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Getting To Know The Stock Market: A Few Definitions You May Not Know

Topics Covered:

Getting To Know--The Stock Market:
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More Stock Market Investment Tools: The Investment Newsletter

A newsletter is defined as a publication which is distributed on a regular basis and which discusses one main topic for the benefit of its readers. Newsletters are published by clubs and business companies to provide their clients with company relevant information.

A stock market investment market newsletter is published to provide stock market investors with insights on the current trends in the market. These types of newsletters are distributed by trading companies to their subscribers and clients. They provide news, analysis, interpretations, and commentaries that are related to the market developments and which are relevant to a trading company's subscribers and potential clients. Newsletters are meant to help the stock market investor to choose the right investment opportunities and how to invest sensibly.

An investment market newsletter is very similar to other popular newsletters. It is usually written for stock market investors and usually contains the following:

- Company profiles: this information includes the company's description, trading history, and its recent stock charts.
- News articles: these articles inform the stock market investors on the current trends in the market and the company's recent developments and milestones in the stock market.
- Stock portfolio: a stock portfolio is the compilation of the company's stocks, bonds, and other investment related resources.
- Features articles: these articles may include features about the trading company, tips and other helpful hints about the stock market.
- Monthly top gainers and losers: this part of the newsletter is very helpful because it shows and compares the price movements of stocks over the previous month. It could also be done on a quarterly or annual basis.
- Stock performance tables: the investment newsletter can feature and compare all the stocks which are related in type and provide financial and other useful information.

Stock market investment newsletters are printed and are usually published online through the trading company's websites. Subscribers can get a free copy for their own personal use, and potential clients can always view and download from the company websites. These websites also provide archives, or past copies of their stock market investment newsletters, which subscribers can easily access and read from their personal computers.

Others say that stock market newsletters provide subscribers and investors with investment tips and present them with all possible styles and methods. Investors can now easily see which stocks to buy, which companies to buy stocks from, and what particular techniques work for him--all with the help of a stock market investment newsletter.

How Stock Market Price Rises and Falls

Understanding how stock market price rises and falls is similar to understanding the prices of other products in the market. It also follows the law of supply and demand. Price of stocks rise and fall due to the following reasons:

1. Company profit projections and image

A company's growth and profit forecasts describe how capable a company is in delivering its promises to its investors. These numerical projections are carefully prepared by a company based on their past profits and projected additional profits due to new products and services, operations and infrastructure improvement.

Aside from profit forecasts, company image can also make an impact on a company's profitability. Rumors of change in management, take-over, mergers, and even personal issues about the company's top executives can affect the company's image.

For example, a rumor of a merger between two big companies projects more stability and greater profit projections for both companies. As more investors would want to buy stocks from these merging companies, the demand for their stocks will rise. Based on the law of supply and demand: the greater the demand for stocks, the higher will their prices be.

A bankruptcy rumor about a company can send its investors to sell all their stocks. If there are more sellers than buyers of stocks then the supply (of stocks) is greater than the demand for stocks thus, stock price will fall.

2. Political Economy

General news about the local and global politics has an immediate impact on the economy and consequently to stock market prices. Politics and economics are correlated. Positive news such as lower unemployment rates, increased productivity, peace and order, and strong confidence in the government has positive impact on the economy.

Such news encourages more local and international investors to open companies in a certain location or country. This in turn would generate more jobs, and as an effect, would encourage more trading in the market at higher stock prices in general due to the increase in demand for stocks of different companies.

On the other hand, negative news such as political instability and turmoil, security problems such as terrorism and insurgency, frequent strikes, and inflation has negative impact on the stock market prices. Investors are driven away by these things and close-up. As an effect, more stockholders would sell out. This creates more sellers than buyers thus stock market prices fall.

3. Interest rates

Higher interest rates are associated with a slump in economic growth. This creates a sluggish environment where investors become apprehensive in buying stocks. Either they keep the status quo or sell out their stocks. When the demand for stocks is not high, prices will go down.

Stock Market Quotes 101

The stock market quote is the basic collection of numbers an investor must understand to achieve success in the stock market. It is a list of prices for certain stocks at one point within the trading day. In the past, stocks were quoted in fractions, but now, most exchanges use decimals. Stock market quotes are found in newspapers, as well as online. Stock quotes are updated regularly during the trading day.

What are the numbers and columns in the stock quotes mean? Though most are easily understandable, some may be confusing for a stock market newbie. Here is a review of the common numbers in the stock quotes and what they mean.

