

## Lesson 4

# How Do You Profit From Trading Stocks?

**Resources:** Internet access

**Objectives:** In this lesson, you will learn to calculate the gains and losses of your stock portfolios. You should learn the basic math skills in calculating your stock investment the old-fashioned way. Also, you will do a lot of number crunching to compare the gains and losses of your stock portfolios with benchmarks such as T-bonds, bank accounts, and the U.S. market represented by the S&P 500 Index.

By comparing your gains and losses to these benchmarks, students can see whether they made more or less money than the market in general or whether they are better off putting money in the bank or in a safer investment with the U.S. Treasury.

### Activities:

1. Review the financial terms in stock investing:

**Stock price:** an amount agreed between a buyer and a seller in a stock transaction

**Purchase price:** an amount a buyer paid for a stock (bid)

**Current price:** current stock quotes from the GSG

**Previous close:** closing price from the previous day

**Sales price:** an amount a seller gets for a stock (ask)

**Day change:** the amount a share price changes from the previous close

**Gain:** sales price is greater than the purchase price

**Loss:** sales price is less than the purchase price

**Commission:** the stockbroker's transaction fee to buy or sell stocks

**Risk:** the chance of losing money in an investment. In stock investments, the sales price is less than the purchase price of a stock. In other words, profits are not guaranteed in stock investing.

2. Determine how gains or losses are calculated using the existing portfolio.
3. From the portfolio, we get the data for Stock Agilent (A):

4. **Price** (purchase price): \$40.19  
**Current price:** \$38.81  
**Day change:** - \$0.93  
**Commissions:** \$7
5. Using this data you should be able to answer the following questions and confirm the numbers on the portfolio.

**What is the previous day's closing price?**

$$\$38.81 + \$0.93 = \$39.74$$

**What is the total cost of the purchase?**

Total cost

$$= (\text{purchase price} \times \text{number of shares}) + \text{commissions:}$$

$$= (\$40.19 \times 100) + \$15$$

$$= \$4,034$$

**What is the current value of your stock now?**

(" subtotal" on GSG table)?

If you sell the stock at this moment, this amount less commissions will be the proceeds from sales.

Subtotal of current value

$$= \text{current price} \times \text{number of shares:}$$

$$= \$38.81 \times 100$$

$$= \$3,881$$

**What are the gains or losses?**

Gains or losses = total cost – total current value:

$$\$4,034 - \$3,896 = -\$138$$

**What is the percent of gains or losses?**

Percent of gains or losses =

$$(\text{current price} - \text{purchase price}) \times 100\% / \text{purchase price}$$

$$(\$38.81 - \$40.19) \times 100\% / \$40.19$$

$$= -3.43\%$$

6. Compare the sample portfolio with the benchmarks: Click [here](#) for the benchmarks data.

Item	Type	Total Amount (\$)
1	S&P 500	102,065
2	T-bonds	100,641
3	Savings Account	100,427

4	Sample portfolio	96,520
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The initial amount of all four types of investments is \$100,000.

1. How did the performance of the sample portfolio compare with the three benchmarks?
2. Which type of investment had the most gains during this period?
3. One of the strategies of managing risks in investing is through diversification. By comparing investments in the sample portfolio with the S&P 500 benchmarks, can you tell why diversification is a good strategy?

**Additional Activities:**

At this point, if you have not signed up for the GSG, you should go right ahead. Come back to review this lesson if you don't understand how to read your stock portfolio.