



## **Stock Market Basics**

All companies need money to run their business. Sometimes the profit acquired from selling goods or services is not sufficient to meet the working capital requirements. And so, companies invite normal people like you and me to put some money into their company so that they can run it efficiently and in return, investors get a share of whatever profit they make. Understanding this is the first step towards understanding stock market basics

### **What are Stocks?**

Stocks are simply an investment method to build wealth. When you invest in the stock of a company, it means you own a share in the company that issued the stock. Stock investment is a way to invest in some of the most successful companies. The stock market as a whole is an exchange mechanism that helps investors buy and sell shares in publicly traded companies. Trades are conducted mostly through electronic means between participants who are remote from each other. The mechanism is an excellent means for businesses to raise capital from investors. Additionally, analysts closely examine its traded prices for signals of economic strength or weakness.

### **Key Concepts**

- **Shares:** Units of ownership in a company. Holding shares means partial ownership.
- **Stocks:** General term for shares of multiple companies.
- **Equity:** The value of ownership interest in a company.

#### **➤ Functions of the Stock Market**

The stock market plays a vital role in the economy:

- **Capital Raising for Businesses/ Capital Formation**

One of the primary functions of the stock market is to facilitate the raising of capital for businesses. Companies issue stocks (equity securities via IPO Investment ) to

raise funds for various purposes such as expanding operations, investing in new projects, and research and development. By purchasing these stocks, investors provide the necessary capital that helps businesses grow and create economic value.

**(IPOs) =Initial Public Offerings (IPOs)**

*Example:* Google's IPO in 2004 raised \$1.9 billion.

- **Wealth Creation**

This is a crucial function of a stock market. Investors can generate wealth by purchasing shares of companies that experience growth in their stock prices. This growth leads to capital appreciation, benefiting individual investors.

Investors earn money through:

**Dividends:** Profits shared with shareholders.

**Capital Gains:** Profit from selling shares at a higher price than the purchase price.

- **Price Discovery**

The stock market is a market where prices are determined based on the supply and demand of stocks. It serves as a platform for investors to express their opinions about the value of a company. The constant trading of stocks leads to the establishment of market prices that reflect investors' perceptions of a company's current and future performance.

The stock market reflects the market value of companies through stock prices determined by supply and demand.

- **Liquidity**

The stock market provides liquidity to investors by offering a platform where they can buy and sell stocks easily. This liquidity is important as it allows investors to convert their investments into cash relatively quickly. It also encourages investment by providing an exit strategy for investors who want to sell their holdings.

To take advantage of this liquidity and participate in buying and selling stocks, individuals can open trading accounts with, facilitating their access to the stock market.

- **Risk Diversification**

At the same time, stock markets enable investors to diversify their portfolios risk by holding shares in different companies across various industries, reducing the impact of poor performance in any single investment.

- **Economic Indicator**

The performance of the stock market is often considered a reflection of the overall health of the economy. A rising stock market can indicate economic growth and investor confidence, while a declining market may signal economic uncertainty or potential downturns.

- **What is Share Market?**

People often wonder what is stock market and share market, and often use it interchangeably.

A stock market is similar to a share market. A share market is where the shares are issued or traded in. The primary difference between the two is that the stock market lets an individual trade in bonds, derivatives, shares of a company, etc. On the other hand, a share market only allows the trading of shares.

- **How Does the Stock Market Work?**

Companies raise money on the stock market by selling ownership stakes to investors. These equity stakes are known as shares of stock.

By listing shares for sale on the stock exchanges that make up the stock market, companies get access to the capital they need to operate and expand their businesses without having to take on debt. Investors benefit by exchanging their money for shares on the stock market.

As companies put that money to grow and expand their businesses, it profits the investors as their shares of stock become more valuable over time, leading to capital gains. In addition, companies pay dividends to their shareholders as their profits grow.

The performances of individual stocks vary widely over time but taken as a whole, the stock market has historically rewarded investors with average annual returns of around 10%, making it one of the most reliable ways of growing your money.

- **Understanding the Stock Market Basics - Important Terms**

Here is a list of commonly used terms when talking about the stock market. You can use this as a glossary to look for any time you want to learn.