Newspaper Stock Market Quotes. The Wall Street Journal (WSJ) format is easiest to follow. Listed below are the columns and a brief explanation for each column.

- **YTD % CHG**: The Year-To-Date Percentage Change. This represents the stock price percentage change for the year. This percentage is adjusted for stock splits and dividends over 10%.
- **52-Week HI & LO**: The two numbers in he column record both the highest and the lowest price the stock is traded for within the last 52-weeks. Previous trading day not included.
- **Stock (SYM)**: This is where the stock name and symbols are listed. Stock names are usually abbreviated. The stock symbol is printed in boldface. Some newspapers doní print them at all.
- **DIV**: This stands for Dividend reflecting the annual distribution rate based on the last regular disbursement for a stock.
- **Yield %**: The yield percentages are the other disbursements paid to stockholders as a percentage of the stock's price.
- **PE**: The Price to Earnings Ratio is the per-share earnings over the closing price.
- **VOL 100s**: This means sales volume expressed with two missing zeros.
- **CLOSE**: The last price the stock traded for a certain day. But it doesn't mean that this will be the price the stock opens at the next trading day.

- **NET CHANGE**: This is the amount at which the stock closed today against yesterday.

- **Footnotes**: These notations point out any extraordinary circumstances within the listing such as new highs and lows, unusual dividends, first day of trading, etc.

Online Stock Market Quotes. Online stock resources cover the same information as the newspaper stock quotes. However, the difference is mainly with regards to getting the "live" information. Compared to reading yesterday's stock quotes on the paper the next morning, the information presented on online resources are updated constantly within the course of the trading day.

Indeed, stock market quotes offer a wealth of information when it comes to wise stock investment. As long as one understands what the numbers mean.

Who's Who in the Stock Market Business

Since its inception, the stock market had always been the backbone of one's economic status. It is a continuous indicator whether the economy is stable or deflating.

Thus, many people believe that in stock market, money, luck, and skill is the name of the game. And there are just a number of people who are so good at playing in the stock market that they seem to rule the world. They are considered as the "who's who in the stock market business."

To know them, here are the top of the well-known key players in the stock market business.

1. Warren Edward Buffett

His hometown is Omaha, Nebraska. He is the owner of the Berkshire Hathaway. He literally started from scratch because he was just a newspaper boy then. But his prowess in the world of investing already started when he was just 13 years old when he had claimed a $35 deduction for bicycle. He has a lot of stocks including MidAmerican Energy Holdings, Geico, General Re, Fruit of the Loom, American Express, Coca-Cola, Gillette, Well Fargo, and many more.

2. William Gates

His company is Software Microsoft. His hometown is Medina, Washington and he is a Harvard drop out. But despite that fact, William Gates is a multibillionaire.

The best thing about him? He sells 20 million shares every quarter and eventually reinvest through the Cascade Investment. He has big stakes in Republic Services, Berkshire Hathaway, Canadian National Railway, and Philanthropy among others. He's a great player in stock market business and best of all, he has been investing in his own stock ever since.

3. Prince Alwaleed Bin Talal Alsaud

He is acclaimed as one of the richest people in the world, according to Forbes.com. He was born in Saudi Arabia but is presently residing in the United States.

He believed that people who do not know how to speak English and is completely Internet illiterate is an outcast in the real world.

Financially, he has different stocks and shares in local, regional, and international scene. His financial strength is based on a long-term commitment, even if the tides are way down.

These are just three of the world-renowned people in the stock market business. All they did was they dreamed, pursued, and survived and they made it to the “who’s who of the stock market business” list. Not surprising for people who really worked hard.

The bottom line is that: people who know the business should love the business in order to stay.

What Are SRI Funds?

SRI stands for Socially Responsible Investing and SRI funds and indexes strive to be just that. Of course, Socially Responsible means different things to different people and to different funds and index managers as well. If you are interested in investing in Socially Responsible Fund's make sure you check the fund or indexes criteria to make sure they are a good match for your own.

Some, SRI's for instance, will not include any arms manufacturers, but might include tobacco or alcohol industries. Other funds will exclude any stock whose company might be involved in animal testing. Some funds put more emphasis on how a company treats its employees. This process of inclusion or exclusion is called "screening", and each fund has its own screening criteria. Knowing the screening criteria can be a big help in deciding which fund is right for your style of investment.

