

UNDERSTANDING STOCKS

Michael Sincere

McGraw-Hill

*New York Chicago San Francisco Lisbon London Madrid Mexico City
Milan New Delhi San Juan Seoul Singapore Sydney Toronto*

Contents

Acknowledgments v

Introduction vii

PART ONE

WHAT YOU NEED TO KNOW FIRST

- 1** **Welcome to the Stock Market** 3
- 2** **Stocks: Not Your Only Investment** 19
- 3** **How to Classify Stocks** 29
- 4** **Fun Things You Can Do (with Stocks)** 37
- 5** **Understanding Stock Prices** 49
- 6** **Where to Buy Stocks** 55

PART TWO

MONEY-MAKING STRATEGIES

- 7** **Want to Make Money Slowly?**
 Try These Investment Strategies 69
- 8** **Want to Make Money Fast?**
 Try These Trading Strategies 77

PART THREE

FINDING STOCKS TO BUY AND SELL

- | | | |
|-----------|--|------------|
| 9 | It's Really Fundamental: | |
| | Introduction to Fundamental Analysis | 89 |
| 10 | Fundamental Analysis: Tools and Tactics | 97 |
| 11 | Let's Get Technical: | |
| | Introduction to Technical Analysis | 107 |
| 12 | Technical Analysis: Tools and Tactics | 131 |
| 13 | The Psychology of Stocks: | |
| | Introduction to Sentiment Analysis | 141 |

PART FOUR

UNCOMMON ADVICE

- | | | |
|-----------|---|------------|
| 14 | What Makes Stocks Go Up or Down | 149 |
| 15 | Why Investors Lose Money | 157 |
| 16 | What I Really Think about the Stock Market | 171 |
| | Index | 189 |

Acknowledgments

I'd like to give special thanks:

To Stephen Isaacs and Jeffrey Krames at McGraw-Hill for once again giving me the opportunity to do what I love most, and to Pattie Amoroso for helping me put the pieces together to produce a book.

To my researcher, Maria Schmidt, who found the answer to nearly everything I asked; Tine Claes, who never fails to find something that needs improvement; and Lois Sincere, who has truly mastered the idiosyncrasies of the English language.

To Tom Reid, a teacher at Deerfield High School in Florida, for helping to make the most complicated financial concepts seem easy; student Bailey Brooks for helping with editing; Dan Larkin, CEO and senior consultant for Larkin Industries, Inc., for his extremely insightful suggestions and comments; Mike Fredericks, Brad Northern, and Howard Kornstein for their thoughtful financial analysis and insights; Colleen McCluney for her encouragement and patience; and Oksana Smirnova for her inspiration and enthusiasm.

To the hardworking and friendly staff at Barnes & Noble bookstore and Starbucks in Boca Raton, Florida.

Finally, to my friends, family, and acquaintances:

Idil Baran, Krista Barth, Bruce Berger, Andrew Brownsword, Sylvia Coppersmith, Lourdes Fernandez-Vidal, Alice Fibigrova, Joe Harwood, Jackie Krasner, Johan Nilsson, Joanne Pessin, Hal Plotkin, Anna Ridolfo, Tim Schenden, Tina Siegismund, Luigi Silverstri, Alex Sincere, Debra Sincere, Miriam Sincere, Richard Sincere, Harvey

Small, Bob Spector, Lucie Stejskalova, Deron Wagner, and Kerstin Woldorf.

For additional reading, I recommend the following books:

The Stock Market Course (John Wiley & Sons, 2001), by George Fontanills and Tom Gentile

A Beginner's Guide to Short-Term Trading (Adams Media Corporation, 2002), by Toni Turner

Reminiscences of a Stock Operator (John Wiley & Sons, 1994), by Edward Lefevre

Introduction

This book will be different.

Thousands of books have already been written about the stock market, many of them technical and tedious. Before I wrote this book, I was amazed that so many boring books had been written about such a fascinating subject. Just like you, I hate reading books that put me to sleep by the second chapter. That is why I was so determined to write an entertaining, easy-to-read, and educational book about the market.

I wanted to write a book that I can hand to you and say, “Read everything in this book if you want to learn quickly about stocks.” You don’t have to be a dummy, idiot, or fool to understand the market. You also don’t have to be a genius. After you read this book, you will realize that understanding stocks is not that hard. (The hard part is making money, but we’ll get to that later.)

I also don’t think you should have to wade through 300 pages to learn about the market. Too many books on stocks are as thick as college textbooks and not nearly as exciting. Even though this book is short, it is packed with information about investing and trading. I did my best to make sure that you would have a short and easy read.

I wrote this book because I wanted you to know the truth.

As I was writing, a corporate crime wave was sweeping across America. Dozens of corporations were accused of cheating people out of millions of dollars. It upset me that so many investors have become victims of the stock market. It seems as if the name of the game is entic-

ing individual investors into the market so that they can be duped out of all their money.

The insiders on Wall Street and in many corporations understand the rules and know how to use them to lure you into putting your money in the market. In this book, I promise to tell you the truth about how the markets operate. Without that knowledge, you hardly have a chance to win against the pros who do business on Wall Street. They go to work every day with one goal in mind: to take money away from you.

Because the stock market is a brutal game that is often rigged in favor of the house, you should be quite sure you know what you're up against before you invest your first dime. Unfortunately, you can't win unless you know how to play. One goal of this book is to educate you about how the markets operate so that you can decide for yourself whether you want to participate. By the end of the book, you'll know the players, the rules, and the vocabulary.

I don't want to scare you, just prepare you.

After my unsettling introduction, you may decide that you don't want to have anything to do with the stock market. In my opinion, that would be a mistake. First of all, understanding the market can help you make financial decisions. The stock market is the core of our financial system, and understanding how it works will guide you for the rest of your life. In addition, the market often acts as a crystal ball, showing where the economy is headed.

This book is also ideal for people who still aren't sure whether to participate in the market. By the last chapter, you should have a better idea as to whether investing directly in the stock market makes sense for you. Although I can't make any promises, it is also possible that understanding the market will help you build wealth. Perhaps you will put your money into the stock market, but I will give you other investment ideas.

How to Read this Book

If you are a first-time investor (and even if you're not), I suggest you begin by reading the first, second, and fourth sections. This will give you an overview of the market (Parts One and Two), and ways to avoid

losing money (Part Four). Because Part Three is the most challenging and technical, it should be saved for last. As a special bonus, at the end of the last chapter I reveal a trading strategy that has not lost money during the last eight calendar years. I think you'll be intrigued by this simple but effective strategy that contradicts the advice included in nearly every other investment book.

I wish you the best of luck. I sincerely hope you find that learning about stocks is an enlightening experience, one that you will always remember.