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WHAT IS THE STOCK MARKET?

Markets, exchanges, indexes, and why prices move — from absolute zero.

Alpha Academy · Team Alpha Trading

What Is the Stock Market?

If you have never heard of the stock market, you are in exactly the right place. This chapter starts from absolute zero. We will not use a single finance word without stopping to explain it in plain English first.

By the end of this chapter, you will know what the stock market actually is, why it exists, who is in it, when it is open, and what makes prices go up and down. You will also understand the difference between **investing** and **trading** — two words people throw around like they mean the same thing. They do not.

> **NOTE**
> This chapter is education only. It is not financial advice, and nothing here is a recommendation to buy or sell anything. The stock market can make money and lose money, and most beginners lose money when they first start. Learning how it works — before risking a dollar — is the smart way in.

Start With a Regular Market

You already know what a market is. A farmers market is a place where farmers bring vegetables and shoppers bring money, and they trade. The stock market works the same way, with two differences:

- Instead of vegetables, the thing being bought and sold is **stock**.
- Instead of a parking lot, the trading happens on computers, in huge organized systems called **exchanges** (we will explain those in a minute).

So what is **stock**? Stock is a piece of ownership in a company. When a company divides its ownership into millions of equal little pieces, each piece is called a **share**. One share is one tiny slice of the whole company. If you own shares, you are a **shareholder** — a part-owner of that business.

Think of a company as a pizza cut into a million slices. One slice is almost nothing by itself. But it is a real slice. If the pizza shop becomes famous and the whole pizza becomes worth more, your slice becomes worth more too.

Why Would a Company Sell Pieces of Itself?

Good question. Why would the owners of a successful company give away ownership to strangers?

Because growing a business takes money — a lot of it. A company might need cash to build factories, hire thousands of workers, open stores in new countries, or invent new products. It has two main ways to raise that money:

- **Borrow it** from a bank or from lenders, and pay it back with interest. Money paid for the use of borrowed money is called **interest**.
- **Sell ownership** — give the public pieces of the company in exchange for cash, and never have to pay that cash back.

Selling stock is the second path. The very first time a company sells stock to the public, it is called an **IPO**, short for **initial public offering** — "initial" because it is the first time, "public" because anyone can buy, "offering" because shares are being offered for sale. After the IPO, the shares trade every day between regular people and big institutions, and the company itself is mostly out of the picture — money changes hands between buyers and sellers, not with the company.

So the stock market exists for two big reasons:

- It gives companies a way to raise money to grow.
- It gives regular people a way to own a piece of businesses they could never afford to buy whole. You cannot buy Apple. But you can buy one share of Apple.

What Is an Exchange?

An **exchange** is the organized marketplace where buying and selling happens. It is the referee and the scoreboard at the same time. The exchange matches buyers with sellers, records every trade, publishes the prices, and enforces the rules so nobody can cheat.

The two biggest stock exchanges in the United States are:

Exchange	Plain-English Description
NYSE (New York Stock Exchange)	The oldest and largest US exchange, founded in 1792, home to many huge, long-established companies like Walmart and Coca-Cola. It still has a famous trading floor in New York City, though most trading is done by computers.
Nasdaq	A fully electronic exchange — no trading floor, just computers. Home to most big technology companies, like Apple, Microsoft, and Nvidia.

When you place an order to buy a stock through an app on your phone, you never talk to the exchange directly. You use a **broker** — a licensed company (and its app or website) that takes your order and routes it to an exchange for you. Robinhood, Webull, Fidelity, and Charles Schwab are brokers. The broker is your doorway into the market.

Who Are the Players?

The market is not one crowd. It is several very different groups, all trading with each other:

- **Investors** — people and organizations who buy stock planning to hold it for months or years. They are betting the company will be worth more in the future. This group includes regular people saving for retirement.
- **Traders** — people who buy and sell much more actively, sometimes holding a stock for only minutes or hours. A **day trader** is a trader who opens and closes all positions within the same day. (A **position** is simply whatever you currently own or owe in the market — if you bought 10 shares, your position is 10 shares.)
- **Institutions** — the giants: pension funds, mutual funds, insurance companies, and hedge funds. A **pension fund** manages retirement money for workers. A **mutual fund** pools money from thousands of people and buys a basket of stocks for them. Institutions move so much money that their buying and selling often moves prices by itself.
- **Market makers** — specialized firms whose job is to always be ready to buy or sell a stock, every second the market is open. Like a pawn shop that never closes, they will buy your shares when you want to sell and sell you shares when you want to buy, earning a tiny profit on the small difference between their buying and selling price. Without them, you might click "buy" and find nobody there. They keep the market **liquid** — liquid means you can buy or sell quickly, whenever you want, without moving the price

much.

What Is an Index? Think Scoreboard

You will hear on the news: "The S&P 500 is up today." What is that?

An **index** is a scoreboard number that tracks the overall price of a group of stocks at once. Instead of watching 500 separate companies, you watch one number that sums up how they are doing together. Indexes are not things you can buy directly — you cannot hand someone money and receive "one S&P 500." (You can buy funds that copy an index, covered in a later chapter.)

The three scoreboards you will hear about most:

Index	What It Tracks
S&P 500	500 of the largest US companies, across almost every industry. This is the scoreboard professionals watch most, because it represents the broad US market.
Dow Jones Industrial Average ("the Dow")	Just 30 very large, well-known companies. It is the oldest famous scoreboard, but with only 30 companies it is a narrower view.
Nasdaq-100	The 100 largest non-financial companies on the Nasdaq exchange — heavily loaded with technology companies, so it rises and falls with the tech sector.

When the news says "the market is up," they usually mean one of these scoreboards went up that day.

When Is the Market Open?

