

# Buy, Sell or Hold?

## Suggested Grade

Grades 4-5

## Suggested Time

One class period

## 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 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.nasdaq.com](http://www.nasdaq.com), or the company's website, which usually contains a link to "Investor Relations" where you can access the annual report.

## Vocabulary

**Industry:** A group of firms producing similar goods or services. The similarity of their products makes it possible to analyze and compare companies' performances. An industry can be broadly defined, such as the manufacturing industry, or narrowly specified, such as the soda industry.

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

**Profit:** The money left after all costs of business are paid.

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

**Sector:** A group of stocks, often in one industry. The performance of the stock of a company can be measured against the performance of the group as a whole. Pharmaceutical companies would be considered in the health care sector.



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## Performance Objectives

Students will be able to:

- Decide whether to buy, hold or sell stock based on research.
- Compare and contrast companies based upon stock market statistical data.
- Use the Internet to obtain annual reports and research companies.

## Materials

Fact Sheet 1: Activity Cards

Activity Sheet 1: Annual Reports—An Investment Tool

Activity Sheet 2: Comparing Companies in the Same Industry

Activity Sheet 3: Buy, Sell, Hold Scenario

## Springboard Activity

Create a three-column chart entitled "Making Portfolio Investment Decisions." Label the columns "Buy," "Sell," and "Hold."

Computer Company X is a publicly traded company that has just invented a new computer that will change the way homes use technology. It will be on the market in two months.

## Ask

1. Should we buy hold or sell Computer Company X?
2. How do you know the right action to take?
3. How do you make educated decisions about your investments?

Repeat with the scenarios found on *Fact Sheet 1: Activity Cards*.

Explain that investors need to evaluate the past and present performance of a company to determine whether or not to purchase stock.

## Procedure

Explain that there are a few well-proven indicators investors use to decide whether to buy, sell or hold. They will listen to a variety of stock stories to determine if they should buy, sell or hold the stock.

Distribute *Activity Sheet 3: Buy, Sell, Hold Scenario*. You may choose to read *Activity Sheet 3* to your students or distribute it for the students to read independently.

Elicit the following or similar conclusions:

- If the current revenue and profit is higher, you might **hold** the stock **or buy** more.

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- If the stock price is steady and the analyst report is positive, you would **hold** the stock, **but not buy** more.
- If a stock is down and the analyst report is negative you may want to sell, or,
- If you believe the stock has reached a peak you may **sell** to gain the profit.

### Novice and Apprentice Levels:

Annual reports provide good information on individual companies, but it is also important for successful investors to research other companies in the same industry. This comparison is called to “sector analysis.” Professional financial analysts carry out detailed analyses, but SMG teams can conduct a simplified analysis of their own.

Distribute *Activity Sheet 1: Annual Reports—An Investment Tool*. Ask SMG teams to decide if they should buy, sell or hold the companies’ stock, based on the information given. Teams should report their decisions to the class and summarize student responses.

Have students choose a stock from their SMG portfolio or one they are considering purchasing. Ask them to go online find the company’s annual report, revenue and profits statement, and compare them to other companies in the same industry.

If internet access is an issue or time is short, you may wish to download the annual reports of two companies and make copies of the relevant news and financials to share with your students.

Ask your students:

1. If other companies are doing much better, you would tend to sell this company?
2. If they are doing worse, you would tend to hold?

Have students check the internet for current events surrounding companies. Have them research how the sector is performing.

Explain to them that even if a sector is growing, they may still want to purchase the stock despite its poor peer performance. If the sector is collapsing, they may want to sell the stock even if it is doing better than others in the sectors.

### Assessment

Have each team member assess one current holding and one potential new purchase. Have each student present their findings to their team members.

### Application

#### Novice & Apprentice Levels:

Have students research two companies within the same industry.

Have students check the two prior annual reports (or look at analyst reports) and compare the statistics to show how the company is currently performing.

Have students plan a persuasive speech that either motivates SMG team members to buy, sell or hold.

### **Master & Grand Master Levels:**

Have students select a company from their portfolio and read the CEO and President of a company's message to shareholders in the annual report.

Have them compare what the executives say about the company's performance to the actual performance of the company.

Have them report on the accuracy of the executives' reports by researching the information on the Internet.

### **Enrichment Activities**

Distribute *Activity Sheet 2: Comparing Companies In the Same Industry*. In a class discussion have students explain what information is presented about the companies and how a potential investor can use that data to make investment decisions. Students may work independently or in their groups and answer the questions presented on the activity sheet.

Have students share their answers with the class.

**NOTE:** If students justify their responses, there are no right or wrong answers. Some 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 BooHoo 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 BooHoo for fear that The Techie, Inc., might take over the industry.

### **Answer Keys**

#### **Activity Sheet 1**

##### Internet Company: BooHoo

1. What have you learned about BooHoo from the data provided?  
The cost of the company's share is near its 52 Week High.

Answers may vary for questions 2 – 4.

##### Telephone Company: AB&C

Answers may vary for questions 1 – 2.



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## Gas and Electric Company: IT'S ELECTRIC!

