

The PODfolio Podcast – Bonus episode: Stock Explore bedtime story

LOK MA: The following is an excerpt from Stock Explore by Nicolette DiMaggio, author and lead investment associate at Willis Towers Watson. It's a story to teach children from ages seven and up about the magical world of investing.

In this excerpt, Elle learns about her first stock with a help of Sam, the magical owl. Later on her journey, Elle will also go on to acquire five investment superpowers. Stock Explore is available on www.stockhiveandexplore.com with a 10% discount code Holiday. It's "Holiday" with a capital H for our listeners. It's also available on Amazon, Walmart, and Barnes & Noble. Enjoy.

NICOLETTE DIMAGGIO: Stock Explore by Nicolette DiMaggio and illustrated by Ethan Roffler. One sunny afternoon, Elle asked Sam, the owl, "What is a stock?"

Sam, the owl, replied, "A stock is a piece of ownership in a company."

"So I own this company now?" asked Elle. "Sweet, I knew I would be a boss one day."

"No," said Sam. "You own a piece of the company, Elle."

"Well, what can I possibly do with that?" she asked. "You know I always appreciate your advice, Sam. But I can't eat a piece of a company. I can't see it, and it is certainly not fashionable. I just don't understand how owning the stock benefits me at all."

"Elle, trust me," said Sam. "This is the most valuable lesson I've ever shared with you. Owning stock gives you the right to vote on company decisions, along with those who own the remaining pieces of a company."

"Oh, so I have voting powers?" said Elle. "What else?"

"As the company grows and gains in value, your stock will grow in value with it," replied Sam. "This will make you wealthier and will also play a role in the company's growth and success."

"But not all companies are successful," said Elle. "What if the company shrinks or goes out of business?"

"Good question, Elle," exclaimed Sam. "If that happens, your share will decrease in value or become worthless."

"Oh, that would be terrible," said Elle. "How do I know if this company's value will increase or decrease?"

"Aha, another good question, Elle," said Sam. "No one has a crystal ball that can predict the future success or failure of a company. But a good place to start is by learning financial statement analysis."

"What is that?" asked Elle. "This seems too confusing."

"Financial statement analysis is the process of determining if a company is a good buy versus a strong sell," explained Sam. "It helps investors like you more easily pick winners and losers."

"Really?" asked Elle.

"Yes. So let's get moving," said Sam as he headed off deeper into the forest. "I need to show you my superpowers."

"Owls don't have superpowers," said Elle, shaking her head.

"Well, every stock picker has five powers. I like to think of them as my superpowers. And if you listen carefully, I will pass them along to you," said Sam.

"Five powers?" said Elle.

"Yes. Ah, we have made it," said Sam.

"OK, Sam. I'm ready," said Elle. "Share all the powers. I've wanted to be a superhero my whole life. This tree gives you the powers."

"No. It's something inside you," said Sam. "Something you must always test and explore." "Let's start with the basics," said Sam. "The stock I will give you is called AAPL. Do you know what AAPL does?"

"Huh? What is AAPL?" asked Elle, more confused than ever.

"AAPL is a ticker symbol for Apple," replied Sam.

"Apple, the tech company or the apple you eat?" asked Elle.

"Apple, the tech company, of course," said Sam. "A ticker is a short symbol for a company. It's a way for people to look up a particular stock which is critical when buying or selling stock."

"But where are my powers?" asked Elle.

"Well, power number one is right up your alley, Elle," said Sam. "It's competitive rivalry."

"You're right," said Elle laughing. "I'm definitely competitive, but how is that a superpower?"

"Well, knowing your stock's competition is a major superpower," explained Sam.

"Why?" asked Elle.

"Because knowing your company's competition is and how they compare to the business you own is critical," said Sam. "It's the first step towards determining if your company has what it takes. For example, AAPL is a technology company and has many competitors. For the purpose of my example, we will explore two.

The two competitors are Microsoft Corporation and Alphabet Inc. Microsoft Corporation, MSFT, is one of Apple's rivals. They also make computers and tablets. Alphabet Inc., GOOGL, competes with Apple in many different markets. Google owns Android, so they compete in the smartphone market. Plus, Google Play competes with iTunes, and they also both have online payment services that compete."

"I see, stocks have competition, kind of like humans do in sports. But in sports, we have a score. What do stocks have to compare them against their competition?" asked Elle.

"Stocks have financial reports and ratios to compare themselves against one another, which is very similar to the score in a game. The numbers that companies report each quarter and each year serve as a way for investors to evaluate their success," said Sam. "Elle, do the saying, a team is only as good as its weakest player?"

"Yes," said Elle, nodding her head and smiling.

"Well, a stock is only as good as its weakest report. You want the MVP holding your money, right?" asked Sam.

"Yeah, only the best for me," said Elle.

"When evaluating a stock, we can't just look at the score at the end of the game. We have to look at tons of games and tons of financial reports."

"Wow, that sounds fun," said Elle. "So what is power number two?"

"Supplier power," answered Sam.

"What is that?" asked Elle.

"Every business has a supplier, which is a company that helps provide the business with whatever is needed for their product," said Sam.

"This sounds kind of like when my school has a bake sale and my mom makes cookies," said Elle.

"Exactly. Your mom is your supplier. Now, can you guess who Apple's supplier is?"

"Hmm. Where can I start? They have so many different products," said Elle.

"Let's look at the screen on your watch," said Sam. "Who do you think makes that special screen?"

"It must be the supplier," said Elle.

"Bingo!" exclaimed Sam. "Analog Devices, Inc., ADI, makes the screens for Apple watches and iPhones. But Apple has a huge number of suppliers that help them make all the products they sell."

"So are Apple suppliers strong or weak?" asked Elle.

"The suppliers power to bargain with Apple is pretty low. Apple uses over 200 suppliers. And if they had to switch from one supplier or another, the cost to Apple would be relatively low. Since Apple is considered a major customer to most suppliers, Apple is the bigger fish in the pond."

"Over 200 suppliers?" exclaimed Elle. "That is one big fish. What is power number three?"

"Power number three is you. Look into the mirror," said Sam. "You purchased Apple products. You are a buyer. Power number three is buyer power."

"My friend, so many people buy Apple products. Every kid on my soccer team has an iPad. How can I possibly measure each one against Apple?" said Elle.

"There is your answer," said Sam. "A single buyer would not have that much control over Apple's success. Individual bargaining power is weak, and AAPL is once again strong."

"OK. Well, what if everyone decided that they no longer needed an iPad or an Apple Watch or iPhone? What if my whole soccer team and every kid in America was grounded, so the parents saw no need to buy an iPad?" asked Elle.

"Well, collectively, this would be a big deal and the buyers bargaining power would then be strong," said Sam.

"Well, luckily for Apple, their customers were loyal," said Elle.

"Exactly. That's another force that Apple must be mindful of, and they have proven to be," said Sam.

"How?" asked Elle.

"Just like in soccer, if you don't have a good defense, your team won't be entirely successful, right?" said Sam.

"Yeah. Luckily, we have an amazing goalkeeper," said Elle.

"Apple knows that if they don't keep their collective customers happy and updated, then they will be as good as gone in a couple of years, and then they might not have enough time to grow their money," said Sam.

"So how is my stock on the defense?" asked Elle.

"Research and development. They are continually coming out with new versions and better products. This is Apple's defense mechanism to retain buyers," said Sam.

"I see. So they have to make sure they are one step ahead of the competition," said Elle.

"Exactly, which brings us to superpower number four," exclaimed Sam.

"The threat of someone replacing them?" guessed Elle.

"Yes, the threat of substitution."