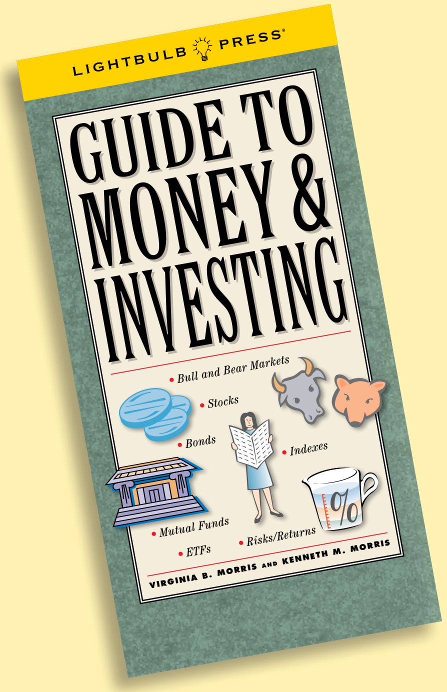


Buying and Selling Stock

Buying stock isn't hard, but the process has its own rules, its own language, and a special cast of characters.

The professionals to whom you give buy and sell orders for stocks and other securities have different titles and do different jobs. You may have a personal relationship with your stockbroker—sometimes called a Financial Executive, Financial Consultant, or Account Executive—and depend on the broker's advice in making your investment decisions. But, in most cases, you have little or no connection to others who work in your broker's firm or handle the details of your transactions. But each of them fills a critical role.

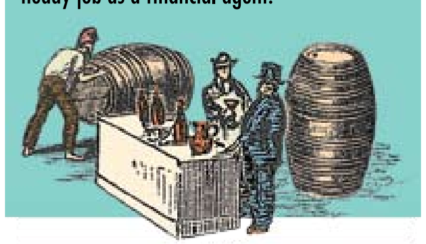
The brokerage firm where you have an account is known as a **broker-dealer (BD)**. That means the firm has a license from the Securities and Exchange Commission (SEC) that entitles its employees to buy and sell securities for the firm's clients and for the firm's own accounts.

Brokers handle buy and sell orders placed by individual and institutional clients in return for a commission on each transaction. A floor broker handles buy and sell orders on the floor of an exchange.

Dealers buy and sell securities for their own accounts or the firm's account rather than for a client. For example, if you tell your broker to sell shares of a particular stock, a dealer working for the same firm might buy those shares for the firm's account. Dealers make their money on the difference between what they pay to buy a security and the price they get for selling it.

Traders, also called registered or competitive traders, buy and sell securities for their own portfolios. The term traders also describes employees of broker-dealers who handle the firms' securities trading.

A **broker**, originally, was a wine seller who broached — broke open — wine casks. Today's broker has a less liquid but often heady job as a financial agent.



CUSTOMERS

Invest in stocks

As an **individual investor**, you buy and sell securities for your personal portfolio. You can invest through regular taxable accounts, special-purpose accounts that are either tax deferred or tax free, or both types. For example, you might have a retirement savings plan at work, an individual retirement account (IRA), a Coverdell education savings account (ESA), a 529 college savings plan — or all four.

Institutional investors are organizations, such as financial services companies, pension funds, and money managers, that invest their own assets or assets they hold for their clients or members. Because they have so much money to invest and are committed to investing those assets, institutional investors trade regularly and in great volume. In fact, to be considered an institutional transaction, a stock trade must be for 10,000 or more shares.

If you invest in an equity **managed account**, an institutional investor — the account's professional money manager — handles the transactions, but you and other individual investors own the stocks in the individual yet similar portfolios the manager runs. This hybrid approach may be appealing if you're seeking investment expertise and yet want to own stock individually rather than through a mutual fund.

WHERE THE COMMISSION GOES

A commission you pay to buy and sell stocks is divided — by prearranged contract — between your broker and the brokerage firm. Commissions and any additional fees are set by the firm, but your broker may be able to give you a break if you trade often and in large volume. Generally, the higher the commission rate the firm usually charges, the more room there is for negotiation.

Give brokers orders, or instructions

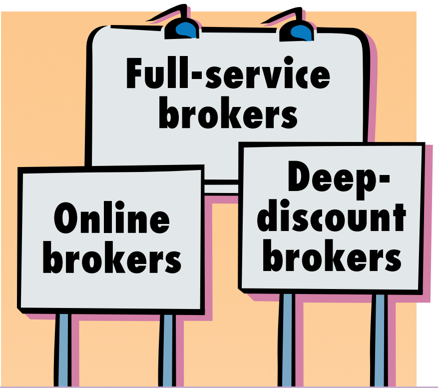
When you tell your broker to buy or sell a stock at the current price, called the **market price**, you're giving a **market order**. The price you pay or receive depends on how quickly it's handled and how actively traded the stock is.

A **stop order** instructs your broker to trade once the stock hits a specified target price, called the **stop price**. You typically use stop orders to limit potential losses or protect profits by selling when the price seems likely to fall.

When the stock hits the stop price, your order becomes a market order. If the price of the stock changes between the time the stop price is reached and the time your trade is executed — say because of heavy volume — you could sell for much less or pay much more than you intended.

A **limit order**, on the other hand, instructs your broker to buy or sell a stock at a specific price, called the limit price. A limit order doesn't become a market order, so you won't pay more or sell for less than you want. The risk is that if the price changes quickly, your order may not be executed even if the stock reaches the limit price because it can't be done fast enough.

You might give a **stop-limit order** to buy or sell when the stock hits the stop price but not to pay more or accept less than the limit price. Or you could use a **contingent order**, such as one-cancels-other or one-triggers-all, to be executed only if specific market conditions are met.



BROKERS

Handle transactions

Some brokers, usually called **full-service brokers**, provide a range of services beyond executing buy and sell orders for clients, such as researching investments and developing long- and short-term investment goals.

Discount brokers carry out transactions for clients but typically offer more limited services. Their fees, however, are usually lower than full-service brokers'.

The cheapest way to trade securities, however, is usually with an **online brokerage account**. Many established brokerage firms offer substantial discounts to their customers who buy and sell securities online, and some firms exist exclusively online.

Firms in each category come in a range of sizes, from huge national firms sometimes called **wirehouses** to small one- or two-broker firms. The term wirehouse predates the information age, when large firms with private communications systems enjoyed quicker access to market data. The name survives, though the advantage doesn't.

ALL IN THE TIMING

When you give a stop order or a limit order, your broker will ask if you want a **good till canceled (GTC)** or **day order**. A GTC stands until it is either filled, you cancel it, or the firm's time limit expires. A day order is canceled automatically if it isn't filled by the end of the trading day.