Some of the larger and best-known socially responsible funds and indexes are:

1. Pax World - Pax world’s funds were among the first, if not the first socially responsible Mutual funds. Luther Tyson and Jack Corbett Launched the Pax World fund, on August 10, 1971, the fund was launched with $101,000 in assets and created the first broadly diversified, publicly available mutual fund to use social as well as financial criteria in its investment decisions. Since then over 175 funds have followed in their footsteps. In 1999 in the United States alone there was over 2 trillion dollars invested while following socially responsible guidelines.

Pax World family of funds seeks not to invest in companies that make defense or weapons-related products or that make money from the manufacture of tobacco, alcohol, or gambling products. They also make an effort to reward socially responsible behavior by investing in companies treat the environment and their employees well. Even if a socially responsible investor does not invest in this fund, a look at their holdings gives a good clue as to which companies are socially responsible according to this set of criteria. Pax world currently has four funds to choose from, including a money market and a growth fund.

2. Domini Social investments - The Domini Social Equity Fund is one of the oldest and best-known Socially Responsible Index funds. It tracks the Domini 400 Social Index (DSI) which is an index comprised of companies that pass multiple broad-based social or ethical screens. It was launched in June of 1991, and boasts higher returns than the S&P 500 index since the fund's inception.

3. FTSE4good - The FTSE4Good series, was first announced in March 2001, and was launched in July 2001. It consists of four tradable indexes and four benchmark indexes. A tradable index is an index, which allows investors to trade and invest in companies covered by the benchmark index.

The completion of the series extended the availability of information on Socially Responsible Investments to cover 90 percent of the world's financial markets. According to FTSE The FTSE4Good index series was created to provide SRI Investors with an independent and accurate tool to measure the performance of companies meeting international CSR standards. FTSE for good and the Dow Jones Sustainability Index are the most commonly known SRI indexes.

4. Dow Jones Sustainability Group Indexes - Since the beginning of 1999 the Dow Jones Sustainability Group Indexes has been screening companies according to stances on economic, environmental and social developments. They are based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM.

These four funds and indexes are the most watched of the socially responsible investment funds. They provide an excellent background for people new to Socially Responsible Investment and can provide a good view of the state of the socially responsible markets worldwide.

They are, however, not the only funds by a long shot. There are currently over 175 Socially Responsible Investment funds on the market and there number is growing every day. With new rules in Europe requiring that funds disclose their stance on socially responsible Investment to their shareholders, we can likely see a lot more SRI funds in the future.

What Are Stock Market Crashes?

The phrase "stock market crash" brings to mind images of speeding ticker tape machines and panic on the trading floor. The common perception is that stock market crashes are random and unpredictable phenomenon. There is, however, a pattern to the markets larger fluctuations. The market crash is a familiar term but an unfamiliar concept.

To understand what happens in the market when a crash occurs, we first need to look to the period that precedes a crash. The cycle begins at a time when the stock market is weak and people are generally pessimistic about the financial future of themselves and country. The bear market has caused most people to sell many stocks in order to save some of their investment. This is the point where the smart investors can pick up undervalued stock at bargain prices. These smart investors know that the market will be turning in the near future and they can resell these stocks for a much higher price.

This accumulation of undervalued stock causes the market to start to rise. The rising stocks will attract the attention of mutual funds, and as the mutual funds invest in the stock, billions of dollars are reintroduced to the market place. Mutual fund investments cause the market to gain even more as do investments by institutional investors. At this point, the market has begun to stabilize and stocks are no longer at bargain prices. Stock prices most likely reflect the intrinsic value of the stocks. Those who invested early have large profits.

The average investor though may still be skeptical about the stock market, given the recent bear market. As the stock prices continue to stabilize and more institutional investors get re-involved in the stock market, the individual investors begin to notice. The individual investors began buying stocks the market is flooded with capital since the individual investors make up the cast majority of total investors in the market.

This bull market exists as long as the market is on the rise and all stock involved are all gaining in value. Bull markets make everyone happy. Investors and companies alike are making money and enjoying it. There is a kind of euphoria in the country, and a feeling that things will only continue to go up from here.

At the peak of a bull market, many companies “go public” or make stock available for purchase to the public. An IPO is the term used when a company goes public. The reason IPOs show up when the market is in a bull period is because companies want to benefit from investor confidence. When individual investors are more optimistic, the company can gain the highest possible stock price. Individual investors often buy into IPOs with dollar signs in their eyes and anticipating instant riches from getting in on the ground floor of a company’s stock history. Investing in IPOs is traditionally the method by which most small investors make their money. The bull market is further fueled and stocks begin doubling and tripling in value.

