

What everybody ought to know . . . About This Stock and Business

Some plain talk about a simple business that often sounds complicated.

WHY WE ARE PUBLISHING THIS INFORMATION

A little while ago we were talking with the editor of a big national magazine, a well-informed man. He said that he had never seen a business with a broker because he was afraid he wouldn't understand the "lingo they talk."

Since we are brokers, you can imagine that we are not a little conversant with the "lingo" of a stock . . . made us think . . . The financial business does use a lot of specialized words, but there really isn't anything complicated or mysterious about what those words mean.

That has been our mistake. And a big mistake. For if people don't understand what stocks and bonds are, they aren't likely to invest their money in them.

So what? you ask. Well, here's what: Don't invest their funds in securities, American business and American government will not have the capital they need to grow . . . and there aren't many of them any more—but from millions of people.

MERRILL LYNCH, PIERCE, FENNER & BEANE

What Are Stocks?

The stock of a company represents the ownership of that company. If you own a share of stock in a company . . . let's call it the Typical Manufacturing Company . . . as a part of its plant, its production, a part of everything in that company.

Some companies have only a few shares of stock and a few owners, while others—the big corporations like General Motors—have millions of shares of stock and hundreds of thousands of stockholders or owners.

Why Should Anybody Buy Stocks?

For the same reason that it might be good for any other business for himself. To make money.

If you own 5% of the Typical Company, you own 1% of whatever it earns. Normally, some of those earnings or profits will be paid out to you first off as "dividends" . . . so much on each share. The rest of the earnings will be put back into the business to do more work, make more earnings, more dividends.

How Big Are Dividends?

That depends on the company and how much it earns. Some companies pay out a substantial portion of their earnings as dividends. Other companies, particularly those that are expanding rapidly, pay out a smaller portion of their earnings back into the business.

Some companies pay no dividends. All of the companies whose stocks are bought and sold on the New York Stock Exchange, almost 90% are paying dividends. (That was the record last year.) The average dividend paid by these companies is a little less than 3% of what the stocks are selling at. Thus, if you bought one share of stock in each you could figure on making 3% on your investment in a year. Some pay more. Some pay less.

What Are Bonds?

Bonds are a kind of promissory note. People who buy a company's bonds lend their money to that company, and the company gives them a receipt back at a set date, known as the maturity date. For the use of the money, the company generally agrees to pay a set rate of interest. . . . Bonds are usually backed by a mortgage on the company's property or by the general credit of the company.

Of course, as creditors their claims must be satisfied if the company goes into liquidation. . . . Bonds are usually backed by a mortgage on the company's property or by the general credit of the company.

When Should You Buy or Sell Stocks?

Deciding when to buy or sell is often just as important as deciding what to buy or sell. This matter of timing is particularly important to the speculator.

But first, what is a speculator? And what useful purpose does he serve? A speculator is a man who buys securities, expecting the price to rise so that he can make a profit on his purchase, usually in a short period of time.

Or he may sell securities expecting the price to drop. The important point is that he doesn't buy securities as investments for the sake of the dividends that they pay.

What Are Preferred Stocks Worth?

That depends on what people are willing to pay for them. And what they're willing to pay for a particular stock is largely determined by one factor—earnings. That includes what the company has earned (its past record), what it is earning (its present state of health), and what it might earn (its prospects for the future).

So you see, it's not a matter of figures. It's a matter of facts . . . judgment. How aggressive is the company? How good is its management? How popular are its products? What are its earnings going to be paid out as preferred stock dividends or bond interests? After all, these must be paid first, and what is available for common stockholders depends on how much is left.

Then you have to look outside the company and consider the whole industry in which it operates. Is it growing? (The buggy industry once offered many good investments.) And what about competitors? Are they in better shape than your company? Might they take the market away from Typical Manufacturing?

Finally, you have to consider general business factors. For instance, will rising costs of labor and raw materials pinch your company? These are just some of the questions to which the intelligent investor wants answers so that he can form his own opinion of what his stock is likely to be worth—tomorrow.

to recognize the fact that there's enough of the speculator in even the most conservative investor. . . . He doesn't want to buy as low as he can and sell as high as he can. He doesn't want to lose an unnecessary dollar by an ill-timed purchase or sale. . . . That's why he's always urging stockholders to make close and continuous study of the markets, for it is only through such study that one can reduce the risks in doing what we call "trading."

That point is especially important with respect to the sale of stock. If you own a stock which has risen to such a high price that you consider it unwise to buy it, it is only good sense that you at least consider selling it.

Too many people make the mistake of "buying stocks, then putting them away and forgetting about them. That's bad business. If you want to invest successfully, you've got to pay attention to your securities and be always alert to new investment opportunities.

What may have been a good buy last year or even last month may not be a good buy next year or next month. . . . It's not "buy and hold" in this world. Securities are perishable.

How Are Stocks Traded? There are thousands of different stocks—the ones that are both called securities—but the ones that are bought and sold most frequently are those that are traded on the floor of the New York Stock Exchange. . . . The securities of more than 1,100 major companies are "listed" on that exchange, which means that they have been accepted for trading there.

All buying and selling on the Exchange is done between the hours of 10 A.M. and 3 P.M., New York time, Monday through Friday, and 10 A.M. to 12 noon on Saturdays except in summer.

What is the New York Stock Exchange? Physically, it is a large, open, domed building in the financial district, in the Stock Exchange building at the corner of Wall and Broad Streets in New York City. Functionally, it is an organization consisting of 4,375 members who have bought memberships (commonly called "seats") on the Exchange.

