Making Investment Decisions

The goal of the competition is to make as much money as possible by the end of the trading period. You do this by buying and selling shares through the online virtual trading room at www.studentinvestor.org.

What are shares?
The main way that the directors of a limited company raise money for their business is to sell shares in the company. A person who buys a share owns a small part of the company and is called a shareholder. As part-owners of the company, shareholders benefit when the company does well. For example, when a company makes profits the directors will pay shareholders part of the profit. This payment is called a dividend. If the company makes a loss or only a very small profit, the directors may decide not to pay any dividends.

If shareholders want to get their money back, they sell their shares to someone else. The price that a share is worth depends on how much other people want it. If a company is making profits and growing in size, investors will want its shares and the share price will rise. If a company makes losses, investors will not want its shares and the share price will go down.

People invest in shares because they hope to make money by:

- Getting dividend payments when the company is doing well.
- Buying shares for a low price and selling them at a higher price.

Activity 1

Jo bought 1,000 Barclays shares on 04 September when they cost 180.75 pence each.

a) How much did Jo pay for these shares in total?

The following year, on 22 May Jo sold her shares for 338.20 pence each.

b) How much was she paid for her 1,000 shares in total?

c) How much money did Jo make by investing in the Barclays shares (before paying any fees and taxes)?

The answers are at the back of this booklet.

Some other investment words
Ordinary shares
Most of the shares in a company are ‘ordinary shares’. These shares usually give the owner voting rights at the company’s annual general meeting and a dividend once or twice a year. The company directors decide if they can afford to pay a dividend and how much the dividend per share will be.

Stock
‘Stock’ is used as a collective term to mean ‘lots of different shares’. So the markets where people can buy and sell shares in lots of different companies are called stock markets. The professionals who buy and sell shares for clients are called stockbrokers. In practice, the words ‘stock’ and ‘share’ are used to mean the same thing, that is a part ownership in a company.

Securities
‘Securities’ is another collective term that means shares, bonds and other investments such as derivatives. For example, the Securities and Exchange Commission (SEC) is the regulator for the investment markets in the USA.

Stock market and stock exchanges
Shares are bought and sold in the stock market via stock exchanges. Many of the major cities around the world have their own stock exchange, for example London, New York and Tokyo. In the past, stockbrokers would always go to the stock exchange building to buy and sell shares, exchanging paper share certificates as proof of ownership. Now most buying and selling takes place via dedicated computer networks and many share documents are electronic files rather than paper certificates. The London Stock Exchange publishes information about the prices of the shares being bought and sold there. See http://www.londonstockexchange.com/.
Activity 2

There are 13 investment words hidden in the grid below. Use the clues to find them.

```
S E L L C O M P A N Y
I N V E S T A W K U
G U R S H A R E S D B
K P N T O Z K C X P D
D K W O L P E I B L V
S E M C D P T R N M O
B R O K E R L P J B P
H L N J R O U I F Q T
Y M E C S F T R Y S G
A Q Y V J I P B K Z H
H U P O R T F O L I O
```

Clues:
1. Owning these means you own part of a company.
2. This is a collective word for the answer to clue 1.
3. Shareholders do this to get cash for their shares.
4. The directors of one of these decide whether or not to pay dividends to their shareholders.
5. People who buy shares are said to _ _ _ _ _ _ _ in the stock market.
6. A person who buys and sells shares for clients is called a stock _ _ _ _ _ _.
7. People who own shares are called share _ _ _ _ _ _ _.
8. The cost of buying shares is called the share _ _ _ _ _.
9. The collection of investments that someone holds is called their _ _ _ _ _ _ _ _ _ _ _ _.
10. Directors can pay dividends if their organisation makes one of these.
11. The goal of buying and selling shares is to make this.
12. A place where people can buy and sell shares is called a stock _ _ _ _ _ _.
13. The opposite of sell.

The answers are at the back of this booklet.
Why do share prices go up and down?

The price of a share goes up and down depending on how many investors want to own it. Investors make buying and selling decisions based on how confident they are that a company will make profits, pay dividends and continue to grow so it can make more profit in the future.

Investing in shares is risky. No one knows for certain if the price of an individual share will go up or down because it depends on how well the company performs and that depends on lots of different factors. The company can control some of these factors but not all. For example, a company might lose customers and therefore profits because a competitor launches a new, better or cheaper product. Or maybe its usual customers cannot afford to buy its products anymore because they have lost their jobs.

Companies announce the profit or loss they have made twice a year. These news items impact the share prices because dividends are paid from profits. For example, InterContinental Hotels Group Plc (IHG), the world’s largest provider of hotel accommodation, profits for the first six months of the year increased by 20 per cent compared to the previous six months. This meant it paid much larger dividends to shareholders and the share price rose by 6.9 per cent.

Activity 3

Screen 1: Interactive One Year Stock Chart for Barclays PLC
This chart shows the movements in the share price for Barclays. It has been copied from the Bloomberg website: www.bloomberg.com. The mouse points to when Jo from Activity 1 bought her shares. You can see that the chart has time along the bottom axis and the share price along the vertical axis. The dark orange line shows how the share price has moved up and down over time with peaks being when the share price rose and troughs being when the share price dropped.

