

Market Primer

The Free Lesson: Start Here

Educational content only. Not financial advice.

1. What Market Primer is

Market Primer explains how markets work in plain language. Each short lesson covers one idea, such as what a share is, what a bond pays, or why prices move up and down, using everyday examples like pizza shops, IOUs, and snack packs.

An education-only note: we teach concepts, not picks. You won't find tips, predictions, or suggestions about what to do with your money here. Every example uses hypothetical numbers, and nothing in this primer considers anyone's personal situation. Investing involves risk, including the loss of money.

This primer is a quick tour of the basics: stocks, markets and indexes, bonds, and funds. Video lessons for each section are coming soon.

2. What a stock is

A stock is a small slice of ownership in a company.

Picture a hypothetical pizza shop worth \$100,000. The owner divides that value into 100,000 equal slices, called shares, so each one represents about a dollar of the business. Own one share and you own one hundred-thousandth of the shop: a sliver of its ovens, its recipes, and its future results, good or bad.

Why companies sell shares. Companies often sell shares to raise money, for example to open new locations. The first time a company sells shares to the public is called an initial public offering, or IPO. After that, shares can trade between investors.

Why prices move. A share's price is simply the most recent price a buyer and a seller agreed on. When more people want to own a share than want to part with it, the price tends to rise. When more want out, it tends to fall. Company results, news, interest rates, the wider economy, and plain emotion can all change how people feel.

How shareholders can be affected. If a share becomes worth more than its purchase price, the owner has a gain on paper; if it's worth less, a loss. Some companies also pay dividends, a cash

share of their profits. Dividends aren't promised. Companies can cut or stop them, and many never pay one.

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The risks. Share prices can fall, sometimes sharply and for long periods. If a company fails, its shares can become worth nothing. Owning a single company means the outcome rides on that one business.

► Video lesson coming soon: *What Is a Stock?*

3. Markets and indexes

Exchanges are organized marketplaces where shares trade. Think of a giant, very orderly farmers market with posted hours, listing rules, and a manager making sure the scales are honest. Regulators oversee exchanges, though no rule removes the risk of prices falling.

Brokers are the agents most people use to reach the market, a bit like a real estate agent placing an offer on your behalf. Brokers get paid through commissions, fees, or other arrangements.

Bid and ask. At the farmers market, a shopper offers \$3.00 for apples (the bid) and the vendor asks \$3.10 (the ask). The ten-cent gap is the spread. When one side meets the other's price, a trade happens.

Order types, explained. A market order asks to be filled right away at the best available price, which can differ from the last price you saw. A limit order sets a price ceiling or floor and may never fill. One leans toward speed, the other toward price control, and neither prevents losses.

Indexes are like a grocery receipt for a basket of stocks. Rather than tracking one apple, you track the total bill for a standard basket. A broad index of about 500 large U.S. companies, such as the S&P 500, weights bigger companies more heavily. An index is a measuring stick, not something you own directly. Broad indexes have often risen over long periods, but not always, there have been long stretches of declines, and there's no guarantee about the future.

Reading a price chart. Many charts show each day as a candle with four prices: open, high, low, and close. A common convention: a candle that closed above its open is drawn hollow, and one that closed below its open is drawn solid. Any example chart we show is labeled "Hypothetical example data."

Charts describe the past. They don't predict what comes next.

► Video lesson coming soon: *How Stock Markets Work*

4. Bonds

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A bond is an IOU. Instead of owning a slice of a company, the bondholder has lent money to a government or a company.

Imagine a friend borrows a hypothetical \$1,000 and writes: "I'll pay you \$50 a year for five years, then give you the \$1,000 back." That note has every main part of a bond:

- **Issuer:** the borrower (your friend, or a government, city, or company).
- **Principal (face value):** the \$1,000 scheduled to be repaid.
- **Coupon:** the \$50 a year of scheduled interest, here 5% of face value.
- **Maturity:** the date the principal is due, five years from now.

Credit ratings are like report cards for borrowers. Higher grades mean a rating agency judges the risk of nonpayment to be lower; lower grades usually mean the borrower has to offer more interest. Ratings are opinions and can change or be wrong.

Coupons aren't guaranteed. If an issuer can't pay as promised, that's a default, and bondholders may get back some, all, or none of what they're owed.