At this point, those smart investors who purchased the undervalued stock at the beginning of the cycle are sitting in a prime position. At the perceived top of the bull market these investors can sell their now overvalued stocks before the prices start to drop. In the height of a bull market, there are often incidents of widespread greed. Corporate scandals arise, retail investors start to use margin investing to gain more stocks, and irrational purchases are made. The market is perceived to have no end to its growth so people start doing whatever they can to gain more stock with the false expectation that they will be able to sell for profit later.

Once mutual funds and individual investors have fully invested their capital, the market becomes “overbought.” At this point the market can only go down. The speed of the downward trend is determined by the amount of negative news. As there are negative reports about stocks losing value, this causes more investors to sell and the cycle expands exponentially.

The market always falls quicker than it has risen. If everyone tries to exit at the same time, there are no buyers for the stocks. If there is enough of a lack of buyers, the market can crash entirely. The capitulation of the market occurs when a massive amount of individual investors leave and the market bottoms out.

What is a Stock Index?

In the fast paced ever-changing world of today's stock market you need a quick way to analyze and graph the movement from day to day, month to month or year to year. Stock indexes such as the Dow Jones Industrial Average and Standard and Poor's 500 give you a tool to do just that.

But what exactly is a stock market index? A stock market index is a listing of a group of stocks, and a number to go with them. The number that goes with them is used to track trends in the market, going up or down when the market does. In general the stocks have something in common, such as trading on the same exchange, or belonging to the same industry. The Indexes can be classified in a wide variety of ways. The most widely quoted Index in the world, the Dow Jones Industrial Average, is a broad based index designed to reflect the stock market as a whole and give an idea of investor sentiment on the state of the economy.

How are indexes Calculated?

Different Indexes are calculated in different ways and it is important for stock investors and traders to understand how the index they are using is calculated because the calculation method has a large impact on results. You need to know what is being measured and how.

The Dow Jones Industrial Average, for instance, was originally just that. In the beginning, when there were no calculators or computers, and calculations needed to be done quickly and by hand, there were 12 stocks in the Dow Jones Index, which were counted up and then divided by 12. The results were expressed as points. Now, with computers the norm, the index is calculated differently.

Most stock indexes such as Standard & Poor's 500 Index and the NASDAQ Composite Index are weighted and give more weight to larger companies. These are capitalization -weighted indexes (Capitalization is the total market value of any outstanding shares of a companies stock.) These indexes are not valid indicators of the price of the average stock in the index. Since there should be more investors in the larger companies they do give us an idea of price levels in an average investor's holdings.

The Dow Jones Industrial Average, however is NOT capitalization-weighted. It is price weighted, giving more importance to higher priced stock then lower priced ones. The Dow Jones Industrial Average now includes 30 stocks. It is calculated by adding together the price of those stocks and then using a divisor. The Dow average is quoted in points and not dollars.

Types of indexes.

The most widely quoted indexes are the broad based indexes, which attempt to represent the movement of an entire stock market. They normally include the largest companies on the nation’s largest stock exchange. Standard and Poor’s 500 (S+P 500 index) and the Japanese Nikkei 225, as well as the Dow Jones industrial average, are examples of this type of index.

More specialized sorts of indexes are indexes like Morgan Stanley’s Biotech, which consists of 36 American biotech firms, or NEMA’s EIS (National Electrical Manufacturer’s Association’s Electroindustry Stock Index) which tracks Electroindustry stocks.

Indexes that track companies of a certain size or a certain type of management are also fairly common. Indexes may also include stock on more than one exchange…

Socially Responsible Indexes or Sri indexes

Another specialized index type are those for Socially Responsible Investing indices that include only those companies satisfying ecological or other social criteria. Often called SRI or Socially Responsible Indexes, SRI indexes allow investors to watch stocks according to their beliefs and performance on Social issues, and may exclude companies such as arms or tobacco companies. They include The Calvert Group, Domini, the Dow Jones Sustainability Index, and the FTSE4Good indices

With so many ways of grouping stock it is often difficult to choose which index, if any, are the ones you should follow. Deciding what you want to track and how you want to track it is important. Make sure you pick the indexes that are right for your investment strategy, and easily understandable for you.

What is an ETF and What Does it Have to do With an Index?

ETF stands for "Exchange Traded Fund". Exchange Traded Funds are Collective Investment schemes. Collective investment schemes are ways of investing money with other people in order to participate in a wider range of investments. Collective investments schemes are usually referred to as Mutual Funds, Managed Funds or simply Funds. These funds account for a large portion of the trading on most stock exchanges.

