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Unit Three:

How to Choose Stocks



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Different Types of Stocks

In order to know which stock to choose, you need to understand the different types of stocks available on the market.

In the next few slides, we will look at **how stocks are categorized** so you can determine which ones might be right for you.



Stock Categories: Size

Stocks are often grouped by the VALUE of the companies they represent. Options include:



Small-cap: Companies with a market value less than \$1 billion



Mid-cap: Companies with a market value between \$1 billion and \$8 billion



Large-cap: Companies with a market value greater than \$8 billion

Stock Categories: Style

Some stocks are labeled by the way they are performing on the market. Options include:



Value: Value stocks come from companies that are growing at a lower-than-average rate. These stocks have the potential to be big, but they are not quite there yet.



Growth: Growth stocks grow at a higher-than-average rate. They offer quicker chances to make money, but they are less stable than value stocks.

Stock Categories: Sector

Some stocks are categorized by the business industries they represent. There are hundreds of these on the market. Popular sectors include:

- Energy
- Oil
- Medical services
- Capital goods
- Transportation
- Construction
- Technology



How to Choose the Right Stock



Now that you know the types of stocks you have to choose from, you need to know what separates a **good stock** from a **bad stock**. You should think about:

- **How the market is behaving** – You need to react differently in bull markets and bear markets.
- **How much money you have to invest** – If you cannot afford much right now, you may want a value stock or large cap stock that will be stable.
- **How much risk you want to take** – It's your choice to be risky or play it safer.

- **How long you have to invest** – Risky investments may show instant profits, but safe ones will take a while to grow.
- **How confident you are in a stock** – If you do not feel that the stock has growth potential, it's probably not a good investment.
- **How good of a deal you can get** – Find the right deal at the right time. You have to compare share prices and see where the best opportunity might lie.
- **Business fundamentals** – Does the company have a high Price to Earnings ratio compared to others? What is their operating profit %? Do they pay a dividend?

Buy Low, Sell High

At the end of the day, the key to investing in the stock market is to **buy low** and **sell high**.

- That means:
 - Look for stocks when they are “trading” at the value they are supposed to be.
 - Then **hold** onto them until you can sell them for more money in the future.



Example: Playground Trading

You may have already gone through a buy low, sell high experience without knowing it! Think about this playground trade:

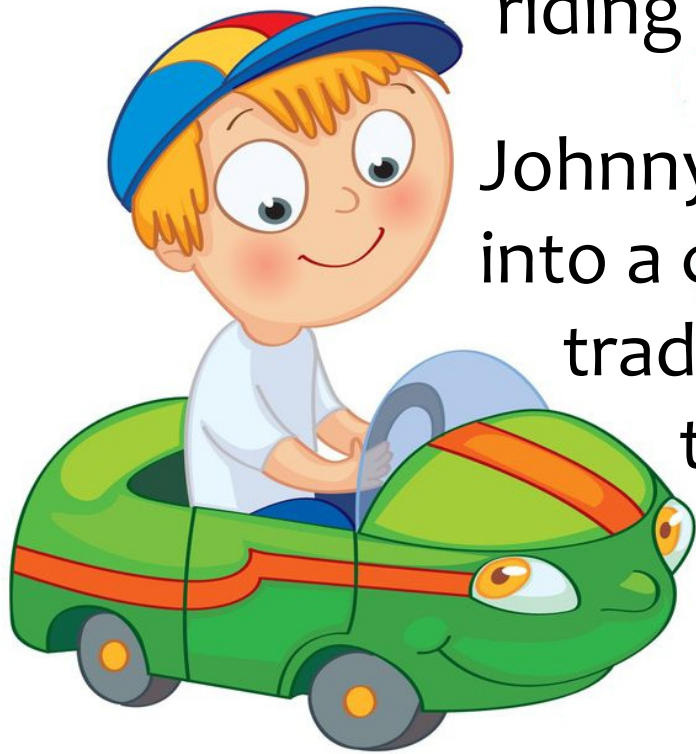
Johnny and Jimmy just got new toys for their birthdays. Johnny got a truck and Jimmy got a bicycle.

They decide to trade each other because Johnny really likes riding bikes.



A few weeks later, another friend offers to trade Johnny his riding car for the bike he got from Jimmy.

Johnny decides to take the trade because he likes riding cars even more than riding bikes.



Johnny was able to turn a simple toy car into a car he can actually drive by trading the right items at the right times.

The stock market acts the same way!