



FINANCIAL LITERACY FOR YOUTHS



Stocks



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Stocks or shares have been one of the most well-known financial instruments in the finance world. At this point of time, you must have come across the word stocks or shares either from your parents, friends, books or even someone sitting at the table beside yours, discussing about stock market while you are having lunch. So what exactly is a stock? Stocks represents a company's ownership rights. Owning a **stock simply means having a share of the value a company, as you own a chunk of the company**. This stock can be **bought, sold, or traded** as an investment. Still confused? I will now explain what stock is about in a more unconventional way.

Let's say you and I are building a pizza company. We each contributed RM1000 to the company and now the company has RM2000 cash as assets. It looks a little too shabby just to start a pizza business with RM2000, isn't it? We then find 8 more partners each contributing RM1000 to the company. Now, each of us partners own one tenth of the company which translates into number of stocks in the real world. Equipped with the cash, also known as the start-up capital, we bought ingredients, appliances, hire staff, and rent a shop with bicycles for delivery. As the business grows, we're making handsome profit of RM1200 each year after cost. This means each of us stockholders earned RM120 at the end of each year which explains the first part of the definition where stock means a share of the value of the company. Not too bad for an investment that generates 12% return annually.



Here's a pizza to show that we are sharing the profits of the company by slices, **Bon Appétit!**

[Picture from: www.titospizzaspringhill.com]

As the business grows, the profits we made might not be sufficient to further expand our business to a larger scale. When this happens, we have options such as to look for private

investors that have an interest in our business or to scale it up using IPO. Well, the private investor bit is basically repeating what we had done when we looked for 8 more partners to contribute additional capital to the business, but what the on earth is an **IPO**?

IPO is an abbreviation that stands for **initial public offering**. In Malaysia, private companies commonly have the names **Sdn Bhd (Sendirian Berhad)**, while **public companies simply have Bhd (Berhad)**. An initial public offering (IPO) is the first time that the **stock of a private company is offered to the public**. This is when the public is offered an opportunity to invest in our company by subscribing or buying our company's stock. The cash proceeds from the public and other investors are then to be reinvested into the company for expansion or other purposes that seemed fit. There is a lot more a company has to do and has to know before an IPO can be carried out but we will skip the technical bit. What happens next? The pizza company that we build got listed in the stock exchange!



This is a picture of New York Stock Exchange. Our company's name will appear on the board once we're listed! [Picture from: nyoobserver.files.wordpress.com]

A stock exchange or stock market is a place where shares of public listed companies are traded. Try imagine a market where people transact in stocks instead of vegetables and fruits. This is the place that the second part of the stock's definition where a stock can be bought, sold, or traded as an investment are carried out. Any individual or even corporations can buy, sell and trade our company's share in the stock exchange. There will be a price on our company's stock that is known as the share price. The share price will serve as a basis on how much our company worth at each point of time and the price is affected by the supply and demand of the stock plus other factors as well. Examples of stock exchanges are such as KLSE, NASDAQ, and NYSE.

After knowing about stocks and stock market, you must be wondering why all of these are important. An article titled ‘10 financial products to help you plan your retirement’ (Yogi, 2014), pointed out that equity instruments which are stock investments provide returns that can’t be matched by any other financial instruments. Well, the highest return means as an investor, if we can make sound investment decisions, there is a high chance we can grab the opportunity to let our money to work for us harder so that we can enjoy more financial freedom in our life. Who doesn’t want higher returns on their investments?



Having a high return on your investments does makes you feel better, or at least financially.

[Picture from: www.stockmarket-investing.com]

There is much more about the stock market and stocks that a person has to know before even start to trade or invest in stock. Once an individual is equipped with sufficient knowledge and has a right mind set, achieving financial freedom is not a dream but something achievable. So, start your stock investing journey today and you might find something rewarding along the way down the road.

References:

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