



MODULE 2 - UNIT 4: FINDING STOCKS TO INVEST IN

Welcome to Unit 4! You now have a good understanding of the importance of economic moats and their importance in identifying what makes a good business. As part of Young Investors Society you will be competing in a Stock Pitch Competition. In this unit, you will learn how to come up with a good initial list of stocks.

DESCRIPTION

Unit 3 will teach students the keys to coming up with a good initial list of stocks. Students will practice coming up with investment ideas. They will learn how to conduct a stock screen and how to utilize the S&P 500 and Dow Jones. Students will learn good locations for accessing research reports and will wrap up with an field trip and activity creating their own list of initial stocks in preparation for the Stock Pitch Competition.

CORE OBJECTIVES

Lesson One: Coming Up with Investment Ideas

- Identify businesses you know that offer a competitive moat.
- Analyze and customize stock screeners to evaluate a stock for investment.

Lesson Two: Using Research Reports to Evaluate Stocks

- Use the S&P 500 and Dow Jones Industrial Average to evaluate stocks for investment.
- Interpret and evaluate research reports.
- Understand the role of a stockholder in a company.

Lesson Three: Make a List

- Utilize knowledge of competitive moats, stock screeners, and stock reports to create a list of initial stocks for investment.

LENGTH

Approximately 90 minutes, split up into three (3) 20 to 40-minute lessons.

LESSON ONE

D2.ECO.1.9-12. Analyze how incentives influence choices that may result in policies with a range of costs and benefits for different groups.

CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY (councilforeconed.org)

Standard V: **Financial Investing** Financial investment is the purchase of Financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.

CCSS.ELA-LITERACY.RI.11-12.7

Integrate and evaluate multiple sources of information presented in different media or formats (e.g., visually, quantitatively) as well as in words in order to address a question or solve a problem.

LESSON TWO

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D2.ECO.3.9-12. Analyze the ways in which incentives influence what is produced and distributed in a market system.

CCSS.ELA-LITERACY.RI.11-12.7

Integrate and evaluate multiple sources of information presented in different media or formats (e.g., visually, quantitatively) as well as in words in order to address a question or solve a problem.

CCSS.ELA-LITERACY.SL.11-12.1

Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.

LESSON THREE

CEE NATIONAL STANDARDS FOR FINANCIAL LITERACY (councilforeconed.org)

Standard V: **Financial Investing** Financial investment is the purchase of Financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher expected rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.

D2.ECO.3.9-12. Analyze the ways in which incentives influence what is produced and distributed in a market system.

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Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.

ADDITIONAL RESOURCES

- Access to Computers and Internet is preferred, but not required
- Learning Material: <https://www.seedasdan.org/yis/> – curriculum, videos and lesson plans
- YIS Glossary of Terms (full database at yis.org/resources)
- Zacks.com – for company research including ratios and screens
- Morningstar.com -- for company research including ratios and screens
- Gurufocus.com -- for company analysis
- Y-Charts – for company analysis and stock graphs.
- Wallstreetsurvivor.com -- for basic stock concepts
- Yahoo Finance and Yahoo Finance App -- for stock charts and basic company information
- Greenblatt, Joel. *The Little Book That Beat the Market*.
- Seeking Alpha – online portal of stock research reports (www.seekingalpha.com)
- Motley Fool – great daily content and stock picks (www.motleyfool.com)
- Investopedia.com – the “Wikipedia” of Investing, great online glossary of terms
- Stockcharts.com – for tracking stock market performance and comparison between stocks.

LESSON ONE: COMING UP WITH INVESTMENT IDEAS

OVERVIEW

The first lesson of Unit 4 will give students a solid grounding in the process of picking initial stocks for investment by focusing on investing in what you know. Students will practice discerning between popular companies that are terrible investments and those that are solid companies. Students will practice using stock screens.

LESSON SUMMARY

Warm-up: Students will reflect on their own spending habits to create a list of “sticky” companies.

Learning Activity: Students will make lists of popular companies and debate their investment potential and then practice using stock screens to evaluate their choices.

Wrap-Up: Students will discuss the list they created and pinpoint the strengths and weaknesses of their final choices.

OBJECTIVES

Students will be able to:

- Identify businesses you know that offer a competitive moat.
- Analyze and customize stock screeners to evaluate a stock for investment.

MATERIALS AND PREP

- Copies of Handout 4.1
- YIS Video Unit 4.1
- Access to computers and internet

RESOURCES

- Learning Material: <https://www.seedasdan.org/yis/>
- Google stock screener

LESSON ONE: COMING UP WITH INVESTMENT IDEAS

Handout 4.1

Investment Ideas Cheat Sheet

Think of products you are familiar with and answer the following question to determine if they have an economic moat.

1. What products am I happy to pay a price premium for because the service they offer can't be replicated by another? (Brand, Quality)
2. What services do I continue paying for because switching services would be too costly or a huge inconvenience? (High Switching Costs)
3. What platform do I use because it is the only one where I can meet up with a certain type of people and because the network or marketplace can't even be compared to a peer? (Network Effect)
4. What products have been around for generations – you can picture your parents and grandparents enjoying them and easily picture your grandkids enjoying them as well? (Sustainability, Brand)

Use these standards to conduct a more formal stock screen of your investment ideas.

You want to find a **great company** that is **growing** and you can **buy cheap**. Here are a couple of factors you can look for:

- A business that has very stable earnings, with little fluctuation year to year
- A company that has positive cash generation (Cash generation is the cash profits minus the investment costs to grow the business.)
- A company that consistently makes a healthy return on capital
- A company that pays a dividend that grows consistently every year

IS THE COMPANY GOOD?