Jo sold her shares on 22 May and made a profit. If she waited until June to sell her shares she would have made a much smaller profit.

We can see from the chart that something happened to reduce the share price in September. Looking at news from that time about Barclays, we discover that in the September a group of MPs wrote to Barclays’ Chief Executive to protest that the bank had not taken enough action over their mis-selling of interest rate swaps. These are complex investments that the bank had sold to small and medium-sized businesses. Hundreds of small business lost money as the investments were unsuitable for them. This bad news caused the share price to fall. When Jo sold her shares on 22 May the news about Barclays was positive. The bank announced that it would reduce its three-year fixed rate mortgages for first time home buyers, a scheme called ‘Help-to-Buy’. This reduced interest rate made it a very attractive option for first time home buyers compared to other mortgages on the market and was likely to attract more customers making the bank more profitable, so Barclays’ share price rose.

Unfortunately for the bank, in June there was bad news when the regulator introduced a new capital to loan ratio meaning Barclays had to offer about £8 billion of new shares or reduce the number of loans it held. So the share price fell again.

These are a few examples of how news can impact a company’s share price.

a) Suppose you were thinking of buying shares in a retailer like Tesco. What impact do you think news about a deepening economic recession in the country could have on share prices?

b) What do you think would be the impact of good news from a company? For example, if Primark (part of Associated British Foods) announced sales had increased over the last six months?

Reading interactive charts

Investors can change the information displayed on the interactive chart using the large, orange tabs. However, we recommend you use the standard display (which is shown when you enter the screen) when you start the Challenge.

Starting from the top the chart shown in Screen 1:

<table>
<thead>
<tr>
<th>Tabs for time frames</th>
<th>For example, one day, one week, six months, year to date.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add a comparison</td>
<td>You can add other shares or indexes to the chart by typing in the share or index code and clicking the ‘Add’ button. Use the ‘Search Quotes and News’ box at the top of the screen to find the codes you need. You can add up to three other items.</td>
</tr>
<tr>
<td>BARC:LN</td>
<td>Is the share code for Barclays PLC. LN means London Stock Exchange.</td>
</tr>
<tr>
<td>Open, High, Low and Close</td>
<td>These are the share prices on the day highlighted by the vertical red line on the chart. You position the red line using the mouse.</td>
</tr>
<tr>
<td>09/04/2012</td>
<td>This is the date of the day highlighted by the red vertical line. As Bloomberg is an American company, the date is written as month/day/year.</td>
</tr>
<tr>
<td>Bold orange line</td>
<td>This maps the share price movements with peaks when the price rises and troughs when the price drops.</td>
</tr>
<tr>
<td>Vertical axis</td>
<td>Shows the share price in pence.</td>
</tr>
<tr>
<td>Horizontal axis</td>
<td>This shows time. The highlighted tab ‘1Y’ means the 12 months up to today.</td>
</tr>
</tbody>
</table>
Finding the information you need

People who try to predict the winners of horse races make decisions based on what they know about the horses (their ‘form’) and what they know about the race track – what lies ahead for the horses. It is similar when investing in shares. A company’s ‘form’ is information about the company and how it performs compared to its competitors. The race track is the world in which the company operates, such as the local economy or government regulations for its industry.

Much of the information you need to make investment decisions can be found on the screens used in the virtual trading room on the Student Investor Challenge website. This information is provided by Bloomberg and is also available on the Bloomberg website: www.bloomberg.com.
Activity 4

Below is an example screen from the Bloomberg website, (Screen 2). Look at this screen and then answer the following quiz questions:

a) What is the name of this share?
b) By what percentage has the share price decreased during the trading day?
c) What is the trading currency of these shares?
d) What is the current price for one share?
e) Is this the highest price that this share reached on this day?
f) What does this company do?
g) Any ideas why the share price fell during the day?

The answers are at the back of the booklet.

Screen 2: Snapshot, Stock Chart and News for Barclays PLC on 13 August
**Student Investor**

