Creature From the Dark Abyss?

Science fiction movies often depict the unknown in a terrifying manner, frightening enough to scare the young and the old. Taking the initiative to read this column shows that you are looking to broaden your understanding of investing and make a sometimes difficult concept to understand, more explainable. The following article will focus on the broad term “Stock Market” and what this means and represents.

The “Stock Market” is not at mystical creature from the dark abyss; it is comprised of tangible companies that produce real goods and services and employs actual people. The “Stock Market”, is simply the exchange of shares of ownership in publically traded companies. These companies are likely businesses that you purchase products and services from on a daily basis such as gas stations, food companies or the local utility company. Look in your checkbook and you are likely to find you are buying goods and services from many of the companies that are the “Stock Market”. There are several indexes that gauge what the stock market value is at certain points.

A common concern clients share is that they feel the value of the stock market fluctuates too much in value. Since nearly every business day there is people buying or selling shares of these companies, the value of those businesses are reported and updated in price every day. This frequent exchanging of shares also reveals an enormous advantage of the stock market: liquidity and transparency of real current value. You don’t see the value of your car, home, or the back 40 fluctuate in value as much as the stock market since these assets are not being exchanged between buyers and sellers every day – giving real instantaneous valuation to these assets.

The value of a company is determined by many factors such as earnings, earnings growth, dividend yield and risks associated with the company. Quarterly, a company will report how much it earned in profits in the previous quarter. Traders and stock analysis estimate how much a company will earn. A difference of actual earnings versus estimated earnings can send the company’s stock soaring or plummeting. Even a penny difference in actual earnings per shares versus what was estimated can mean a lot of money once you multiply that penny deviation over millions or even billions of outstanding shares.

Keep the science fiction for your next Friday night movie, not your investment portfolio. In understanding exactly what the “Stock Market” really is, you will be a much less nervous and more focused long-term investor.

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