Stock Market Investing & Trading Cheatsheet

A concise guide to stock market investing and trading, covering essential concepts, strategies, and tools for both beginners and experienced traders.

Core Concepts

Basic Terminology

Stock	Represents ownership in a company; also referred to as 'shares'.
Market Capitalization (Market Cap)	Total value of a company's outstanding shares (Shares Outstanding * Current Share Price).
Dividend	A portion of a company's earnings paid out to shareholders, typically quarterly.
Bull Market	A prolonged period of rising stock prices.
Bear Market	A prolonged period of declining stock prices.
Volatility	A measure of how much the price of a stock or market fluctuates.
Liquidity	The ease with which an asset can be bought or sold without affecting its price.
Index Fund	A type of mutual fund or ETF designed to track a specific market index, like the S&P 500.

Order Types

Market Order	An order to buy or sell a stock immediately at the best available price.
Limit Order	An order to buy or sell a stock at a specific price or better.
Stop-Loss Order	An order to sell a stock when it reaches a specific price, designed to limit potential losses.
Stop-Limit Order	A combination of a stop order and a limit order. The order becomes a limit order when the stop price is reached.

Key Financial Ratios

P/E Ratio (Price-to-Earnings)	Share Price / Earnings per Share (EPS). Indicates how much investors are willing to pay for each dollar of a company's earnings.
PEG Ratio (Price/Earnings to Growth)	P/E Ratio / Earnings Growth Rate. Considers the company's growth rate in determining valuation.
Debt-to-Equity Ratio	Total Liabilities / Shareholder Equity. Indicates the proportion of debt a company uses to finance its assets relative to equity.
Dividend Yield	Annual Dividend per Share / Share Price. Represents the return on investment from dividends.
EPS (Earnings Per Share)	(Net Income - Preferred Dividends) / Weighted Average Common Shares Outstanding. A company's profit allocated to each outstanding share of common stock.

Investing Strategies

Value Investing

Focuses on identifying undervalued stocks – companies trading below their intrinsic value.

Key Principles:
- **Fundamental Analysis:** In-depth analysis of financial statements.
- **Margin of Safety:** Buying stocks significantly below estimated intrinsic value.
- **Long-Term Perspective:** Holding investments for the long haul.

Example: Analyzing a company's balance sheet to determine if its assets are undervalued relative to its current stock price.

Growth Investing

Focuses on investing in companies expected to grow earnings at an above-average rate compared to their industry or the overall market.

Key Principles:
- **Revenue Growth:** Look for companies with consistently high revenue growth.
- **Innovation:** Companies disrupting industries with new products or services.
- **Future Potential:** Focus on long-term growth prospects.

Example: Investing in a technology company developing innovative AI solutions with high growth potential.

Dividend Investing

Focuses on investing in companies that pay regular dividends, providing a steady stream of income.

Key Principles:
- **Dividend Yield:** Look for companies with high and sustainable dividend yields.
- **Dividend History:** Check the company's track record of consistently paying and increasing dividends.
- **Financial Stability:** Ensure the company has a strong financial position to support dividend payments.

Example: Investing in established companies with a history of paying consistent dividends, such as utilities or consumer staples.

Index Investing

Investing in index funds or ETFs that track a specific market index, providing broad market exposure and diversification.

Key Principles:
- **Diversification:** Reduce risk by investing in a wide range of stocks.
- **Low Cost:** Index funds typically have lower expense ratios compared to actively managed funds.
- **Passive Management:** Mirroring the performance of a specific index, such as the S&P 500 or Nasdaq.

Example: Buying an S&P 500 index fund to gain exposure to the 500 largest publicly traded companies in the US.

Trading Strategies

Day Trading

Buying and selling stocks within the same day, aiming to profit from small price movements.

Key Characteristics:
- **High Frequency:** Multiple trades executed throughout the day.
- **Technical Analysis:** Reliance on charts, patterns, and technical indicators.
- **Leverage:** Often uses leverage to amplify potential gains (and losses).
- **Requires significant capital, knowledge, and risk tolerance.**

Swing Trading

Holding stocks for a few days or weeks to profit from short-term price swings.

Key Characteristics:
- **Medium-Term Focus:** Holding periods range from days to weeks.
- **Technical & Fundamental Analysis:** Combines both technical and fundamental analysis.
- **Risk Management:** Uses stop-loss orders to limit potential losses.

Scalping

A trading strategy that attempts to make many small profits on tiny price changes throughout the day.

Key Characteristics:
- **Extremely Short-Term:** Positions held for seconds to minutes.
- **Tight Spreads:** Focuses on highly liquid stocks with narrow bid-ask spreads.
- **High Volume:** Requires a high volume of trades to generate meaningful profits.

Position Trading

Holding stocks for several weeks or months, based on fundamental analysis and macroeconomic trends.

Key Characteristics:
- **Longer-Term Focus:** Holding periods range from weeks to months.
- **Fundamental Analysis:** Emphasis on company fundamentals and industry trends.
- **Patience:** Requires patience to ride out short-term market fluctuations.

Technical Analysis Tools

Chart Patterns

Head and Shoulders	A bearish reversal pattern indicating a potential downtrend.
Double Top/Bottom	Reversal patterns indicating potential changes in trend direction.
Triangles (Ascending, Descending, Symmetrical)	Continuation patterns indicating potential breakouts in the direction of the prevailing trend.
Flags and Pennants	Short-term continuation patterns indicating a pause in the trend before resuming.

Technical Indicators

Moving Averages (MA)	Calculates the average price of a stock over a specific period, smoothing out price fluctuations.
Relative Strength Index (RSI)	A momentum oscillator measuring the magnitude of recent price changes to evaluate overbought or oversold conditions (0-100 scale).
Moving Average Convergence Divergence (MACD)	A trend-following momentum indicator showing the relationship between two moving averages of a stock's price.
Bollinger Bands	Bands plotted at standard deviation levels above and below a moving average, indicating volatility and potential price breakouts.
Volume	The number of shares traded in a given period, used to confirm the strength of a trend or price movement.

Fibonacci Retracement

A tool used to identify potential support and resistance levels based on Fibonacci ratios (23.6%, 38.2%, 50%, 61.8%, 78.6%).

How to Use:
- Identify a significant high and low point on a price chart.
- Draw Fibonacci retracement levels between those two points.
- Look for price reversals or consolidations near the Fibonacci levels.