



LEARN TO EARN

**A BEGINNER'S GUIDE
TO THE BASICS OF
INVESTING AND BUSINESS**

**PETER LYNCH AND
JOHN ROTHCHILD**

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Peter Lynch
&
John Rothchild

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PREFACE

INTRODUCTION

The Companies Around Us

ONE

A Short History of Capitalism

TWO

The Basics of Investing

THREE

The Lives of a Company

FOUR

The Invisible Hands

APPENDIX ONE

Stockpicking Tools

APPENDIX TWO

Reading the Numbers—How to Decipher a Balance Sheet

INDEX

To the Lynch children
(Mary, Annie, Beth),
the Rothchild children
(Chauncey, Berns, Sascha),
and all beginning investors,
young and old.

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Preface

The junior high schools and high schools of America have forgotten to teach one of the most important courses of all. Investing. This is a glaring omission. History we teach, but not the part about the great march of capitalism and the role that companies have played in changing (and mostly improving) the way we live. Math we teach, but not the part about how simple arithmetic can be used to tell the story of a company and help us figure out whether it will succeed or fail in what it's trying to do and whether we might profit from owning shares of its stock.

Home economics we teach: how to sew, how to cook a turkey, even how to stick to a budget and balance a checkbook. What's often left out is how saving money from an early age is the key to future prosperity, how investing that money in stocks is the best move a person can make, next to owning a house, and how the earlier you start saving and investing in stocks, the better you'll do in the long run.

Patriotism we teach, but we talk more about armies and wars, politics and government, than we do about the millions of businesses, large and small, that are the key to our prosperity and our strength as a nation. Without investors to provide the money to start new companies that hire new workers, or to help older companies grow bigger, become more efficient, and pay higher wages, the world as we know it would collapse and there'd be no jobs for anybody and the United States would be out of luck.

In the past five years, a tremendous thing has happened in what used to be called the communist bloc, the countries behind the Iron Curtain. The citizens of those countries have risen up and overthrown their governments and sent their communist leaders packing, in the hope that someday they can improve their lot in life. Democracy is among the things they want, as are freedom of speech and freedom of worship, but up there with the Bill of Rights freedoms, they also want free enterprise. That includes the right to make things, sell things, and buy things in stores, the right to own a house,

an apartment, a car, or a business, which until recently, perhaps half the world's population was not allowed to do.

The Russians and the Eastern Europeans marched, demonstrated, held strikes, organized, agitated, and fought as hard as they could to get the economic system that we have already. Many people went to jail for this cause, and many lost their lives. Yet in our own schools we don't teach the basics of how this economic system works, and what's good about it, and how you can take advantage of it by becoming an investor.

Investing is fun. It's interesting. Learning about it can be an enriching experience, in more ways than one. It can put you on the road to prosperity for the rest of your life, yet most people don't begin to get the hang of investing until they reach middle age, when their eyes start to go bad and their waistlines expand. Then they discover the advantages of owning stocks, and they wish they'd known about them earlier.

In our society, it's been the men who've handled most of the finances, and the women who've stood by and watched men botch things up. There's nothing about investing that a woman can't do as well as a man. Also, you don't get the knack for it through the chromosomes. So when you hear somebody say, "He's a natural-born investor," don't believe it. The natural-born investor is a myth.

The principles of finance are simple and easily grasped. Principle number one is that savings equals investment. Money that you keep in a piggy bank or a cookie jar doesn't count as an investment, but any time you put money in the bank, or buy a savings bond, or buy stock in a company, you're investing. Somebody else will take that money and use it to build new stores, new houses, or new factories, which creates jobs. More jobs means more paychecks for more workers. If those workers can manage to set aside some of their earnings to save and invest, the whole process begins all over again.

It's the same story for every family, every company, every country. Whether it's Belgium or Botswana, China or Chile, Mozambique or Mexico, General Motors or General Electric, your family or mine, those who save and invest for the future will be more prosperous in the future than those who run out and spend all the money they get their hands on. Why is the United States such a rich country? At one point, we had one of the highest savings rates in the world.

A lot of people must have told you by now that it's important to get a good education, so you can find a promising career that pays you a decent wage. But they may not have told you that in the long run, it's not just how much money you make that will determine your future prosperity. It's how much of that money you put to work by saving it and investing it.

The best time to get started investing is when you're young, as we'll discuss in more detail later. The more time you have to let your investments grow, the bigger the fortune you'll end up with. But this introduction to finance is not only for young people. It's for beginning investors of all ages who find stocks confusing and who haven't yet had the chance to learn the basics.

People are living much longer than they used to, which means they'll be paying bills for a lot longer than they used to. If a couple makes it to sixty-five, there's a good chance they'll make it to eighty-five, and if they make it to eighty-five, there's a decent chance one of them will reach ninety-five. In order to cover their living expenses they'll need extra money, and the surest way to get it is by investing.

It's not too late to start investing at age sixty-five. Today's sixty-five-year-olds might be looking at twenty-five more years during which their money can continue to grow, to give them the wherewithal to pay the twenty-five years' worth of extra bills.

When you're fifteen or twenty, it's hard to imagine the day will come when you'll turn sixty-five, but if you get in the habit of saving and investing, by then your money will have been working in your favor for fifty years. Fifty years of putting money away will produce astonishing results, even if you only put away a small amount at a time.

The more you invest the better off you'll be, and the nation will be better off as well, because your money will help create new businesses and more jobs.

INTRODUCTION

The Companies Around Us

When a group of people goes into business together, they usually form a company. Most business in the world is done by companies. The word “company” comes from a Latin word that means “companion.”

The formal name for a company is “corporation.” Corporation comes from “corpus,” another Latin word, meaning “body,” in this case, a body of people who join together to conduct business. “Corpse” also comes from “corpus,” although this has nothing to do with the subject at hand, since corpses are unable to do business.

To form a corporation is easy. All it takes is paying a small fee and filing a few papers in the state in which you want to maintain a legal address. Delaware is the most popular choice, because the laws there are favorable to business, but thousands of new corporations are formed every year in every state. Whenever you see an “inc.” attached to the end of the name of a business, it means that company has filed the papers to become a corporation. “Inc.” is short for “incorporated.”

In the eyes of the law, a corporation is a separate individual that can be punished for bad behavior, usually by the imposition of a fine. That’s the main reason owners of a business go to the trouble of getting incorporated. If they do something wrong and they get sued, the corporation takes the rap and they get off the hook. Imagine if you borrowed your parents’ car without permission and ran it into a tree, how much better you’d feel if you were incorporated.

Do you remember the *Exxon Valdez* disaster in Alaska, when an oil tanker ran aground and spilled 11 million gallons of oil into Prince William Sound? This created a huge mess that took months to clean up. The tanker belonged to Exxon, America’s third-largest company. At the time, Exxon