Market Talks
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STOCKS · BEGINNER · LESSON 1 OF 15

What Is a Stock?

What it really means to own a piece of a company, what you get as a shareholder, and how shareholders make or lose money

11 min read 8 quiz questions with answer key

STOCKS · BEGINNER · LESSON 1 OF 15

What Is a Stock?

IN ONE SENTENCE

A stock, also called a share, is a small piece of ownership in a company. Companies sell shares to raise money, and the people who buy them become part owners with a claim on the company's future profits. Shareholders earn money when the share price rises or when the company pays dividends, and they can lose money when the price falls.

Owning a piece of a company

Alex runs a successful coffee company called Bright Bean. To make ownership easy to divide, the company is split into **1,000 equal pieces**. Each piece is called a **share**, and together the shares are the company's **stock**. Alex keeps 900 shares and sells 100 to his friend Emma.

Emma now owns 100 out of 1,000 shares, or **10% of Bright Bean**. She does not own 10% of the coffee machines or 10% of the cups. She owns 10% of the whole business: its equipment, its brand, its cash, its debts and, most importantly, its future profits. The people who own shares are called **shareholders** or **stockholders**.

This is exactly how the world's largest companies work, only on a much bigger scale. Apple, for example, had about **14.8 billion shares** outstanding in October 2025. Someone who buys 10 Apple shares owns a very tiny slice of the company, but the idea is the same as Emma's 10% of Bright Bean.

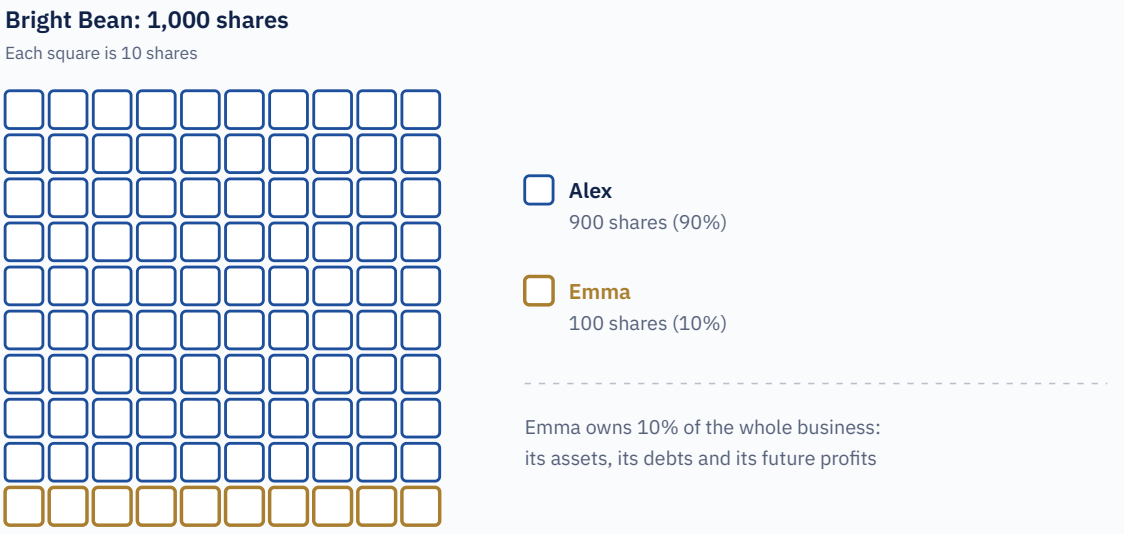


Figure 1. Bright Bean is split into 1,000 equal shares. Emma's 100 shares make her the owner of 10% of the whole company.

EXAMPLE: WHAT EMMA'S SHARES ARE WORTH

Suppose a buyer would pay $500,000 for the whole of Bright Bean. With 1,000 shares, each share is worth $500,000 ÷ 1,000 = **$500**, and Emma's 100 shares are worth $50,000. If the business grows and is later valued at $800,000, each share is worth $800 and Emma's stake is worth $80,000. If the business struggles and is valued at $300,000, her stake falls to $30,000. The value of a share follows the value of the company.

