



What is a stock?

A stock—also called an equity security—represents a share of ownership in a company. A few basic types of stocks include:

- Large-cap—generally understood as the largest 5 percent of domestic companies in terms of capitalization
- Mid-cap—the next largest 15 percent of domestic companies in terms of capitalization
- Small-cap—the remaining 80 percent of companies
- International—foreign (non-U.S.) companies

Capitalization is the total stock market value of all shares of a company's stock. This is calculated by multiplying the stock price by the number of shares outstanding.

There are actually two primary classes of stock:

- **Common stock** is a share of ownership that you buy when you invest in a company.
- **Preferred stock** acts much more like a bond than common stock. It pays a fixed yield, and the prices tend to be less volatile than common stock.

How stocks are characterized

You might also hear about the *style* of a stock, or a reference to what industry or sector a stock is in. Here's basically what this means:

- Style refers to whether a stock is considered to be a growth investment (with earnings and share price expected to grow rapidly) or a value investment (believed to be underpriced and a good value).
- Sector and industry refer to a commonly used classification system in which stocks are divided into 10 sectors (information technology, telecom services, utilities, health care, financials, industrials, consumer discretionary, consumer staple, materials and energy) and 67 industries within those sectors (examples include food and drug, retailing, banks, building products, etc.).

To make investing easier when you're first starting out, think about investing in a mutual fund as opposed to an individual stock.

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