

Stocks

Stock Tutorials Will Cover:

- Stock Basics - Theory
- Stock Price - Dividend Discount Model
- Stock Price - Constant Growth Dividend Discount Model
- Stock Price - Constant Dividend
- Stock - Dividend Yield

What is a Stock?

- A firm issues shares (stock) to raise financing in exchange for selling ownership of the firm.
- Preferred stock holders receive a fixed dividend and are not allowed to vote at shareholder meetings. They have priority on the firm's assets over common stock holders in the case of liquidation; however they get paid after bondholders.
- Common stock holders may or may not receive dividends and are allowed to vote at shareholder meetings. Common stock holders have the last priority on the firm's assets in the case of liquidation. They get paid after both bondholders and preferred stock holders.

Stock Price: Dividend Discount Model

Example 30: What is the Price of the Stock Today?

You are considering buying the common shares of ZYZ Inc. You expect the company to pay a \$2 dividend per share in one year and \$3 dividend per share in year two. At that time you believe that you can sell the stock for \$14. If you require a return of 6% on investments, what will you be willing to pay today for one share?

Stock Price: Constant Growth Dividend Discount Model

Example 31: What is the Price of the Stock Today?

You are considering buying the common shares of ZYZ Inc. The company just paid a \$2 dividend per share and it is expected to grow at a constant 3% thereafter. If you require a return of 6% on investments, what will you be willing to pay today for one share?

Example 32: What is the Price of the Stock Today?

Suppose a firm is expected to increase dividends by 20% next year and by 15% in two years' time. After that dividends will increase at a constant rate of 5% per year indefinitely. If the last dividend paid was \$1.00 per share and the required return is 20%, what is the current price of the stock?

Stock Price: Constant Dividend

Example 33: What is the Price of the Stock Today?

What is the current price of a stock that is expected to pay a constant dividend of \$2 per year forever if the required return is 15%?

Dividend Yield

Example 34:

Suppose a firm's stock is selling for \$10.50. The firm just paid a \$1.00 per share annual dividend and dividends are expected to grow at 5% per year forever. What is the dividend yield on the stock?