

How the stock market works

- 1 I don't even know what they are!
- 2 In that case it might be a good idea to get a little information.
- 3 Well, the fellow who owns and operates a company that makes and sells oil drums.
- 4 Each year customers buy more and more amount, because he makes a better oil drum than his competitors.
- 5 One day customers demand more oil drums than the owner can produce.
- 6 He figures it will take about three million dollars to do the job.
- 7 So he decides to form a corporation to sell shares in his business to raise the capital he needs.
- 8 First, the owner goes to the state government to get a corporation charter and a permit to sell shares in this business.
- 9 Next, our friend goes to an investment banker and shows him the record of the Oil Drum Manufacturing Company's past performance and plans for expansion.
- 10 The investment banker decides to help our friend sell shares in the corporation to raise the three million dollars.
- 11 However, before any shares in the corporation can be sold, certain information must be filed with the Securities and Exchange Commission in Washington.
- 12 The investment banker and the owner must swear that the information they file contains nothing but the truth.
- 13 Registration with the SEC does not imply that the government approves the stock issue as a good investment, but only assures the public, if the material statements about this issue are false, punishment will be according to the law.
- 14 After SEC registration is effective, the investment banker pays the owner three million dollars in exchange for a certain number of shares in the Oil Drum Manufacturing Corporation.
- 15 The investment banker sells shares of the common stock to people at a price—
- 16 —three million dollar investment, and shows a profit for his services in selling the stock.
- 17 Money received from the sale of shares in the business builds a new and better plant, which produces more and better oil drums.
- 18 The people who bought them a stock own proportionate shares in the corporate plant, tools, equipment, and all of its assets.
- 19 Stockholders elect the directors of the corporation.
- 20 Directors represent the stock and are responsible for the way the business is run.
- 21 Directors determine the amount of dividends, if any, to be paid out of earnings to the stockholders.
- 22 Naturally, when stockholders invest in a business, they hope to receive dividends to help pay for necessities of life.
- 23 Within a few short years an increasing demand for the company's product poses—our friend.
- 24 How can he fill all the orders?
- 25 He will have to build more plants and buy more tools to increase production of oil drums.
- 26 It will take about twenty million dollars to do the job.
- 27 One way to get this additional capital is to sell more stock to many more people.
- 28 So the Oil Drum Manufacturing Corporation votes to send its president to the New York Stock Exchange to see if their common stock can qualify for listing.
- 29 The corporation wants to list its securities on the Exchange so that the additional stock they need to sell will be more attractive to investors all over the nation.
- 30 Securities listed on the New York Stock Exchange can be sold for cash anytime in this national marketplace.
- 31 —each year inquire about listing their securities, but only those which can pass a thorough examination as to their financial health are accepted.
- 32 "Calling the president of the Oil Drum Manufacturing Corporation!
- 33 Calling the president of the Oil Drum Manufacturing Corporation!
- 34 Report to examination room B.
- 35 Attention, all members of the Stock List Department!
- 36 Report to examination room B."
- 37 The Stock List Department examines the qualifications of corporations to be listed on the New York Stock Exchange.
- 38 The corporation must have substantial assets in plants, tools, equipment, and cash.
- 39 There must be a broad distribution of its shares among a large number of stockholders.

- 40 The corporation must show successful management and sales records, and annual net earnings at the time of listing of at least one million dollars.
- 41 The proposed stock issue must meet federal, state and New York Stock Exchange regulations.
- 42 The corporation must agree to report to its stockholders at frequent intervals.
- 43 If the examination by the Stock List Department indicates the corporation meets minimum requirements of the Exchange at the time of the examination, the corporation's application for listing is recommended.
- 44 The board of governors of the New York Stock Exchange finally approves the application and sees that it is made public.
- 45 Extra! Extra! Read all about it!
- 46 Now that the Oil Drum Manufacturing Corporation stock is listed, its name is abbreviated for use on the ticker tape.
- 47 Each time ODM stock or any other stock listed on the Exchange is bought or sold, the ticker tape flashes all over the nation the price and number of shares traded.
- 48 A buyer in Colorado wants to purchase some ODM stock.
- 49 The buyer's broker in Colorado sees that the last ODM transaction was at ten dollars a share.
- 50 The buyer could buy from one to ninety-nine shares, which would be known as an odd lot.
- 51 But our Colorado friend decides to invest in one hundred shares, known as a round lot.
- 52 The Colorado broker wires the order to his New York office.
- 53 The buy order is telephoned to the floor of the New York Stock Exchange.
- 54 It is given to the firm's floor partner, who becomes the representative of the buyer in Colorado.
- 55 The floor partner goes to the post where ODM stock is traded.
- 56 The representative of the buyer in Colorado bids ten dollars a share for one hundred shares, but at the moment there is no stock offered for sale at this price.
- 57 In the meantime, however, in Maine an ODM stockholder who needs cash decides to sell his one hundred shares if he can get ten dollars a share.
- 58 The Maine broker wires the sell order to his firm's representative on the floor of the New York Stock Exchange.

- 59 This firm's floor partner, representing the seller in Maine, offers to sell one hundred shares of ODM stock at ten dollars a share.
- 60 The price of ten dollars a share is mutually acceptable, and the transaction is made.
- 61 Like the cowboy in Colorado and the fisherman in Maine, investors all over the country use the facilities of brokers who are members of the New York Stock Exchange whenever they want to buy or sell stock of companies listed on this national market.
- 62 Yesterday's savings financed the miraculous growth of our railroads, automobiles, airplanes, farm machinery, communications, electric light and power, textiles, and countless other industries contributing to a more enjoyable life.
- 63 If a part of our savings continue to flow into industry, American labor, management, and capital can continue to build new tools and plants.
- 64 Industrial expansion creates jobs for hundreds of thousands of young people who must find employment each year.
- 65 A growing capacity to produce things which make life better in peace time can be our greatest protection in time of war.
- 66 When danger threatens, we can convert industry to produce the things we need to defend ourselves.
- 67 Common stock investments have helped to make our country prosperous and powerful.
- 68 Owning a share in American industry is like owning a share in the future of our nation.
- 69 But remember, John Q., there is a risk as well as an advantage in owning any kind of property.
- 70 So get the facts before you put your money to work.