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Being Stock Savvy: Learning the Ropes of Trading

Stock Smarts

So, you have made the ultimate decision to invest your money into stocks in order to ensure you have a profitable future to forward to. You have probably heard about the stock market all your life on the news, in newspapers, etc. however, in order to properly invest your money, it is imperative to know exactly what a stock is so that you have a high chance of gaining a return on your investment.

Simply stated, a stock is a portion of a company. So, if you buy stock from a certain company or business, you become known as a shareholder, or the owner of a small portion of that company or business. Logically, the more stocks you choose to purchase from a particular company or business, the more you own of that company or business. Therefore, it is highly important to thoroughly research the company or business in which you are interested in purchasing stock to ensure that the company or business is legitimate as well as prosperous.

It is safest to purchase stock from a company or business that is involved with the New York Stock Exchange on Wall Street because it is the largest financial institution in the world. If stock is not being sold on Wall Street, but with a less known institution, it is said to be sold "over-the-counter" which means that the stock is less secure. The less secure a stock is, the more of a chance you have of losing money rather than gaining money, therefore, it is imperative to always invest in stock that is listed on Wall Street.

Most of the time, stocks are issued to businesses in order to raise money in order to expand and grow so that that business becomes a staple for the economy. When a business issues stock for the first time with the New York Stock Exchange, it is known as an initial public offering (IPO), which is underwritten by an investment banker, a professional who decides precisely how much the stock is worth monetarily as well as when it is best to use the stock.

This is why it is so important to purchase stock from Wall Street as opposed to another entity, who sells stock "over-the-counter", which is not analyzed by an investment banker. Therefore, you have no idea what to expect with an "over-the-counter" investment, but you can rest assured that it leads to losing money rather than gaining money.

Because stock prices seem to mirror supply and demand, stock prices tend to fluctuate on a regular basis due which is known as volatility. As more and more people desire to purchase a certain stock, the prices of that stock tend to rise. However, as particular industries begin to lose money in the economy due to the fact people are not purchasing a certain product, stock prices tend to decrease, making it cheaper to acquire stocks, but the return on investment is low; therefore, you will not make very much money on that particular stock.

Therefore, in order to be a smart investor for the long-term, you must buy stocks when they are cheap and sell them when they are worth more than what you purchased them for. For example, you decided to buy 10 stocks in toilet paper priced at \$5.00 each. You hold these

stocks until you realize that you can sell them for \$25.00 each. Logically, you would sell your toilet paper stocks and use the money to invest in another stock.

In order to intelligently choose a company in which to purchase stock, you must take into consideration companies that you know about, businesses where you shop or companies in which you hold in great interest. Once these are identified, you must research them over a set period of time by watching what is reported about that company by the New York Stock Exchange. It is also advisable to compare your company with at least two of its competitors. If you see that a certain company's stocks are affordable and their stock rates are rising, this is a good indicator to buy as many stocks as possible because you will be able to sell them for more than your original investment.

Stock Traders: Consider Your Sources

Those who make the most money trading stock are the same people who have the best ability to gather and interpret information. Stock trading is about prediction--making informed "guesses" regarding the future value of stocks purchased and basing buying and selling decisions off of those "guesses."

Good decisions are not a matter of chance. Sure, during various market booms one could probably throw a dart at NYSE listings, invest in whatever the dart hit, and still sell for a profit a month later. Those days of "guaranteed winners," however are long gone. Making profits from stock investments is a trickier proposition in today's more questionable economy.

As a result, a premium is placed on the value of information among stock traders. Everyone wants to know about the companies in which investing might be considered, of course. However, a close look at all aspects of the business itself is really only the beginning when it comes to stock trading.

Additional information that is in high demand includes guidance regarding the overall state of the economy. This information is critical, as large scale economic disruptions tend to cause lost value in stocks of all sorts (with only a few actually gaining as a result). Large natural disasters or terrorist events can cause precipitous market drops, which impact even small-scale investors a great deal.

The overall perspective is complimented by an understanding of the market area in which the company being considered functions. For instance, if you are considering investment in a communications company specializing in cellular tower technology, you must not only be concerned with the national economy and the specifics regarding the company. You must also take a great deal of time to review the nature of the cellular industry and expert projections regarding its growth or decline.

