

## *How to pick a Stock and Minimize Risk*

Compare the two companies and answer questions 1 through 5 after you compare them.



**RISK FACTORS STUDENT ORGANIZER:**

1. **Profitability:** Is the company making a profit?
2. **Product:** Does the company have a successful product?
3. **Market:** Does the company have a large share of the market?
4. **Competition:** Are other companies creating similar or better products?
5. **Management:** Does the company have strong leaders?

Company A:	Company B:
Company A makes low-cost PCs. It was one of the first companies to make a low-cost PC, and it was very popular 10 years ago. However, it is starting to struggle because it is not keeping up with current technological advancements.	Company B makes cell phones that also play music and movies. The company has developed a design that means the phone can come in many different shapes and sizes, and is very inexpensive to produce.
After 10 years of high profits, this company is starting to make less money. It's still profitable, but the profits aren't increasing each year as they had previously.	With its new design and lower prices, Company B is starting to see its profits soar. The company is selling its new phones as fast as they can make them.
Company A's low-cost PC is falling in popularity because it does not have compatible software for downloading music or making digital movies, it only has "office" software like word processing and spreadsheets.	Company B's phones are extremely popular because of the new design. In fact, it has become a fad in most high schools to own this type of phone, and some people are buying two or three of them at a time.
Company A's share of the low-cost PC market is falling because consumers are choosing to buy computers that have the capability to download music.	Because customers buy Company B's phones, they are not buying other phones, so Company B's share of the cell phone market is increasing.
The other low-cost PC makers have been able to sell their computers with compatible software for downloading music and making digital movies.	No other cell phone company has been able to come up with a similar innovative design, or low-cost means of production. For this reason, no other company is competing very well with Company B.
Company A just hired a new CEO to help improve the company. The CEO previously was the head of a chain of restaurants, and knows nothing about the computer industry.	Company B has a strong management in place, with managers who have worked in the cell phone industry and are also innovative thinkers. The company plans to keep the same management in place.

Now Examine these companies and their charts, match their performance with each chart.

### MARKET MOVER STUDENT ORGANIZER

#### Tori's Toybox

Tori's Toybox is a manufacturer of educational toys for the pre-school set. It relies on the holiday season for a large percentage of its sales. The CEO is a strong leader who has made innovations to the educational toy market.

Date	Event	Stock Price
January	Weak holiday season -- sales are low	40
March	Successful CEO quits to go to competitor.	36
May	New line of toys introduced.	38
July	New line of toys featured in major film.	40
September	New toy is found not to be educational.	36
November	Toy's popularity falls.	30

#### Casual Cruiselines

Casual Cruiselines is a successful cruise company that relies on the holiday and spring break seasons for the bulk of its sales. Cruises have traditionally been a popular type of vacation in the U.S., so the company has had a steady clientele.

Date	Event	Stock Price
January	Profitable holiday cruise season.	40
March	Strong spring break cruise season.	43
May	Cruises generally start to fall in popularity.	39
July	Fewer people are going on cruises.	35
September	Company buys a chain of ski resorts.	37
November	Ski resorts are wildly successful.	42

#### Wholesome Unlimited

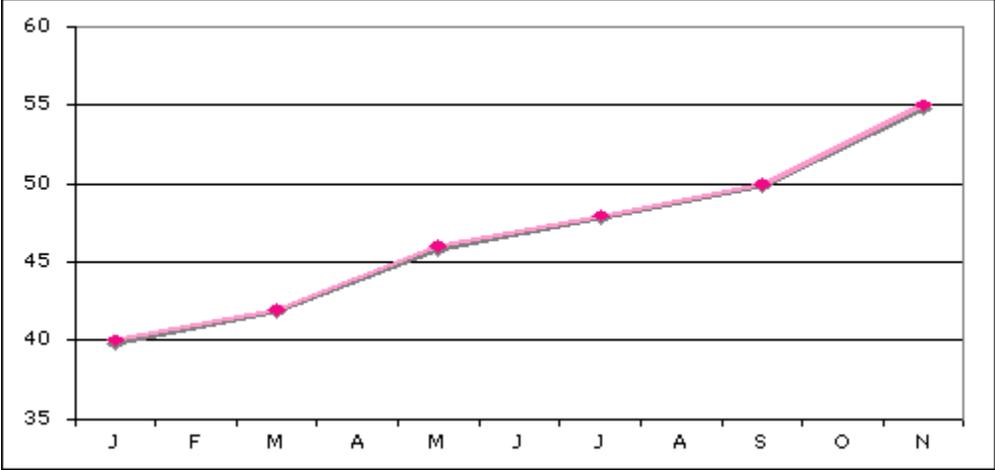
Wholesome Unlimited is a chain of grocery stores featuring organic and highly nutritious foods. Their goods are more expensive than regular grocery store products, and the company is struggling to build a steady clientele.

