

AA-03

STOCKS
A–Z

Owning a piece of a company — shares, tickers, dividends, splits, and market cap.

Alpha Academy · Team Alpha Trading

Stocks A–Z: Owning a Piece of a Company

In the last chapter you learned that a **share** is a tiny piece of ownership in a company. This chapter zooms in on that one idea until you know it cold: what a share gives you, how to read a stock's name tag, how to tell whether a company is big or small, how you can get paid just for owning stock, and how a stock can split, report its grades, or even go to zero.

> **NOTE**
> This chapter is education only, not financial advice or a recommendation to buy any stock. Dollar ranges below are common conventions, not laws — treat them as approximate, and always check current details on any real company before risking money.

A Share Is an Ownership Slice

Imagine a bakery worth $1,000,000 total. The owners divide it into 100,000 equal pieces. Each piece — each **share** — is worth $10, because $1,000,000 ÷ 100,000 shares = $10 per share.

If you buy 100 shares for $1,000, you own 100 ÷ 100,000 = 0.1% of the bakery. You do not get to walk in and take the ovens — but you genuinely own a slice of everything it is: equipment, cash, future profits. If the bakery grows to be worth $2,000,000, your slice is worth $2,000. If it shrinks to $500,000, your slice is worth $500. That is the whole deal of owning stock, whether the "bakery" is a corner shop or Apple. Real companies just use bigger numbers — a giant might have **billions** of shares — but the math works exactly the same way.

Owning shares usually also comes with two rights:

- **Voting rights** — common shareholders vote on big company decisions, like who sits on the board of directors (the group that oversees management). One share usually equals one vote. Your 100 votes will not swing Apple's election, but the right is real.
- **A claim on profits** — if the company chooses to share profits with owners, you get your slice's worth. That payment is called a dividend, covered below.

Ticker Symbols: The Stock's Nickname

Every stock has a short code called a **ticker symbol** — usually 1 to 5 capital letters. It is the stock's nickname on the exchange, used because typing "Apple Inc." thousands of times a day would be madness.

Ticker	Company
AAPL	Apple
MSFT	Microsoft
AMZN	Amazon
NVDA	Nvidia
TSLA	Tesla

When you want to buy or research a stock, the ticker is what you type into your broker app. Be careful: tickers can look similar, and buying the wrong one is a real beginner error. Always double-check the company name next to the ticker before ordering.

Share Price Versus Company Value

Here is the most misunderstood idea for beginners: **the price of one share tells you almost nothing about how big the company is.** Company A trades at $500 per share; Company B at $20. Which is bigger? You cannot tell — you are missing how many shares exist. To size the whole company, you need slice price × number of slices. That whole-company value is called **market capitalization**, almost always shortened to **market cap**.

Market cap = share price × shares outstanding

Shares outstanding simply means the total number of shares that exist — all the slices, held by everyone.

Worked example:

- Company A: $500 per share × 2,000,000 shares outstanding = **$1,000,000,000** (one billion dollars) market cap.
- Company B: $20 per share × 500,000,000 shares outstanding = **$10,000,000,000** (ten billion dollars) market cap.

Company B, the "$20 stock," is **ten times bigger** than the "$500 stock." Market cap — not share price — is the number that tells you size.

Market Cap Sizes: Small, Mid, and Large

Traders sort companies into size buckets by market cap. The cutoffs drift over time, but the commonly used approximate ranges are:

Bucket	Approximate Market Cap	Plain-English Feel
Small-cap	About $300 million to $2 billion	Younger, smaller companies. More room to grow, more room to fall. Prices can swing hard.
Mid-cap	About $2 billion to $10 billion	Established, but still growing.
Large-cap	About $10 billion and up	The giants: slower, steadier, harder to move. The very biggest (over $200 billion) are sometimes called **mega-cap**.

> **TIP**
> When someone says "that's a small-cap," hear a risk hint: small companies can double — and collapse — far more easily than giants. Size quickly tells you how wild the ride might be.

Shares Outstanding and the Float

Two related numbers matter here:

- **Shares outstanding** — every share that exists, including shares held by founders, executives, and big institutions who rarely trade them.
- **Float** — the shares actually available for the public to trade day to day: shares outstanding **minus** shares locked up with insiders and major holders who are not selling.

Why does the float matter? Supply and demand again. With a tiny float — say 5 million shares — a wave of buying has few shares to chase, and the price can explode upward (and crash just as fast). A giant with billions of shares in its float needs an enormous wave to move the same way. Small float = touchy, jumpy stock. Remember that before you ever touch one.

