

STOCKS AND DIVIDENDS

Stock Classes

Although common stock usually entitles you to one vote for every share that you own, this is not always the case. Some companies have different “classes” of common stock that vary based on how many votes are attached to them. So, for example, one share of Class A stock in a certain company might give you 10 votes per share, while one share of Class B stock in the same company might only give you one vote per share. And sometimes it is the case that a certain class of common stock will have no voting rights attached to it at all.

So why would some companies choose to do this? Because it’s an easy way for the primary owners of the company (e.g. the founders) to retain a great deal of control over the business. The company will typically issue the class of shares with the fewest number of votes attached to it to the public, while reserving the class with the largest number of votes for the owners.

Large Cap, Mid Cap and Small Cap

Stocks can be classified according to the market capitalization of the company. The market capitalization of a company represents the total dollar value of the company's outstanding shares. This is equal to the current market price of its stock multiplied by the number of shares of stock that it has outstanding. That number gives you the market value of the company, which is one measure of the company’s size. Roughly speaking, there are three basic categories of market capitalization: large cap, mid cap, and small cap (although some analysts include others such as mega cap at the large end and micro cap at the small end). The definitions for each of these might vary somewhat depending on whom you’re talking to, but usually they are as follows:

- Large cap: market cap valued at more than \$10 billion
- Mid cap: market cap valued between \$1 billion and \$10 billion
- Small cap: market cap valued at less than \$1 billion

Small cap and mid cap companies usually have a higher potential for future growth than large cap companies, but their stock tends to fluctuate more in price.

Penny Stocks

A penny stock is a stock priced under one dollar per share (or in some cases, under five dollars per share). Most penny stocks have only a few million dollars in net tangible assets and have a short operating history. Penny stocks are almost always small cap stocks, but the reverse isn't necessarily true. The term "penny stock" is sometimes used in a derogatory fashion, since many penny stocks are virtually worthless and should be considered extremely high-risk investments. There are also many cases of fraud involving penny stocks each year.

Sector Stocks

Stocks are often grouped into different sectors depending upon the company's business. Standard & Poor's breaks the market into 11 different sectors. Two of these sectors, utilities and consumer staples, are said to be defensive sectors, while the rest tend to be more cyclical in nature. The other nine sectors are: transportation, technology, health care, financial, energy, consumer cyclicals, basic materials, capital goods, and communications services.

Cyclical Stocks

Stocks can be classified according to how they react to business cycles. Cyclical companies tend to make products or provide services that are in lower demand during downturns in the economy and higher demand during upswings. The automobile, steel, and housing industries are all examples of cyclical businesses.

Defensive Stocks

Defensive stocks are the opposite of cyclical stocks: they tend to do well during poor economic conditions. They are issued by companies whose products and services enjoy a steady demand. Food and utilities stocks are defensive stocks since people typically do not cut back on their food or electricity consumption during a downturn in the economy.

Tracking Stock

A tracking stock is a type of common stock that is tied to the performance of a specific subsidiary of the company. This means that the dividends and the capital

gains for the stock depend upon the subsidiary rather than the company as a whole. Owning a tracking stock does not give the owner voting rights in the corporation, nor do owners of tracking stocks have a legal claim upon the general assets of the corporation.

Dividends

A dividend is a portion of a company's earnings that is returned to shareholders. Dividends provide an added incentive (in the form of a return on your investment) to own stock in stable companies even if they are not experiencing much growth. Many companies – mature and young, large and small - pay a regular dividend to their stockholders.

Companies use dividends to pass on their profits directly to their shareholders. Most often, the dividend comes in the form of cash: a company will pay a small percentage of its profits to the owner of each share of stock. However, it is not unheard of for companies to pay dividends in the form of stock. Dividends can be determined by a fixed rate known as preferred dividends, or a variable rate based on the company's latest profits known as common dividends. Companies are in no way obligated to pay dividends, although they will almost always pay them to preferred shareholders unless the company is experiencing financial troubles.

Splits

A corporation whose stock is performing well may opt to split its shares, distributing additional shares to existing shareholders. The most common split is two-for-one, in which each share becomes two shares. The price per share immediately adjusts to reflect the change, since buyers and sellers of the stock all know about the split (in this case, it would be cut in half). A company will usually decide to split its stock if the price of the stock gets very high. High stock prices are problematic for companies because they make it seem as though the stock is too expensive. By splitting a stock, companies hope to make their equity more attractive, especially to those investors that could not afford the high price.

stock акція; сертифікат оплаченої акції

growth stock “акція зростання”

income stock “прибуткова” акція

defensive stock консервативні акції (які дають гарний дохід, але не мають перспектив підвищення їх цін на біржі)

cyclical stocks “циклічна” акція

penny stocks “копійчна” акція

stock split поділення акцій; кратне поділення акцій

incentive заохочування

dividend дивіденд

dividend cover покриття за дивідендами (відношення прибутку компанії до виплачуваних нею дивідендів)

dividend yield дивідендна дохідність

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