

I. Getting Started in Online Investing

A. Internet is a major force in investing

1. Makes investing more accessible to more people
2. Provides access to sophisticated investment tools
3. Convenient, relatively simple, inexpensive and fast

B. Online Investment Tools

1. Investment Education Websites

- a) *Offer tutorials, online classes and articles*
- b) www.InvestingOnline.org
- c) www.InvestorGuide.com
- d) www.fool.com

2. Investments Tools Websites

- a) www.Google.com/finance
- b) finance.yahoo.com
- c) www.zacks.com

3. Planning Tools Websites

- a) *Provides financial calculators*
- b) www.Kiplinger.com

4. Screening Tools Websites

- a) *Sort through databases of stocks, bonds and mutual funds to find those with specific characteristics*
- b) *Examples: Zacks.com and Yahoo!Finance*

5. Charting Tools Websites

- a) *Plot performance of stocks over a specified time period*
- b) www.Barchart.com
- c) www.BigCharts.com

6. Stock Quotes and Portfolio Tracking Websites

a) *Obtain prices and track stock performance*

b) *Examples: Yahoo!Finance and MSN Money*

C. Pros and Cons of Using the Internet as an Investment Tool

Same cautions as regular investing No "live" broker to act as a safety net Be skeptical of free advice Know what you are buying and from whom Watch your trading frequency Transactions costs Short-term gains Watch margin and short trading
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D. Types of Investment Information

1. Descriptive Information – factual data on past behavior of economy, market, industry company or given investment

2. Analytical Information – available current data in conjunction with projections and recommendations about potential investments

E. Avoiding Online Scams

1. Beware of stock manipulators posting false news or overly optimistic opinions

2. Always know your source

3. What is pump and dump?

<p>Someone hypes up the "virtues of the stock to get people excited Then they sell off their share before the stock tanks</p>

4. Beware of "get-rich-quick"—promoters selling worthless investments to naïve buyers

F. Protect Yourself by Asking Three Key Questions:

1. Is the investment registered?
2. Is the person licensed and law-abiding?
3. Does the investment sound too good to be true?

Registered investments have a prospectus
Ask for license information of the individual
Check with www.finra.org

G. Understanding Market Averages and Indexes

1. Reasons to use market averages and indexes

Gives an idea of how your investments might be performing

H. What is the difference between an average and an index?

Calculation
Value weight vs mkt weighted
Similar uses

1. Dow Jones Industrial Average (DJIA)
 - a) *Dow Jones Transportation Average*
 - b) *Dow Jones Utilities Average*
2. Standard & Poor's 500 Composite Index
 - a) *Standard & Poor's provide seven other indexes for tracking specific industry sectors*
3. NYSE Composite Index
 - a) *Includes all stocks listed in NYSE*
4. AMEX Composite Index
 - a) *Includes all stocks listed on the NYSE Amex*
5. Nasdaq Composite Index

- a) *Often used to track technology companies' behavior due to large technology companies listed with Nasdaq*
- 6. Wilshire 5000 Index
 - a) *Includes 5,000 stocks traded on the major exchanges*
- 7. Russell 1000 Index
 - a) *Includes 1,000 largest companies*
- 8. Russell 2000 Index
 - a) *Includes 2,000 small companies*
- 9. Europe/Australia/Far East (EAFE MSCI)
 - a) *Tracks stocks trade on foreign exchanges*
 - b) Where can I find information about these indices?

Go to finance.yahoo.com

Under market data scroll down to hyperlink on the right side

I. The Role of Stockbrokers

Sales people / marketing

Should try to match an investors investment objectives to investment opportunities

1. Brokerage Services

Execute clients orders

Provide research information

Provide statements per transaction and periodically

Can hold securities - streetname

2. Types of Brokerage Firms

a) *Full-Service Broker*

(1) Offers broad range of services and products

(2) Provides research and investment advice

- (3) Examples: Merrill Lynch, A.G. Edwards
 - b) *Premium Discount Broker*
 - (1) Low commissions
 - (2) Limited research or investment advice
 - (3) Examples: Charles Schwab
 - c) *Basic Discount Brokers*
 - (1) Main focus is executing trades electronically online
 - (2) No research or investment advice
 - (3) Commissions are at deep-discount
3. Selecting a Stockbroker
- a) *Find someone who understands your investment goals*
 - b) *Consider the investing style and goals of your stockbroker*
 - c) *Be prepared to pay higher fees for advice and help from full-service brokers*
 - d) *Ask for referrals from friends or business associates*
 - e) *Beware of churning: increasing commissions by causing excessive trading of clients' accounts*