Why companies sell shares

Bright Bean wants to open five new cafés, which will cost $200,000. Alex has two main ways to raise the money:

- **Borrow it.** A bank lends $200,000. Alex keeps full ownership, but the loan must be repaid with interest, whether the new cafés succeed or not.
- **Sell shares.** New investors pay $200,000 for new shares. The money never has to be repaid, but the investors become part owners and share in future profits.

Money raised by borrowing is called **debt**. Money raised by selling ownership is called **equity**, and that is why the stock market is also called the **equity market**. Most large companies use a mix of both.

For investors, this is the deal behind every share: you give the company money it can use to grow, and in return you get a share of what that growth is worth. Companies that sell shares to the general

public and list them on a stock exchange are called **public companies**. Lesson 2 explains how a private company becomes public.

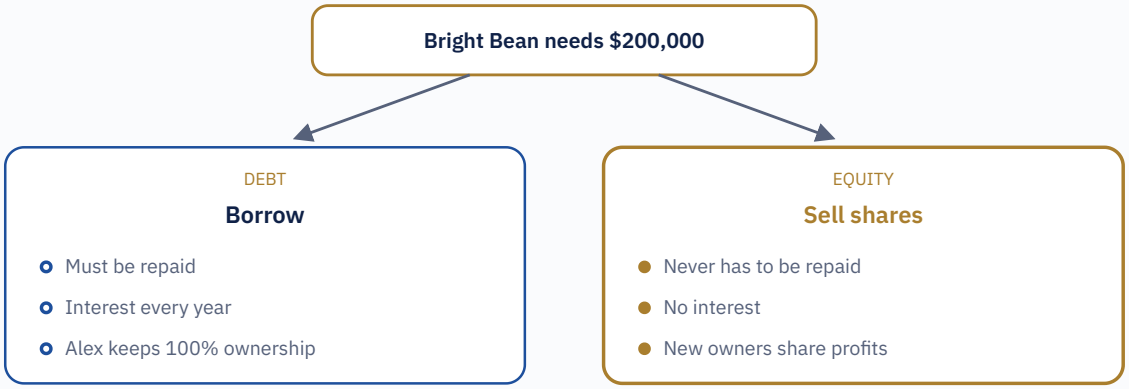


Figure 2. A company can raise money by borrowing (debt) or by selling shares (equity). Equity never has to be repaid, but it gives away part of the ownership.

What you get as a shareholder

Owning shares, usually **common shares**, gives you four main rights and protections:

- **A vote.** Shareholders usually get one vote per share at the company's annual meeting, for example to elect the board of directors that oversees the managers. One share gives you very little influence, but large investors can have a big say.
- **A share of the profits.** When the company decides to pay out part of its profit as **dividends**, every share receives the same amount.
- **A claim on what is left.** If the company is sold or closed, shareholders get what remains after everyone the company owes has been paid.
- **Limited liability.** You can lose the money you paid for your shares, but no more. If the company goes bankrupt, its lenders cannot come after your house or your savings.

What shareholders do not get is a say in daily decisions. Emma cannot walk into a Bright Bean café and change the menu. Professional managers run the business, and shareholders judge them by the results.



Figure 3. The four main things a common shareholder gets.

Two ways to make money from a stock

Shareholders can make money in two ways:

- **The price rises.** If you buy a share for $50 and later sell it for $60, you make a **capital gain** of $10. Share prices tend to rise over time when a company's profits grow, because a more profitable company is worth more.
- **Dividends.** Many mature companies pay part of their profits to shareholders in cash, often every three months. Young, fast-growing companies usually pay nothing and reinvest every dollar into growth instead.

Together, the price change and the dividends make up the **total return**. Of course, the price can also fall. If you buy at $50 and the price drops to $40, you have a **loss** of $10 per share, and dividends do not always make up for it. A loss only becomes final when you sell, but a falling price is still a real drop in what your shares are worth.



Figure 4. David's total return is the rise in the share price plus the dividends he received.

