

Buy, Sell, or Hold?

Suggested Grade and Mastery Level

High School - all levels

Suggested Time

50 Minutes

Teacher Background

In this lesson, students learn to use key resources to help them determine whether to buy, sell or hold a stock. This lesson includes tips on how to read a company's annual report and compare a company with others in the same industry.

An annual report provides information on what a company does, its financial performance, as well as its plans for the future. Companies with more than \$10 million in assets whose securities are held by more than 500 owners are required to file annual and other periodic reports by the Federal Securities and Exchange Commission.

You may want to discuss with the students how to obtain a company's annual report. You can use www.nyse.com, www.nasdaq.com, or the company website home page, which usually contains a link to "Investor Relations" where you can access the annual report.

For example: Go to www.target.com and scroll to the bottom of the page. Click on "Investors" and then "Annual Report." Scroll through the annual report with students to locate net income and revenue figures.

Vocabulary:

Cyclical Stocks: Stocks of companies whose performance tends to mirror the economy. When the economy grows the stocks turn up, and when the economy falters the stocks fall. Automobile and housing sectors are good examples.

Industry: A group of companies producing similar products or services.

Net Income: Total earnings after all expenses and taxes have been paid.

Profit: What remains after subtracting a company's costs from its revenue. Profit is a company's reward for taking a risk and successfully producing what people want to buy at prices they are willing to pay.

Revenue: Revenue is the money collected for providing a product or service.

Sector: A group of stocks, often in one industry. The performance of any single stock in a sector can be measured against the performance of the group. Pharmaceutical companies, for example, are part of the health care sector.

Performance Objectives

Students will be able to

- Draw conclusions on whether to buy, hold, or sell based on group and individual research.
- Compare and contrast companies based upon stock market statistical data

- Math: Analyze basic financial data.
- Technology: Students will use the Internet to obtain annual reports and research companies across the same industry.

Subject Area

Math, Technology/Research, English Language Arts, Social Studies, Economics.

Materials

- Computer with access to the Internet
- Activity Sheet 1: Comparing Companies Across the Same Industry

Springboard Activity

On chart paper/board/overhead, create a three-column chart entitled "Making Portfolio Investment Decisions;" label the columns "Buy," "Sell," and "Hold."

Have students brainstorm why someone would take each action. Elicit reasons such as:

- People buy to make a future profit.
- People buy to save for retirement.
- People sell to collect their profits, or protect against further loss because the stock price is dropping.
- People hold because historical trends suggest that over the long-term stocks have the greatest return.

ASK

- How do you know the "right" action to take?
- How do you make educated decisions about your investments?

Procedure

Before teaching this lesson ask the students to watch a TV show or listen to a radio program like *Jim Cramer's Mad Money*, where they discuss whether specific stocks should be bought, sold or held. You may also have them research an analyst report on the internet, such as Yahoo! Finance or TheStreet.com. Have students select one stock and report on the analyst's suggestion regarding whether to buy, sell, or hold.

Next, have them locate a copy of the most recent annual report from that company. Or select one of the companies that was discussed and look up the annual report.

ASK

- What type of additional information does the annual report provide?

Elicit a list of the types of information available in an annual report. Afterwards, inform them that in addition to looking at annual reports of individual companies, it is extremely important to research other companies in the same industry. This is referred to "sector analysis."

Have teams choose a stock either from their SMG portfolio or one they are thinking of purchasing

- Check the revenue and profits and compare them to other firms in the same industry. This can be done either on line or by obtaining annual reports
- If the other companies are doing much better, you would tend to sell, if they are doing worse, you would tend to hold
- Check current events surrounding companies.
- Check how the sector is performing. This is important because if a sector is growing, you still may want to purchase the stock despite its poor peer performance. If the sector is collapsing, you may sell even if they out perform.

Assessment

[Novice](#) and [Apprentice](#) Levels:

Have students develop a rubric where they can compare two stocks from the same industry. Instruct them to write a paragraph on what action they are going to take with the stocks; buy, buy and hold, hold or sell.

[Master](#) and [Grand Master](#) Levels:

Have students develop a rubric for each of the stocks in their portfolio. They should answer:

- How their companies compare to other companies in the same industry and sector?
- What actions will they be taking - buy, sell or hold?

Application

Have students research two companies within the same industry. They will check the prior two years' annual reports and compare the reports to determine how the company is doing currently. They will plan a persuasive speech that either motivates SMG team members to buy, sell or hold.

[Novice](#) and [Apprentice](#) Levels:

Begin by distributing **Activity Sheet 1: Comparing Companies Across the Same Industry**. In a class discussion, have students explain what information is being presented about the companies and how a potential investor can use the data presented. The students can work independently or in their SMG teams.

NOTE: As long as the students justify their responses, there is no right answer. Some students might say they would still invest in Company 1, because it obviously still continues to rise as the other company does; both are close to their 52-week high. Students might think that it is good to buy stock in XYZ since you can buy more shares for your money and perhaps benefit if there is a stock split. Other students might say they would sell if they owned stock in XYZ in fear that EFG might take over the industry.

Have the students develop their own charts comparing the companies. Charts should include the information they believe is important in making the comparison?

[Master](#) and [Grand Master](#) Levels:

Have SMG teams do a financial analysis of each of the companies currently in their portfolio or that they plan to purchase. In addition to sector information and the company's annual report, what other indicators should they review when making informed decisions? Each team should develop a rubric showing what financial information is most important to them. How do each of their stocks compare to those in the same industry or in the same sector? Have students go to websites such as Yahoo! Finance or TheStreet.com to see other types of statistical analysis.

In the rubric, have them include their action, either to buy, sell or hold.

Enrichment Activities

Have the students take the data from **Activity Sheet 1** and create a bar graph that compares the revenues and net incomes over the past three years. This will give students a visual representation of how well the stock has done and project results into the future.

The students can plan a persuasive speech using visual displays to persuade the audience to buy, sell, or hold using the bar graphs.