J. Basic Types of Orders

1. Odd-lot Orders

<100 shares
More expensive to buy

2. Round-lot Orders

100 shares to a lot
This is the way brokers buy the stock for inventory
So if you want 25 shares, and they do not have them, they must buy 100 to get you your 25

3. Market Orders

Buy or sell immediately at current price

4. Limit Orders

Set a price for action

5. Fill-or-Kill Orders

Fill entire order or kill it

6. Day Orders

Keep order open until end of day; if no trade, cancel the order

7. Good-'til-Canceled (GTC) Orders

8. Stop-Loss (Stop) Orders

- a) Typically used to protect investors from stock price declines
- b) "Suspended" order is placed to sell a stock if price reaches or falls below a specified level
- c) Orders can be day orders or GTC orders
- d) Once activated, becomes a market order
- e) Can also use stop orders to buy stocks, such as to limit risk on short sales

9. Stop-Limit Orders

- a) Orders to sell stock at or better than specified price
- b) Prevents sales at undesirable price
- c) No sale may occur if prices continues to decline

K. Day Trading

1. Day Trader: an investor who buys and sells stocks quickly throughout the day in hopes of making quick profits

a) *Highly risky, especially if used with margin trading*

b) *High brokerage commissions due to frequent trading*

L. Tips for Successful Online Trades

1. Know how to place and confirm orders

2. Verify stock ticker symbols

3. Use limit orders

4. Check and recheck orders—you pay for typos

5. Don't get carried away

a) *Follow a strategy*

b) *Don't churn*

c) *Avoid or limit margin orders*

6. Open accounts with two brokers

7. Double-check orders for accuracy after completion

M. Trading Considerations

1. Transaction Costs

a) *Fixed commissions used on small trades*

b) *Negotiated commissions may be used on large trades*

c) Round trip commissions

2. Securities Investor Protection Corporation (SIPC)

Insured to 500,000 per SS#

N. Paying an Investment Advisor

1. Typical professional investment advice fees

a) *Small portfolios: annual fees between 2% and 3% of funds under management*

b) *Large portfolios: annual fees between 0.25% and 0.75% of funds under management*

2. Expect lots of questions from good advisor to assess your investing expertise

O. Investments Clubs

1. A legal partnership formed by investors to pool their knowledge and money

2. Members make stock recommendations and analyze stock performance

3. *Better Investing Community* assists in organizing clubs and provides educational tools

4. *Better Investing Community* has over 200,000 investors in over 16,000 investment clubs

BUA325 CH03 Investment Analysis

- 1) Find Betas for your company and the competitors identified in the Session 1 Web Exercise at www.morningstar.com and <http://finance.yahoo.com> . What does beta describe? Are they the same? Why would they be different? (20 pts)

- 2) Investors avoid risk and demand a reward for engaging in risky investments. A risk tolerance quiz can help you assess your tolerance for investment risk. (30 pts)
 - a. Use the risk tolerance sheets in the presentation. End of chapter 1 notes.

 - b. Go to the following site and take the risk tolerance quiz as well.
<http://www.efgi.com/personal/investing/questionnaire.html>

 - c. Go to : <http://njaes.rutgers.edu/money/riskquiz/default.asp>

 - d. Are you a conservative, moderate, or aggressive investor? Do they agree with each other? Do you agree with them?

- 3) Describe 3 variables that could affect a person's risk tolerance. How does your understanding of these variables reconcile with your risk tolerance. (15 pts)

- 4) What does a short ratio tell us? Rank the companies in the Session 1 group and describe what this means. How does your company compare? Find the Short Ratio at <http://finance.yahoo.com> under the company's site under the hyperlink for key statistics. (15 pts)

- 5) Go to www.Morningstar.com and find the above company in the stock section. (10 pts)
 - a. Under performance, how has the company compared over the past 10 years? How have they compared to the industry and the market?

 - b. Under Quote, describe the data and how the company compares to the industry.