All of this valuable information is gathered and studied. Smart investors will find a way to see how it all fits together and will make stock trading decisions based on those assumptions. Those who do well with their research and analysis will usually find themselves prospering. Those who simply "roll the dice" or who "play hunches" will most likely suffer losses.

The value of information cannot be overstated. However, when acquiring data from which to make a decision, the savvy investor will not put his prospects of stock trading success in jeopardy by relying on biased or inaccurate information. All of the information one accumulates in order to make wise stock market decisions must be analyzed with respect to the information source and its level of accuracy.

With some mainstream sources, this can be quickly determined. Many publications and advisory services have long track records that may give an investor a good idea of the likely validity of the information. In other cases, ascertaining the likely accuracy of data can be more difficult.

One should always view assessments, projections and any other information that may help to form a stock trading decision with particular attention paid to the sources of information. One should always ask what the information source has to gain from either the sale or purchase of stock. One must always examine data for potential biases.

A report on the booming cellular tower industry might be helpful in our earlier example. However, if the report was commissioned by the U.S. Cell Tower Industry Group, it should be approached with a little more skepticism. If a new report projects U.S. economic gains, one should find out who issued it. If it comes from a Presidential advisory group in an election year, for instance, one might want to consider what possible motivations could have led to those conclusions.

Put simply, one should look for information that is likely to be accurate and that is produced by individuals who do not have a vested interest in your buying and selling decisions. Information for stock trading is critical, but data that is not objective is potentially damning if acted upon.

Objective information based on a studied assessment of economic and corporate realities is amazingly valuable to those engaged in stock trading. Successful traders recognize this information is their lifeblood and are willing to invest considerable time and resources in obtaining the best possible fact sets from which to draw conclusions.

Why Do Share Prices Rise and Fall?

The question in the title might be a little unfair. After all, if share prices are inherently unpredictable (and in one sense, they are - more on that later), there's no answer.

Nevertheless, over a period of decades the stock market has had better returns than any other investment - 8-12% depending on various factors and it's one of the most widely studied markets on Earth. With that kind of historical data and brain power to lean on, one should be able to make a few valid observations. Well, here are some. You judge their validity.

In the long run, there's no doubt share prices are heavily influenced by earnings. When companies make money, consistently over long periods, investor confidence grows and bid the price of shares up. What influences earnings and confidence?

Everything from interest rates to debt load, taxes, lawsuits, management, technological and other social changes, and the general economy affect earnings - both short and long term.

Almost all companies borrow money and even when they don't their competitors, suppliers and customers do. That affects how much money they have to invest in research and new products or improving existing ones, relative to other companies in the similar lines of business.

Sometimes even stellar managers can be threatened by social or technological changes, unless they evolve the company to adapt. In that case, a company which once sold light bulbs - and made good profits doing so - can become an almost entirely different company in time. General Electric - the only original Dow stock that is still part of the DJIA (Dow Jones Industrial Average) - is an excellent example.

Over shorter time frames, influences become even more numerous and harder to quantify. Everything from the latest analyst recommendation and rumor or actual news event to fraud, the herd mentality and a blizzard of technical factors plays a part.

Google's share price quadrupled in a two year time frame and is projected to grow yet another 50% over the next year. Microsoft - once the most reliable growth stock in the world, even ridiculously so as admitted by its senior executives - has been in the doldrums for years now. Earnings alone can not explain these and other, similar, cases.

Share prices today are in large part due to expectations of what the price will be tomorrow next month or next year. That expectation is affected by technical analysis (which may or not be well founded) and sheer guesses about what other investors are thinking or will think. Along with these there are occasional out and out cases of fraud, lawsuits from nowhere and other unexpected circumstances.

Political changes play a part, and sometimes they too are unexpected by most investors. No one can say when or whether a tax bill will pass that reduces or increases corporate rates. The election of a new Prime Minister or President can have a large, short term affect or longer, sometimes, depending on the individual.

