

Shares, Gains, Risks

Read how stock ownership can lead to income, growth, or loss.

SS.8.FL.5.3 “Discuss that when people buy corporate stock, they are purchasing ownership shares in a business that if the business is profitable, they will expect to receive income in the form of dividends and/or from the increase in the stock’s value...”

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline the sentence that explains what buying a share gives an investor. Circle words or phrases that name possible investor outcomes, then write D by dividends, G by capital gains, and L by losses.

Maya Considers Riverbend Stock

- ① Maya is considering stock in Riverbend Bicycles, a corporation that designs city bikes. A stock share is a small ownership share in the business. By buying 10 shares, Maya does not simply lend Riverbend money. She becomes one of its owners, along with other shareholders. Ownership can offer a chance to earn money, but it also brings risk. The price of a share can change after Maya buys it, so the value of her investment is not guaranteed.
- ② If Riverbend earns a profit, its board may choose to pay shareholders dividends. A dividend is income paid to shareholders from the company's earnings. For example, Maya could receive a cash dividend for each share she owns. She might also benefit if buyers later value Riverbend stock more highly. If Maya pays \$12 per share and later sells for \$16 per share, the \$4 increase in value per share is a capital gain. Profitable companies do not promise either result.
- ③ However, buying stock can lead to a loss. Suppose Riverbend's sales fall and the business is not profitable. Investors may worry about future earnings and offer less for its shares. If Maya sells a share she bought for \$12 for \$7, she loses \$5 on that share. She could also lose money if the company closes and its stock becomes worthless. Before buying, investors consider possible dividends, possible capital gains, and the possibility of losing some or all of their invested money.

2

ANSWER WITH EVIDENCE

Use the passage

1

What does Maya purchase when she buys shares of Riverbend Bicycles?

2

What is a dividend, and when might Maya receive one?

3

In the passage example, what is Maya's capital gain per share when she sells a \$12 share for \$16?
Explain why it is called a capital gain.

4

Describe two ways Maya could lose money on her Riverbend investment.

3

YOUR TURN

Your own words

Nora buys 5 shares of Bright Bowl Foods for \$8 each. Complete the table for these two possible outcomes: if the company is profitable, it pays a \$0.50 dividend per share and the stock rises to \$10; if it is not profitable, it pays no dividend and the stock falls to \$5.

BUSINESS OUTCOME	DIVIDEND INCOME FROM 5 SHARES	GAIN OR LOSS FROM SELLING 5 SHARES	TOTAL CHANGE IN NORA'S INVESTMENT

PART 1 • READ AND MARK

Underline the sentence that explains what buying a share gives an investor. Circle words or phrases that name possible investor outcomes, then write D by dividends, G by capital gains, and L by losses. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	What does Maya purchase when she buys shares of Riverbend Bicycles?	She purchases small ownership shares in the business and becomes one of its owners.
2	What is a dividend, and when might Maya receive one?	A dividend is income paid to shareholders from a company's earnings. Maya might receive one if Riverbend earns a profit and its board chooses to pay dividends.
3	In the passage example, what is Maya's capital gain per share when she sells a \$12 share for \$16? Explain why it is called a capital gain.	Her capital gain is \$4 per share. It is the increase in the stock's value from \$12 to \$16.
4	Describe two ways Maya could lose money on her Riverbend investment.	She could sell a share for less than she paid, such as selling a \$12 share for \$7. She could also lose money if the company closes and the stock becomes worthless.

PART 3 • YOUR TURN (SAMPLE ANSWER)

BUSINESS OUTCOME	DIVIDEND INCOME FROM 5 SHARES	GAIN OR LOSS FROM SELLING 5 SHARES	TOTAL CHANGE IN NORA'S INVESTMENT
Profitable, dividend paid and stock rises	\$2.50 income	\$10 capital gain	\$12.50 total gain
Not profitable, no dividend and stock falls	\$0 income	\$15 loss	\$15 total loss

Accept equivalent calculations and clear labels for income, capital gain, and loss. In the profitable outcome, the \$10 stock gain plus \$2.50 in dividends equals a \$12.50 total gain; in the unprofitable outcome, Nora loses \$15.