The main US stock market session runs **Monday through Friday, 9:30 AM to 4:00 PM Eastern Time**. That is called **regular hours**. The market is closed on weekends and on major US holidays.

There are also extra sessions around the main one:

- **Pre-market** — trading that happens before 9:30 AM, as early as 4:00 AM Eastern on many brokers.
- **After-hours** (or post-market) — trading after 4:00 PM, often until 8:00 PM Eastern.

> **NOTE**
> Pre-market and after-hours sessions are thinner — fewer people trading — so prices can jump around more and it can cost you more to trade. Most beginners should stick to regular hours until they understand the basics cold.

Your broker app shows prices moving almost all day, but the "official" day is that 9:30-to-4:00 window — when the full crowd is in the room.

What Makes Prices Move? Buyers Versus Sellers

Strip away everything else and a stock price is set by one simple tug-of-war: **buyers versus sellers.**

Every trade needs both. If you buy 10 shares, someone else sold those 10 shares to you. The price you see on your screen is simply the price of the **last trade that happened**.

Now imagine the crowd:

- If lots of people want to buy and few want to sell, buyers compete with each other. They offer a little more, then a little more. **The price rises.**
- If lots of people want to sell and few want to buy, sellers compete to find a buyer. They accept a little less, then a little less. **The price falls.**

That is it. That tug-of-war is called **supply and demand** — supply is how much people are willing to sell, demand is how much people are willing to buy. Every fancy explanation you will ever hear — earnings news, interest rates, wars, viral posts — matters only because it changes how badly buyers want in or sellers want out.

A quick example. A small company's stock last traded at $50. This morning the company announces its new product is a huge hit. Thousands of people want to buy, and very few want to sell at $50. Buyers offer $51, then $53, then $55 to convince owners to part with their shares. Within minutes the last trade prints at $55. Nobody "set" that price. The crowd did. The reverse is just as fast: bad news hits, owners rush for the exit, buyers step back, and the price falls until some buyer decides it is worth the risk.

Investing Versus Trading

Both investors and traders buy the same stocks. The difference is the **time horizon** — how long they plan to hold — and what they are really betting on.

	Investing	Trading
Typical holding time	Months to many years	Minutes to weeks
Betting on	The company growing more valuable over time	The price moving, up or down, in the short term
Main homework	Studying the company's business and health	Studying price charts, timing, and risk
Mindset	Owner of a business	Renter of a price move

Neither word means "smart" or "dumb." They are two different games with different skills and risks. This academy teaches both, but it will always tell you which game a lesson belongs to — because mixing them up ("I bought this as a trade, it dropped, so now I will call it a long-term investment") is one of the most expensive habits a beginner can build.

> **RISK**
> Short-term trading is the harder game for beginners. You are competing against professionals and computer systems that do this all day, and most people who try day trading lose money. That is not a reason to fear learning — it is a reason to learn first and risk only small amounts when you do start.

Common Beginner Mistakes

- **Thinking the company gets your money when you buy stock.** After the IPO, when you buy shares, your money goes to the person who sold them to you — not to the company.
- **Thinking an index is something you can buy directly.** The S&P 500 is a scoreboard number. You buy funds or other products that track it.
- **Believing a price moves because "the market decided."** Prices move because real buyers and sellers competed. Ask: who is more eager here?
- **Trading in pre-market or after-hours as a brand-new beginner.** Thin sessions mean jumpy prices and worse fills. Learn during regular hours first.
- **Calling a losing trade "an investment" to avoid admitting a mistake.** Investing and trading are different plans. Pick the plan before you buy, not after you are down.

Chapter Summary

- The stock market is a marketplace where people buy and sell **shares** — tiny pieces of ownership in companies.
- Companies sell stock to the public (starting with an IPO) to raise money to grow, without borrowing it.
- **Exchanges** like the NYSE and Nasdaq are the organized marketplaces that match buyers and sellers and enforce the rules. You reach them through a **broker**.
- The players are investors (long-term), traders (short-term), institutions (the giants), and market makers (who keep things liquid).
- An **index** like the S&P 500, the Dow, or the Nasdaq-100 is a scoreboard tracking a group of stocks — not something you buy directly.
- Regular US hours are 9:30 AM to 4:00 PM Eastern, Monday to Friday, with thinner pre-market and after-hours sessions around them.
- Prices move for one core reason: the tug-of-war between buyers and sellers — supply and demand.
- Investing (months to years, betting on the company) and trading (minutes to weeks, betting on price moves) are different games. Know which one you are playing.

Check Yourself

1. In one sentence, what is a share of stock?
2. When you buy 10 shares of a company through your broker app two years after its IPO, who receives your money?
3. What is an index, and why can you not buy "one S&P 500" directly?
4. During regular hours, a stock's price suddenly starts climbing even though no one is officially "setting" prices. What is actually happening?
5. Your friend buys a stock at 10:00 AM planning to sell it by Friday, and another friend buys the same stock planning to hold it for ten years. Which one is trading, and which one is investing?

Answers: 1) One small piece of ownership in a company — shareholders are part-owners of the business. 2) The seller of those shares; after the IPO, trades happen between buyers and sellers, not with the company. 3) A scoreboard number tracking a group of stocks at once; it is a measurement, not a product, so you can only buy funds or products that track it. 4) More buyers want in than sellers want out, so buyers

keep offering higher prices to convince owners to sell, and the last traded price keeps rising. 5) The friend selling by Friday is trading (short horizon, betting on a price move); the friend holding ten years is investing (long horizon, betting on the company growing more valuable).

> **RULE**
> Every price move in the market comes down to buyers versus sellers. When you do not understand why a price moved, ask who was more eager — and you will usually find your answer.