And, then there's the inherent unpredictability mentioned earlier. Short-term, and to some degree long-term, prices are a statistical phenomenon. As with any statistical effect you can't make a prediction - except with some degree of probability. And, since investors - some of whom own large blocks - can change their minds on a whim, you can only make educated guesses about what or when those choices will be.

So, what's the average investor to do? That depends on the kind of investor you want to be.

For those with the talent and time to do intense moment-by-moment research, it is possible to do well in short-term trading. Though almost all day traders lose money. For those, even big risk takers, who are more inclined to fundamental factors and willing to research long-term trends - take comfort in the fact that 8-12% return over decades is as good a prediction as you need.

Stop Loss Orders in Stock Trading

With a stop loss order, it is necessary that you thoroughly understand market orders so that you will not become confused. As a reminder, a market order is simply instruction from your stockbroker to either purchase or sell a certain stock. When a stop loss order is placed it instantly becomes a market order when a pre-calculated price is reached. At that point, the typical rules of a market order come into effect, meaning that the order is virtually guaranteed to be executed.

The gamble here is that you don't know the price. Because you have set a predetermined price, and the stock has reached that point, it does not guarantee that by the time a stop loss order is placed that it will be that price. The tricky part of a stop loss order is that a certain stock may reach the predetermined price, however, because the stock market fluctuates, by the time the stop loss order is placed, the stock price could have increase or decreased.

Investors choose to use the stop loss order in two distinct situations. The investor may use a stop loss order in order to try to reduce the amount of loss that could occur. For example, you purchase 500 shares of stock from Target, a discount store chain, and at the time of purchase you place a stop loss order on the total amount of stocks. Then, you predetermine that you will not sell any of your 500 shares of stock from Target until it gives you a total profit 75% higher than the purchase price. Let's say that all 500 shares of stock from Target cost you \$95 each, for a total of \$47,500.

You are not allowed to sell these stocks until you make a total profit of \$78,375. So, after 5 months of owning 500 shares of stock from Target, you earn that total profit and you sell your 500 shares of stock from Target. By the time the transaction occurs, each stock drops in profit by 25%, therefore, you just saved yourself from losing a return on your investment. The other reason that an investor may choose to place a stop loss order is to protect their profit. You, the investor, are only willing to lose a certain amount of your initial investment, so you place a stop loss order on your purchase.

For example, you decide to buy 25 shares of stock in Company Z, which are priced at \$1.00 each, for a total investment of only \$25.00. You set a stop loss order on this stock purchase by determining that you are willing to lose only 20% of this total investment. Therefore, when you have lost a total of \$6.25, then you are able to sell your stock to ensure that you will not lose any more profit due to the decreasing profits.

As with the trailing stop order, the main advantage of the stop loss order is that you do not have to monitor your purchase on a daily basis. Because you have set a predetermined amount, when it is reached, the action of buying or selling will take place. Therefore, if you hold a demanding full time career, you do not have to watch the stock market daily in order to keep up with each of your purchased stocks.

The main disadvantage to keep in mind is that when your stop price is reached, buying or selling does take place, even if you have changed your mind and you want the investment to remain the same. This can be detrimental if a stock has shown no losses over a period of time. For example, you purchase 30 shares of stock from Company T and you place a stop loss order on it at the time of purchase. As time elapses, you discover that Company T's stock has shown

no losses but has instead should a steady gain in profits. However, the stock has reached the stop price, so you must now sell a profit bearing stock. Thus, in the long-run, because you had to sell this particular stock, you are losing money on your investment.

This stop loss order can provide a massive amount of saving your profits, however, if used when not necessary, you will end up losing more money than you have gained.

The Implementation of Stock Trading Orders

Once you, the investor, has made the decision to invest via the stock market, there are several options in which you can participate in order to ensure that you do not suffer any great losses. These options are called "orders" which are decisions that you alone can make regarding your stock trading investment, or decisions that you choose to make after consulting the professional advice of your stockbroker.

In order to effectively use the orders, you must know exactly what each order consists of, the advantages vs. the disadvantages, as well as, how to effectively place each one. In previous articles, the most common stock orders were explored and a general overview about each one was given.

