

MISSISSIPPI DIVISION OF MEDICAID

Eligibility Policy and Procedures Manual

303.02 STOCKS

The following guidelines refer to all stocks, including preferred stock, warrants and rights, and options to purchase stock.

Treatment

- Shares of stock represent ownership in a business corporation.
- The value of a share of stock shifts with demand and may fluctuate widely.
- Absent evidence to the contrary, assume each owner of a stock owns an equal share of stock and can sell the stock at will, at current value
- Broker fees do not reduce the value that stocks have as a resource

Verification of Stock Ownership

Verify ownership using the stock certificate or most recent account statement (including dividend account) from the brokerage firm that issued or is holding the stock.

If the individual does not have this information, have them obtain a statement from the brokerage firm. Provide assistance as needed.

Valuation of Publicly Traded Stocks

For **publicly traded stocks**, the CMV of a stock is its closing price on the last business day of the preceding month.

The values of over-the-counter stock are shown on a "bid" and "asked" basis. For example, "18 bid, 19 asked". Use the bid price as the stock's CMV.

On any given day the closing price of the stock can usually be found in the next day's regular or financial newspaper or it can be obtained from the internet. If the closing price is unavailable through these means, as a last resort, contact a local securities firm. Document the closing price and source of information in the case record.

NOTE: The "par" or "stated value" shown on some stock certificates is not the market value of the stock.

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Treatment
<p><u>Valuation of Stock that is not Publicly Traded</u></p> <p>The stock of some corporations is held within close groups and traded very infrequently. The sale of such stock is handled privately and subject to restrictions. Therefore, for stock that is not publically traded, the burden of proof to establish the value is on the individual since sale of such stock is handled privately and subject to restrictions.</p> <p>The preferred evidence is a letter or other written statement from the firm's accountants giving their best estimate of the stock's value <u>and</u> the basis for the estimate, e.g., most recent sale, most recent offer from outsiders, CMV of assets less debts on them, cessation of activity and sale of assets, bankruptcy, etc. Keep the statement or a copy of it in the file.</p>

Description of Stocks

Common Stock - Common stock is usually held in the form of a certificate registered in the owner's name. Dividends usually are paid quarterly and may vary with company earnings.

- "Listed" stocks are those listed on the NYSE, AMEX, or on one of the regional exchanges such as Boston, Philadelphia or Chicago.
- Over-the-Counter (OTC) stocks which include "penny" stocks are not listed on the major exchanges. They usually are reported in the National Association of Security Dealers Automated Quotations (NASDAQ) system.

Preferred Stock- Preferred stock receives preference with respect to dividends and, in case of bankruptcy, the distribution of assets. Preferred stock dividends:

- Are paid at a fixed rate
- Must be paid before common stock dividends can be paid, and
- Must be made up later, when not paid timely, whereas common stock dividends may be skipped.

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Reading Stock Quotations

Stock tables vary little from publication to publication. The following quote is typical, showing right to left:

- The standard abbreviation of the name of the company (Philadelphia Electric in this case), followed by “pf” for preferred stock on the second line;
- The dividend amount
- The price-to-earnings ratio;
- Sales volume in thousands;
- The day’s high, low and closing prices ($22 \frac{3}{4} = \$22.75$); and
- The change in price from the previous day.

NAME	DIV	PE	SALES	HIGH	LOW	LAST	CHG
Phil EI	2.20	9	4323	$22 \frac{7}{8}$	$22 \frac{5}{8}$	$22 \frac{3}{4}$	-1/8
Phil E pf	4.30	-	50	$42 \frac{3}{4}$	$42 \frac{3}{4}$	$42 \frac{3}{4}$	-

Description of Options

Option - An option is the right to sell something at a specified price by a specified date. The “something” is usually stock, but there are options on interest rates, stock market indexes, commodity futures and other items as well. An option to sell is called a “put”. An option to buy is a “call”. The value of an option depends on:

- The length of the contract (usually 3, 6, or 9 months);
- The difference between the CMV of the item and price at which the put permits it to be sold or the call permits it to be bought;
- The volatility of the item (how much the CMV is expected to fluctuate).

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Buying and Selling Options

Options can be sold through a broker. If the CMV of an item goes up in relation to a call price, the value of the option increases. If it goes down, the value of the option decreases. The reverse is true for a put.

Reading Option Quotations

There are several exchanges across the country that list option prices for about 300 stocks: the Chicago Board of Options (CBOE), AMEX, the Philadelphia Stock Exchange and the Pacific Stock Exchange. Transactions on these exchanges are listed in financial publications and many newspapers.

Although a stock option contract controls 100 shares of stock, options are quoted on the price per share. If a contract sells for \$300, the cost per share is \$3. Options come due and are quoted for each January, April, July and October. The following example is a typical options quotation and shows from left to right:

- The name of the stock (Tandy), the expiration month (April) and per-share price of the option (\$30 for a put option on line 2);
- The number of contracts sold (996 on line 2);
- The high, low and closing prices for a contract (\$56, \$25, \$37.50, respectively, on line 2);
- The net change in the value of the contract (\$6.25 on line 2).

Name	Expiration	Date and Price	Sales	High	Week's Low	Last	Net Change
Tandy	Apr	30	1317	4 ³ / ₄	2 ³ / ₄	3 1/8	-1/8
		Apr 30p	996	9/16	¹ / ₄	3/8	-1/16