While the structure of ETF's vary around the world, major common features include:

- An exchange listing and ability to trade continually.
- They are often index linked instead of being actively managed.

These qualities give ETF's some advantages over Mutual Funds in the US. ETF's allow for a diversified portfolio at a low cost. They can be used in both long term buy and hold and for selling short and hedging strategies.

Typically ETF's replicate a stock market index, such as Standard and Poor's 500, or the Hang Seng index. They may also contain stocks from a specific market sector such as energy, or a commodity such as gold. They often have amusing or catchy, upbeat names like, "Diamond" and "Spider". ETF's are most commonly found on the AME or American Stock Exchange.

Today's ETF's Present an alternative to the traditional open ended Mutual Funds. The Open ended index funds are particularly good for this type of use.

History:

The first ETF was introduced on the Toronto Stock Exchange in 1989. There are now over one hundred ETF's traded on the American Stock Exchange (AME) Since the introduction of SPY on the AME in 1993, ETF's have become increasingly popular, because they offer the diversification benefits of a Mutual Fund with the features of stock. As more and more ETF's become available, it is likely their popularity will increase even more. ETF's typically have lower expense ratio's and lower turn-over rates than actively managed Mutual Funds, and this can lead to them being more tax-favorable in the United States.

ETF's Versus Mutual funds

Mutual Funds do have an advantage for people who practice dollar cost averaging, or like to invest a little bit of money every month. Since ETF's are traded on the stock market every trade has commission costs. Many Mutual Funds do not have such costs. For investors who like to invest 100 USD a month, a Mutual Fund may be cheaper.

There are however many advantages to ETF's and those advantages are likely to increase over time. ETF's typically have a lower expanse ratio than actively managed mutual funds, which may charge 1-3% or more. Index funds are usually much lower and ETF's are typically in the .1-1.5 range. Over the long term these costs can make a sizable difference.

ETF's can also be more tax efficient. In the US whenever a Mutual Fund realizes a capital gain, it must distribute it to the shareholders at the end of the quarter. These gains are taxable. Since ETF's are not redeemed by holders and are instead simply sold on the stock market, investors only realize capital gains when they sell their shares.

The most subtle and likely the most important benefit of an ETF is that it acts like stock. Investors can carry out the same sort of trades that they can with a stock. Investors can sell short, use a limit order, a stop loss order, buy on margin and invest as little money as they wish, since there is no minimum investment requirement. Mutual Funds, of course do not offer those features.

For example, an investor in a mutual fund can only purchase or sell at the end of the day at the mutual funds closing price while an ETF is continually priced during the day, so it is not subject to this disadvantage.

Particularly for those investors who know and follow certain indexes and want a diversified portfolio they can trade with, ETF's offer advantages and afford ability.

For many ETF's you only need to get a discount brokerage account, and many will let you buy just one single share to start with. It's easy to see why they are popular. They are deceptively easy and seem simple to acquire, and for those investors who do more trading than buying in holding, they can be much easier to use. But before you invest make sure they are for you.

What is SRI?

SRI Stands for "Socially Responsibly Investing" and SRI indexes and founds strive to be just that.

What is it?

Socially Responsible Investing is basically the art of putting your money where your beliefs are. Since different people have different beliefs, it is going to be different for every one. Some Investors see it as Investing in the things they like and believe in. Others see it as a tool to use their influence as an investor to achieve social and economic goals. Still others see it simply as a way to profit from changes in the cultural climate or changes in society.

Socially Responsible Investing is usually seen as having at least 3 components.

1. Screening. This first step is what most people think of when they think of socially responsible Investing. It is the concept of excluding or including companies on the basis of social, ethical or environmental criteria, but it may also involve giving preference to including companies with strong positive features that support your belief. For example, companies which are good to their workers.

2. Community Investing Acting to provide capital to socially beneficial projects or local business, especially those that would otherwise find it difficult to attract capital.

3. Shareholder Activism. No one can deny that in today's market stockholders have some power. Engaging with companies in an attempt to achieve positive changes to management and performance is Shareholder Activism. In the United State of America this is typically supported by shareholder resolutions. In Europeans tend to use more informal methods. Shareholders can and sometimes do, change the way a company is run.

A fourth Component called "Investment Integration" is also sometime cited. Investment Integration is when an investor attempts to integrate data of ethical, social, and environmental criteria with conventional financial data in order to maximize their investment returns in regards to both profit and social influence.

