



Ticker's Tales

"Sweet Earnings"

It's hard to find a breakfast cereal that doesn't have a personality. Some are corny, and some are flaky. Others are puffed up and full of air. A few are nutty, and many are sweet. Others are always getting themselves into crunches.

The next time you invite your favorite cereal to breakfast, look carefully inside the box. You can find nutritious lessons about the stock market.

For example, you can learn how to become an owner of a business like the Kellogg Company. If you buy a share of its stock, you become one of Kellogg's many owners. Stockholders own more than 400 million shares of the company, so there are more stockholders than there are Corn Flakes in a box.

For each share of stock you buy, you get a share of a company's earnings from now on. Of course, earnings are very different from a company's sales. Sales are the total money received from selling products. Two boxes of cereal sold for \$3 each equal \$6 of sales. Earnings, however, are what's left after paying all expenses — like workers' wages, wheat, and cereal boxes.

People buy a stock because they want to share in a company's future earnings. How do they receive those earnings? One way is by receiving a dividend check. A dividend is part of a company's earnings that it pays to stockholders.

Another way is for investors to sell their shares at a higher price. If investors think a company will grow, they'll expect more earnings for each share of stock they own. The stock becomes more attractive, so investors pay more for it. Its price then goes up, and stockholders can sell it for more than they paid.

But there are no guarantees that a company will have any earnings at all. If it loses money, it can't pay dividends and its stock price will fall. No wonder investors try so hard to find successful companies likely to earn money. They want the crunch to stay in their cereal bowls, not in their wallets.

Write Now

- ✓ Find a newspaper story about a company whose stock price is rising. Could you become an owner of this company? What benefits would you expect to receive if you became part owner of this business?
- ✓ Find a newspaper story about a company whose stock price is falling. Is this decline related to the company's earnings?