**What the other entries on this screen mean**

<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARC:LN</td>
<td>BARC means Barclays PLC. It is a standard code used to identify this company. LN means London. This company’s shares are listed on the London Stock Exchange. To find a share price on Bloomberg, type the company name or its code (if you know it) into the ‘Search News, Quotes and Opinion’ box.</td>
</tr>
<tr>
<td>Sector Industry Sub-Industry</td>
<td>The commercial sector that this company belongs to and the specific industry it operates in. Barclays PLC is a Bank within the Banking industry of the Financials sector. This is useful information because you can look at other companies in the sector to find out if this company’s share price is stronger or weaker than the share price of its competitors. See an example on page 7.</td>
</tr>
<tr>
<td>Open</td>
<td>The share price when trading started today.</td>
</tr>
<tr>
<td>Previous Close</td>
<td>The share price when trading closed on the previous day.</td>
</tr>
<tr>
<td>Day’s Range</td>
<td>The highest and lowest prices over the trading day.</td>
</tr>
<tr>
<td>52-wk Range</td>
<td>The highest and lowest prices over the last year. (52 weeks).</td>
</tr>
<tr>
<td>Volume</td>
<td>The number of shares bought and sold today.</td>
</tr>
<tr>
<td>1-Yr Rtn</td>
<td>The return on investors’ money if they had held the shares for one year. Gains are marked with a plus sign and are in green, losses are marked with a minus sign and are in red. This number is expressed as a percentage return.</td>
</tr>
<tr>
<td>Stock Chart</td>
<td>This graph shows the movement of the share’s price over: 1D = one day, 1M = one month, 1Y = one year</td>
</tr>
<tr>
<td>Grey dotted line Time</td>
<td>Shows the price that the share closed at on the previous trading day. This helps you see if the share price has increased or decreased from this starting point over the course of the trading day.</td>
</tr>
<tr>
<td>Price per share</td>
<td>The price to buy one share is shown on the vertical axis, to three decimal places. You can find out which currency the share price is quoted in by looking at the top of the screen: GBP means Great British pence. GBP means Great British Pounds.</td>
</tr>
<tr>
<td>Interactive BARC Chart</td>
<td>This is a link to another graph that shows the price movements for this share, as we saw in Screen 1 on page 4. The interactive chart offers more time frames, such as 3M = 3 months and YTD = year to date. And it offers different comparisons and statistics.</td>
</tr>
</tbody>
</table>

The top of this screen shows that the company share price has reduced by 1.550 pence overall. You need to find out why to decide if the share price might fall further or rise in the future.

**Investigating the reasons for the share price fall**

Clicking on the news item ‘Wall Street Banks Win Market Share as Europeans Struggle’ on the Bloomberg screen (Screen 2) on 13 August took you to a news report. This report explained that UK share prices fell because investors were worried about the impact of new regulations on European banks making them less competitive with US banks.

This news item may mean that the share prices for all European banks fell. You can investigate if this is the case using the Interactive Stock Chart and adding comparisons.
Screen 3: Comparison Stock Chart showing Barclays PLC, Lloyds Banking Group PLC and Royal Bank of Scotland PLC on 13 August

You can add the share price movements for other banks such as the Royal Bank of Scotland (RBS:LN) and Lloyds Banking Group (LLOY:LN) to the Interactive Stock Chart using the ‘Add a Comparison’ box. Just type in one share code at a time and press enter. The comparison chart above shows that all three banks’ share prices behaved in a similar way during the trading day. This suggests that price movements were as a result of the new regulation, rather than something that happened to Barclays only, although Barclays seems to have been hit the hardest. Barclays’ shares lost value but Lloyds Banking Group shares rose by 0.170 GBp and the Royal Bank of Scotland Group PLC shares rose by 3.200 GBp.

Further investigations show that Lloyds Banking Group shares rose because the bank announced it had made a profit and was considering paying dividends. The Royal Bank of Scotland had also announced a profit as well as the appointment of a new Chief Executive and the sale of a number of branches. These items of good news counteracted the negative impact of the new regulation on Lloyds and RBS share prices.
Activity 5

Here is the share information and one month stock chart for Vodafone Group PLC.

Screen 4: Vodafone Group PLC on 29 August

Look at Screen 4 and answer these quiz questions:

a) Why do investors think that Vodafone will make a lot of money soon?

b) What has happened to the share price of Vodafone over the last few days?

c) Why might you want to look at share price movements over more than a few days before making a decision about which to buy and sell?

The answers are at the back of the booklet.

Key Statistics on the Bloomberg screens

When deciding which shares to buy and sell, investors use key statistics to compare companies. Please see the next page for the key statistics provided by Bloomberg for Vodafone Group (VOD) and another communications company, BT Group (BT/A).
### Screen 5: Key Statistics for Vodafone and BT Group on 29 August

#### Key Statistics for VOD

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current P/E Ratio (ttm)</td>
<td>234.7781</td>
</tr>
<tr>
<td>Estimated P/E (03/2014)</td>
<td>12.7174</td>
</tr>
<tr>
<td>Relative P/E vs. UKX</td>
<td>12.4605</td>
</tr>
<tr>
<td>Earnings Per Share (GBP) (ttm)</td>
<td>0.0087</td>
</tr>
<tr>
<td>Est. EPS (GBP) (03/2014)</td>
<td>0.1610</td>
</tr>
<tr>
<td>Est. PEG Ratio</td>
<td>4.2919</td>
</tr>
<tr>
<td>Market Cap (M GBP)</td>
<td>99,190.77</td>
</tr>
<tr>
<td>Shares Outstanding (M)</td>
<td>48,489.22</td>
</tr>
<tr>
<td>30 Day Average Volume</td>
<td>63,965,760</td>
</tr>
<tr>
<td>Price/Book (mqq)</td>
<td>1.4013</td>
</tr>
<tr>
<td>Price/Sales (ttm)</td>
<td>2.2660</td>
</tr>
<tr>
<td>Dividend Indicated Gross Yield</td>
<td>5.53%</td>
</tr>
<tr>
<td>Cash Dividend (GBP)</td>
<td>6.9200</td>
</tr>
<tr>
<td>Last Dividend</td>
<td>06/12/2013</td>
</tr>
<tr>
<td>5 Year Dividend Growth</td>
<td>6.29%</td>
</tr>
<tr>
<td>Next Earnings Announcement</td>
<td>11/12/2013</td>
</tr>
</tbody>
</table>