EXAMPLE: DAVID'S TOTAL RETURN

David buys 20 shares at $50 each, paying $1,000. Over one year he receives dividends of $2 per share, or $40 in total, and then sells the shares at $60 each for $1,200. His capital gain is $200 and his dividends are $40, so his total return is **$240 on $1,000, or 24%**. Had the price fallen to $45 instead, he would have lost $100 on the price and gained $40 in dividends, a total loss of $60, or 6%.

The risk: shareholders are paid last

Shares offer a share in the upside, but they also carry the most risk. A company has to pay its workers, suppliers, tax and lenders before anything is left for its owners. In good years, that leftover can be large. In bad years, it can be nothing.

If a company fails completely, the order is clear. Lenders and bondholders are paid first from whatever the company still owns, then preferred shareholders, and common shareholders come **last**. In most bankruptcies there is little or nothing left for them, and the shares become worthless. That is the worst case: losing 100% of what you paid.

This is also why stocks can rise so much. Lenders get a fixed amount of interest no matter how well the company does. Shareholders take the bigger risk, and in return they keep all of the extra value when a business does better than expected. The way to live with this risk is not to avoid it, but to spread it across many companies, as Lesson 14 explains.

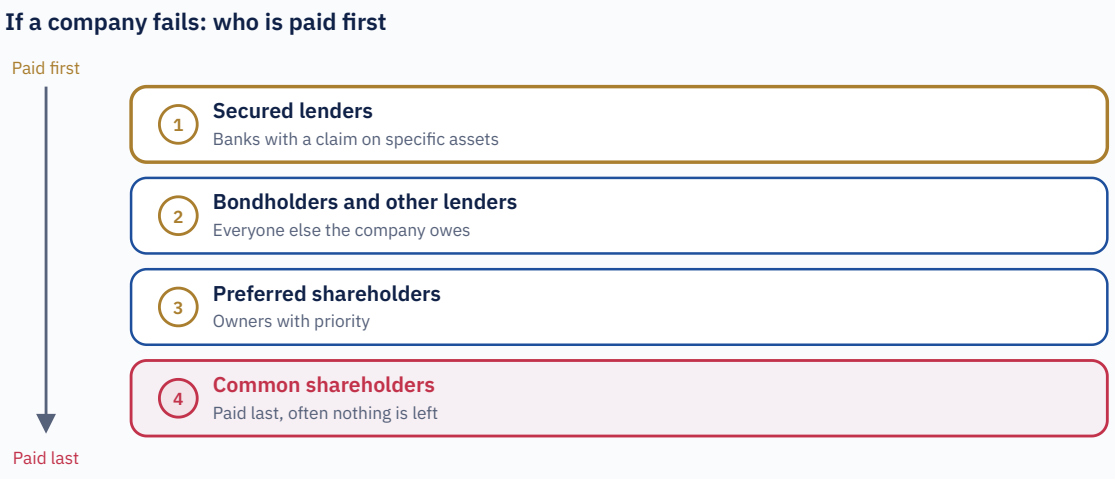


Figure 5. If a company fails, whatever it still owns is shared out in a fixed order. Common shareholders come last.

Common and preferred shares

When people talk about buying a stock, they almost always mean **common shares**, the kind that trades on the stock market every day. Some companies also issue **preferred shares**, which work a

little more like a bond:

	Common shares	Preferred shares
Voting	Usually one vote per share	Usually no vote
Dividends	Can rise, fall or stop	Usually a fixed amount, paid before common dividends
If the company fails	Paid last	Paid before common shareholders
Price potential	Can rise a lot if the company grows	Usually moves less
Who buys them	Most investors and traders	Mainly investors looking for steady income

Some companies also have several classes of common shares with different voting power. Alphabet, Google's parent company, is a well-known example: its Class A and Class C shares trade under the tickers GOOGL and GOOG, and the main difference is voting rights. For a beginner, the key point is that the share you buy on a trading app is almost always a common share.

Stocks compared with savings and bonds

Most people keep their money in three main places: a savings account, bonds or stocks. Each offers a different balance between growth and safety.