Date	Event	Stock Price
January	New stores open but lack popularity.	40
March	Sales pick up a little in the stores.	42
May	Major study released on importance of healthy food.	46
July	Summer means everyone is eating more healthfully.	48

September	Healthy food becomes the norm in the U.S.	50
November	Wholesome is the number one chain of healthy grocery stores.	55

**Market Mover Stock charts:** Match each chart with a company from the first page of the MARKET MOVER Student Organizer.

**Chart A: Company:** \_\_\_\_\_



**Chart B: Company:** \_\_\_\_\_

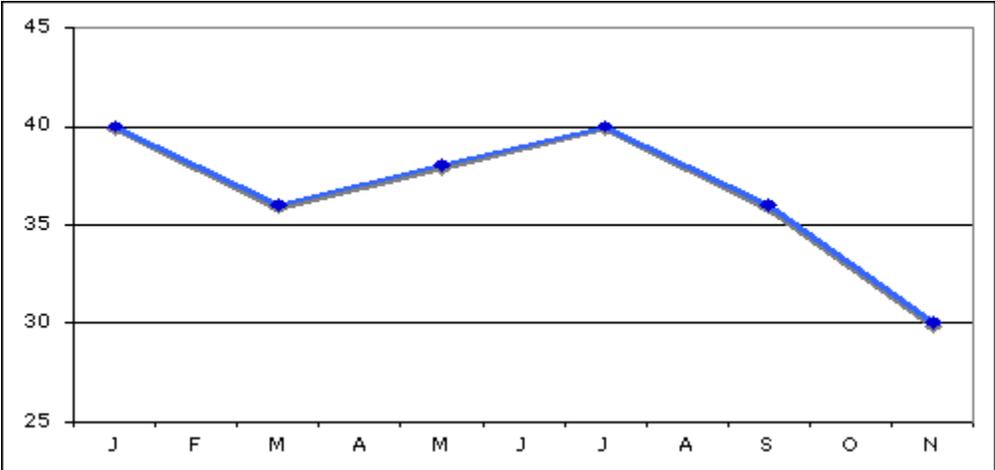
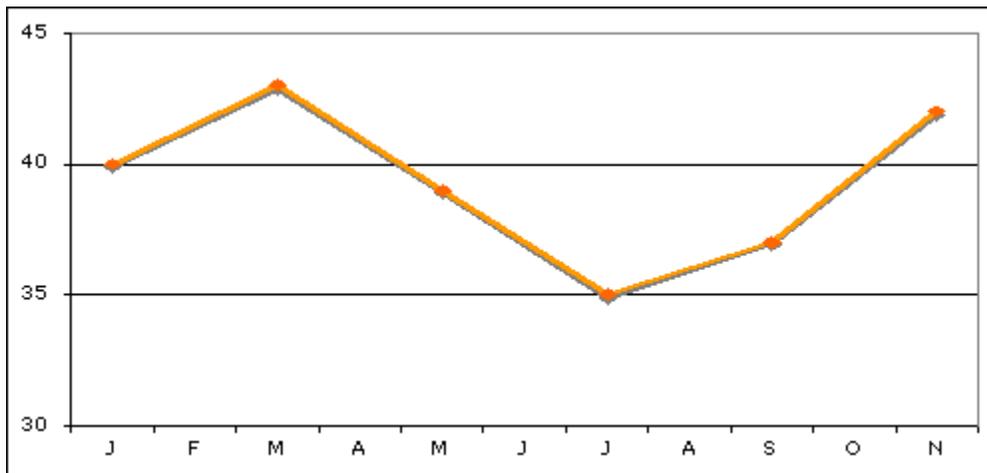


