STOCKS

Stock was traditionally issued in certificate form, however, you may never actually touch the stock you own. These days, ownership is usually tracked in a database. This is referred to as keeping the stock "in street name". The alternative is to get stock certificates, however most investors prefer to keep things electronic. Holding certificates makes it easier for them to get lost, stolen, or burnt, and you have to deliver the physical certificates when you sell your shares. In my opinion, the convenience of keeping shares in street name outweighs the comfort and pride of holding the actual certificates.

It can be difficult to get a firm understanding of what a stock is. Reading over a stock definition is a good start, but you may be hungry for more. To help make the concept less abstract, be sure to go over and get a broader view of how stocks work. There, you'll gain useful knowledge that goes deeper than any stock definition.

Stocks can be classified into many different categories. The two most fundamental categories of stock are common stock and preferred stock, which differ in the rights that they confer upon their owners. But stocks can also be classified according to a number of other criteria, including company size and company sector.

Common Stock

Most shares of stock are called "common shares". If you own a share of common stock, then you are a partial owner of the company. You are also entitled to certain voting rights regarding company matters. Typically, common stock shareholders receive one vote per share to elect the company's board of directors (although the number of votes is not always directly proportional to the number of shares owned). The board of directors is the group of individuals that represents the owners of the corporation and oversees major decisions for the company. Common stock shareholders also receive voting rights regarding other company matters such as stock splits and company objectives.

In addition to voting rights, common shareholders sometimes enjoy what are called "preemptive rights." Preemptive rights allow common shareholders to maintain their proportional ownership in the company in the event that the company issues another offering of stock. This means that common shareholders with preemptive rights have the right but not the obligation to purchase as many new shares of the stock as it would take to maintain their proportional ownership in the company.

But although common stock entitles its holders to a number of different rights and privileges, it does have one major drawback: common stock shareholders are the last in line to receive the company's assets. This means that common stock shareholders receive dividend payments only after all preferred shareholders have received their dividend payments. It also means that if the company goes bankrupt, the common stock shareholders receive whatever assets are left over only after all creditors, bondholders, and preferred shareholders have been paid in full.

Preferred Stock

The other fundamental category of stock is preferred stock. Like common stock, preferred stock represents partial ownership in a company, although preferred stock shareholders do not enjoy any of the voting rights of common stockholders. Also unlike common stock, preferred stock pays a fixed dividend that does not fluctuate, although the company does not have to pay this dividend if it lacks the financial ability to do so. The main benefit to owning preferred stock is that you have a greater claim on the company's assets than common stockholders. Preferred shareholders always receive their dividends first and, in the event the company goes bankrupt, preferred shareholders are paid off before common stockholders. In general, there are four different types of preferred stock:

- Cumulative: These shares give their owners the right to "accumulate" dividend payments that were skipped due to financial problems; if the company later resumes paying dividends, cumulative shareholders receive their missed payments first.

- Non-Cumulative: These shares do not give their owners back payments for skipped dividends.
- Participating: These shares may receive higher than normal dividend payments if the company turns a larger than expected profit.
- Convertible: These shares may be converted into a specified number of shares of common stock.

Since preferred shares carry fixed dividend payments, they tend to fluctuate in price far less than common shares. This means that the opportunity for both large capital gains and large capital losses is limited. Because preferred stock, like bonds, has fixed payments and small price fluctuations, it is sometimes referred to as a "hybrid security."

🗝 6.2 VOCABULARY NOTES AND COMMENTARIES

stock цінні папери, що реально переходять із рук в руки; акціонерний капітал корпорації; акція

common stock звичайна акція

preferred stock привілейована акція

cumulative stock кумулятивна привілейована акція

participating stock привілейована акція з часткою участі

convertible stock конвертована привілейована акція

stock buyback, stock dividend виплата дивідендів цінними паперами корпорації

stockholder equity акціонерний капітал: капітал і резерви акціонерів компанії; власний капітал акціонерного товариства

stock market ринок цінних паперів; фондовий ринок

stock master "сток мастер" електронна інформаційна система

stock power право на передачу акції іншій особі

stock ticker символ акції

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

dividend policy, shareholder, ownership. stockholder equity, profits, growth stocks, *profit taking, right*

1. The **…** in the company can be expressed in the form of a stock.
2. The position of a **…** is especially attractive for he is responsible only with the amount of money invested in the company.
3. The profits depend on your company's **…**.
4. **…** may be retained and used for further development of the company.
5. As a shareholder you have **…** to vote for the board of directors.
6. If your aim is to provide the future stable income you may wish to buy **…**.
7. **…** can significantly influence the stock price although not for a long period of time.
8. When studying a company balance with the aim of investing in it one should pay attention to ….

✍ 6.4 INSERT THE PREPOSITIONS WHERE NECESSARY

One way the stocks can be grouped is **…** trading characteristics. **…** example, some stocks are perceived as takeover candidates. **…** general, during speculative periods, these shares are likely to be priced high **…** relation **…** earnings. If a takeover does not materialize, however, such stocks are vulnerable to steep declines.

Another kind **…** stock grouping is blue chips. These stocks represent ownership **…** high-quality, premier companies, often the leaders **…** their industries. Such companies have long-established records **…** earnings and dividend payments and tend to be solid long-term investments.

Stocks can also be categorized **…** industry. Industries themselves can be grouped **…** various characteristics that influence stock performance. Although there are exceptions **…** these stereotypes **…** any industry, below are some **…** the major categories often cited **…** investors.

6.5 CHOOSE THE RIGHT VARIANT TO SUBSTITUTE THE UNDERLINED WORDS

1. Some industries are more **sensitive** to economic cycles than others.

responsive

responsible

resplendent

respondent

2. When policy prices to consumers are on the rise, insurers are **spurred** to write more policies and generate new business.

encountered

encumbered

encouraged

enchanted

3. **Eventually** a wave of price cutting follows, and earnings suffer.

gradually

soon

at the end

occasionally

4. **Another** example includes the area of electronics, where frequent introductions of new-generation chips have caused big swings in profitability and highly cyclical stock prices.

the other

one more

different

other

5. Investors willing to buy early, when the outlook is still **bleak**, can enjoy a nice ride up on a cyclical stock.

dim

unexpected

clear

predictable

6. People will buy them even in the middle of an economic **recession**.

decline

decadence

decease

decay

7. The earnings of these industries **<u>tend to be</u>** smoother and more predictable than those of the cyclicals.

run

intend

wish

strive

8. While dividends may not be as secure as the interest paid on **<u>corporate debt</u>**, they do have a potential advantage.

bonds

CDs

options

stocks

9. A successful company may **<u>raise</u>** its dividend every year.

increase

improve

enlarge

grow

10. In recent years, investors have increasingly placed a greater emphasis on capital **<u>appreciation</u>** potential from stock price movement.

value increase

evaluation

improvement

diversification

11. **<u>Therefore</u>**, instead of raising their dividend more than they did many companies have taken steps to increase shareholder value.

as a result

in the conclusion

after all

more than that

12. In the environment of the past two decades, **share repurchase** programs were more likely to boost stock prices than placing a comparable amount of money into dividend payments.

buybacks

profit sharing

self financing

share splitting

13. Some **industries** grow at a significantly faster pace than the U.S. economy.

productions

products

produces

producing

14. High-growth stocks **command** relatively high P/Es; they may also be volatile.

demonstrate

designate

devastate

depreciate

15. Companies on the cutting edge often see **soaring** stock prices.

high

low

decreasing

volatile