- **5y Return on Equity:** greater than 12% (Also use Return on Investment)
- Good companies often have **high margins** (Gross Margin > 30%, Operating Margin > 15%)
- Interest Coverage above 3 times
- Stable earnings and Return on Equity through the years (look at a chart, or look over the past 10 years, on Morningstar.com or zacks.com)

IS THE COMPANY GROWING?

- 5y revenue growth greater than 4% per year
- 5y earnings growth (and EPS) greater than 4% per year
- Forecasted growth in the next 5 years

IS THE STOCK CHEAP?

- P/E ratio below 15x (market average)
- Dividend yield above 3%
- P/Book ratio below 2x

LESSON TWO: USING RESEARCH REPORTS TO EVALUATE STOCKS

OVERVIEW

In the second lesson of Unit Four, students will learn how to use the S&P 500 and Dow Jones as investment research. Students will analyze research reports written by other investors and present their findings to the class. Students will combine the methods presented in the previous lesson with the new information they learn in this lesson to gain a comprehensive understanding of how to make an initial decision on an investment.

LESSON SUMMARY

Warm-up: Students will explore the S&P 500 and the Dow Jones.

Learning Activity: Students will study research reports and share their findings with the class.

Wrap-Up: Students will discuss due diligence and what it means to be a shareholder.

OBJECTIVES

Students will be able to:

- Use the S&P 500 and Dow Jones Industrial Average to evaluate stocks for investment.
- Interpret and evaluate research reports.
- Understand the role of a stockholder in a company.

MATERIALS AND PREP

- Internet access
- Computers or smartphones for research
- Copies of Handout 4.2
- YIS Video Unit 4.2

RESOURCES

- Learning Material: <https://www.seedasdan.org/yis/>
- Investor blogs and research reports

LESSON TWO: USING RESEARCH REPORTS TO EVALUATE STOCKS

Handout 4.2

Source List for Research Reports

Seeking Alpha: Seekingalpha.com is an excellent databank of investor reports on companies. Some of the writers are professional investors, some are not, but there is a plethora of articles written on companies, both large and small.

SumZero: Similar to Seeking Alpha, sumzero.com is an online platform where investment professionals write investment reports and promote stock ideas.

Wall Street Journal and The Financial Times: These are the two newspapers that every needs investor reads each day. Most people need to pay for online access, but you can read the articles for free if you copy the article's title into Google and access it through Google directly (a legal and very useful trick!).

Motley Fool: Fool.com is an always-interesting mix of financial news, investment strategies, and large doses of humor balanced by hard hitting serious news and opinion. Tom and Dave Gardner and their talented staff have been delivering their unique and informed message since 1993 and the Fool is now a full-service financial media enterprise. If you'd like your investing information tinged with some pleasant sarcasm and edgy laughs, the Fool might be perfect for you.

Jim Cramer: The host of CNBC's Mad Money and co-founder of TheStreet.com is a journalist, lawyer, and "infotainer" (his term). He's been dispensing financial and investment information to anyone listening since the mid-1990s. If you need a break from reading financial statements or waiting for your stock screener to advise you on your next hot investment, Cramer might add some zest to your day. A former hedge fund manager, Cramer has been in the investment trenches for some time. You may not agree with all that he says, but you will be informed and entertained.

GuruFocus: GuruFocus.com tracks the stock trades of successful investment managers to see what they are buying and selling. It also provides stock recommendations based on different investment criteria and has a robust stock screening tool.

Value Investors Club: Valueinvestorsclub.com is an online investment club where top investment managers come together to share their best stock ideas.

Beyond Proxy: Beyondproxy.com is one of the most successful investment blogs. It compiles interviews with portfolio managers and stock reports.

There are thousands of investor blogs in addition to the above list. Some are good, some are not, and a few are truly excellent. There are many free sources available to provide thoughts on companies and the market.

LESSON THREE: MAKE A LIST

OVERVIEW

During the third lesson of Unit Four, students will apply their knowledge of moats, stock screeners, and stock reports to create their own list of initial stocks for investment. Students will have completed an off-site activity prior to this lesson and should bring their completed work with them.

LESSON SUMMARY

Warm-up: Students will work in groups to discuss their initial list of stocks.

Learning Activity: Students will follow the due diligence steps to narrow their investment list from their activity.

OBJECTIVES

Students will be able to:

- Utilize knowledge of competitive moats, stock screeners, and stock reports to create a list of initial stocks for investment.

MATERIALS AND PREP

- Internet access
- Computers or smartphones for research
- Copies of Handout 4.3
- YIS Video Unit 4.3

RESOURCES

- Learning Material: <https://www.seedasdan.org/yis/>
- Investor blogs and research reports

Handout 4.3

Now that you have an understanding of how to choose initial stocks for investment, it's time to take your knowledge into the real world. Set aside some time with your group to go to a shopping center or grocery store to scout for investment ideas.

Pay attention to people carrying shopping bags or people's shopping carts. Consider the following questions:

1. Which stores are well represented?
2. How full are the shopping bags or carts?
3. Visit the stores of the shops that seem the most successful.
4. What are customers picking up?
5. What merchandise are customers buying?
6. What products are the asking for?
7. What products are emphasized on displays?
8. What products are easy to see because of where they are displayed?
9. If you like a particular brand, check to see how many competing options there are?
10. How are the competing products priced?