

The Stock Market

For a new investor or a layperson, the stock market can feel a lot like legalized gambling. "Ladies and gentlemen, place your bets! Randomly choose a stock based on gut instinct and water cooler chatter! If the price of your stock goes up -- and who knows why? - you win! If it drops, you lose!" Isn't that why so many people got rich during the dot-com boom - and why so many people lost their shirts (not to mention their retirement savings) in the recent recession?

Not exactly. But unfortunately, that's how many new investors think of the stock market - as a short-term investment vehicle that either brings huge monetary gains or devastating losses. With that attitude, the stock market is as reliable a form of investment as a game of roulette. But the more you learn about stocks, and the more you understand the true nature of stock market investment, the better and smarter you'll manage your money.

The stock market can be intimidating, but a little information can help ease your fears. Let's start with some basic definitions. A **share** of stock is literally a share in the ownership of a company. When you buy a share of stock, you're entitled to a small fraction of the assets and earnings of that company. **Assets** include everything the company owns (buildings, equipment, trademarks), and **earnings** are all of the money the company brings in from selling its products and services.

Why would a company want to share its assets and earnings with the general public? Because it needs the money, of course. Companies only have two ways to raise capital to cover start-up costs or expand the business: It can either borrow money (a process known as **debt financing**) or sell stock (also known as **equity financing**).

The disadvantage of borrowing money is that the company has to pay back the loan with interest. By selling stock, however, the company gets money with fewer strings attached. There is no interest to pay and no requirement to even pay the money back at all. Even better, equity financing distributes the risk of doing business among a large pool of investors (stockholders). If the company fails, the founders don't lose all of their money; they lose several thousand smaller chunks of other people's money.

Perhaps the best way to explain how stocks and the stock market work is to use an example. For the remainder of this article, we'll use a hypothetical pizza business to help explain the basic principles behind issuing and buying stock.

Let's say that you've always dreamed of opening a pizzeria. You love pizza, and you've done your homework to figure out how much it would cost to launch a new pizza business and how much money you could expect to earn each year in profit. The building and equipment would cost \$500,000 up front, and annual expenses (ingredients, employee salaries, utilities, overheads) would cost an additional \$250,000. With annual earnings of \$325,000, you expect to make a \$75,000 profit each year. Not bad.

The only problem is that you don't have \$750,000 (building + equipment + expenses) in cash to cover all of those costs. You could take out a loan, but that accrues interest. What about finding investors who would give you money in exchange for a share of the ownership of the restaurant?

Adapted from money.howstuffworks.com

Ex. 1 Find the words or expressions in the text which mean the following:

- 1) a person who has little knowledge about a specific subject: _____
- 2) placing bets for money, e.g. at the racetrack: _____
- 3) a period of a person's life when they've finished working and receive money from the state: _____
- 4) a sudden increase of a business' worth: _____
- 5) making you feel small and afraid: _____
- 6) a piece of a company's assets (wealth): _____
- 7) costs paid at the beginning of your business activity: _____
- 8) a group of people willing to invest in you business idea: _____
- 9) to make stocks available for the public: _____
- 10) to enter a particular market with your business idea: _____
- 11) to pay at the beginning, immediately: _____
- 12) permanent costs that every business has: _____
- 13) to calculate interest: _____

Ex. 2 Match the expressions from the two columns into logical collocations:

- | | |
|-------------------|-----------------|
| 1) to lose | gains |
| 2) the dot | vehicle |
| 3) an investment | financing |
| 4) monetary | attached |
| 5) to be entitled | to something |
| 6) to bring | your shirt |
| 7) debt | money / capital |
| 8) equity | in money |
| 9) to raise | financing |
| 10) a string | com business |

Ex. 3 Provide English equivalents of these expressions:

1) emitować akcje	7) zyski
2) nagromadzić / naliczać odsetki	8) założyć firmę
3) finansowanie dłużne	9) branża internetowa
4) finansowanie kapitałowe	10) „haczyk”
5) instrument inwestycyjny	11) pozyskiwać środki (kapitał)
6) gwałtowny wzrost	12) rynek papierów wartościowych

Grammar corner...

