THE STOCK MARKET GAME™
SMG WORLDWIDE

Stock talk

Sound Investment

by Bill Dickneider

José likes reading about the stock market as much as he likes listening to music. Well, maybe that's stretching it a bit, but he does like doing both at the same time. While looking at a newspaper's stock table one day, he was listening to his portable CD player. You should have seen his reaction when he turned up the volume.

Speaking Volumes

Instead of his favorite song, he heard a voice talking to him. "Hi, José. You're familiar with volume on your CD player, but do you know what volume is in a stock table?"

José couldn't believe his ears. He removed the earphones, checked the music player, and tried again.

No luck! "A stock's volume is the number of shares traded over a period of time, such as one day," said the voice. "What's the volume of Intel in your newspaper?'

What do I have to lose? thought José, while searching through the newspaper. "It's 548,570," he said, after finding the stock in the tables for The NASDAQ Stock Market.

"Are you sure?" asked the voice. "What does the heading say at the very top of the column?"

"It's got 'Vol' on top and 100s right below," answered Jose. "I forgot. Volume is listed in hundreds, so I have to add two zeroes to the number. That makes Intel's volume 54,857,000 shares."

"Right!" agreed the voice. "Now, check the listing for Guess? Inc. and tell me what its volume is."

José searched the stock tables and found the stock listed in the New York Stock Exchange. "Its volume is only 47,000 shares. That's tiny compared to Intel's volume. Is a stock with a larger volume a better investment than one with a smaller volume?" he asked.

"Let me explain," said the voice. "Intel is a much bigger company than Guess, so it has a lot more shares outstanding. Do you know what that means?"

"Sure," responded José. "The number of shares outstanding is the total number of shares the company has sold to the public."

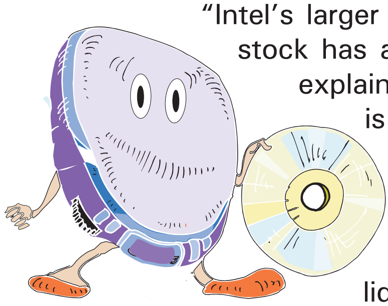
March 15, 2004

Stock	Vol 100s
Intel	548570
Guess	470

Newspaper stock tables often present a stock's volume in 100s. You must then add two zeroes to the volume numbers you find there. How many shares of Intel's stock were traded on this day for each share of Guess's stock?

“Right, again,” said the voice. “If you checked the web, you’d find that Intel has about 6.5 *billion* shares outstanding, but Guess has about 49 million. With so many more shares held by stockholders, Intel would naturally have a much bigger volume. But suppose you owned 10,000 shares of each company. Do you think you’d have trouble finding a buyer if you wanted to sell all your shares?”

“Not for Intel,” answered José, “because my shares would be only a drop in the bucket of all shares traded. But Guess’s volume is much smaller, so it might not be as easy to find investors willing to buy all my shares at the price I want.”



“Intel’s larger volume means that its stock has a lot more liquidity,” explained the voice. “***Liquidity*** is how easily and quickly a stock can be traded for cash. A stock’s daily volume gives you information about its liquidity. But the volume on any particular day might be unusually high or low. You’ll get a clearer picture if you know its average daily volume over a period of time, such as three months. Many investors use the web to find this information.”

How Much Volume?

“Doesn’t that mean that stocks with larger volumes and more liquidity are better investments?” asked José.

“Not necessarily,” answered the voice. “You’d have to check many other things, such as the company’s prospects for future growth and earnings. After all, when you buy a stock, you’re becoming part owner of a company. So you’ll want to know a lot about the company you’re considering. A stock’s liquidity is just one of many things you’d think about before investing your hard-earned cash.”

“What if I look at a stock’s volume and discover that it’s rising rapidly?” asked José. “Would that be a good sign?”

“Not necessarily,” answered the voice. “Suppose investors suddenly view a company more favorably and now want to buy more of its stock. Trouble is, there are only so many shares outstanding. So the only way for investors to buy more shares is for existing stockholders to sell more to them. How could buyers convince stockholders to do that?”

Company	Volume on March 15, 2004	Shares Outstanding	Average Daily Volume (3 months)
Intel Corp. (INTC)	54,857,000	6,480,000,000	58,054,000
Guess? Inc. (GES)	47,000	48,820,000	197,000

“By offering to pay a higher price?” asked José.

“You got it,” agreed the voice. “As they bid up the stock’s price, more shares will be traded. The stock’s volume will then go up.

“But here’s another case where volume can rise,” continued the voice. Suppose a company reports bad news about future sales and earnings. As a result, stockholders now want to sell more of their shares. How can they encourage investors to buy more shares given the bad news?”

“I suppose they could offer to sell them at a lower price?” asked José.

“Exactly,” said the voice. “Here, too, the stock’s volume rises, but this time its price goes down, not up. Sudden changes in a stock’s volume can be a sign that *something* is happening to the stock. But even experts often disagree about what’s happening and whether it’s good or bad news for investors.

“Here’s my point,” continued the voice. “Volume can give important information about a stock’s liquidity. But don’t dwell on volume changes from day or day in hopes of buying or selling for short-term gains. Invest instead by finding prosperous companies you want to own for a long time.”

“Thanks for the lesson,” said José. “I won’t turn up volume too far when looking for sound investments.”

Write Now

Pick one of the following and write a paragraph to explain your answer.

Do you think stocks with less liquidity are more risky than those with more liquidity?

Use a newspaper or the web to find one stock with a relatively high current daily volume and one with a relatively low volume. Would the difference be important to you as an investor researching these stocks? Explain.