portfolio and my abundant knowledge of the stock market attest that I achieved my project goal! I believe that reaching this goal will help me to reach my other goals in life too, such as graduating college, becoming a park ranger, saving enough money for retirement, and even simply being able to afford that occasional frappuccino. I no longer feel stressed about the demand for financial independency that awaits me this fall. I know that I'll put my Invest Ed® notes to good use!