

# StocksQuest Online Stock Simulation Game

## Lesson 3: How Do You Pick Winners?

**Background:** In the fast-growing information technology age, industries have transformed into the so-called “new economy.” To identify winners in the market place, students must pick the industries that benefit the most from this new economy. Then they can choose companies that are leaders or “niche players” in these top-performing industries. Once students identify these high growth companies in a particular industry, they can further their research by evaluating the risk and reward factors in the decision making process. Finally, students should visit the company Web site to obtain information such as development of new products, plans for expansion, financial performance, and management teams. By putting all of this together, students will have a systematic method of choosing winners for their investment.

### Activities:

- Using the search engine **Google** students will do a search for **Yahoo Finance Industry Center** to find the top performing companies in each industry listed below.
- Identify the top 5 industries by clicking on the **“Industries”** link under the **“Investing”** tab on Yahoo! Finance
- scroll down to **“Today’s Industry Highlights”** and look at the list of companies under **“Top Performing Industries”** then list the top performing industries and their percentage change and the worst performing industries and their percentage change.

Top Performing Industries	% Change
Gold	+19.40%
Property Management	+4.02%
Foreign Utilities	+1.51%
REIT- Office	+1.20%
Mortgage Investment	+1.09%

Worst Performing Industries	% Change
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Medical Instruments & Supplies	-4.67%
Consumer Services	-3.93%
Savings & Loans	-3.57%
Nonmetallic Mineral Mining	-2.32%
Toy & Hobby Stores	-2.23%

**Use the following instructions to fill in the tables that follow on the next page.**

Identify 3 companies that are in each of the top industries by clicking on the industry. Scroll down to the **“Industry Top Performers”** and you will see a list of the best companies in the industry. The ranking of the companies is based on the analysts' recommendations (Wall Street experts from various brokerage firms such as Merrill Lynch, J. P. Morgan, Goldman Sachs and others).

Here are the steps that will help students evaluate the risk and reward factors of choosing these companies.

- Turn to the 3<sup>rd</sup> page of this packet to fill in the appropriate information.
- Write in the name of the industries in the space provided
- List the top 3 companies in each industry
- Under the Top Performing Industry you may begin by clicking on the company from the list you want to know more about and the link will take you to the *Company Profile/Summary* page in Yahoo! Finance.
- Fill in stock symbol for that company.
- Choose the **“Key Statistics”** category from the sidebar menu to find the following information to fill in the table.

A. First look for the market capitalization or **“Market Cap”**.

*(The higher the market cap, the larger the company's financial strength and the lower the risk.)*

B. Second, look for the **“Beta”**. (Usually all the way to the right hand side of the screen)

The higher the beta, the more ups and downs of the share prices compared with the overall stock market. If students don't like to take a risk, they can pick a company with beta closer to one. (Note: The market beta = 1; Beta = 1.5 means the stock is 50% more volatile than the market.)

Next click on **“Analyst Estimates”** category from the sidebar menu and identify the potential of the company.

C. Scroll down to find the Growth Estimate for the company in the next 5 years. Fill in the percentage (%) on the table for each (the higher the growth rate the better).

D. Next, look at the **“Price/Earnings” (P/E)** ratio (average for comparison categories).

If this ratio is less than the growth rate, meaning that if the PEG ratio is less than the one from the Growth Estimate for the next 5 years, the stock is a bargain. For newer companies, this ratio could be very high. Eventually, this ratio will improve as the growth rate catches up with earnings. Students should focus on growth rates for younger companies.

### #1 Ranked Industry Name: Gold

		Reward factors		Risk factors	
Company Name	Symbol	Next 5-year growth %	P/E ratio	Beta	Market Cap
1. Polyus Gold Intl	PGIL.L	-29.2%	13.62	N/A	5.31B
2	.	.	.	.	.
3	.	.	.	.	.

### #2 Ranked Industry Name: Property Management

		Reward factors		Risk factors	
Company Name	Symbol	Next 5-year growth %	P/E ratio	Beta	Market Cap
1					
2					
3					

### #3 Ranked Industry Name: Foreign Utilities

		Reward factors		Risk factors	
Company Name	Symbol	Next 5-year growth %	P/E ratio	Beta	Market Cap
1					
2					
3					

### #4 Ranked Industry Name: REIT-Office

		Reward factors		Risk factors	
Company Name	Symbol	Next 5-year growth %	P/E ratio	Beta	Market Cap
1					
2					
3					

### #5 Ranked Industry Name: Mortgage Investment

		Reward factors		Risk factors	
Company Name	Symbol	Next 5-year growth %	P/E ratio	Beta	Market Cap
1					
2					

3					
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Choose 5 companies from the previous page to fill in the table below. Students can select the best company from each of the industry groups they just researched.

Industry	Company	Symbol	Growth	Beta	Reasons for the pick
1					
2					
3					
4					
5					