Fundamentals of Money Management

The Securities Market

In prior articles we discussed preparation for investing in the securities market. In this series of articles I will describe the various asset classes that make up the securities market beginning with the Stock Market

The Stock (Equities) Market

What is a Stock?

A stock is a security that gives you:

Ownership (equity) in a company.

A share in the profits of the company (dividend payments). Dividend payments can come quarterly, semi-annually or annually.

Voting rights on management decisions of the company (called proxies for specific classes of stocks). Always read the fine print to see what voting rights you have.

The most common stocks in the securities market are as follows:

Growth Stocks: These stocks seldom pay dividends, but grow in value. Growth companies reinvest their earnings back into themselves to keep up with a rapidly competitive market. They grow in value due to stock splitting and price appreciation.

Value Stocks sell at a discount and are undervalued because their **Net Asset Value** is greater than their stock price. Value stocks grow in price appreciation and in some cases pay a nice dividend.

Core Stocks stabilize the portfolio. They tend to be stocks listed in the Standard & Poor's (S&P) top 500 stocks. They are good, solid companies that have worldly household appeal and pay consistent dividends.

Emerging Market stocks have great potential for growth. They do not have the efficiency of a fully developed market. Nor do they have highly developed accounting and security regulations like the economy of the United States. They are just beginning to establish a solid financial infrastructure. What makes them attractive are their banking systems, their stock exchanges and a solid currency.

Developing Market stocks are the opposite of a Developed Market like the U.S. They do not have a solid financial infrastructure like you see in an Emerging Market. Investors are attracted to these markets because their growth potential is like an Emerging Market.

The **Global Stock** market is divided into three components:

U.S. stocks held within the confines of the United States.

International stocks which are held outside of the United States.

Global stocks which includes both (U.S. and International).

Some investors and money management professionals prefer using variations of each depending on where the company is located. Example: General Motors is a U.S. company with facilities all over the world, but is a U. S. stock. Toyota is a Japanese company that has operations in the United States, Asia and Europe, but is considered an International stock. Both of these companies can be held as U.S., International or Global stocks.

Alternative Investments Securities fall outside of the norm of the typical stocks stated above. These securities are invested strategically in the portfolio based on specific goals and objectives. The two most commonly used are Real Estate and Derivative Securities.

Real Estate are hard assets that consist of:

- Office properties
- Retail properties
- Industrial properties
- Multi-family residential properties

Derivative Securities fall into categories called Futures Contracts, Forward Contracts, Swaps, Call and Put Options. They are traded on security exchanges like any other stock but need a use a different pricing model than common stocks.

In our next article we will continue our discussion of the Stock Market: Active versus Passive Management and Market Capitalization.

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