

Why stock markets matter for you

Stefan Armbruster, BBC News online

The saying goes: "Don't invest what you can't afford to lose" But as stock markets fall, it is not just people who own shares who lose out. When the bears replace the bulls – in other words, when the market falls – it affects almost everyone because stocks and shares have become an integral part of almost all our financial lives.

There are a variety of ways in which stock market movements impact our lives. The upbeat side of the growth in share ownership is that when the stock market goes up, consumers with shares feel richer, they borrow more and they spend more. But just as the stock market can go up, it can also go down. Usually the first to react to this are the institutional investors who are involved in the financial markets on a daily basis.

The internet boom is an example. Many personal investors felt they were burnt by the popping of the dot.com bubble. By the time they got around to selling shares in any number of failing internet based companies, the big City investors had already pulled out the market. The institutional investors did not escape unharmed either. And the hits that they took also have an indirect, but potentially serious, effect on many people's financial health. Any pain suffered by these institutional investors impacts on the returns paid on pensions, savings accounts or the interest charged on mortgages.

For individuals with a more direct interest – say day traders attracted by the tech boom – share holdings can be used as collateral to borrow money. But if the value and income from shares evaporate and the bank calls in the loan, the result can be big losses or personal bankruptcy. Meanwhile pensions linked to the stock market, like the ones being promoted by the UK government, are not immune. Unlike the state pension which is paid out at a rate set by the government, investing in a private pension indexed to the stock market can increase the value of the contributions dramatically, but they can also be erased.

Your job can also depend on the markets as companies use their valuation and the issue of new shares to raise capital to expand. If they are unable to do this then they have to find ways of increasing the company's value to attract investors. The key tool they use is to cut jobs.

According to the reading: Say if the statements are true or false.

- a) Nearly everybody suffers the consequences when the share prices go down _____
- b) Institutional investors are usually slower to sell when the market falls than personal investors _____
- c) The value of pensions paid by the government can go up and down with the stock market _____
- d) Companies can acquire new capital for expansion by issuing new shares _____
- e) Companies sometimes make people redundant in order to increase the company's value (and its share price) _____