The rate seesaw. Bonds can be resold before maturity, and their prices move. If new bonds start paying 5% while an older bond pays 3%, the older bond usually has to sell at a lower price to attract a buyer. When rates rise, existing bond prices typically fall; when rates fall, they typically rise. Bonds are often described as steadier than stocks, but their prices can and do fall.

► Video lesson coming soon: *What Is a Bond?*

5. Funds and ETFs

A fund pools money from many people and uses it to hold many investments at once. Each fund share is a proportional slice of everything inside.

Think of a **variety snack pack**. Friends chip in for a box with a little of every flavor, and each person gets a share of the whole box. If one flavor is stale, it doesn't ruin the pack. But if the whole factory has a bad batch, every flavor can be affected. Spreading money across many holdings can reduce the impact of any one company's trouble, but it never removes risk. Diversified funds can and do lose value, sometimes for long periods.

Index vs. active. An index fund follows a recipe card: it aims to hold whatever is in a particular index. An active fund relies on a manager, like a chef hand-picking snacks, trying to do better than a benchmark. Index funds usually cost less; active funds may do better or worse than their

benchmark. S&P Dow Jones Indices SPIVA reports ([SPIVA research](#)) have found that, historically, many active funds trailed their benchmarks after fees over long periods, but not all, not always, and the past doesn't guarantee the future.

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Fees. The expense ratio is a yearly fee taken from the fund's assets. At a hypothetical 0.5%, that's about \$5 a year for every \$1,000, charged in up years and down years.

Mutual funds vs. ETFs. A mutual fund is priced once a day after the market closes, at its net asset value (NAV), like a bakery handing out orders at closing time. An ETF trades on an exchange all day like a stock, with a price that can change minute to minute. Either can go down as well as up.

What's inside. Funds publish their holdings, like the ingredient label on the snack pack. A fund's name doesn't tell the whole story; its holdings list and stated goal do.

6. Words you'll hear

More terms in the Glossary at the end of this PDF.

- **Share:** one unit of ownership in a company.
- **Dividend:** a cash payment some companies make to shareholders; it can be cut or stopped.
- **Exchange:** an organized marketplace where shares and other investments trade.
- **Bid / ask:** the highest price a buyer currently offers and the lowest a seller currently accepts.
- **Index:** a measuring stick that tracks the combined value of a basket of investments.
- **Market cap:** a company's share price times its number of shares, the size of the whole pie.
- **Bond:** an IOU from a government or company that pays scheduled interest.
- **Coupon:** a bond's scheduled interest payment, which depends on the issuer's ability to pay.
- **Yield:** a bond's scheduled income described relative to the price paid.
- **Expense ratio:** a fund's yearly fee, shown as a percentage of assets.
- **Volatility:** how much and how quickly a price tends to move up and down.

7. Three common myths vs. facts

Myth: A stock is a loan to a company. Fact: A stock is ownership. A bond is the loan. Owners share in a business's ups and downs; lenders are promised set payments, which can still be missed.

Myth: Bonds can't lose money. Fact: Bond prices can fall, especially when interest rates rise, and issuers can default. Holding a bond to maturity only returns the face value if the issuer pays in full.

Myth: Owning a fund means you can't lose. Fact: A fund spreads money across many holdings, which can soften the hit from any one company, but broad market declines can pull most holdings

down together. Funds can lose value.

8. Recap

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- A stock is a slice of ownership; its price moves with supply and demand, and it can fall to zero.
- Exchanges are organized marketplaces, brokers route orders, and indexes are receipts for a basket of stocks.
- Charts describe past prices; they don't predict.
- A bond is an IOU with an issuer, principal, coupon, and maturity; coupons aren't guaranteed and defaults can happen.
- When interest rates rise, existing bond prices typically fall, and vice versa.
- Funds pool money into a variety pack; spreading out can reduce some risks but never removes them, and fees apply every year.

9. Next steps

Follow for the next lesson at @MarketPrimerHQ. New lesson weekly.

