Stock Market For Beginners

In today's world, it seems that almost any topic is open for debate. While I was gathering facts for this article, I was quite surprised to find some of the issues I thought were settled are actually still being openly discussed.

The stock market is also known as the equity market where companies have access to capital and investors. Once investors had bought shares of the company, they look forward to potential gains of their investments in the future performance of the company.

Stock exchanges

With the exchanges as the main players, the stock market is like a big superstore, a buying and selling place where people buy stocks. These exchanges are where the buyers and sellers are matched.

The primary exchanges in the U.S. are the NASDAQ, the New York Stock Exchange (NYSE), all of the ECNs (electronic communication networks) and some regional exchanges like the American Stock Exchange and the Pacific Stock Exchange.

A few years back, all the trading was done in the traditional exchanges like the NYSE and the like. Now, almost all the trading is done through the NASDAQ which uses ECNs and thousands of other firms with access to the NASDAQ for trading.

Electronic buy-and-sell

Here is a sample on how a stock market transaction is done today. First, you open an account with say, E*Trade by sending E*Trade a $1,000 check. E*Trade then deposits the check into a trading account listed under your name.

You log on to E*Trade and place an order to buy 100 shares of stock in Company X. (The stock is currently trading at $5.) E*Trade uses its networks to tell NASDAQ and all its related networks that there is a demand for 100 shares of Company X.

NASDAQ finds someone who is willing to sell 100 shares of Company X and instantly facilitate the trading of stocks between you and the person selling the shares.

I trust that what you've read so far has been informative. The following section should go a long way toward clearing up any uncertainty that may remain.

The data is sent to a clearinghouse where it is processed and the shares will now be registered to you. The actual stock certificates are held “in street names” and do not need to change hands, although you can request that the certificates be transferred to your name.

How stocks get valued

Stocks are valued two ways. One is created using some type of cash flow, sales or fundamental earnings analysis.

The most common is the P/E ratio (Price to Earnings Ratio). This valuation method is based on historic ratios and statistics. The aim is to assign value to a stock based on measurable attributes. The form is what usually drives long-term stock prices.

Supply and demand

The other valuation follows how much the investors is willing to sell them. Both of these values changes as investors change the way they analyze stocks. In short, the stocks are valued based on supply and demand.

If more people want to buy them, the price goes higher. Conversely, the more people that want to sell the stocks, the lower the price.

Market forces

In the short run, the market is driven by simple human emotions of greed and fear. In periods of prosperity, the market usually rises above its real earnings.

In tough times, political uncertainties and other negative factors, the stock market often performs worse than its underlying fundamentals. In the long run, however, the stock market is driven by several underlying economic, financial and global growth.

If you've picked some pointers about Stock Market that you can put into action, then by all means, do so. You won't really be able to gain any benefits from your new knowledge if you don't use it.

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