Answers may vary for questions 1 - 2.

### **Activity sheet 2**

Compare the two Internet companies. What do you notice about each? Which company appears to be doing better? If you did not own any stocks in either company, which company's stock would you buy? Why?

Answers may vary but should not that both companies are near their 52-week high, but BooHoo is closer, BooHoo's net income is higher compared to that of The Techies, Inc.

Answers may vary for questions 2 - 4.

### **Activity sheet 3**

Answers will vary. The goal of this activity is to help students develop rational, fact-based arguments to defend their decisions.

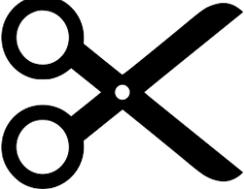
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# Fact Sheet 1: Activity Cards

Cut into cards for the chart to be completed with students\*.

 <p>PHONE, HOME, Inc. has just purchased a small European phone company. The purchase will allow it to sell mobile phone service in Europe.</p>	 <p>Wendell's Pacifier Company has just posted a 1.00 gain in its stock price. This is after 3 months without any change in price.</p>	 <p>Sonny Soundtastic stock prices continue to fall after it cancels production of a new Bluetooth sound cancelling headphones due to early negative reviews from audiophiles.</p>
 <p>Super Supreme Supermarkets just posted a profit for the first time in six months</p>	 <p>The CEO of Scrapbooker Collective, Inc. has been sent to jail for insider trading. An interim CEO has been announced.</p>	 <p>Fast-n-Affordable Corporation engineers have developed a new car that does not need gas to run. Stock prices soar even though the car has not been tested.</p>

\* The Activity Cards describe hypothetical events. The examples are given for educational purposes and are not meant to reflect any real occurrences.



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# Activity Sheet 1: Annual Reports, An Investing Tool

Examine the following charts. Based on the information supplied, answer the questions below.

## Internet Company: BooHoo

	2017	2018	2019
Revenue	1,625,097	3,574,517	3,756,668
Net Income	237,879	839,553	1,213,022

Current 52 Week High and Low: 39.78, 30.30  
Current Price Per Share: \$38.49

1. What have you learned about BooHoo from the data provided?

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2. What conclusions can you draw about BooHoo by comparing the net income to the revenue over three years? Does this make you more or less interested in investing in BooHoo? Explain

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3. You bought 100 shares in BooHoo in 2017 at \$14.62 per share. Would you buy, sell or hold in 2019? Explain.

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4. You want to invest in an Internet company. Would you buy shares in BooHoo? Explain.

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## Telephone Company: AB&C

	2017	2018	2019
Revenue	42,197	37,827	34,529
Net Income	7715	(13,082)	1,865

Current 52 Week High and Low: 62.04, 26.00  
Current Price Per Share: 25.11

1. You currently own 100 shares in AB&C that you bought in 2003 at 57.90. Would you buy more, sell or hold the stock? Explain.

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2. You want to invest in a telephone company. Would you buy shares in AB&C Company? Explain.

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## Gas and Electric Company: IT'S ELECTRIC!

	2017	2018	2019
Revenue	132,226	134,641	152,866
Net Income	14,167	15,002	15,236

Current 52 Week High and Low: 37.75, 32.67

Current Price Per Share: 35.80

1. You own 100 shares in IT'S ELECTRIC! you purchased in 2019 at \$32.67 per share. Would you buy more, sell or hold the stock? Explain.

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2. You are considering adding a gas and electric company's stock to your portfolio. Would you buy IT'S ELECTRIC!? Explain.

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3. Based on the information provided, would you buy shares in The Techies, Inc.? Why?

4. Currently you own 50 shares in The Techies, Inc. that you bought in 2002 at \$10.54. Would you buy more, sell your shares, or hold? Explain.



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# Activity Sheet 3: Buy, Sell, Hold Scenario

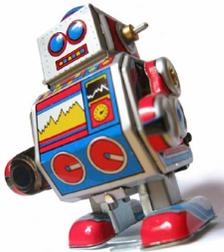
Each of the paragraph below describes a company and a major news event involving it. Would the news event effect the company and the price of its stock? How?



The **Good House Builders Company**, located in Mississippi, has been in existence for 14 years. It has had steady work for the past few years. Last summer a horrible hurricane hit Mississippi, wiping out major towns and cities in the southern part of the state. Every home and business was destroyed; people were left homeless and jobless. People are now returning after the disaster to rebuild. The only construction company in the area is the Good House Builders.



The **Good Health Pharmaceuticals Company** has been in business for 20 years. The company developed a drug that can cure lung cancer and is ready to distribute it to the public. Good Health Pharmaceuticals requested the Food and Drug Administration (FDA) to endorse and release the drug. The FDA asked for more tests to verify the safety of the drug and denied the release. These required tests could take up to ten years to complete!



**Toys for Everyone**, the largest toy company in the United States, produces the most famous toys in America. The company has grown quickly and consistently since it was founded fifty years ago. This fall, its CEO was accused of embezzling twenty-five million dollars from the company. The company is now under investigation.