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You are free to make use of this education center to learn the basics of stock market investing. Information here is picked from various sources including Investopedia, wikipedia and abcstockinvesting websites. You can also directly visit these websites to for further learning.

The first thing you need to know about stock market investing is that it is easy to do and that anyone can do it. The second thing to know is that there is no 'perfect' way to invest in the stock market. And there is no 'perfect' stock or investment product for you to choose.

The best investment choices are the one's that you are comfortable with and the one's that most closely meet your goals. With that said, you can always choose stocks better when you're educated, so once you get started, keep practicing and you should keep getting better over time. As your investments grow, so will your knowledge of how to invest. Start simple and as you learn and save more money, expand and diversify the types of investments you have.

The Definition of a Stock

Plain and simple, stock is a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. As you acquire more stock, your ownership stake in the company becomes greater. Whether you say shares, equity, or stock, it all means the same thing.

Being an Owner

Holding a company's stock means that you are one of the many owners (shareholders) of a company and, as such, you have a claim (albeit usually very small) to everything the company owns. Yes, this means that technically you own a tiny sliver of every piece of furniture, every trademark, and every contract of the company. As an owner, you are entitled to your share of the company's earnings as well as any voting rights attached to the stock.

What is Dividend?

Dividend is the return you enjoy as a shareholder of a company. If the company is making surplus net income, they could return this wealth to their investors via dividends. Dividends are paid per share owned by the shareholder.

What is the ex-dividend date of a stock?

In the United States, the IRS defines the ex-dividend date as "the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment."

The London Stock Exchange defines the term "ex" as "when a stock or dividend is issued by a company it is based upon an "on register" or "record date". However, to create a level playing field when shares are traded on the London Stock Exchange during this benefit period an "ex" date is set. Before this "ex" date if shares are sold the selling party will need to pass on the benefit or dividend to the buying party."

In Nigeria, when a company proposes a dividend, the ex-dividend date is usually announced.

What is a stock split?

Stock split happens when the shareholders of the company vote to increase the number of shares in the float. If a company doubles its shares, it will reduce the company's share price by half. A stock split does not increase or decrease the market capitalization of a company.

<u>What is a reverse stock split?</u>

A reverse stock split happens when the shareholders of a company vote to reduce the number of shares in the float and in turn increase the price of those shares in a proportionate manner. A reverse stock split does not increase or decrease the market capitalization of a company.

What are Earnings Per Share (EPS) ?

You've heard the term many times, but do you really know what it means. EPS is the total net income of the company divided by the number of shares outstanding. It sounds simple but unfortunately it gets quite a bit more complicated. Companies usually report many EPS numbers. They usually have a GAAP EPS number (which means that it is computed using all of mutually agreed upon accounting rules) and a Pro Forma EPS figure (which means that they have adjusted the income to exclude any one time items as well as some non-cash items like amortization of goodwill or stock option expenses). The most important thing to look for in the EPS figure is the overall quality of earnings. Make sure the company is not trying to manipulate their EPS numbers to make it look like they are more profitable. Also, look at the growth in EPS over the past several quarters / years to understand how volatile their EPS is, and to see if they are an underachiever or an overachiever. In other words, have they consistently beaten expectations or are they constantly restating and lowering their forecasts?

The EPS number that most analysts use is the pro forma EPS. To compute this number, use the net income that excludes any one-time gains or losses and excludes any non-cash expenses like stock options or amortization of goodwill. Then divide this number by the number of fully diluted shares outstanding. You can easily find historical EPS figures and to see forecasts for the next 1-2 years by visiting free financial sites such as Yahoo Finance (enter the ticker and then click on "estimates").

What is Price to Earnings (P/E) ratio?

Now that you have several EPS figures (historical and forecasts), you'll be able to look at the most common valuation technique used by analysts, the price to earnings ratio, or P/E. To compute this figure, take the stock price and divide it by the annual EPS figure. For example, if the stock is trading at $10 and the EPS is $0.50, the P/E is 20 times. To get a good feeling of what P/E multiple a stock trades at, be sure to look at the historical and forward ratios.

Historical P/Es are computed by taking the current price divided by the sum of the EPS for the last four quarters, or for the previous year. You should also look at the historical trends of the P/E by viewing a chart of its historical P/E over the last several years (you can find on most finance sites like Yahoo Finance). Specifically you want to find out what range the P/E has traded in so that you can determine if the current P/E is high or low versus its historical average.

What is Return on Assets (ROA) ratio? Similar to ROIC, ROA, expressed as a percent, measures the company's ability to make money from its assets. To measure the ROA, take the pro forma net income divided by the total assets. However, because of very common irregularities in balance sheets (due to things like Goodwill, write-offs, discontinuations, etc.) this ratio is not always a good indicator of the company's potential. If the ratio is higher or lower than you expected, be sure to look closely at the assets to see what could be over or understating the figure.

What is Price to Sales (P/S) ratio? This figure is useful because it compares the current stock price to the annual sales. In other words, it tells you how much the stock costs per dollar of sales earned. To compute it, take the current stock price divided by the annual sales per share. The annual sales per share should be calculated by taking the net sales for the last four quarters divided by the fully diluted shares outstanding (both of these figures can be found by looking at the press releases or quarterly reports). The price to sales ratio is useful, but it does not take into account any debt the company has. For example, if a company is heavily financed by debt instead of equity, then the sales per share will seem high (the P/S will be lower). All things equal, a lower P/S ratio is better. However, this ratio is best looked at when comparing more than one company.

What is the Market Cap of a company? Market Cap, which is short for Market Capitalization, is the value of all of the company's stock. To measure it, multiply the current stock price by the fully diluted shares outstanding. Remember, the market cap is only the value of the stock. To get a more complete picture, you'll want to look at the Enterprise Value.

What is the Enterprise Value (EV) of a company? Enterprise Value is equal to the total value of the company, as it is trading for on the stock market. To compute it, add the market cap (see above) and the total net debt of the company. The total net debt is equal to total long and short term debt plus accounts payable, minus accounts receivable, minus cash. The Enterprise Value is the best approximation of what a company is worth at any point in time because it takes into account the actual stock price instead of balance sheet prices. When analysts say that a company is a "billion dollar" company, they are often referring to it's total enterprise value. Enterprise Value fluctuates rapidly based on stock price changes.

What Causes Stock Prices To Change?

- At the most fundamental level, supply and demand in the market determines stock price.
- Price times the number of shares outstanding (market capitalization) is the value of a company.
- Comparing just the share price of two companies is meaningless.
- Theoretically, earnings are what affect investors' valuation of a company, but there are other indicators that investors use to predict stock price. Remember, it is investors' sentiments, attitudes and expectations that ultimately affect stock prices.
- There are many theories that try to explain the way stock prices move the way they do. Unfortunately, there is no one theory that can explain everything.

What is PBT? Or EBITDA? Of a company?

EBITDA stands for earnings before interest, taxes, depreciation and amortization. It is one of the best measures of a company's cash flow and is used for valuing both public and private companies. To compute EBITDA, use a companies income statement, take the net income and then add back interest, taxes, depreciation, amortization and any other non-cash or one-time charges. This leaves you with a number that approximates how much cash the company is producing. EBITDA is a very popular figure because it can easily be compared across companies, even if all of the companies are not profitable.

EBITDA are Profit before tax (PBT) are similar.