Glossary

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Stocks and markets

Stock. A stock is a slice of ownership in a company, whose value can rise or fall, including to zero. *Analogy: Owning one slice of a pizza shop. See lesson: What Is a Stock? (Module 1)*

Share. A share is one unit of a company's stock, representing a proportional piece of ownership. *Analogy: One slice of a pie cut into equal pieces. See lesson: What Is a Stock? (Module 1)*

IPO. An initial public offering is the first time a company sells its shares to the public. *Analogy: A private shop opening its doors to outside owners for the first time. See lesson: What Is a Stock? (Module 1)*

Exchange. An exchange is an organized, regulated marketplace where buyers and sellers trade shares and other investments. *Analogy: A large farmers market with posted hours and rules. See lesson: How Stock Markets Work (Module 1B)*

Broker. A broker is a licensed firm that routes orders to the market for customers and is paid through commissions, fees, or other arrangements. *Analogy: A real estate agent who places an offer on your behalf. See lesson: How Stock Markets Work (Module 1B)*

Bid. The bid is the highest price a buyer is currently offering to pay. *Analogy: A shopper saying, "I'll pay \$3.00 for those apples." See lesson: How Stock Markets Work (Module 1B)*

Ask. The ask is the lowest price a seller is currently willing to accept; the gap from the bid is the spread. *Analogy: The vendor replying, "I'll take \$3.10." See lesson: How Stock Markets Work (Module 1B)*

Market order. A market order asks to be filled right away at the best available price, which can differ from the last price shown. *Analogy: "I'll take the apples at whatever you're charging now." See lesson: How Stock Markets Work (Module 1B)*

Limit order. A limit order sets the highest price to pay or lowest price to accept, and it may never be filled. *Analogy: "Only if the apples are \$3.00 or less." See lesson: How Stock Markets Work (Module 1B)*

Index. An index is a measuring stick that tracks the combined value of a set basket of investments. *Analogy: The total on a grocery receipt for a standard basket. See lesson: How Stock Markets Work (Module 1B)*

Company basics

Market cap. Market capitalization is a company's share price multiplied by its number of shares, describing the size of the whole company. *Analogy: The size of the whole pie, not one slice. See lesson: Stock Types and Valuation Basics (Module 1C)*

Earnings. Earnings are a company's profit for a period, what's left after its costs, and they can be negative. *Analogy: The lemonade stand's cash left after paying for lemons and cups. See lesson: Stock Types and Valuation Basics (Module 1C)*

EPS. Earnings per share is a company's earnings divided by its number of shares. *Analogy: The lemonade stand's leftover cash split across every slice. See lesson: Stock Types and Valuation Basics (Module 1C)*

P/E ratio. The price-to-earnings ratio is the share price divided by earnings per share, a description of pricing rather than a verdict on value. *Analogy: Price per square foot, most useful when comparing similar houses.*

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See lesson: [Stock Types and Valuation Basics \(Module 1C\)](#)

Dividend. A dividend is a payment some companies make to shareholders, decided by the board, and it can be cut or stopped. *Analogy: A pizza shop handing out part of the week's profits to slice owners.* See lesson: [Dividends, Splits, and Shareholder Basics \(Module 1D\)](#)

Ex-dividend date. The ex-dividend date is the cutoff: shares bought on or after it don't receive that upcoming dividend. *Analogy: The velvet rope after which new arrivals aren't on the party guest list.* See lesson: [Dividends, Splits, and Shareholder Basics \(Module 1D\)](#)

Stock split. A stock split divides each share into more shares at a lower price each, without changing the company's total value at that moment. *Analogy: Cutting a pizza into 16 slices instead of 8; same pizza.* See lesson: [Dividends, Splits, and Shareholder Basics \(Module 1D\)](#)

Buyback. A buyback is when a company uses its cash to repurchase its own shares, which can be paused or stopped. *Analogy: The pizza shop collecting some slices back from owners.* See lesson: [Dividends, Splits, and Shareholder Basics \(Module 1D\)](#)

Bonds

Bond. A bond is a loan to a government or company that schedules interest payments and repayment, though payments can be missed. *Analogy: An IOU from a friend.* See lesson: [What Is a Bond? \(Module 2A\)](#)

Principal. Principal, or face value, is the amount a bond issuer is scheduled to repay at maturity. *Analogy: The \$1,000 your friend borrowed.* See lesson: [What Is a Bond? \(Module 2A\)](#)

