

# Stock Market Fundamentals and Financial Literacy Course

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**Wealth Horizons Academy | \$297**

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## **UNDERSTANDING STOCK MARKET FUNDAMENTALS**

### **What Is the Stock Market?**

The stock market is a marketplace where buyers and sellers trade shares of publicly listed companies. When you buy a share, you own a small piece of that company.

Major US Stock Exchanges: - NYSE (New York Stock Exchange) — largest by market cap - NASDAQ — technology-focused, electronic trading - S&P 500 — index of 500 largest US companies (benchmark) - Dow Jones Industrial Average — 30 large US companies

### **How Stock Prices Are Determined**

Stock prices reflect the collective opinion of all market participants about a company's current and future value.

Factors that influence prices: - Company earnings and revenue growth - Economic conditions (interest rates, inflation, GDP) - Industry trends and competition - Management decisions and strategy - Market sentiment and psychology

## Key Investment Concepts

**Compound Interest:** \$10,000 invested at 10% average annual return: - 10 years: \$25,937 - 20 years: \$67,275 - 30 years: \$174,494 - 40 years: \$452,593

**Diversification:** Spreading investments across different assets reduces risk without proportionally reducing returns. The S&P 500 index provides instant diversification across 500 companies.

**Dollar Cost Averaging:** Investing a fixed amount on a regular schedule, regardless of market conditions, reduces the impact of volatility over time.

## Investment Vehicles Explained

- Individual Stocks: Ownership in specific companies
- Index Funds: Ownership in a basket of stocks tracking an index
- ETFs: Like index funds but traded like stocks on exchanges
- Mutual Funds: Professionally managed pools of investments
- Bonds: Loans to governments or corporations that pay interest

## Risk vs Return

Higher potential returns always come with higher risk. This is a fundamental law of investing.

**Risk Tolerance Assessment:** - Conservative: Primarily bonds and dividend stocks - Moderate: Mix of stocks and bonds - Aggressive: Primarily stocks with growth orientation - Speculative: High-risk, high-potential investments

Your risk tolerance should reflect your time horizon and financial situation, not your emotions.

## Reading Financial Statements

**Key Metrics to Understand:** - P/E Ratio (Price-to-Earnings): How much you pay for \$1 of earnings - Revenue: Total money company brings in - Net Income: Profit after all expenses - Earnings Per Share (EPS): Profit divided by shares outstanding - Dividend Yield: Annual dividend as % of stock price

## **Index Fund Investing: The Evidence-Based Approach**

Decades of academic research support index fund investing: - Over 15+ years, 90% of actively managed funds underperform their index benchmark - Index funds have the lowest fees (0.03-0.20% vs. 1-2% for active management) - Warren Buffett has publicly recommended index funds for most investors

**The Simple 3-Fund Portfolio:** - US Total Market (60%) - International Market (30%) - Bond Index (10%)

Rebalance annually. Minimize taxes. Maximize time in market.

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