However, it is extremely important to be as knowledgeable as possible about all stock trading orders in order to implement them correctly.

Let's face it! When it comes to the stock market, there are millions upon millions of options as to stocks in which you are able to invest in. Obviously, with any type of investment, the goal should be to gain a profit, and in the case of the stock market, investors should aim to gain enough profit to live financially sound for the rest of their lives. If you are a first time investor, it is highly recommended that you go "shopping", so to speak, for a stockbroker that is well educated about the stock market and the effects of orders that are placed on stocks.

When you find a stockbroker in which you feel comfortable with, it is time to get down to the business of selecting the proper stocks that will effectively create the financial results that you want with your invested money. However, remember that stockbrokers are only humans, and because they are not all knowing, they are highly to make a mistake. But, not to worry, because if you are educated in stock trading orders, you will be able to repair any mistake made in stock trading.

Let's say that you are a new investor who has just purchased 150 shares of stock from Wal-Mart. You did this because you enjoy shopping at Wal-Mart and, because you can never find a checkout lane that is empty, you assume that all Wal-Mart stores are constantly this busy. Therefore, you feel that purchasing this stock is a wise investment. Assuming that Wal-Mart stock sales for \$1600 per share, your total initial investment is \$240,000.

Because you are a new investor, you are constantly checking the stock market to ensure that your stock is successful. However, one day, you check up on your Wal-Mart stock and notice that it has drastically dropped in profits. Your stockbroker has been less than helpful lately and

you suspect that he is a scam artist. You are worried that you are about to lose all of your invested money, so you go into a panic because you have no idea what step to take next.

However, before initially investing in Wal-Mart stock, you should have become familiar with stock orders, particularly the trailing stop order. Had you have taken the time to learn that the trailing stop order allows you to set a price loss limit in order to reduce the amount of money that you lose.

When you purchased the Wal-Mart stock, you should have placed a trailing stop order on your stocks because you could have decided that if your stocks got below a certain amount, they would automatically be sold to reduce your chance of losing your total investment. Therefore, before you purchase any stock with your money, it is a must that you educate yourself about stock trading orders so that you have barrier of protection over your money.

Basically stated, stock trading orders are simply little insurance programs that guarantee a return in profit pending that you know how effectively use each order. By implementing the use of stock trading orders, you are on your way to a successful investing venture that will reap profits on your money.

Trailing Stop Orders in Stock Trading

In the stock market realm, one way to protect all your gains from purchased stock and to limit the amount of losses is to place a trailing stop order, which sets the stop price at a certain amount. If the stock market prices rise, then so does the stop price, however, if the stock market prices decrease, the stop price remains the same. This allows the investor to set a limit on the maximum possible loss he or she is willing to accept, however, the amount of gain is limitless.

Pretend that you have just purchased 100 shares of Company M for \$50 per share and you want to lock in the profit but limit your losses so you set the trailing stop 2 points below. Much to your surprise, the price of shares from Company M starts to increase up to \$655 during one month. Because you issued a trailing stop order, the price has adjusted just as it should, to \$653, which is 2 points below \$655.

Once it hits \$653, the trailing stop order is activated and a market order to sell 100 shares from Company M is placed in order for your broker to receive the best possible price on Company M's stock. Thus, this works to protect your initial investment as well as to ensure that you will gain a profit.

Because of the way the trailing stop order is set up, you, the investor, do not have to monitor on a daily basis how a stock playing out. Therefore, you are able to simply invest your money by purchasing stock in a company that you feel comfortable with, place a trailing stop order on it, and then sit back, stress free allowing the investment to grow. Also to be noted, the trailing stop order is free to use, so do not allow your broker to forget to mention it to you and do not forget to use this investment option because it is there help you. However, there is not one particular strategy in place in order to keep a stop price from being activated.

It is suggested that if you have invested in long-term stock options to set your trailing stop loss at 15% or more, but if have invested in a short term stock option; you would want to set your trailing stop loss at around 5%. Another restriction on the trailing stop order is that you may not use them on certain stocks, such as penny stocks. The higher the risk on the stock purchase, the less of a chance you will have to use your trailing stop order.