Dividends: Getting Paid to Own

Some companies share profits directly with shareholders in cash. That payment is a **dividend** — a small thank-you check for owning the stock.

Concrete example: a company pays $0.50 per share, four times a year (payments spread through the year like this are called **quarterly** dividends). You own 200 shares, so each quarter you receive 200 × $0.50 = **$100** in cash — $400 over the year — without selling anything.

Key facts every beginner must know:

- **Dividends are never guaranteed.** A company can reduce or cancel its dividend at any time, and struggling companies do. Never count on dividend money you cannot afford to lose.
- **Not all companies pay them.** Young, fast-growing companies usually keep every dollar to grow and pay none. Big, mature companies are the typical payers.
- **The ex-dividend date matters.** To receive an upcoming dividend, you must own the stock **before** the **ex-dividend date** (shortened to **ex-date**), the cutoff day set by the exchange. Buy on or after the ex-date and the previous owner gets that payment, not you. Side effect: the share price often drops by roughly the dividend amount on the ex-date — the cash just left the company. A dividend is not free money from nowhere.
- **Dividends are taxable** in most cases, even if your broker automatically reinvests them into more shares through a **DRIP** (dividend reinvestment plan).

> **NOTE**
> The tax treatment of dividends depends on your situation and current law. This is educational information only, not tax advice — ask a tax professional about your own case.

Stock Splits and Reverse Splits

A **stock split** cuts each share into several smaller shares — same pizza, more slices, total value unchanged. Example: you own 10 shares at $400 = $4,000. In a **4-for-1 split** (every 1 share becomes 4), you now own 40 shares at about $100 each: 40 × $100 = $4,000. Same total. Companies split mainly to make the per-share price look more affordable.

A **reverse split** is the opposite: shares are combined. In a **1-for-10 reverse split**, your 100 shares at $0.50 (total $50) become 10 shares at $5.00 (total still $50). Companies do this because their price has fallen very low — exchanges generally expect stocks to stay above $1 — and a reverse split lifts the price on paper to avoid being kicked off. Often a sign of a company in trouble, not strength.

> **RULE**
> Splits and reverse splits change the slice count and the price per slice — never what your holding is worth at the moment they happen.

Earnings Reports: The Report Card

Four times a year, every public company must publish how its business actually did — money in, profit kept, and what it expects next. This is an **earnings report** — the company's quarterly report card.

Two words inside it matter most:

- **Revenue** — all the money the company took in from selling its products or services, before subtracting costs. Also called "sales" or "the top line."
- **Profit** — what is left after paying all costs. For the whole company it is called **net income**; divided by the number of shares, it is **earnings per share**, or **EPS**: profit ÷ shares outstanding.

Earnings days are famous for violent price moves. Analysts (professionals who study companies) publish what they *expect* revenue and EPS to be, and the stock reacts to the surprise: beat expectations and the price often jumps; miss them and it can fall hard — even if the company still made a profit, because the crowd expected more. Know the earnings dates of anything you own, and until you have experience, consider not holding trades through them.

Common Stock Versus Preferred Stock

Almost everything you will ever trade is **common stock**: the standard ownership slice, with voting rights, prices that swing freely, and dividends only if the company chooses to pay them.

There is also **preferred stock**, a quieter hybrid. Preferred shareholders usually get **fixed dividends** paid before common shareholders get anything, usually have **no voting rights**, and stand **ahead of common shareholders** if the company is shut down and its assets sold — but behind lenders, with often little left by then. Their prices swing much less, behaving partly like a stock, partly like a loan. Mostly bought by institutions and income-focused investors; as a beginner, common stock is your world — just know the other type exists.

IPOs: A Company's First Day for Sale

You met the IPO in the last chapter: an **initial public offering** is the first time a company's shares are sold to the public. Before it, the company is **private** — owned by founders and early investors, and you cannot buy it. After it, the company is **public**, and anyone with a brokerage account can trade it.

> **RISK**
> Brand-new IPO stocks are some of the wildest rides in the market: no trading history to study, excitement at its peak, prices that can soar on day one and sink for months. Many famous companies traded below their IPO price at some point in their first year. Hype is not a strategy.

Blue Chips Versus Penny Stocks

Two nicknames you will hear constantly:

- **Blue-chip stocks** — shares of large, old, financially strong companies with long records of surviving good times and bad (Johnson & Johnson and Procter & Gamble are classic examples). "Blue chip" comes from poker, where blue chips are the most valuable. They are the *relatively* steadier end of the stock world — steadier, not safe.
- **Penny stocks** — very cheap shares, officially defined by US regulators as stocks under $5, and in practice often under $1. They are usually tiny, little-known companies, many trading on loosely regulated **over-the-counter (OTC)** markets — trading done directly between parties, not on a central exchange — instead of the NYSE or Nasdaq.

