Overview of the stock market

Finance, Market

Over the past few years, many millionaires have been created due to the economical explosion of the stock market. The market isn" t just growing, as it did in the mid to late seventies; but it is on steroids, and is growing like never before. Backed by the relentless, yet sometimes spasmodic, growth of the NASDAQ Composite, Wall Street" s impact on the future cannot be denied. For as long as the market has been in existence, drastic changes such as these have never taken place. What awesome power could have produced so muchmoneyin so little time?

What colossal force could have caused the United States" economy to flourish? The answer lies in one, simple, recently coined phrase: the tech stock. The stock market has been around since people traded silver for ownership of cargo 200 years ago, yet many people don" t know how it works, or where their money goes when they purchase a stock; they simply think " buy low, sell high. " Although this is a good basic investment plan, it is imperative that one knows where his money is headed when he buys a thousand dollars worth of a specific stock.

When one purchases a stock, they are actually purchasing part of a company (Brian 1). The reason one would do this is because he wants part of the profits of the company. If one purchases 1% of a company, he will receive 1% of the income, to put it in a simplified manner. The money the company gains from selling their stock is placed back into the company. This way, the company can grow, and produce more profits for the stockholders. The company" s value is represented by the stock price on the stock exchange (Brian 2).

Over time, a method of judging a stock" s performance, called the " profit to earning ratio" was created. P/E is shorthand for the ratio of a company's share price to its per-share earnings. For example, a P/E ratio of 10 means that the company has $1 of annual, per-share earnings for every $10 in share price (Green 1). " This ratio basically represents how much money the investor is putting in per dollar earned. This was generally a good thing to look at when choosing a stock to invest in, but the P/E ratio can be misleading, especially in the few tech stocks that have tremendous stock prices, yet have little net profit.

No one knows exactly when the tech stock came about, but it seems like it came all at once. The phrase " tech stock" simply refers to all stocks that deal with any form oftechnologyrelated, directly or indirectly, to the computer or computer chips. A good portion of the popular tech stocks today deal with the Internet (Brian 4). One reason for this is the easy access by millions of people worldwide. Small companies are able to reach out to the whole globe with just a few bucks, and thus become prosperous over a short amount of time.

Just a few of the most popular tech stock corporations include: Microsoft, Apple, TI, Amazon, Yahoo, and Dell. Companies such as Microsoft, Apple and Dell are companies that handle computers directly, and have been around for a long time (NASDAQ 5) TI creates many semiconductors that are found in most all products that have computer chips in them. Amazon and Yahoo are both directly related to the Internet. These companies are popular due to their originality and business management. However, popularity hardly gains profit, so why is it that Yahoo can make so much money on the stock market?

Surprisingly and ironically enough, it is precisely popularity that causes its gains. Because of the popularity, people continue to purchase Yahoo" s stock. Although the company isn" t making direct profit, it certainly makes a lot of money from the stock purchases, so the company actually makes the money off of the stock market (Brian 5). Rare, indeed, to see this at such an extreme. With all of this success must come organization, and thus is the role of the NASDAQ Composite. Although NASDAQ came about long before the rise of tech stocks, it now represents the growth that they portray.

This is mostly due to the large volume of blue chip Internet stocks that have joined the Composite, as well as the small technical companies that are looking for a big break. Duarte summarizes the whole NASDAQ universe in once sentence; " The NASDAQ is fueled by blue chip stocks and small caps which explode into high-earnings (Technology 1). " And explode it did. In just over one year, " The Index gained 1876. 62 points and 85. 59 percent for the year. The NASDAQ Composite Index also eclipsed the 3000 and 4000 point milestones during the last quarter of 1999" (Nasdaq 1).

This far surpasses the Dow Jones Industrial, which only gained 25. 22% over the 1999-2000 year. " The market" s best index performers were the computer, telecommunications, and biotechnology up 105. 03 percent, 102. 71 percent and 101. 64 percent respectively" (Nasdaq 2). This obviously displays a growing interest in the tech stock, which has caused this major uprising to occur. One may wonder how the Dow Jones Industrial got off so bad, because, after all, it represents our nations largest companies. For a long time, the Dow Jones Industrial has represented the stock market as a whole, but times change.

One cause of this change is the high interest rates that affect the corporate stocks such as Wal-Mart and ExxonMobil. These stocks reduce in price as a result of this, and therefore, the Dow average reflects the decrease. The Dow Jones blue chips remain stable, but haven" t increased dramatically, and this isn" t sufficient to make up for the losses of the stocks that tanked, such as banking stocks, financial stocks, and oil marketing stocks (Duarte, Technology 1). One thing that everyone wonders is " Is the gold rush over? " The answer is no, not as of 3-2-00, anyway.

However, all good things must come to an end; the question is when. Milton Friedman and Alan Greenp are both major authorities in Wall Street, and when they speak, the world of investors listens. The one bad thing is this, they usually never agree. In late 1999, Friedman " suggested the current market looks similar to the pre-crash markets in the U. S. in 1929 and the pre-crash market in Japan in 1989. " Soon after, " Greenp made equally scary remarks about the stock market and the wealth effect" (Duarte, Greenp 1).

These are remarkable authorities in the world of investing, but these notes don" t specifically talk about the tech stock falling. Some people believe that the so-called " crash" that they spoke of has already happened at the turn of the millennium, when both the Dow Jones and the Nasdaq fell at record-breaking volumes. This proved that the NASDAQ wasn" t invincible with its precious tech stocks, but it also started an uglyobservationthat whatever the Dow does, the NASDAQ does at a more flamboyant rate (Jennings 1).

This simply means that if the Dow goes up a little, the NASDAQ goes up a lot. When the Dow drops a little, the NASDAQ drops a lot (Fool 9). However, there" s no concrete evidence to prove this theory that they are connected somehow. January 4th, 2000; a sigh of relief sweeps the world as nothing too terribly devastating happens on the turn of the millennium. However, this sigh turns quickly into a gasp; at least for those watching the stock market. The Dow Jones plummets nearly 360 points, and NASDAQ plummets nearly 230 points in just one trading day.

The next two days, NASDAQ continues to fall another 200 points, resulting in nearly a 8% drop in just three days. It recovers from this drop in only about two days, only to drop back into a lower pit in three more days. Those who held onto their pocketbooks for this roller coaster ride found a light at the end of the tunnel, and by the end of February, the Composite had climbed to the 4600 mark, 600 points higher than at the beginning of the year (Fool 1). Many other times in the first quarter of 2000 NASDAQ took a hefty fall, but it always regrouped and rallied to surpass it is original price.

Another thing to remember is that NASDAQ isn" t made entirely of tech stock blue chips such as Dell and Amazon (Nasdaq 1). It is also made up of small caps that fail, large caps that fail, and those penny stocks that people get so worked up about... that also fail; so it is hard to judge how well tech stocks are actually doing by looking directly at the NASDAQ Composite or P/E ratios.

Tech stocks are still a relatively new thing for the market, and investors haven" t yet predicted their fate.

However, they are still intensely popular, and as long as they are popular, people will keep buying; and, of course, if people buy them, they will raise in value. Technology is not going away any time soon, there" s no doubt about that; the future is now. Computers rule our lifestyle, making everything faster, easier, cheaper, more efficient; and these tech stocks represent our new economy based on this new efficient system. Even though they may not present themselves as strongly as they once did, tech stocks are definitely here to stay.