- **Savings accounts** pay interest and, in most countries, are protected up to a limit. The value hardly moves, but the interest may not keep up with rising prices.
- **Bonds** are loans to a government or company. They pay regular interest and return the amount lent at the end, unless the borrower fails. Their prices move, but usually less than stocks.
- **Stocks** have no promised return at all, and their prices can swing widely. Over long periods, however, they have grown faster than savings or bonds.

In the United States, the stock market has returned **around 10% per year on average since 1926**, counting dividends. But that average hides huge differences between years. According to research by Dimensional Fund Advisors, the S&P 500 returned between 8% and 12% in only **6 of the 93 calendar years** to 2018. Some years brought gains of 30% or more, others losses of 20% or more. The long-term average is only useful to someone who can hold on through the bad years.



Figure 6. Over long periods, stocks have grown faster than savings and bonds, but their prices also move up and down the most.

How big the stock market is

According to SIFMA, the US securities industry association, the shares of all listed companies in the world were worth about **$157.8 trillion** at the end of 2025, up 18.9% in a year. This total value is called **market capitalization**, or market cap: the share price multiplied by the number of shares, added up across every company.

The United States alone accounts for about **43.7%** of that total, around $68.9 trillion, which is 4.4 times the size of China's market, the next largest. Europe, Japan, India, the UK, Canada, Korea and many others make up the rest. Lessons 4 and 5 look at the main exchanges and the indices that track them.

Stocks are not only for professionals. The US Federal Reserve's most recent survey of households found that **58% of US households** own stocks, directly or through funds and retirement accounts. Many of them never pick individual companies at all, and instead own small pieces of hundreds of companies through index funds, which Lesson 13 explains.

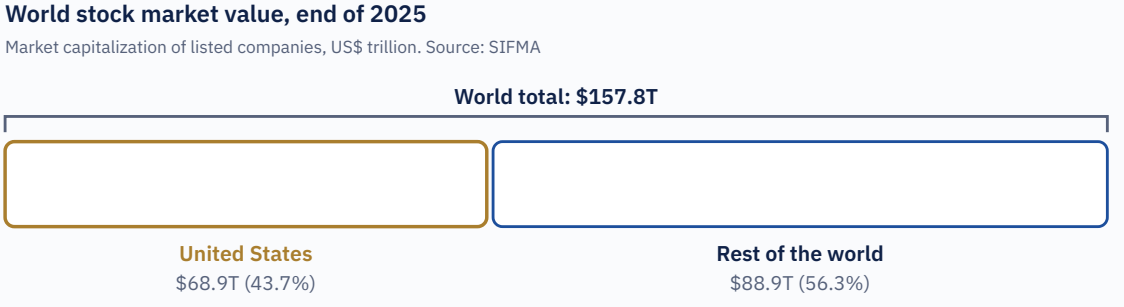


Figure 7. Listed companies around the world were worth about $157.8 trillion at the end of 2025. US companies made up 43.7% of that value.

Why this matters for traders

- **A share price is a price for a business.** Behind every ticker there is a company with sales, costs, debts and profits. News about those numbers, such as earnings reports, can move a stock sharply in minutes.
- **Market cap matters more than share price.** A $20 share is not "cheaper" than a $400 share. What matters is the value of the whole company compared with what it earns. Lesson 6 shows how to read this on a quote.
- **Shareholders take the first loss.** When a company gets into trouble, its shares usually fall much faster than its bonds. Never put more into one stock than you can afford to lose completely.
- **Stocks and indices move other markets.** The S&P 500 and Nasdaq 100 often move together with bitcoin, and they react to the same interest rate news that moves the US dollar and gold.