#### Key Statistics for BT/A

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current P/E Ratio (ttm)</td>
<td>13.0782</td>
</tr>
<tr>
<td>Estimated P/E (03/2014)</td>
<td>12.9219</td>
</tr>
<tr>
<td>Relative P/E vs. UKX</td>
<td>0.6481</td>
</tr>
<tr>
<td>Earnings Per Share (GBP) (ttm)</td>
<td>0.2529</td>
</tr>
<tr>
<td>Est. EPS (GBP) (03/2014)</td>
<td>0.2560</td>
</tr>
<tr>
<td>Est. PEG Ratio</td>
<td>8.1784</td>
</tr>
<tr>
<td>Market Cap (M GBP)</td>
<td>26,169.75</td>
</tr>
<tr>
<td>Shares Outstanding (M)</td>
<td>7,908.33</td>
</tr>
<tr>
<td>30 Day Average Volume</td>
<td>13,099,450</td>
</tr>
<tr>
<td>Price/Book (mqq)</td>
<td>42.3939</td>
</tr>
<tr>
<td>Price/Sales (ttm)</td>
<td>1.4440</td>
</tr>
<tr>
<td>Dividend Indicated Gross Yield</td>
<td>3.19%</td>
</tr>
<tr>
<td>Cash Dividend (GBP)</td>
<td>6.5900</td>
</tr>
<tr>
<td>Last Dividend</td>
<td>08/07/2013</td>
</tr>
<tr>
<td>5 Year Dividend Growth</td>
<td>-9.67%</td>
</tr>
<tr>
<td>Next Earnings Announcement</td>
<td>10/31/2013</td>
</tr>
</tbody>
</table>

#### Income Statement for VOD

![Income Statement for VOD](image)

#### Income Statement for BT/A

![Income Statement for BT/A](image)
Let’s look at the entries in the order that they appear on the Bloomberg screen for each share.

**Current P/E Ratio (ttm)**
The current Price / Earnings Ratio (trailing twelve months).
This is the share price divided by the company’s annual earnings per share. Investors use this ratio to compare companies. A higher P/E ratio means that investors are willing to pay more for this company’s shares because they think it will perform well. A lower P/E ratio means investors are less confident in that company’s ability to make money. ‘Trailing’ means that the calculation uses the profit figure from the last company Report and Accounts. Vodafone has a higher P/E ratio than BT.

**Estimated P/E Ratio (date)**
The Price / Earnings Ratio using the estimated profit figure that the company has provided. The date is when the next Report will be announced. At this point, the company will know the actual profit figure. BT also has a slightly higher estimated P/E ratio than Vodafone but they are very similar figures. However, investors need to consider how many shares they can buy in each company for the amount of money they wish to invest.

**Relative P/E vs UKX**
The current P/E (price/earnings) compared to the price / earnings ratio for the FTSE 100 index, (UKX is Bloomberg’s code for the FTSE 100 Index) A relative P/E of 1 means the share has the same ratio as the average for the index. So it is doing as well as other companies in the index. A relative P/E above 1 means the share is doing better than the index average and a relative P/E of less than 1 means it is performing less well. Vodafone has a relative P/E vs UKX of 12.4605 and BT a relative P/E of 0.6941. This means Vodafone shares are doing much better than the average for FTSE 100 companies and BT is doing less well than the index average.

**Earnings Per Share (GBP) (ttm)**
Earnings per share means the company’s earnings from its last report and accounts divided by the number of shares issued, expressed in pounds. So for Vodafone, £0.0087 = 0.87p per share and BT £0.2529 = 25.29p. You can also find this information in the company’s latest Report and Accounts (usually available from the company’s website). You can see that BT made more money per share than Vodafone did. This could be important to investors because it can indicate how large the dividend payments will be. To find out what the dividend has been in the past look at the ‘Cash Dividend’ entry on this Bloomberg screen or go to the company websites and look up the Report and Accounts or check news articles. Another consideration is how expensive the shares are to buy. On 29 August Vodafone shares cost 204.750 GBp each and BT shares cost 330.800 GBp each. This means that investors could buy more Vodafone shares than BT shares for the same amount of money.

**Est. EPS (GBP) (date)**
Estimated Earnings Per Share (in pounds) using the profit that the company estimates it will have made on the date shown in brackets. Vodafone are estimating that they will pay significantly more dividends per share than they did at the last dividend payment (0.1610 rather than 0.0087) while BT are expecting to keep their dividends similar to the last payment.

