

CHAPTER SEVEN

DOING THE RESEARCH

Savvy investors keep track of what's happening in the financial world. The Internet, newspapers, magazines, business periodicals, television and radio news broadcasts provide easy access to information about the global economy and the markets. Additional information about a specific company can be found online and in a company's annual report and other important financial statements they are required to file with the SEC, such as quarterly reports and insider transactions. When considering an initial public offering of a stock, a prospectus is an important document to review.

Finding Information on the Internet

One way to get a stock quote during the day is to look it up on the Internet. Financial websites such as nyse.com allow you to enter a stock symbol and get information about the issuer, including its current price (20 minutes delayed) and past performance. If you don't know a company's ticker symbol, the websites enable you to look it up. At these websites, you can also keep track of news stories, see performance graphs, and get other data and information about a company.

Many such websites also offer links to the corporate homepages or investor-relations pages of the issuer's corporate website, where you will find even more information, such as investor fact sheets, management backgrounders, descriptions of any direct investment programs and SEC filings, including annual reports.

Reading Annual Reports: What the Numbers Mean

Public companies are required to file an annual report with the SEC. The annual report is an important document to help you evaluate a company's financial health. The report contains detailed information about the company's financial condition and management policies, and can be helpful to investors deciding whether to buy or sell a stock and how to vote at the annual shareholders' meeting. Annual reports are available on the SEC's website www.sec.gov.

Most annual reports include:

- **The Balance Sheet.** This summary of a company's assets and liabilities offers a snapshot of the company's financial health at a specific point in time. Data from the end of the current year is compared to the same data from the previous year, so investors can see the changes and attempt to figure out how a company is performing. The second section lists liabilities, or debts. The company might list as liabilities its accounts payable (money it owes for supplies and other services), unpaid wages, outstanding loans, taxes, and dividends it will pay to shareholders. A third section lists stockholders' equity, which is also called the net worth of a company. It is the value of all the shareholder investment in the company: the value of the company's preferred and common stock, the money made from selling stock, and the profits that have been reinvested. The assets side of the ledger must equal liabilities plus the shareholder's equity.
- **Statement of Income and Retained Earnings.** If the balance sheet is a snapshot of the company's finances at a single moment, the income statement is more like a movie. It links together several balance sheets and shows the company's financial performance over the period of a month, a quarter or even several years. The income statement tallies all income, subtracts expenses, and shows how much money is left to reinvest in the company. It compares that number over time. You want to see that a company is taking in more money than it is spending and is investing in growth.
- **Statement of Changes in Financial Position.** This statement deals with working capital — money used on daily operations of the company. The statement, which may compare several years, shows how much working capital was available, and how it was spent.

46.45 95.73 23.55 81.03

- **Accountant's Report.** Every annual report includes a report from an independent accountant. The accountant's report usually says that the annual report is a truthful reflection of the company's finances and that it was compiled in compliance with normal auditing standards and accounting practices. The accountant will note if the annual report fails to meet one of these standards.

Reading Stock Tables

The traditional way to check basic stock information is by using the long columns of small print in a newspaper's business section. They might seem confusing at first glance, but these stock tables break down what is happening at each company listed on the stock exchanges and include stocks, bonds, money market funds and mutual funds. Once you adjust your eyes to the fine print, reading the stock tables is really quite simple.

On the next page is a sample stock table for a fictitious company called Future Comm. We break down each column and describe what it means. You can find the same information in online stock listings. In addition to the standard abbreviations, stock tables in print and online often include other symbols indicating a variety of factors, such as stock splits, dividend changes, first day of trading, new 52-week highs and lows, warrants and other relevant data.

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How to Read a Stock Table

52-weeks		Stock	(Sym)	Div	Yld	PE	Vol 100s	Close	Net Chg
Hi	Lo								
132.94	80.06	Fut Comm	(FTC)	.56	.6	21	100927	96.47	-0.12

- **52-weeks Hi/Lo:** The highest and lowest prices paid for Future Comm stock during the past year. The numbers used to be expressed in fractions but now all prices have been converted to decimals so they can be read as dollars and cents. In this case, the stock's price has been between \$80.06 and \$132.94 per share over the past year. Knowing the past year's high and low can help an investor evaluate a stock's current price.
- **Stock:** The name of the company.
- **Sym:** The stock's trading symbol. To avoid confusion and simplify the order process, every stock that is traded on a securities market is assigned a symbol. Some newspapers do not provide the stock's trading symbol but instead provide an abbreviation of the company's name. Many financial websites let you type in a company's name and quickly find out its symbol.
- **Div:** Short for dividend. For each share of stock owned, a Future Comm shareholder should receive 56 cents from the company's annual profits. Payment is usually made on a quarterly basis. Not all companies pay dividends all the time. The company's board of directors decides whether a dividend will be paid and its amount. When companies are just starting out they usually do not pay a dividend because if they are making a profit they are reinvesting it back into the company to accelerate growth.
- **Yld:** The yield, or the rate of return, on a stockholder's investment. It is figured by dividing the annual dividend by the current price of the stock. Future Comm stockholders earn 0.6% of today's stock price from dividends.
- **PE:** Short for price/earnings ratio. The price of a share of stock divided by the company's earnings per share for the last year.
- **Vol 100s:** The total amount of stock traded during the previous day. On that day, 10,092,700 shares of Future Comm stock changed hands. The number does not include "odd lots," which are sales of less than 100 shares.
- **Close:** The last price paid for this stock at the end of the previous day was \$96.47.
- **Net Chg:** The last price on the previous day, \$96.47, was 12 cents less than the last price on the preceding day.

2.79 101.99 22.73 15.96