History

Socially responsible investing is said by some to have begun in the 1920's with churches who divested of the so called "sin stocks" - alcohol, tobacco and gambling. As the ability to get more information on companies improved it became easier to screen companies for unwanted behaviors, or even the desired behaviors.

In the 1970's the Inter-faith Center of Corporate Responsibility (ICCR) was founded in NY. It was made up of some 285 institutions that collectively controlled more than $110 billion in assets. The ICCR is credited with creating the South African divestiture movement and they continue to be leaders in the active use of assets to express or support their members' larger purpose in the world.

During the 1970's and 19080's a number of socially responsible mutual funds were established in the US and Europe, the Pax World Balance Fund is often considered the first, these funds attract billions of dollars on behalf of millions of customers.

There has been a growing Interest in SRI's since 2000 from mainstream investors. Several countries now have legal requirements for pension funds to disclose their policy on SRI. This has led to some large investors adopting SRI policies across the board.

Performance

Investors interested in SRI, often have to confront it's critic's claim that social investors must sacrifice returns in order to invest in line with their values. This is just not true. The Domini Social index was launched as a mirror of the S&P 500, but with a large number of social and environmental screens applied. Over its 15 years it has not only mirrored but out-preformed the S&P 500.

Divergence

The means by which people match their Socially Responsible investing criteria are many and varied. Some people do it by politics, some by religion. It is interesting to note that no matter what the group or reason, most SRI funds exclude both tobacco and alcohol.

SRI'S and the Future.

Socially Responsible Investing is quickly becoming the norm according to some. Others however, claim the people have always invested in some way in what they believe in and believe thing have not changed, only been given a new name. Because of better Information gathering and distribution, more investors are able to acquire more information on their companies of choice. This includes such things as hiring and firing policies and Environmental impact studies. Now, with several European Countries requiring Pension funds to inform their shareholders of their SRI policies, Socially Responsible Investing may indeed become the norm.

What is the Dow and Why do We Pay Attention to It?

The Dow Jones Industrial Average is an index of 30 blue chip stock that are commonly traded in the United States. It was created on May 26, 1896, and at the time only had 12 stocks on it. The DOW opened at 40.94.

In 1882, Charles Henry Dow, Edward Davis Jones, and Charles Milford Bergstresser founded "Dow, Jones and Company", located at 15 Wall Street, in New York. The four produced "Flimsises", handwritten bulletins that messengers delivered to subscribers in the Wall Street area. In 1883 they started to produce the "Customers' Afternoon Letter." This became the Wall Street journal on July 8, 1889. The Wall Street Journal is now the world's leading business publication

The precursor to the Dow Jones Industrial Average, the "Dow Jones Averages", appeared in the Afternoon Letter in 1884. The Dow Jones Averages contained 11 stocks, nine of which were railroads and two of which were industrial.

In 1896 The Dow Jones Industrial Average was officially launched. At that time, it consisted of industrial stocks only. The Dow began with only 12 stocks, and it was originally a simple average, with the values added up and dived by 12. Originally it was a simply calculation since it had to be able to be done quickly and without the aid of computational devices. The number of stocks rose to 20 in 1916. The 30 stock index has been around since 1928 and looks if it will remain with us for quite some time.

The divisor for he Dow Jones Industrial average is now 0.12493117. The stocks are no longer limited to industrial stocks, and now cover such sectors as retail and entertainment and consumer goods as well. There are no real rules for the choosing of which stock is on the Dow Jones industrial Average, but stocks are typically chosen because they have excellent reputations, and demonstrate sustained growth. The stocks are also usually of interest to a large number of investors and are usually thought to be good representations of an industry or market sector.

The Dow Jones Industrial average, unlike a lot of indexes is price weighted and not market capitalization weighted. This means that its components weighting is only affected by the price of the stock and not how many shares are outstanding.

The cornerstone of Dow Jones as a company is its flagship publication, "The Wall Street Journal", which also happens to be the world's leading business publication.

Why do we pay attention to the Dow Jones Industrial Average?

It is believed that we can get a good idea of the state of the entire market by watching this index.

It is the oldest continuing Market index in the US today, and the best known Market Index in the world. The Dow rarely changes, in fact it almost only changes when something happens to one of the stocks on it, like a merger. This gives the Dow Jones Industrial Averages a sense of continuity. When it is changed, the entire index is reviewed and several changes are often made at once.

