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Stock Up?

When people are talking about the stock market and the rise or fall in the stock value the first thing that comes to mind is the New York Stock Exchange. What are these “Stocks”? As writer Kimberly Amadeo puts it in her book “Beyond the Great Recession”, stocks allow you to own a portion of a public corporation. These stocks are sold by the original owners of a company to gain additional funds to help the company grow. The owners basically sell control of the company to the stockholders. After the initial sale the shares can be sold and resold on the stock market. It is this stock market that people refer to when talking about the current market prices of the stock.

A stock market is a public unit for the trading of company stock and derivatives at an agreed price; these are securities listed on a stock exchange. Market participants include individual retail investors, institutional investors such as mutual funds, banks, insurance companies and hedge funds, and also publicly traded corporations trading in their own shares. The capital stock of an incorporated business constitutes the equity stake of its owners (Simkovic). So basically by buying shares of a company one is investing their money with that company in hope that when that company makes a profit they get a cut of it. People are investing in this market of uncertainty with the hope that even they would make a profit and get returns on their investment.

A typical reason why someone would choose to invest in the stocks is because they like a specific industry or company, or the new product that the company is coming up with has a

potential to provide the company with gains. There are also people who invest for excitement and thrill with the anticipation of hitting it big by owning a piece of a company they like and have the opportunity to flourish with it (Keaton).

Everyone has their view on the stock market and whether or not they should invest in it. The different viewpoints for investing in the stock market range from that of a financial banker, the common man who is willing to take risks, banks and the company itself that have put up their stock in the market.

Financial bankers or floor brokers are people who invest in the market for a living and also advise people to do they same. These people have experience on the trends of the market and know how to ride the “bull” as Stephen Dunphy a writer for “The Seattle Times” puts it. Brokers trade with around 600 million shares or \$26 billion in a day. They know what to expect they know when to sell and when to buy. A lot of people get scared when the market and start selling out their shares as soon as possible but financial bankers know that this is not that wise so they ride the wave to see where it leads them because their initial investment comes with no money back guarantee which is what the stock market is all about. So it is better to ride this wave and see where it leads you as you have already invested your money in it and pulling out is not always the wisest choice (Crook).

For many financial bankers, the stock market has become the only game in town. Bonds paying 6.7 percent and certificates of deposit yielding even less won't provide for a comfortable retirement or foot the bill for college. Stocks are riskier but not terribly so, according to conventional wisdom, which rests on stocks' having returned an average of 10.5 percent annually from 1926 through 1995 (Jubak).So these investors are well aware of the market and invest in it for a living.

Then we have the common man who is oblivious to the ways of the market but wishes to invest his money somewhere so that he can make some more money as greed also plays a role in the human nature. This quality however is risky in the stock market if you keep on investing and don't know when to pull out. "Remember you don't get rich investing," says Ernie Ankrim, a portfolio adviser for the Frank Russell Co, a pension-fund consulting and money management firm in Tacoma. "You only increase your wealth from the dollars you made elsewhere." Also the common man does not know much about the market trends so they seek advice from financial advisors who tell them where to invest. But in the end it is their money so if they were giving wrong advice they end up losing everything. These are the people who invest using their 401k's and pension plans form one of the largest groups of investors in the market.

There are also smart investors who know that solely relying on the market is not a safe bet so they diverge from their investments from only stocks to bonds and mutual funds. These people have great advisors or prior knowledge about the market which helps them make informed decisions while investing. They may not be "pros" but they tread with caution in the market. So it is not something that someone avoids doing with their savings if they make the right decision and is willing to take risks the market is a great place for them to invest.

The Banks are necessary because of their core financial function. Some economies' financial systems rely on bank finance far more than others. And the nature of banking is changing fast almost everywhere. A core of traditional banking--deposit-taking and straightforward commercial lending--may be indispensable, but how much of it does a successful economy need? In many countries, traditional banking represents a diminishing part of what modern banks do (Crook).

The banks use the deposited money of their clients to invest in mutual funds and in stocks at time to make extra income which is now banned by the law. Investment banking is a financial

institution that assists individuals, corporations and governments in raising capital by underwriting and/or acting as the client's agent in the issuance of securities (Matt).

Investment banks on the other hand help people in investing by providing them with all the statistics and the data tables that would help the customer make an informed decision. They also have inside information on mergers and acquisitions that influence the market. Companies like Merrill Lynch have over \$2.2 trillion in client assets. Merrill Lynch provides capital markets services, investment banking and advisory services, wealth management, asset management, insurance, banking and related products and services worldwide. Companies like these are a lot more reliable for the common man as they help in providing them with a platform from where they can take a smooth lift off into the stock market.

Finally we have the companies that depend on the above groups of people investing in the market. So by selling shares the company receives money to utilize for their operational activities. So when Google went public, its stock sold for \$106. So say they sold 1,000 shares. That day they received \$106,000 that they would use towards their business. As the stock price goes up, they make more and more money. It is currently at \$670 so this increases their "capital" providing them with more ready money to run their business and make new investments (Google Inc.). But on the flip side if a company does not perform well their stock prices fall and people stop investing in them. So in order to keep their company going and make sure they have or receive enough assets from the market they work hard and strive to make profits as they know that their company's stock value is directly related to how much profit they make. Companies use stock as leverage- they sell more shares when they need money and buy it back from the market when they have excess money.

If the common man is willing to invest with his savings, decides to use the guidance of the investment banks and buys stock in a company. This leads to the company gaining more

assets and helps them research and come out with a better product that will lead to them doing well which means an increase in the stock price and ultimately the common man who invested \$20 now is entitled to a lot more when they sell that share at the right time.

Personally I feel that the stock market is a dangerous place but I do advise on investing in this market but wisely. I know that it is a contradicting sentence but let me elaborate. Yes it is risky as no one knows the outcome of the market the next day or how well a product is going to perform before it is launched. But that is what the human instinct is based on taking these risks and making wise decisions. Throughout time it is this curiosity of the unknown that has helped our species evolve to what it is today.

Taking certain risks is important at time for people to succeed. The same is to be said about investing. Financial bankers and people put money and hope into this market of uncertainty so that they can achieve something out of it. As I believe that investing is one big cycle that is inter related to the advancement of the human race. If bankers and people invest in a company then the company has the funds to develop better things that come around and help the people. Its one huge cycle that carries on and where the company is dependent on the people for them to invest and the people are dependent on the company for doing well and making profits which leads to them earning something. If one plays their cards right I am sure that there is a chance to make profits in the market. All it takes is a bit of wise decision and the courage to ride the bull and see how your cards play out in this sea of numbers that keep on increasing and decreasing.

Work Citation

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