The entrepreneur from the text, if he had chosen to raise capital by using debt financing, he would probably have said something like this: *Oh dear, if I HADN'T DECIDED to go for a bank loan, starting my business WOULD HAVE COST me much less.* Sadly, though, our entrepreneur in fact decided (in the past) to take out a loan and, consequently, it cost him much more to start his own business. The only thing he's left with right now is SPECULATING ABOUT THE PAST, which is what the third conditional is used for. *If I hadn't gambled all my money away (BUT I DID), I wouldn't have run up such huge debts (AND I DID).* The way to make the third conditional is quite simple: If + HAD + 3rd form of the verb (If I had done something), WOULD + HAVE + 3rd form of the verb (something would have happened).

Ex. 4 Fill in the sentence with a correct form of the verb in brackets:

- 1) If he _____ (NOT TAKE) his financial advisor's advice, he _____ (END UP) in huge financial trouble. But fortunately he listened.
- 2) The company _____ (NOT GO BANKRUPT), if it _____ (BE MANAGED) properly. But it wasn't and it doesn't exist anymore.
- 3) If her supervisor _____ (GIVE) her a justified reason for firing her, she _____ (NOT SUE) him for unfair dismissal. But the supervisor didn't, and she sued.
- 4) If only I _____ (NOT FALL FOR) this stupid advertisement, I _____ (NOT SPEND) so much money on this useless thing. But here it is in my living room.

- 5) He didn't pay health insurance premiums for his employees. If he _____ (PAY) them, he _____ (NOT BE AUDITED) by the tax authority.

GLOSSARY	
an audit	badanie (np. ksiąg podatkowych)
health insurance premiums	składki na ubezpieczenie zdrowotne
to fall for something	dać się nabrać na coś
unfair dismissal	nieuzasadnione rozwiązanie stosunku pracy
to go bankrupt	zbankrutować
a layperson	laik
gambling	hazard
a boom	nagły wzrost (bum)
shares	akcje / udziały
start-up costs	koszty początkowe
a pool	pula
to issue stocks / shares	emitować akcje / udziały
to launch a business	rozpocząć prowadzenie działalności gospodarczej
to pay up front	płacić z góry
overheads	koszty stałe
to accrue interest	nagromadzać / naliczać odsetki
to lose your shirt	stracić majątek życia
the dot com business	branża internetowa
an investment vehicle	instrument inwestycyjny
monetary gains	korzyści pieniężne

to bring in	zarabiać
debt financing	finansowanie dłużne
equity financing	finansowanie kapitałowe
to raise money / capital	pozyskiwać środki / kapitał
a string attached	<i>haczyk</i>

ANSWER KEY:

Ex. 1

- 1) a layperson
- 2) gambling
- 3) retirement
- 4) a boom
- 5) to intimidate
- 6) a share
- 7) start-up costs
- 8) a pool of investors
- 9) to issue stocks
- 10)to launch a business
- 11)to pay up front
- 12)overheads
- 13)to accrue interest

Ex. 2

- 1) to lose your shirt
- 2) the dot com business
- 3) an investment vehicle
- 4) monetary gains
- 5) to be entitled to something
- 6) to bring in money
- 7) debt financing
- 8) equity financing
- 9) to raise money/capital
- 10)a string attached

Ex. 3

- 1) to issue shares / stocks
- 2) to accrue interest
- 3) debt financing
- 4) equity financing
- 5) investment vehicle
- 6) a boom
- 7) gains
- 8) to launch a business
- 9) the dot com business
- 10) a string attached
- 11) to raise money / capital
- 12) the stock market

Ex. 4

- 1) hadn't taken ..., ... would have ended up ...
- 2) ... wouldn't have gone bankrupt, ... had been managed ...
- 3) ... had given ..., ... wouldn't have sued ...
- 4) ... hadn't fallen for ..., ... wouldn't have spent ...
- 5) ... had paid ..., ... wouldn't have been audited ...