As a final note, only use the trailing stop order when you actually own stock that you feel is about to drop. If a particular stock is about to drop, this type of order ensures that you will be able to sell the stock to ensure that you receive a return in investment. As quickly as the stock market fluctuates, it is important to utilize this type of order, especially on stocks that you have bought, but later feel that they will drop in price when you decide to sell them.

For instance, you bought, let's say you bought stock in a restaurant chain that you felt was going to gain a tremendous amount of profit, however, at the quarterly review of your portfolio, you and your broker discover that your restaurant stock has only gained 2% in four months. This is an extremely lower than the estimated 25% gain that was predicted for this stock. When you bought the stock, you placed a trailing stock order on it in order to prevent your rate of return from dropping.

Therefore, you make the decision to sell the stock because, after the consultation with you broker, you feel that the stock is not going to increase any time soon. By placing the trailing stop order on your restaurant stock, you basically ensured that a high rate of return was "locked in" so that you would not lose very much money when purchasing the stock.

Trailing stop orders tend to be a little confusing, however, just know that by placing them on all the stock that you possibly can ensures that you will receive a high rate of return. It's like an insurance policy on your purchased stocks.

Understanding the Concept of Stocks and Dividends

Stock and stock trading are words that are thrown about frequently, but not many people know what these terms actually mean.

A share of stock refers to a unit of ownership in a company. If you as an investor own a share of a company's stock, then you are essentially part owner of that company. With that ownership comes various entitlements. As a shareholder, you have the right to vote-in members of the company's board of directors. There also may be voting on other important matters to the company. Additionally, you are entitled to proportionate shares of the company's profits if the company chooses to distribute to their shareholders.

The difference between owning shares of the company and owning a company outright is that the shareholders are protected. This is called limited liability. The shareholders have no liability if the company is prosecuted. For example, if the company you have shares in loses a lawsuit, you are protected. The worst that can happen is that your stocks in the company become worthless. Creditors for the company can't come after shareholders personal assets. If you owned the business outright, this wouldn't be true.

There are two types of stock that are used in the stock market. Common stock is the stock that is held by most individuals who choose to invest. Common stock holders have voting rights, and are entitled to share in the dividends that a company receives. Common stocks are the stocks that are being referred to when you hear of a stock being "up" or "down."

Common stocks have the most liquidity, meaning they are trading daily. This is important because it gives investors the opportunities to buy and sell shares on a daily basis. Many small or little known companies may not trade daily even with common stock, but most, if not all, large companies do offer daily trading.

Preferred stocks, in contrast to common stocks, actually have fewer rights. The difference exists in the payment of dividends. Preferred stock holders have first access to the company's dividends. Companies that choose to offer preferred stock likely pay dividends consistently. The advantage of buying preferred stock is the regular income from those dividends. To take advantage of the power of preferred stocks, look to invest in companies that make big profits.

These dividends aren't, however, the bulk of the company's profits. Smart companies retain some of the profits in acquisitions or to repay business debts. Regardless, profiting from dividends is still one of the best ways to make money with stocks. Although most companies pay dividends by cash, there are some that pay their investors with more stock. Companies that consistently pay large dividends are most likely well established and profitable. The long running history of the company and history of dividend payment is what attracts investors to these stocks. The downside is that the stability does not offer opportunities for growth potential.

Dividends are determined each quarter by the company's board of directors. If, for some reason, the company is doing poorly financially the board of directors can choose to forego paying the dividend. Keep in mind that they are under no obligation to pay dividends to their investors. Dividends are a choice to be made by each individual company. At the quarterly meeting, if dividends are to be paid, the board of directors also sets the dividend rate. This rate is determined on a per share basis.

Dividends normally have four important dates associated with them. The declaration date refers to the date the board of directors sets the dividend. On this date, the board of directors also announces when the stockholders will get their dividend payment (in the form of a check).

The record date is when the company sets forth the list of shareholders that will be paid a dividend. The investor must own stock before this date in order to be paid a share of the dividends.