**Est. PEG Ratio**
Share Price to Earnings to Growth ratio. This indicates a company’s current share price against how quickly its value may grow in the future. It is worked out by dividing the Price/Earnings ratio by the estimated growth in Earnings Per Share. The lower the PEG, the cheaper the shares, so Vodafone shares are relatively cheap compared to BT shares.

**Market Cap (M GBP)**
This means ‘market capitalisation’ in millions of pounds which is the total value of the company’s shares. As you can see, Vodafone is more than three times the size of BT. Some investors prefer large companies because they think they are less risky. However, size does not always mean safe as the large banks discovered during the banking crisis.
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Shares Outstanding (M)
This is the number of shares that the company has issued in millions. These shares are held by investors. As you can see, Vodafone has issued more than six times the number of shares that BT has issued. This is one reason why each individual Vodafone share received a smaller amount of the company’s earnings than a BT share – any dividend money has to be divided between a larger number of shares.

30 Day Average volume
The average number of shares sold per day over the past 30 days. This gives an indication of how many investors are buying and selling this share. A high volume compared to the number of shares outstanding could mean that the shares are desirable or that people no longer want to invest in this share and are selling them. Investors need to investigate further to decide what is happening.

Price/Book (mrq)
This is the current share price divided by the price of the share recorded in the company’s latest quarterly report (mrq = most recent quarter). Vodafone’s share price is very similar to the value recorded in its report and accounts. However, BT’s share price is high compared to book value. This is probably because the company is performing better than expected and investors are willing to pay more for the shares.

Price/Sale (ttm)
This is the market capitalization divided by the company’s total sales over the past 12 months. A lower P/S ratio means that the share is a more attractive investment. BT looks more attractive than Vodafone for this ratio, however sales per share may not translate into profits per share, so investors need to consider other ratios and the company’s profit margin (see below) as well.

Dividend Indicated Gross Yield
This is the estimated dividend divided by the current share price. It gives an indication of how much each share will earn. As we would expect from the other statistics we have seen, the estimated earnings per share are greater for Vodafone shares.

Cash Dividend (GBP)
This is the value of the last dividend paid, expressed in pence. Vodafone’s last dividend was 6.92 pence per share and BT’s last dividend was 6.5 pence per share. These amounts are very similar however on 29 August investors could buy more Vodafone shares than BT shares for the same amount of money. This means that if Vodafone’s next dividend was a similar amount, these shares would give investors a greater return on their money than BT shares.

Last Dividend
This is the date when the last dividend was paid. Dividends are usually paid once or twice a year. You can get more information by looking at the Report and Accounts for the company which are available from their website.

5 Year Dividend Growth
This shows how much the dividend payments have grown over the last five years. Vodafone’s dividends have grown by 6.29% while BT’s dividends have decreased by 9.67% (written as -9.67%). This does not mean that dividends will continue to fall, however it is a trend that investors would wish to investigate further, such as by looking at the company’s profit margin (please see ‘Income Statement chart’ below).

Next Earnings Announcement
This is the date when the company will publish information about its earnings.

Income Statement chart
The income statement chart shows revenue (sales) and net income (after operating costs and other costs such as tax) in millions of pounds. Vodafone’s revenue is much higher than BT. Both companies have high operating costs as
shown by the small net income in comparison to revenues. Vodafone made losses in the same period that BT made profits. The chart also shows the company’s profit margin as a percentage. This information is important because companies pay dividends out of profits. The charts show that Vodafone’s profit margin has increased recently while BT’s has decreased.

Activity 6

Now you have all this information about the Vodafone and BT Group shares, which do you think would be likely to make you money if you bought some on 29 August?

The FTSE 100 Index

One of the key statistics on the Bloomberg screen is a comparison of company performance to the FTSE 100 index. Another way that you can compare individual company shares to the FTSE 100 Index is to add the FTSE 100 index to comparison stock charts using the code ‘UKX:IND’. Please see the next page for an example.

As you can see from this chart, BT and Vodafone shares both performed better than the FTSE 100 Index over the six months to 29 August. This information is more up-to-date than the ‘Key Statistics’ entry called ‘Relative P/E vs UKX’ because the Price/Earnings ratio is calculated using the published profit figure while the chart uses the latest share price information.

This chart also shows how volatile the share prices for BT and Vodafone have been over the period of time.

You can find out how the FTSE 100 Index has performed by adding the code ‘UKX:IND’ to the Bloomberg quotes box.
Screen 7: FTSE 100 Index on 29 August

This screen shows the current status of the index as well as movement over the past day, month or year. This information gives a snapshot of the UK economy. Any company that outperforms the index is doing better than the average company in the UK.

Select the ‘Index Members’ option to see how individual shares within the FTSE 100 Index are performing.

Screen 8: FTSE 100 Index – Selected members on 30 August

Shares that have increased in value are shown in green with a plus sign. Shares that have decreased in value are shown in red with a minus sign. You can click on the name of the company to go to the share information screen.