Chart C: Company: \_\_\_\_\_



## Read the following Company Profiles

### COMPANY PROFILES STUDENT ORGANIZER

#### FREDDY'S FAST FOOD

This is a chain of convenient hamburger restaurants. They have locations all over the United States, and have been in existence for 20 years.

- **Profitability**  
Freddy's is profitable most years, although recently the company has been making less money as customers have been choosing to eat healthier food, and less fast food.
- **Product**  
Freddy's makes a good hamburger, but has not introduced any healthy items into its menu like salads or other lowfat alternatives.
- **Market**  
Freddy's share of the fast food market is starting to decline as it has kept the same menu for the last 20 years, and has not introduced new or interesting or healthy alternatives to high fat meals.
- **Competition**  
Freddy's competitors have been much more active in introducing interesting new menus and healthier offerings.
- **Management**  
Freddy's management has been the same for the last 20 years, and most of the leaders of the company don't know much about the changes in the fast food industry. However, they are looking at how to improve the company.

#### JOANNIE'S JEANS & CO.

This is a fashion company that has launched a new design of jeans that have become all the rage with the teenage crowd. Everyone wants these jeans, and Joannie's is selling them as fast as they are made.

- **Profitability**  
With the introduction of the new jeans line, Joannie's has become extremely profitable. The company is selling everything it makes, and it can't hold on to any inventory.

- Product**  
 Joannie's jeans are extremely popular. The company has hit on a trend. Even better, it seems like this product will be popular for a long time, and that Joannie's has become the brand that will have staying power.
- Market**  
 Joannie's share of the jeans market is starting to increase because the new design is so popular. More teens are buying these jeans, in place of other brands.
- Competition**  
 So far, the competition hasn't been able to produce any jeans that are nearly as popular as Joannie's.
- Management**  
 Joannie's management is a strong combination of leaders who have worked in the fashion industry for a long time and have solid experience, and innovative designers who have a fresh approach to the business.

### **TYRANNOSAURUS THEME PARKS**

TTP is a chain of theme parks all over the U.S. The parks have a dinosaur theme and are very popular with children and adults of all ages. However, theme parks in general are becoming less popular in the U.S.

- Profitability**  
 TTP's profits are going up every year, although this year the profits did not go up quite as much as last year.
- Product**  
 TTP has a unique product, because it is the only dinosaur-themed amusement park in the U.S. It also has a loyal customer base.
- Market**  
 TTP has a large share of the market for theme parks, although in general, the market for theme parks is getting smaller as they become less popular in the U.S. This means that TTP still has a good-sized market share, but its base of customers is getting smaller.
- Competition**  
 No other theme park has been able to compete well with the dinosaur-themed parks owned by TTP. Because the overall market for theme parks is shrinking, it also doesn't look like there will be much innovation in the area.
- Management**  
 TTP's management is fairly weak. The strong members have left the company because they are concerned about the weakening theme park market. The company leaders who are left are not very experienced or innovative.

### **Now determine their Risk**

#### **RISK ANALYSIS STUDENT ORGANIZER**

Rate the risk factors with the following ratings: 1 -- low- risk; 2 -- medium risk; and 3 -- high risk. Include an explanation for your rating.

<b>Risk Factors</b>	<b>Freddy's Fast Food</b>	<b>Joannie's Jeans</b>	<b>Tyrannosaurus Theme Parks</b>
<b>Profitability</b>			

<b>Product</b>			
<b>Market</b>			
<b>Competition</b>			
<b>Management</b>			

**Least Risky:** \_\_\_\_\_

*Now write a brief recommendation to Mr. Reed on what company you would recommend he buys shares in based on a 10,000 dollar investment with at least 10 years to keep the stock if he prefers. Make sure to support your reasoning.*