The ex-dividend date is perhaps the most important. This day is normally between 2 and 4 days before the record date. The ex-dividend date is established to allow the completion of all transactions. Since it usually takes 3 days to settle a regular stock sale, the ex-dividend day allows those pending transactions to be completed. If you want to receive a dividend, the ex-dividend date is the absolute latest you can invest in the company to receive the dividend.

The payment date is the fourth and final date associated with dividends. This date is when the dividend checks are mailed to all shareholders. The payment date is most often two weeks after the record date.

Trading Strategies

There are two basic ways to trade the stock market – shooting in the barrel or using strategies to determine which stocks to buy, when to sell, and how to protect your investment dollars. Needless to say, strategies outperform barrel shooting by a large margin. There are, however, hundreds of trading strategies to choose from. Of all of these there are a couple of tried and true methods that have worked well for investors over many years. The beginning investor is advised to investigate some of these basic strategies and see for himself how they perform. New strategies can be explored once the basic ones are well-understood.

Hedging

Hedging is a way of protecting an investment by reducing the risks involved in holding a particular stock. The risk that the price of the stock will drop can be offset by buying a put option that allows you to sell at the stock at a particular price within a certain time frame. If the price of the stock falls, the value of the put option will increase.

Buying put options against individual stocks is the most expensive hedging strategy. If you have a broad portfolio a better option may be to buy a put option on the stock market itself. This protects you against general market declines. Another way to hedge against market declines is to sell financial futures like the S&P 500 futures.

Dogs of the Dow

This is a strategy that became popular during the 1990s. The idea is to buy the best-value stocks in the Dow Industrial Average by choosing the 10 stocks that have the lowest P/E ratios and the highest dividend yields. The companies on the Dow Index are mature companies that offer reliable investment performance. The idea is that the lowest 10 on the Dow have the most potential for growth over the coming year. A new twist on the Dogs of the Dow is the Pigs of the Dow. This strategy selects the worst 5 Dow stocks by looking at the percentage of price decline in the previous year. As with the Dogs, the idea is that the Pigs stand to rebound more than the others.

Buying on Margin

Buying on margin means to buy stocks with borrowed money – usually from your broker. Margin gives you more return than if you were to pay the full cost outright because you receive more stock for a lower initial investment. Margin buying can also be risky because if the stock loses value your losses will be correspondingly greater. When buying on margin the investor should have stop-loss orders in place to limit losses in the case of market reversal. The amount of margin should be limited to about 10% of the value of your total account.

Dollar Cost and Value Averaging

Dollar cost averaging involves investing a fixed dollar amount on a regular basis. An example would be buying shares of a mutual fund on a monthly basis. If the fund drops in price the

investor will receive more shares for his money. Conversely, when the price is higher, the fixed amount will buy fewer shares. An alternative to this is value averaging. The investor decides on a regular value he wishes to invest.

For example, he may wish to invest \$100 a month in a mutual fund. When the price of the fund is high he puts a higher dollar amount in the fund and when the price is low he spends less money. This averages out his investment to the original \$100 per month. Value averaging almost always outperforms dollar cost averaging as a percentage return on the money invested. When used as part of a broader trading strategy it can help secure the growth of your investment fund.

Stock Trading Signals

By following a trading system, market condition will at times be favorable to buy and at other times be favorable to sell. Clearly defined conditions give 'signals' that the educated investor can read and act on. Signals are not as crucial for the long-term investor. For these people, market conditions and the value of particular companies can be watched on a daily basis. For day-traders, however, signals are crucial for acting quickly on stock market movements.

Investors who treat trading as a full-time job have the time to watch the market movements for signals. Oftentimes, however, signals can be automated and integrated into trading software. The investor can choose which signals to be alerted about and they will automatically appear on screen. Software signals are usually only available by subscription and some services charge hundreds of dollars a year for a complete package. This includes trading software and access to up-to-the-minute charts for the latest information about the stock market.

Investors who don't have the time to watch the market closely can subscribe to services which publish signals on a daily or hourly basis. These services may employ market analysts who may follow several indicators to arrive at a particular signal. More commonly, however, their systems are completely automated with signals being generated by software, which examines market conditions. Some of these services have a better track record than others ñ it's a good idea to research them before signing up.