As you can see from Screen 8, Rolls Royce shares have increased by 10 pence. The share information screen shows news items that explain this increase: Rolls Royce is lowering freight costs, it has increased sales which will help boost profits and it is expanding its activities.

In contrast, Screen 8 shows that Royal Dutch Shell shares have decreased by 20 pence. This is probably because increased conflict in the Middle East put the supply of oil and gas at risk. Royal Dutch Shell needs these raw materials to produce the fuels it sells.
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News

Getting up-to-date news about companies and the conditions in which they operate is vital to making good investment decisions. As well as the websites for Bloomberg and the London Stock Exchange www.londonstockexchange.com, you can find relevant news, analysis and tips in online and paper newspapers, for example, Financial Mail: www.thisismoney.co.uk and MoneyWeek www.moneyweek.com. Company websites also have information for investors, including the latest Report and Accounts.

Tips for picking winners

1. Find out about the companies available to you in the game. What industry are they in? How big are they? What do you think is the demand for their goods or services?
2. Which company share prices are going up or down at the moment? Investigate why by reading the related news items. Companies that are household names may not be the most profitable. Investigate all the companies available to you.
3. When you are using the online share price information, remember to keep refreshing your computer screen so you can see the latest data.
4. Are any companies performing better than the FTSE 100 Index?
5. You can find out which FTSE 100 companies are doing well by going to the Bloomberg website, typing UKX into the ‘Search News, Quotes and Opinion’ box and selecting the ‘Index Members’ option.
6. Investigate the shares you are interested in by comparing their earnings, key statistics and charts with other companies in the sector. Look for companies that grow their earnings and dividends every year.
7. Remember you are looking to make money over the four months of the game. To include dividends in the value of your portfolio, you need to ensure that a company makes the dividend payment before the game ends. You can find this information on the company’s website.
8. Consider how much risk you feel comfortable with in your portfolio as a whole. Maybe you want some shares that are steady climbers and some that are more volatile but could make you more money?
9. Go to news websites such as www.thisismoney.co.uk and www.moneyweek.com or get paper newspapers and read their investment pages for the latest information on companies, which share prices are rising and analysis of shares to buy and sell.
10. Keep up-to-date with the news and consider how changes and world events might impact share prices.

Good luck!
Activity Answers

Activity 1

Jo bought 1,000 Barclays shares on 04 September when they cost 180.75 pence each.

a) How much did Jo pay for these shares in total?

\[1,000 \times 180.75 = 180,750 \text{ pence that is £1,807.50.}\]

The following year, on 22 May Jo sold her shares for 338.20 pence each.

b) How much was she paid for her 1,000 shares in total?

\[1,000 \times 338.20 = 338,200 \text{ pence that is £3,382.00.}\]

c) How much money did Jo make by investing in the Barclays shares?

\[£3,382.00 - £1,807.50 = £1,574.50.\]

Alternatively you could calculate the gain per share: 157.45 pence and multiply by 1,000. That makes 157450 pence which is £1,574.50.

Activity 2

Answers to the clues:

1. Owning these means you own part of a company. Shares
2. This is a collective word for the answer to clue 1. Stock
3. Shareholders do this to get cash for their shares. Sell
4. The directors of one of these decide whether or not to pay dividends to their shareholders. Company
5. People who buy shares are said to invest in the stock market.
6. A person who buys and sells shares for clients is called a stock broker.
7. People who own shares are called share holders.
8. The cost of buying shares is called the share price. Written upside down in the grid.
9. The collection of investments that someone holds is called their portfolio.
10. Directors can pay dividends if their organisation makes one of these. Profit
11. The goal of buying and selling shares is to make this. **Money**

12. A place where people can buy and sell shares is called a stock **market**.

13. The opposite of sell. **Buy**. Written upside down in the grid.

### Activity 3

#### a) **Impact of an economic recession**

In a recession, some people are made redundant and others worry about losing their jobs, wages are frozen and savings earn only very small interest rates. This means that people are careful about spending money. Retailers who sell more expensive goods tend to sell fewer goods. Retailers who sell cheaper or ‘good value for money’ goods may sell more goods but at lower prices. This means they may make less profit and are only able to pay shareholders small dividends. So the shares of these retailers may fall in value as fewer investors want them.

#### b) **Impact of good news**

Increased sales mean that a company is more likely to pay good dividends. This means more investors want the shares and the share price goes up. Primark may make greater sales during a recession because shoppers cannot afford to go to more expensive shops.

### Activity 4

#### a) **What is the name of this share?**

Barclays PLC.

#### b) **By what percentage has the share price decreased?**

0.54%. This is shown in red at the top of the screen. The price drop is also given as 1.550 pence.

#### c) **What is the trading currency of these shares?**

GBp this means Great British pence. This information is given at the top of the screen.

#### d) **What is the current price for one share?**

283.450 pence which is £2.83 to the nearest whole pence and £2.8345 to four decimal places.