Key terms

Stock	Ownership in a company, divided into equal units called shares. The words stock and shares are often used to mean the same thing.
Share	One unit of ownership in a company.
Shareholder	A person or institution that owns shares in a company. Also called a stockholder.
Equity	Ownership in a company, or money raised by selling ownership rather than by borrowing.
Public company	A company whose shares are sold to the general public and traded on a stock exchange.
Dividend	A part of a company's profit paid out to its shareholders, usually in cash.
Capital gain	The profit made when you sell a share for more than you paid for it.
Total return	The price change plus any dividends received, usually shown as a percentage of what you paid.
Limited liability	The rule that shareholders can lose no more than the money they invested.

Market capitalization	The total value of a company's shares: share price multiplied by the number of shares.

Key takeaways

1. A stock is ownership in a company, divided into equal shares. Owning shares makes you a part owner of the whole business, including its future profits.
2. Companies sell shares to raise money without borrowing. The money does not have to be repaid, but new owners share in the profits.
3. Common shareholders usually get a vote, a share of any dividends, a claim on what is left and limited liability.
4. Shareholders make money from rising prices and dividends, and lose money when prices fall. If a company fails, common shareholders are paid last and can lose everything.
5. Over the long run stocks have grown faster than savings and bonds, but with large swings from year to year. The world's listed shares were worth about $157.8 trillion at the end of 2025.

Test yourself

Circle one answer for each question. The answer key with explanations is on the next page. You can also take this quiz online at markettalks.info and see your score instantly.

1. Bright Bean is divided into 1,000 shares and Emma owns 100. What does she own?

- A 10% of the company's coffee machines only
- B 10% of the whole company
- C 100% of one café
- D A loan of $100 to the company

2. A buyer values Bright Bean at $500,000. There are 1,000 shares. What is one share worth?

- A $50
- B $500
- C $5,000
- D $500,000

3. What is the main difference between raising money by selling shares and by borrowing?

A Shares must be repaid with interest
B Borrowed money gives the lender ownership
C Money from selling shares does not have to be repaid, but new owners share in the profits
D There is no difference

4. What does limited liability mean for a shareholder?

A You can lose only the money you paid for your shares
B You can never lose money
C You are responsible for all the company's debts
D You can only own a limited number of shares

5. David buys shares at $50, receives $2 in dividends and sells at $60. What is his total return per share?

A $2
B $10
C $12
D $60

6. If a company goes bankrupt, who is usually paid last?

A Lenders
B Bondholders
C Preferred shareholders
D Common shareholders

7. Which is usually true of preferred shares compared with common shares?

A They always have more votes
B They usually pay a fixed dividend and are paid before common shareholders
C They are the shares most traders buy on apps
D Their price always rises faster

8. The US stock market has averaged around 10% a year since 1926. What does that mean for a single year?

A. Every year returns close to 10%

B. Returns are never negative

C. Returns vary widely, and years close to the average are rare

D. Stocks are guaranteed to beat savings every year

Answer key

1 B

10% of the whole company

100 out of 1,000 shares is 10%. A share is a piece of the whole business, including its assets, debts and future profits, not of one particular item.

2 B

$500

$500,000 divided by 1,000 shares is $500 per share. The value of a share follows the value of the whole company.

3 C

Money from selling shares does not have to be repaid, but new owners share in the profits

Selling shares raises equity: no repayment, but the company gives away part of its ownership. Borrowing raises debt, which must be repaid with interest whatever happens.

4 A

You can lose only the money you paid for your shares

Your maximum loss is what you invested. If the company goes bankrupt, its lenders cannot claim your personal savings or property.

5 C

$12

The capital gain is $60 minus $50, or $10, plus $2 of dividends, for a total of $12 per share, which is 24% of the $50 he paid.

6 D

Common shareholders

Common shareholders are owners, so they only receive what is left after lenders, bondholders and preferred shareholders. In most bankruptcies little or nothing is left.

7 B

They usually pay a fixed dividend and are paid before common shareholders

Preferred shares usually pay a fixed dividend before common dividends and rank ahead of common shares if the company fails, but they usually have no vote and less price potential.

8 C

Returns vary widely, and years close to the average are rare

Dimensional found the S&P 500 returned between 8% and 12% in only 6 of 93 years. Some years bring big gains and others big losses. The average only helps investors who can hold on through bad years.

SOURCES

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