Because the Dow is easy enough for many people to understand, and was the first Market index to be quoted by other publications, habit and tradition do play a part in making it the most often quoted index today. The stocks are diverse enough to indicate the market's general trend, and it's the index to cite if you are going to cite only one.

How to use the Dow Jones Industrial Average.

The Dow Jones Industrial Average does not predict where the stock market is going; so much as it tells you where it has been. If the Dow is at 1000 and the last month it was at 900, you know the market is going up. If it's at 1000 and last month it was at 1200, you know it is going down. The numbers themselves are meaningless; it's the difference between them that counts.

In other words, the Dow Jones Industrial Average allows an investor or trader to see the markets movement over time. A very useful tool indeed!

Securities Regulation - Necessary Evil or Valued Partner?

As with the equities markets themselves, complexity reigns in (and reins in) regulation.

The history of regulation is almost as old as the securities markets. Stock exchanges, then called bourses, were born in the 15th century in Burgundy's northern trading centers.(Now Belgium. The term 'bourse' is from the Latin 'purse' and is still used for some exchanges.) The Royal Exchange, created in 1566 to compete with Amsterdam, evolved into the current London Stock Exchange.

Rules for trading 'bills of exchange' were not far behind, at first from the traders self-formed organizations, later the crowns and parliaments. The pattern persists to this day. Self-regulatory bodies like the NASD (National Association of Securities Dealer) and the Hong Kong Stock Exchange work hand-in-hand with the SEC (Securities and Exchange Commission) and SFC (Securities and Futures Commission).

Well, that's all very interesting history but why should the average investor care? The answer, for good or ill, is simple: they make the rules. Every trade is governed by a set of complex regulations formed by the interplay between self-interested exchange members and the various government bodies overseeing their activities.

Though lobbyists abound in all industries, nowhere is the process so formalized as in the equities trading businesses.

In the U.S. the 800-pound gorilla granddaddy is the SEC, formed in 1934 on the basis of the Securities and Exchange Act after the market crash of 1929. (Governments moved slowly then, too.) It oversees almost all of the activity in the U.S. markets and it's a very busy body.

The NASD monitors more than 5,400 securities firms with over 58,000 branch offices and 505,000 registered securities professionals. NASD regulation is governed by a Board made up of half securities professionals and half representatives from the public.

Other countries have similar arrangements.

UNITED KINGDOM

The UK Treasury has governmental responsibility for policy and for financial services under the Financial Services Act of 1986 ('FSA'), along with oversight of the Securities and Investments Board (the 'SIB') and the London Stock Exchange. The SIB is responsible for most of the functions under the Act.

The London Stock Exchange, especially since 1987, has evolved from a quasi-governmental agency to a for-profit enterprise.

HONG KONG

The Stock Exchange of Hong Kong (HKEx) was formed in 1980 by unifying four separate exchanges and commenced trading in 1986, though it's roots go back to the 19th century. (Even private, quasi-governmental organizations move slowly sometimes).

The SFC, whose directors are appointed by the Chief Executive of the Hong Kong Special Administrative Region Government, supervises the HKEx. The rules are determined by both bodies, though.

ITALY

The Italians have an interesting experiment underway. The regulatory structure of the Italian Stock Exchange changed radically in 1997 due to the Legislative Decree No.416 of 1996. The Italian Stock Exchange Council established a private company, 'Borsa Italiana Spa', responsible for defining the functioning of markets and market surveillance. It regulates the admission of securities and is behind a Code of Behavior for all market operators.

Most of the large exchanges have either completed or are undergoing a process called 'demutualisation', essentially turning the exchange from a quasi-governmental overseer into a fully private, for-profit organization. As a consequence, most are publicly traded companies themselves with shares that trade and Boards of Directors.

But whatever the name or form, they all have the same mission. To keep markets orderly, information public and trades honest. While keeping one skeptical eye open, as investors we can all wish them success in that. Our success depends on it.

Government Influence on Share Prices

First, some statistics: At the end of fiscal year 2005, the U.S. Federal debt was approximately $7.9 trillion. Yes, you read that correctly. That's almost eight trillion dollars. That's up from 930 billion in 1980, an increase of more than 849%. $4.5 trillion of that is owed to 'the public' - individual T-Bill and T-Bond (and other) holders, a third Japanese.

And that's just one form of influence from one country's government. Granted, the Federal debt and the U.S. in general are large components of the global picture.

Another big factor is interest rates.