With any third-party signal provider it pays to know how the signals are being generated. Since there are such a large number of market indicators some of them may contradict each other. In addition, a particular indicator may send out conflicting signals depending on the time frame.

Market conditions also play an important part on the accuracy of indicators. During upswings in the market, for example, trend indicators will send out buy signals but longer-term oscillator indicators will view the market as being overbought and send out a sell signal. Generally speaking, trend indicators are most accurate during trend conditions and oscillators are best during times of transition. Both types of indicators are often in variance with the other.

To overcome these problems, try to find a signal generator that uses at least 3 market indicators for verification. Signals that are verified by 3 different indicators are strong and tend to be accurate. It is also important to look at signals from varying time frames. An upswing may

simply be a short-term correction and the market may afterwards continue its downward movement. Taking a broad view of market conditions allows you to see these variations more clearly.

Depending on the type of service you sign up for, signals can be delivered by email on a daily basis, available for viewing on a website, or be integrated into your trading software so that pop-ups appear on your screen for particular signals that you are watching.

Companies that provide signals usually offer their services on a monthly basis. Some are quite expensive--as high as several hundred dollars a month. These are obviously aimed at the professional trader but other services are also available at more reasonable costs.

The value of these services has to be weighed by the individual investor. They can be a great time saver but they may also encourage laziness when it comes to analyzing the market. A knowledgeable trader should have the tools necessary to judge the effectiveness of a signal system and do some of the calculations himself to keep on top of the market.

All-or-None Orders in Stock Trading

If you are an investor who relies heavily on penny stocks, the all-or-none order (AON) is extremely important. The AON order works to safeguard your purchase by providing the guarantee that you either receive every single stock that you requested or none at all. This type of order can be problematic when a particular company lacks the cash to stand behind their stocks or a limit has been placed on the order.

All-or-none orders are the lowest priority of your stockbroker therefore, this type of transaction is executed last, so when your broker finally attempts to execute this order, there must be enough stocks available to buy or the order is null and void. Therefore, your all-or-none order will not be filled until there is enough stock available no matter how much time elapses before purchase of an AON order is accomplished.

In order to better clarify this type of order, an example is provided. Let's say that you put in an order to buy 2500 shares of stock from Wal-Mart, however, because Wal-Mart stocks are in such high demand, only 1000 shares are available for purchase. If you place an all-or-none order on the Wal-Mart shares, then you must wait until 2500 shares are available for purchase.

Now, if it takes 10 months for 2500 shares of stock from Wal-Mart to become available, then there is a high chance that the price of each stock has increased. However, because you placed an AON order 10 months ago, your broker is currently executing the order, and the total number of stocks are presently available, so you are required to purchase all 2500 of them no matter what the price per stock may be.

Obviously the advantage to the all-or-none order is that the price of any given company's stock could either stay the same or even decrease in price. For example, you would like to obtain 3000 shares of stock in Applebee's, a restaurant chain; however, because Applebee's stocks are in high demand, there are only 1000 stocks available for purchase. You really love this

restaurant chain and you had your heart set on 3000 shares of Applebee's, so you decided to place an all-or-none order on the purchase of these stocks.

Currently the each share of stock is priced at \$200 each, so you would only presently be investing \$600,000 if the stocks were available. So, now you play the "waiting" game to see if other people who own stocks in Applebee's are willing to sell them. Finally, after 2 years of waiting, your stockbroker contacts you with the good news that all 3000 shares of Applebee's stock are available. And, even better news, each stock has dropped \$50 in price. That means that instead of investing \$600,000 for 3000 shares of Applebee's stock, you only have to invest \$450,000! If your budget allows, that leaves you with \$150,000 to invest into another stock.

Now, there are two huge disadvantages of all-or-none orders, the first one being price inflation. For example, you would like to purchase 4500 shares of stock from Southwestern Bell, a phone company. So, again, you contact your broker with this decision. Your broker informs you that there are only 2500 shares of stock available from Southwestern Bell, however, that it would be wise to place an all-or-none order because these stocks seem to steadily increase in profit and lower in price per stock. So, you follow through with this. About 9 months later, your stockbroker reports to you that all 4500 shares of stock in Southwestern Bell are available; however, the price per stock has increased 34%.

