

# The Stock Market Game™

## How to Relate the News of the Day to the Stock Market



### Good News

#### 1. Take-Over Bids

A take-over bid is an attempt by one company to buy another through stock acquisition, by buying enough stock to control it. The stock of the company being taken over becomes more valuable as the larger company makes offers. Investors want to own stock in the smaller company before the take over, to share in the price rise.

#### 2. Profit

A report about the increased profits of a company usually indicates that the company is prospering and may increase its dividends. This may draw investors and increase the price of its stock.

#### 3. Divestiture

Large conglomerates often have one division of their corporation which does not make money. By announcing the sale of its losing interests, its potential for profits increases and its value will rise.

#### 4. New Product Line

A company which produces a new product, or a company that creates a new technique, such as Gentech, which splices genes for the production of insulin, may draw investors who will bid up the price of the stock.

#### 5. Government Spending

The U.S. government is the world's leading consumer. If it decides to spend money on defense items, for example, the companies that produce those items are virtually assured of long-term profits, and the value of their stock will rise.

# Bad News

## 1. High Interest Rates

High interest rates make it hard for companies to borrow money for expansion. Less growth may frighten away potential investors. Also, high interest rates may attract investors to other forms of investment, such as money market funds.

## 2. Increase in Margin Rates

The Federal Reserve (the "FED") can increase the margin rate, thereby limiting the amount of money a broker may lend his/her customer. For example, a 50% margin rate means that a person who wants to buy \$10,000 of stock on margin must have \$5,000 (50%) in cash, and may borrow the other \$5,000 from the broker. If the FED raises the rate to 80%, the buyer must increase his/her contribution to \$8,000. This would limit an investor's ability to purchase stocks.

## 3. Investigations by the SEC

The Securities and Exchange Commission is the watchdog for the investment industry. If there are irregularities in its operation, the SEC will investigate. The investigation of a company by the SEC may warn investors of trouble and scare them off.

## 4. Government Instability

If a foreign country that supplies us with oil, for example, is going through a revolution, uncertainty would be created about the future of American companies which depend, either directly or indirectly, on oil.

## 5. Nationalization

Occasionally, a foreign country will nationalize an industry in which American companies have a large stake. This may cause stock prices to drop dramatically. For example, Canada's nationalization of Gulf Oil Company's operation in that country sent shock waves through Gulf in the U.S.

## 6. Accidents, Health Problems

News about an accident or about a product which may cause health problems, may cause investors to fear that the company will lose its customers or reputation.