#### e) **Is this the highest price that this share has reached today?**

No, the highest is 286.050 pence, as shown in the Snapshot ‘Day’s Range’ box.

#### f) **What does this company do?**

It is a Bank – see the sub-industry category at the top right of the screen.

#### g) **Any ideas why the share price fell during the day?**

Yes. The BARC News box has an article which says that ‘Wall Street Banks Win Market Share as Europeans Struggle’.

### Activity 5

#### a) **Why do investors think that Vodafone will make a lot of money soon?**

Because the News box on the right of the screen has an article that says ‘Vodafone in Talks with Verizon over U.S. Wireless Stake Sale’. This article explains that Vodafone UK is selling its 45% stake in Verizon back to the Verizon parent company. This deal is described as the biggest in more than a decade with an estimated sale price of US$ 130 billion.

#### b) **What has happened to the share price of Vodafone over the last few days?**

The chart shows that it has risen significantly.
c) Why might you want to look at share price movements over more than a few days before making a decision about which to buy and sell?

This is because you want to spot trends in the movement of share prices, such as rising or falling values over a longer period of time.

For example, the chart for Vodafone over one month shows a steady decrease in share price until the announcement of the Verizon sale. But over one year, we can see that the share price has increased since February:

![Stock Chart for VOD](image)

Activity 6

There is no right or wrong answer to this question. It is down to your point of view. Both shares look likely to make some money as long as their actual performance figures match expectations. But who knows what might happen over the months of the game?
Glossary

1-YR return (on Bloomberg screen)
The return on investors’ money if they had held the shares for one year.

30 Day Average volume (on Bloomberg screen)
The average number of shares sold over the past 30 days. This gives an indication of how many investors are buying and selling this share. A high volume compared to the number of shares outstanding could mean that the shares are desirable or that people no longer want to invest in this share and are selling them. Investors need to investigate further to decide what is happening.

5 Year Dividend Growth (on Bloomberg screen)
This shows how much the dividend payments have grown over the last five years.

52-week range (on Bloomberg screen)
The highest and lowest prices over the last year.

Ask
This is the price that someone who wants to sell the share is asking buyers to pay. Also known as the offer price.

Bank Rate
This is a rate of interest set by the Bank of England once a month. Banks and building societies work out other interest rates (on savings and on borrowings) from this rate. You can find out what the latest Bank Rate is by going to the Bank of England website at www.bankofengland.co.uk and looking at the ‘Key Facts’ box on the home page.

Bid
This is the price someone who wants to buy the share is willing to pay.

Bloomberg
This company provides share information from stock exchanges around the world, as well as news and analysis for financial and business decision makers. Their website is at: www.bloomberg.com. The share prices on the Challenge website are supplied by Bloomberg.

Cash Dividend (GBP) (on Bloomberg screen)
This is the value of the last dividend paid, expressed in pence.

Close (on Bloomberg screen)
The price for the share when that trading day ended.

Current P/E Ratio (ttm) (on Bloomberg screen)
The current Price / Earnings Ratio (trailing twelve months)
This is the share price divided by the company’s annual earnings per share. Investors use this ratio to compare companies. A higher P/E ratio means that investors are willing to pay more for this company’s shares because they think it will perform well. A lower P/E ratio means investors are less confident in that company’s ability to make money. ‘Trailing’ means that the calculation uses the profit figure from the last company Report and Accounts.

Day’s Range (on Bloomberg screen)
The lowest and highest prices for the day.
**Dividend Indicated Gross Yield** (on Bloomberg screen)
This is the estimated dividend divided by the current share price. It gives an indication of how much each share will earn.

**Dividend yield**
This is the annual dividend payment divided by the total market capitalisation. Higher dividend yields are more desirable because they can mean that the share is under priced and will rise in value. Low dividend yields can mean that the share is over priced and will fall.

**Earnings Per Share** (on Bloomberg screen)
This means the company’s earnings from its last report and accounts divided by the number of shares issued. Also written as EPS.

**Est. EPS (GBP) (date)** (on Bloomberg screen)
Estimated Earnings Per Share (in pounds) using the profit that the company estimates it will have made on the date shown in brackets.

**Estimated P/E Ratio (date)** (on Bloomberg screen)
The Price / Earnings Ratio using the estimated profit figure that the company has provided. The date is when the next Report will be announced.

**Est. PEG Ratio** (on Bloomberg screen)
Share Price to Earnings to Growth ratio. This indicates a company’s current share price against how quickly its value may grow in the future. It is worked out by dividing the Price/Earnings ratio by the estimated growth in Earnings Per Share. The lower the PEG, the cheaper the shares.

**FTSE 100 Index**
An index that measures the changes in share prices for the top 100 UK companies. It is used as an indicator for how well the UK economy is performing. The base level of the index was set at 1,000 on 3 January 1984. Since then rises and falls in the share prices of its constituent companies (the companies that are on the index’s list) have added to this base level.