Coupon. A coupon is a bond's scheduled interest payment, which depends on the issuer's ability to pay. *Analogy: The \$50 a year your friend promised for the loan.* See lesson: [What Is a Bond? \(Module 2A\)](#)

Maturity. Maturity is the date a bond's principal is scheduled to be repaid. *Analogy: The day your friend promised to pay you back.* See lesson: [What Is a Bond? \(Module 2A\)](#)

Yield. Yield describes a bond's scheduled income relative to the price paid, and a higher yield often reflects higher risk. *Analogy: The same \$30 a year looks like a bigger percentage when the IOU costs less.* See lesson: [Bond Prices and Interest Rates \(Module 2B\)](#)

Credit rating. A credit rating is an agency's letter-grade opinion of a borrower's ability to pay, and it can change or be wrong. *Analogy: A report card for borrowing.* See lesson: [What Is a Bond? \(Module 2A\)](#)

High-yield bond. High-yield bonds, sometimes called junk bonds, are rated below investment grade, usually pay more interest, and carry a higher risk of default. *Analogy: Lending to a friend with a spotty repayment record.* See lesson: [What Is a Bond? \(Module 2A\)](#)

Duration. Duration measures how sensitive a bond's price is to interest rates: a bond fund or bond with a duration of 5 might fall roughly 5% if rates rose 1 percentage point. It's an estimate that works best for small rate moves, and it isn't a prediction. *Analogy: Sitting farther out on a seesaw means a bigger swing.* See lesson: [Bond Prices and Interest Rates \(Module 2B\)](#)

Treasury. A Treasury is a bond issued by the U.S. federal government, generally considered low in credit risk, though its price still moves with interest rates. *Analogy: Lending to a long-trusted relative.* See lesson: [Bond Prices and Interest Rates \(Module 2B\)](#)

Municipal bond. A municipal bond is issued by a state, city, or local agency; interest on many municipal bonds is exempt from federal income tax, and sometimes state tax, but rules vary and some munis are

taxable. *This isn't tax advice!* **Analogy:** Lending to the town for a new bridge. See lesson: **Bond Prices and Interest Rates (Module 2B)**

Funds

Mutual fund. A mutual fund pools money from many people to hold many investments and is priced once a day after the market closes. *Analogy: A bakery that totals up variety-pack orders at closing time.* See lesson: *Mutual Funds and ETFs (Module 3A)*

ETF. An exchange-traded fund pools money to hold many investments and trades on an exchange throughout the day like a stock. *Analogy: The same variety pack on a store shelf whose price tag can change while the store is open.* See lesson: *Mutual Funds and ETFs (Module 3A)*

Expense ratio. The expense ratio is a fund's yearly fee, shown as a percentage of assets and charged whether the fund goes up or down. *Analogy: A small membership fee deducted automatically.* See lesson: *Mutual Funds and ETFs (Module 3A)*

Diversification. Diversification means spreading money across many holdings, which can reduce some risks but doesn't remove them. *Analogy: One stale flavor doesn't ruin a variety pack, but a bad factory batch can affect every flavor.* See lesson: *Mutual Funds and ETFs (Module 3A)*

Charts and the economy

Candlestick. A candlestick shows a period's open, high, low, and close prices, describing the past without predicting what comes next. *Analogy: A daily weather report for price.* Market Primer charts: hollow = close above open, solid = close below open. See lesson: *Charts and Candlesticks (Module 4A)*

Volume. Volume is the number of shares traded in a period, measuring activity rather than direction. *Analogy: Foot traffic at the farmers market.* See lesson: *Charts and Candlesticks (Module 4A)*

Business cycle. The business cycle is the economy's repeating pattern of expansion, peak, contraction, and trough, with phases that vary in length. *Analogy: Seasons without a fixed calendar.* See lesson: *What Is the Business Cycle? (Module 5A)*

Recession. A recession is a significant, widespread decline in economic activity lasting more than a few months, often identified only after it starts. *Analogy: The economy's winter.* See lesson: *What Is the Business Cycle? (Module 5A)*

Inflation. Inflation is the rate at which prices across the economy rise, so each dollar buys less. *Analogy: A grocery bill that keeps growing for the same cart.* See lesson: *What Is the Business Cycle? (Module 5A)*