Not all interest rates are set by government action. Private lenders determine - in the final analysis - whether a home mortgage, a CD (Certificate of Deposit) or a margin rate is 2% or 10%. But the Fed, Her Majesty's Treasury, and other countries' governments have a large influence. Whether by setting 'the prime' - the rate large banks pay to borrow short-term funds - or simply by being the enormous borrowers (as shown above) they are, interest rates are other than what they would be in their absence.

So, what's that got to do with stocks?

Apart from the general economic impact of regulations and direct taxation, bond rates (and interest rates generally) are one of the largest factors affecting share prices, outside of daily speculation.

Almost all companies borrow money and when they don't their competitors, suppliers and customers do. Not to mention the shareholders themselves, who have less to spend on equities when they pay interest on debt. Debt load is a major factor in the amount of retained earnings, and earnings - in the long run - determine share prices and dividends.

When governments borrow, they raise interest rates for everyone. The difference is, the government doesn't pay it back out of profits - they haven't any. They pay it back out of taxes and by inflation, which reduces the real amount they have to pay back. Thus, large government borrowing whacks the investor twice.

Also, since stocks effectively compete for investor dollars with bonds and other instruments, changing bond rates influences how attractive equities are versus those others.

Now, of course governments don't have infinite power to determine prices - in shares, bonds or loans (interest rates). A T-Bill or UK Govt Bond paying 1% is - other things being equal - going to attract fewer buyers than an 8% AAA bond or even (one may speculate) a 5% dividend from Google. (Google doesn't, and doesn't intend to, pay dividends by the way - it's just an example.)

Whether all this is a good or bad thing, or somewhere in between, is a debate we leave for another time. But whatever one's view, it definitely has an impact on the equities markets.

So next time you're researching whether to buy 100 shares of the next GoogYah NextBigThing, Inc be sure to factor in how affected they might be (relative to others in the same economic sector) by interest rates and government debt. And don't forget that impact on your own future cash flows either. After all, you may want to buy 100 more later.

What's Foreign Depends On Where You Stand

The New York Stock Exchange is not the oldest operating securities market. Though measured by total market capitalization, it's among the largest at $12 trillion – yes, that's twelve trillion dollars. The Paris bourse goes back to 1724 and the Deutsche Boerse is even older: founded in 1585.

There is a new stock exchange in Budapest (1993) and old ones in Brazil (1890) and Australia (1837), and a larger one in Hong Kong, which trades six times the volume of the NYSE (7 billion shares per day).

Apart from some interesting historical info, that's to remind everyone that, though the U.S. market is large, it is not the only game in town - even for U.S. investors. And the latter are far from the only traders on Earth, though they sometimes think that way.

How to go about playing it?

Even differentiating today what is a foreign company is not so straight forward. Honda makes automobiles in the U.S. and both Unilever and Shell are Dutch-Anglo. Dozens of companies headquartered in Japan list on the NYSE and multi-nationals like McDonald's list on several exchanges.

When listing in the U.S., non-U.S. based companies typically are traded in the form of ADR (American Depository Receipts). Technical details aside, they trade just like ordinary shares and prices are listed in the usual way.

A call to a broker is generally required for a U.S. investor to trade a non-U.S. company stock, and a larger commission is charged. 1% is normal. On a $5,000 trade - often the minimum - that's $50, hefty in this day of online trading accounts. But other than that, the transaction is carried out, from the investor’s point of view just as normal business.

The research requirement to avoid losing money at more than the normal rate is considerably higher, however. Keeping tabs on the activity of foreign companies means understanding the local culture and business environment. It entails tracking many more laws that can impact earnings and knowing the rules that govern trades in different countries.

Fortunately, with the growth of consolidated exchanges like Euronext - formed in 2000 by merging the Paris, Amsterdam, Lisbon and Brussels exchanges - has made that significantly easier. That trend is likely to continue.

Risk, too, is higher. Trading outside one's home country means having to pay attention not only to all the usual factors, but exchange rates as well. And currency exchange is the largest and most active market in the world. For several years, the U.S. dollar was king of currencies but lately it's been taking a beating.

That isn't necessarily bad even for U.S. investors, since risk can be minimized and profits maximized in two ways. One way is to invest in offsetting currencies and equities - as one country's currency rises, one can buy more of their shares with that country's currency. The other, better, way for the average investor is to look to ETFs (Exchange Traded Funds) that focus on foreign securities and let those issues be handled by professionals.

Whatever your plan, having a healthy respect for research and a commitment to a well-thought out trading strategy is required for anyone interested in capitalizing on the growth of businesses far from home. Unless you just enjoy losing money.

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