**High** (on Bloomberg screen)
The highest price for the share on that trading day.

**Inflation**
This is the rate at which prices in the country are rising. It is important to compare the rate of inflation to the rate of interest earned on savings and the rate at which wages are growing. If inflation is a higher number, living costs are rising more quickly than incomes. People will not be able to afford to buy as many goods as before. They may also choose to buy cheaper goods. You can find out what the latest inflation rate is by going to the Bank of England website at [www.bankofengland.co.uk](http://www.bankofengland.co.uk) and looking at the ‘Key Facts’ box on the home page.

**Last Dividend** (on Bloomberg screen)
This is the date when the last dividend was paid. Dividends are usually paid once or twice a year.

**Low** (on Bloomberg screen)
The lowest price for the share on that trading day.

**Market Cap** (on Bloomberg screen)
This means market capitalisation. The amount of money that all the shares in the company are worth, worked out by multiplying the number of shares by the value of one share. This shows how large the company is. A larger company may be less likely to suffer a loss unless something unusual happens, such as the worldwide economic problems caused by the global banking crisis.

**Next Earnings Announcement** (on Bloomberg screen)
This is the date when the company will publish information about its earnings.

**Open** (on Bloomberg screen)
The share price when trading started today.

**Ordinary shares**
Most of the shares in a company are ‘ordinary shares’. Ordinary shares usually give the owner voting rights at the company’s annual general meeting but no guarantee that a dividend will be paid. The company directors decide if they can afford to pay a dividend and how much the dividend per share will be.

**Preference shares**
Preference shares give the owner the right to a fixed dividend but usually no voting rights. This does not mean that preference shareholders will always be paid the dividend. If the company has not made enough money to pay the dividend in one year, the preference shareholders will have to wait until the company can afford to pay them to get their dividend. Company directors will place a higher priority on paying dividends to preference shareholders than paying dividends to ordinary shareholders.

**Previous close** (on Bloomberg screen)
The share price when trading ended on the previous day.

**Price/Book (mrq)** (on Bloomberg screen)
This is the current share price divided by the price of the share recorded in the company’s latest quarterly report (mrq= most recent quarter).

**Price / earnings ratio (trailing)** (on Bloomberg screen)
This is the share price divided by the company’s annual earnings per share. ‘Trailing’ means that the calculation uses the profit figure from the last Report and Accounts. If expected profits had been used, it would be labelled ‘Estimated.’ Investors use this ratio to compare companies. A higher P/E ratio means that investors are willing to pay more for this company’s shares because they think it will perform well. A lower P/E ratio means investors are less confident in that company’s ability to make money.

**Price/Sale (ttm)** (on Bloomberg screen)
This is the market capitalization divided by the company’s total sales over the past 12 months. A lower P/S ratio means that the share is a more attractive the investment.

**Relative P/E vs UKX** (on Bloomberg screen)
The current P/E (price/earnings) compared to the price / earnings ratio for the FTSE 100 index, (UKX is Bloomberg’s code for the FTSE 100 Index) A relative P/E of 1 means the share has the same ratio as the average for the index. So it is doing as well as other companies in the index. A relative P/E above 1 means the share is doing better than the index average and a relative P/E of less than 1 means it is performing less well.

**Report and Accounts**
A document a company must supply which reports on its performance and gives financial information (such as profit and loss) for a trading year.
**Student Investor**

**ROE**
Return on Equity. This measures how profitable a company is and is best used when comparing companies in the same industry. Return on equity is calculated as net profit after taxes divided by stockholders’ equity. Shareholders’ equity is the total assets minus the total liabilities of the company. This is also called Return on Investment. Investors use this measure to compare companies, preferring to buy shares in a company with a high or increasing ROE.

**Savings interest rate**
This rate determines the amount of money that your savings earn in a bank or building society. This affects how much money people have to spend and therefore how much companies can sell and how much profit they can make.

**Securities**
'Securities' is another collective term that means shares, bonds and other investments such as derivatives. For example, the Securities and Exchange Commission is the regulator for the investment markets in the USA.

**Shares Outstanding** (on Bloomberg screen)
This is the number of shares that the company has issued. When people buy shares they are buying ownership of part of the company. Most of the shares that a company issues are ‘ordinary shares’. Ordinary shares usually give the owner voting rights at the company’s annual general meeting but no guarantee that a dividend will be paid. The company directors decide if they can afford to pay a dividend and how much the dividend per share will be.

**Shareholder**
A person or an organisation that owns shares.

**Stock**
‘Stock’ is used as a collective term to mean ‘lots of different shares’. So the markets where people can buy and sell shares in lots of different companies are called stock markets. The professionals who buy and sell shares for clients are called stockbrokers. In practice, the words ‘stock’ and ‘share’ are used to mean the same thing; that is a part ownership in a company.

**Stockbroker**
Person or organisation that buys and sells shares for clients.

**Stock exchange**
Place where shares are bought and sold. In the past, stockbrokers would always go to the stock exchange building to buy and sell shares. Now a lot of buying and selling takes place via dedicated computer networks and many share documents are electronic files rather than paper certificates.

**Volume** (on Bloomberg screen)
The number of shares bought and sold.