

# Activity 1

## THE BUILDING BLOCKS OF STOCKS

### PART 2: EARNINGS AND RETURNS

Your lawn and landscape business is seasonal and operates from April through October. During that time, you had a profit of \$2,000 per month.

1. What are the company's profits for the year? \$\_\_\_\_\_
2. Would you expect the stock price to go up or down? Why?

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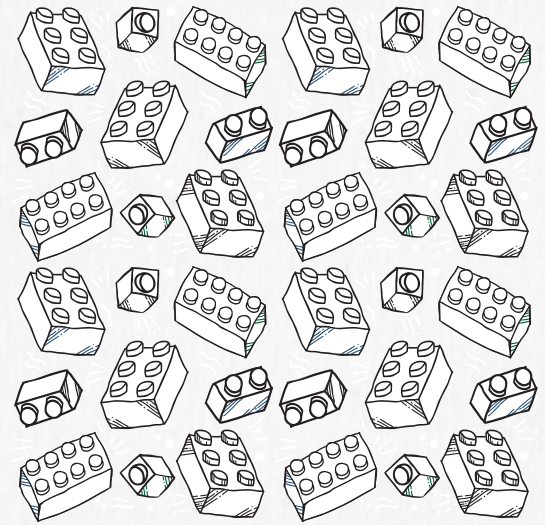


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Now consider these scenarios:



### TRADE 1

At the end of the first year of business, Friend 3 learns that he will be moving out of state and wants to sell his shares. Business is booming and a new person, Friend 5, wants to buy in. She agrees to purchase Friend 3's shares for \$60 each.

1. How much money did Friend 3 lose/gain on his investment? \$\_\_\_\_\_
2. Based on the year-end stock value of \$60 per share, what is the price return for a share of stock after one year? Use a calculator to find the answer.

Current stock price	- Purchase price	÷ Purchase price	= Price return
\$	- \$	÷ \$	= %

3. What is your stock now worth? \$\_\_\_\_\_
4. What is your total return after one year? Use a calculator to find the answer.

Current stock value	+ \$0.00 dividends	÷ Initial stock value	- 1	= Total return
\$	+ \$0.00	÷ \$	- 1	= %

### TRADE 2

It is now the end of the second year, winter comes early, and some of your clients leave for a competitor. As a result, profits are lower than expected. Friend 2 realizes that he needs some extra cash for an unexpected expense, but no one is willing to pay \$60 per share anymore. You agree to purchase two of Friend 2's shares for \$40 each.

1. How much money did Friend 2 lose/gain on his investment? \$\_\_\_\_\_
2. Based on the year-end stock value of \$40 per share, what is the price return for the stock from the end of year 1 to the end of year 2? Use a calculator to find the answer.

Current stock price	- Price at end of year 1	÷ Price at end of year 1	= Price return
\$	- \$	÷ \$	= %

3. Who has the greatest percentage of ownership in the company, and how many shares of stock does this person own?

Majority shareholder \_\_\_\_\_