Many of these members represent brokers—firms whose primary business is carrying out the orders of other people, the public generally, for the purchase or sale of securities. They are paid commissions for carrying out these orders for their customers. To provide service for investors throughout the country, these firms maintain many branch offices. All the member firms of the Stock Exchange that operate 935 branch offices in 379 cities. This firm alone has 98 offices in 96 cities.

What Is the Stock Exchange? The Exchange is a voluntary association. It has been since it was established 156 years ago, and it functions as an open auction market.

Before the Exchange agrees to list the stock of any company, it must be assured that the company is a substantial concern, that its securities are legally issued, that those securities are not overvalued, and that the company agrees to issue regularly adequate public statements of its financial health.

Only member brokers can execute orders for the purchase or sale of securities on the Exchange. If you give an order to someone who is not part of a New York Stock Exchange broker's organization, he turns that order over to a member of the Exchange. . . . you may be charged a small commission or service fee over and above the commission to the member broker.

What About Unlisted Stocks? The New York Stock Exchange or "Big Board" is the largest formal market for stocks and bonds, but there are thousands of security issues which aren't traded on that Exchange. Many are traded on the 24 other exchanges, but that transaction is reported on the Chicago Stock Exchange, or the Los Angeles Stock Exchange.

Still other stocks and bonds aren't listed on any of the stock exchanges. They are called unlisted or off-board securities; they are traded in what is popularly called the over-the-counter market, and are handled by member brokers and commission houses. . . . They are mainly traded in that market. So are the stocks of most banks and insurance companies, as well as the securities of many big corporations such as American Telephone and Telegraph, General Electric, and the Weyerhaeuser Timber Co. . . .

They are bought and sold not only by many brokers who are members of the New York Stock Exchange, but also by thousands of local security dealers. Suppose a man in New York owns some stock in an Ohio machinery company and he wants to sell. He doesn't know what it's worth because there is no regular market for that stock, and its price isn't published in the newspaper, as the New York Stock Exchange prices are. . . . He goes to his broker, and the broker may ask for a price quotation by phone or wire from other brokers of security issues who trade actively in off-board securities. He may find that the best bid for the stock is \$25, while the lowest that anybody else is willing to sell it for is \$25. If the stock is traded very actively, the bid and ask prices will be very close together. . . .

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to recognize the fact that there's enough of the speculator in even the most conservative investor. . . . He doesn't want to buy as low as he can and sell as high as he can. He doesn't want to lose an unnecessary dollar by an ill-timed purchase or sale. . . . That's why he's always urging stockholders to make close and continuous study of the markets, for it is only through such study that one can reduce the risks in doing what we call "trading."

That point is especially important with respect to the sale of stock. If you own a stock which has risen to such a high price that you consider it unwise to buy it, it is only good sense that you at least consider selling it.

Too many people make the mistake of "buying stocks, then putting them away and forgetting about them. That's bad business. If you want to invest successfully, you've got to pay attention to your securities and be always alert to new investment opportunities.

What may have been a good buy last year or even last month may not be a good buy next year or next month. . . . It's not "buy and hold" in this world. Securities are perishable.

How Are Stocks Traded? There are thousands of different stocks—the ones that are both called securities—but the ones that are bought and sold most frequently are those that are traded on the floor of the New York Stock Exchange. . . . The securities of more than 1,100 major companies are "listed" on that exchange, which means that they have been accepted for trading there.

All buying and selling on the Exchange is done between the hours of 10 A.M. and 3 P.M., New York time, Monday through Friday, and 10 A.M. to 12 noon on Saturdays except in summer.

What is the New York Stock Exchange? Physically, it is a large, open, domed building in the financial district, in the Stock Exchange building at the corner of Wall and Broad Streets in New York City. Functionally, it is an organization consisting of 4,375 members who have bought memberships (commonly called "seats") on the Exchange.

Many of these members represent brokers—firms whose primary business is carrying out the orders of other people, the public generally, for the purchase or sale of securities. They are paid commissions for carrying out these orders for their customers. To provide service for investors throughout the country, these firms maintain many branch offices. All the member firms of the Stock Exchange that operate 935 branch offices in 379 cities. This firm alone has 98 offices in 96 cities.

What Is the Stock Exchange? The Exchange is a voluntary association. It has been since it was established 156 years ago, and it functions as an open auction market.

Before the Exchange agrees to list the stock of any company, it must be assured that the company is a substantial concern, that its securities are legally issued, that those securities are not overvalued, and that the company agrees to issue regularly adequate public statements of its financial health.

Only member brokers can execute orders for the purchase or sale of securities on the Exchange. If you give an order to someone who is not part of a New York Stock Exchange broker's organization, he turns that order over to a member of the Exchange. . . . you may be charged a small commission or service fee over and above the commission to the member broker.

What About Unlisted Stocks? The New York Stock Exchange or "Big Board" is the largest formal market for stocks and bonds, but there are thousands of security issues which aren't traded on that Exchange. Many are traded on the 24 other exchanges, but that transaction is reported on the Chicago Stock Exchange, or the Los Angeles Stock Exchange.

Still other stocks and bonds aren't listed on any of the stock exchanges. They are called unlisted or off-board securities; they are traded in what is popularly called the over-the-counter market, and are handled by member brokers and commission houses. . . . They are mainly traded in that market. So are the stocks of most banks and insurance companies, as well as the securities of many big corporations such as American