MARKET ANALYSIS

When people refer to "the stock market" or "the market" it can sometimes be confusing to beginning investors as to what those terms actually mean. Are they talking about all the stocks that trade on the NYSE, all the stocks that trade in the U.S., or all the stocks in the world? Typically when people refer to “the market” they are talking about all the publicly traded stocks in this country (they will usually say “the global market” if they mean the entire world). Indeed, the concept of “the market” can be a difficult one at first, especially since beginners tend to think of stocks as individual units.

Efficient Market

Proponents of the efficient market theory believe that there is perfect information in the stock market. This means that whatever information is available about a stock to one investor is available to all investors (except, of course, insiders, but insider trading is illegal). Since everyone has the same information about a stock, the price of a stock should reflect the knowledge and expectations of all investors. The bottom line is that you should not be able to “beat the market” since there is no way for you to know something about a stock that isn’t already reflected in the stock’s price. That’s not to say that efficient market theory fans claim that all stocks are necessarily priced correctly; instead, they claim that there is no way for you to know whether or not prices are too high or too low. Proponents of this theory spend little time trying to pick stocks that are going to be “winners”; instead, they simply try to match the market’s performance. However, there is ample evidence to dispute the basic claims of this theory, and most investors don't believe it.

Random Walk

The random walk theory draws conclusions that are similar to the efficient market theory, but it uses a different line of reasoning. The theory takes its name from a well-known book by Burton Malkiel (although others pioneered the idea decades earlier) which says that future stock prices are completely independent of past stock prices. In other words, the path that a stock’s price follows is a “random

walk" that cannot be determined from historical price information, especially in the short term. Much like efficient market theory fans, the random walkers believe that it is impossible to pick "winning" stocks and that your best bet is just to try to match the market's performance, usually by using a long-term buy and hold strategy.

Behavioral Finance

Behavioral finance theory is very different from the random walk and the efficient market theories. Proponents of behavioral finance believe that there are important psychological and behavioral variables involved in investing in the stock market that provide opportunities for smart investors to profit. For example, when a certain stock or sector becomes "hot" and prices increase substantially without a change in the company's fundamentals, behavioral finance theorists would attribute this to mass psychology (also known as the "follow the herd instinct"). They therefore might short the stock in the long term, knowing that eventually the psychological bubble will burst and they will profit.

🗝3.2 VOCABULARY NOTES AND COMMENTARIES

bull "бик", покупець цінного паперу, який сподівається продати її за більш високою ціною; спекулянт, що грає на підвищення

bear "ведмідь" продавець цінного паперу, який сподівається продати її за більш низкою ціною; спекулянт, що грає на пониження

fundementals загальноекономічні (фундаментальні) показники

P/E (price/earnings) ratio доходність акції; співвідношення ціни акції до прибутку компанії у перерахунку на одну акцію

PEG зростання співвідношення ціна/прибуток

dividend yield дивідендна дохідність

dividend payout ratio коефіцієнт виплати дивідендів (відношення суми дивідендів до сукупного прибутку)

book value балансова вартість активів; залишкова вартість; книжкована вартість активів; бухгалтерська вартість

✍ 3.3 INSERT THE WORDS (change the word form if necessary):

dividend stock, distribute, dividend, asset, efficiency, stockholder, earning, to compare, Fundamental analysis, dividend yield, variable.

1. … is a method used to determine the value of a stock by analyzing the financial data that is 'fundamental' to the company.
2. Fundamental analysis takes into consideration only those … that are directly related to the company itself.
3. During a specific period of time, all public companies are required to report their … on a quarterly basis.
4. Earnings are important to investors because they give an indication of the company's expected ….
5. Low or negative earnings do not necessarily always indicate a bad ….
6. The … measures what percentage return a company pays out to its shareholders in the form of dividends.
7. The book value is how much the company would have left over in … if it went out of business immediately.
8. ROE is used as a general indication of the company's …; in other words, how much profit it is able to generate given the resources provided by its ….
9. EPS is a great way … earnings across companies.
10. Companies that … typically use about 25% to 50% of their earnings for dividend payments.

✍ 3.4 INSERT THE PREPOSITIONS WHERE NECESSARY

… addition **…** the market theories, there are other ways of thinking **…** the market as a whole, that are less theoretical and more grounded **…** what is actually happening **…** them. One way is to describe the overall trends **…** the market, such as **…** defining them as bearish or bullish. A bull market, loosely defined, is a market **…** which the major stock indexes have risen **…** over 20% **…** a substantial period **…** time, usually measured **…** months or years. Bull markets can happen as a result **…** an economic recovery, an economic boom, or simple investor

psychology. The longest and most famous **…** all bull markets is the one that began **…** the early 1990s **…** which the U.S. equity markets grew **…** their fastest pace ever.

Bear markets are the exact opposite **…** bull markets: they are markets **…** which the major indexes have declined **…** 20% or more **…** a period **… …** least two months (a decline that large **…** any shorter time period is simply called a "correction", especially if it followed a substantial rise). Bear markets usually occur when the economy is **…** a recession and unemployment is high, or when inflation is rising quickly. The most famous bear market **…** U.S. history was, of course, the Great Depression **…** the 1930s.