Term	Description	
<a href="#"><u>Demat</u></a>	Demat, or dematerialised account, is a form of an online portfolio that holds a customer's shares and other securities in an electronic (dematerialised) format.	حساب غير مادي

<b>Trading</b>	It is the process of buying or selling shares in a company.	تداول
<b><u>Stock Index</u></b>	A stock index or stock market index is a statistical source that measures financial market fluctuations. They are performance indicators that indicate the performance of a certain market segment or the market as a whole.	مؤشر الأسهم
<b><u>Portfolio</u></b>	It is a collection of a wide range of assets that are owned by investors. A portfolio can also include valuables ranging from gold, stocks, funds, derivatives, property, cash equivalents, bonds, etc.	محفظة استثمارية
<b><u>Bull Market</u></b>	In a bull market, companies tend to generate more revenue, and as the economy grows, consumers are more likely to spend.	سوق متفائل سوق متصاعد الأسعار سوق المضاربة على الصعود
<b><u>Bear Market</u></b> (bearish)	Bear markets refer to a slowdown in the economy, which may make consumers less likely to spend and, in turn, lower the GDP.	سوق المضاربة على الهبوط سوق منخفضة الأسعار
<b>Stock Market Broker</b>	A stock broker is an investment advisor who executes transactions such as the buying and selling of stocks on behalf of their clients.	سمسار
<b>Bid Price</b>	The bid price is the highest price a buyer will pay to buy a specified number of shares of a stock at any given time.	سعر الشراء عرض شراء: سعر المشتري (يعرضه المشتري للأوراق المالية)
<b>Ask Price</b>	The ask price in the stock market refers to the lowest price at which a seller will sell the stock.	سعر العرض أدنى سعر يقبله الراغب في البيع
<b><u>IPO</u></b>	Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is the largest source of funds with long or indefinite maturity for the company.	الإصدار الأولي العام
<b>Equity</b>	Equity is the value that would be received by the shareholder if all of the company's assets were liquidated and all of the company's debts were paid	أسهم

	off.	
<b>Dividend</b>	A dividend refers to cash or reward that a company provides to its shareholders. It can be issued in various forms, such as cash payment, stocks or any other form.	عائد السهم
<b>Call &amp; Put Option</b>	The call option gives the investor the right to purchase the underlying security, while the put option gives the investor the right to sell shares of the underlying security. Both opinions let the investors profit from movements in a stock's price.	خيار البيع والشراء
<b>Types of Stock Market</b>	<p>There are 2 types of stock markets:</p> <ul style="list-style-type: none"> <li>• Primary Market: It creates securities and acts as a platform where firms float their new stock options and bonds for the general public to acquire.</li> <li>• Secondary Market: Here, investors trade in securities without involving the companies who issued them in the first place with the help of brokers.</li> </ul>	<p>أنواع أسواق الأوراق المالية:</p> <ul style="list-style-type: none"> <li>• السوق الأولية</li> <li>• السوق الثانوية</li> </ul>
<b>Ask and Close</b>	<ul style="list-style-type: none"> <li>• The term 'ask' in the stock market refers to the lowest price at which a seller will sell the stock. 'Closing price' generally refers to the last price at which a stock trades during a regular trading session.</li> </ul>	العرض والاعلاق

### ❖ Text based Activities

#### **Exercise 01: answer the following questions:**

- Explain the role of the stock market as a price discovery mechanism.
- How does liquidity benefit investors in the stock market?
- What are the key differences between the primary and secondary markets?

#### **Exercise 02: True or False**

1. A bear market is associated with economic growth and high investor confidence.
2. Stocks and shares are the same terms and can be used interchangeably.

3. Investors earn money in the stock market through dividends and capital gains.

### **Exercise 03: Multiple Choice Questions**

1. **What is the primary purpose of companies issuing stocks?**
  - A) To diversify their portfolios
  - B) To raise capital for business expansion
  - C) To attract more consumers
  - D) To reduce operational costs
2. **Which of the following reflects the overall health of the economy?**
  - A) The performance of a company's balance sheet
  - B) The number of IPOs in a given year
  - C) The fluctuation of the stock market
  - D) The amount of dividends paid to shareholders
3. **What is the key difference between a stock market and a share market?**
  - A) The stock market allows trading only shares, while the share market includes other assets.
  - B) There is no difference between the two.
  - C) The stock market is a physical location, while the share market is online.
  - D) The share market allows trading only shares, while the stock market includes other assets.

### **Exercise 04: Complete the following sentences based on the text:**

1. Dividends refer to profits shared with \_\_\_\_\_.
2. The \_\_\_\_\_ market allows companies to issue stocks to the public for the first time.
3. The process of buying and selling shares is referred to as \_\_\_\_\_.
4. The \_\_\_\_\_ market is where investors trade stocks that have already been issued.
5. A \_\_\_\_\_ is a marketplace where stocks and other securities are bought and sold.
6. The \_\_\_\_\_ price is the price at which a buyer is willing to purchase a stock.
7. A \_\_\_\_\_ market occurs when stock prices are rising over time.

8. \_\_\_\_\_ refers to the difference between the buying and selling price of a stock.
9. A \_\_\_\_\_ represents ownership in a company..
10. Stock prices are influenced by supply and \_\_\_\_\_ in the market.

**Exercise 05: Vocabulary Matching**

<b>Terms</b>	<b>Definitions</b>
Bull Market	A) A collection of investments held by an individual or organization
IPO	B) The highest price a buyer is willing to pay for a stock
Portfolio	C) A market characterized by rising stock prices
Bid Price	D) The first sale of stocks to the public