> **RISK**
> Penny stocks are where beginners get hurt worst. Prices are easily manipulated because so few shares trade ("pump and dump" schemes exist precisely to lure beginners in), information is scarce and unreliable, spreads eat your money, and many of these companies are near failure. A stock at $0.30 is usually cheap for a reason. Treat penny stocks as dangerous territory — or skip them entirely.

How a Stock Goes to Zero — and Delisting

Yes, it happens: **a stock can go to zero, and you can lose every dollar you put in it.** If a company fails and cannot pay its debts, it may file for **bankruptcy**, the legal process for a company in that position. The line to get paid is strict: lenders and bondholders (people who lent the company money) first, then preferred shareholders, and common shareholders **dead last**. In most bankruptcies nothing is left by then, and the shares become worthless. Owning stock means owning the upside *and* the downside of a real business.

Delisting is a related event: an exchange removes a stock, usually because the company broke its rules — most commonly by letting its price stay below the $1 minimum too long or failing to file required reports. Delisted stocks typically move to the OTC markets, where they are harder to trade and often keep falling — not always the end, but almost never good news.

Your protection is boring but real: own companies you understand, never put money you need into a single stock, and make sure one company going to zero could never wipe you out. Position sizing gets its own chapter later.

Common Beginner Mistakes

- **Thinking a $3 stock is "cheaper" than a $300 stock.** Price per share says nothing by itself. Market cap tells you the real size.
- **Buying on or after the ex-dividend date and expecting the dividend.** Own before the ex-date, or that payment goes to the seller.
- **Counting on dividends like a paycheck.** They are never guaranteed and can be cut or cancelled anytime.
- **Getting excited about a split.** A 4-for-1 split does not make you richer — more slices, same pizza.
- **Chasing penny stocks and hot IPOs because they feel exciting.** Low price plus a tiny float means violent moves and manipulation.
- **Believing a real company "can't go to zero."** It can. Shareholders are last in line in bankruptcy and usually get nothing.

Chapter Summary

- A **share** is a slice of ownership: its value = company value ÷ shares, rising and falling with the business.
- Every stock has a **ticker symbol**, its short exchange nickname — verify it before ordering.
- **Market cap = share price × shares outstanding** is the true measure of company size; share price alone is nearly meaningless.
- Size buckets: small-cap (about $300M–$2B), mid-cap (about $2B–$10B), large-cap (about $10B+). Smaller usually means wilder.
- The **float** — shares actually available to trade — can be far smaller than shares outstanding; a small float makes prices jumpy.
- **Dividends** are optional cash payments, never guaranteed; own before the **ex-dividend date** to receive one.
- **Splits** and **reverse splits** change share count and price per share — not your total value.
- **Earnings reports** are quarterly report cards (revenue and EPS versus expectations) that often trigger the biggest price moves.
- **Common stock** is the standard trading vehicle; **preferred stock** pays fixed dividends first but usually has no vote. Stocks can be **delisted** — and can go to **zero** in bankruptcy, where shareholders are paid last.

Check Yourself

1. A company has a share price of $40 and 250 million shares outstanding. What is its market cap, and which size bucket does it fall into?
2. You own 20 shares at $250 each. The stock does a 5-for-1 split. How many shares do you own afterward, at roughly what price, and what is your total holding worth?
3. A stock's ex-dividend date is this Friday. If you buy the stock on Friday morning, do you receive the upcoming dividend? Why or why not?
4. What is the difference between shares outstanding and the float?
5. In a bankruptcy, why do common shareholders usually end up with nothing?

Answers: 1) $40 × 250,000,000 = $10 billion — right at the bottom edge of large-cap (about $10 billion and up). 2) 20 × 5 = 100 shares at roughly $250 ÷ 5 = $50 each; 100 × $50 = $5,000, exactly what you had before the split. 3) No — you must own before the ex-dividend date; buying on or after it means the seller gets that payment. 4) Shares outstanding is every share that exists; the float is only the shares available for public trading, excluding insider and major-holder shares not for sale. 5) The payment order is strict — lenders and bondholders first, then preferred shareholders, common shareholders last — and the money usually runs out before reaching them.

> **RULE**
> Never judge a stock by its price tag alone. Judge it by market cap, float, and what could go wrong — that is how owners think, and you are an owner.