Stockmarket

The stock market is where investors connect to buy and sell investments — most commonly, stocks, which are shares of ownership in a public company.

Definition: What is the stock market?

The term "stock market" often refers to one of the major stock market indexes, such as the Dow Jones Industrial Average or the S&P 500. Because it's hard to track every single stock, these indexes include a section of the stock market and their performance is viewed as representative of the entire market.

You might see a news headline that says the stock market has moved lower, or that the stock market closed up or down for the day. Most often, this means stock market indexes have moved up or down, meaning the stocks within the index have either gained or lost value as a whole. Investors who buy and sell stocks hope to turn a profit through this movement in stock prices.

Note: you might be able to find other suitable explanations of what a stock market does ? Be sure to put any of your findings into your BSe Process Portfolio.

How does the stock market work?

The concept behind how the stock market works is pretty simple. Operating much like an auction house, the stock market enables buyers and sellers to negotiate prices and make trades.

The stock market works through a network of exchanges — you may have heard of the New York Stock Exchange or the Nasdaq. Companies list shares of their stock on an exchange through a process called an initial public offering, or IPO. Investors purchase those shares, which allows the company to raise money to grow its business. Investors can then buy and sell these stocks among themselves, and the exchange tracks the supply and demand of each listed stock.
That supply and demand help determine the price for each security, or the levels at which stock market participants — investors and traders — are willing to buy or sell. Computer algorithms generally do most of those calculations.

Buyers offer a "bid," or the highest amount they're willing to pay, which is usually lower than the amount sellers "ask" for in exchange. This difference is called the bid-ask spread. For a trade to occur, a buyer needs to increase his price or a seller needs to decrease hers.

» **Learn more about how to invest in stocks**
Historically, stock trades likely took place in a physical marketplace. These days, the stock market works electronically, through the internet and online stockbrokers. Each trade happens on a stock-by-stock basis, but overall stock prices often move in tandem because of news, political events, economic reports and other factors.

How prices adjust in a market will be explained in Unit 2 when we look at the Business Firm and the Market.

How do you invest in the stock market?

You can purchase individual stocks through a brokerage account or an individual retirement account like an IRA. Both accounts can be opened at an online broker, through which you can buy and sell investments. The broker acts as the middleman between you and the stock exchanges.

With any investment, there are risks. But stocks carry more risk — and more potential for reward — than some other securities. While the market's history of gains suggests that a diversified stock portfolio will increase in value over time, stocks also experience sudden dips.

To build a diversified portfolio without purchasing many individual stocks, you can invest in a type of mutual fund called an index fund or an exchange-traded fund. These funds aim to passively mirror the performance of an index by holding all of the stocks or investments in that index. For example, you can invest in both the DJIA and the S&P 500 — as well as other market indexes — through index funds and ETFs.

Business Management uses Investopedia so try to purchase some stocks in order to understand how to carry out a stock market investment.

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