Because you did not cancel this all-or-none order, you are now forced to purchase all 4500 shares of Southwestern Bell stock. The other disadvantage is that you may not receive the all-or-none ordered stocks. Let's say that you wanted to purchase 6000 shares of stock from Friedman's, a jewelry store, however, not all the stock is currently available. So, you place an all-or-none order. Three months later, your stockbroker goes to complete the order; however, there are still not a total of 6000 stocks available from Friedman's. Because your stockbroker attempted to fill the order, you have lost all of the stocks that you wanted to purchase.

Because this type of order is highly stressful, it is imperative that you hire a broker in which you can thoroughly trust due to the fact that one wrong move will make you lose everything!

Bracketed Orders in Stock Trading

If you are planning to buy stocks as a long term investment you might want to consider placing a bracketed order on it. A bracketed order goes one step further than a trailing stop order. Remembering that a trailing stop order, you are in control of your investments because you are able to limit the amount of your losses by setting stop price. With a bracketed order, you are able to not only set a limit on your losses, but you are able to set a limit on your profit, that when reached, your stock will be sold.

This type of order is best illustrated with an example. Your broker places a bracketed order for 100 shares from Linens-n-Things, a department store, priced at \$50 per stock, placing a sell limit order at \$100 and a sell stop order at \$45. If the price per stock moves down to \$45 or up to \$100, the stock will be sold. Therefore, the investor will either earn a \$5,000 dollar profit, or take a \$500 loss in profits.

The main advantage of bracketed orders is that you, the investor, determine how much you will earn or lose when getting involved in stock trading. If you have a total investment amount of \$150,000 and you determine that you do not want to lose more than 20%, then your total losses should not be set below \$30,000.

However, if you invest \$150,000 into the stock market and you would like to earn a 15% profit, then you should set your profit margin to equal \$172,500. With bracketed orders you, the investor, are in total control of your investment.

The two main disadvantages with bracketed orders you must place a limit on how much profit that you will make and you could possibly lose a large sum of money. First of all, when an individual decides to invest in the stock market, he or she probably wants to make as much money as possible. By setting a bracketed order on stocks that the investor purchases, the investor is placing a limit on how much profit is able to be earned. Also, to be noticed, by placing a bracketed order on your stock you run the risk of losing money.

For example, you decide to buy 1500 shares from Company N, a new and upcoming business, at \$625 each, for a total investment of \$937,500. You decided to purchase such a large amount of shares after consulting with your stockbroker because your broker was confident that Company N would be able to expand into a big business in which would create massive profits for your stock trading investment. You placed a limit on your profit at \$5 million, however, you did not place a limit on your losses because your stockbroker was so sure of Company N's success.

However, after only 3 months, Company N was forced to claim bankruptcy, where Company N is seeking a court order to discharge all of their incurred debt. Obviously, you can kiss your \$5 million profit good-bye along with your initial \$937,500 investment. Unfortunately, as an investor, you were willing to take a risk based on the expertise of your stockbroker, however, with this risk; you lost a large lump sum of money.

As with any type of order, you must become educated in order to determine what orders are right for your risk tolerance. Due to the fact that the bracketed order is mostly successful, this is actually a low risk order even though some detrimental risks are involved. Seeking the professional advice of your stockbroker definitely has the possibility of earning you, the investor, an ensured, set profit.

However, for some reason, if the company in which you purchase stocks from is forced into bankruptcy, not only do you lose your initial investment, but, you also lose your hoped for profit in which you set. Again, it is highly recommended to shop around for a stockbroker in whom you feel will genuinely put your needs ahead of his or her desire to make a profit.

Buy to Cover Orders with Stock Trading

Within the buy to cover orders, there are 4 options in which to place onto your stock purchases. When you buy to cover on a market order, you are in agreement that you will purchase the stock at the current market price, however, because there is a lag between the time you agree

to purchase the stock and the actual transaction, a price difference could occur. You could end up paying more than anticipated for each stock, or a considerably lower amount per stock, which is what you are hoping for. You can also buy to cover limit orders, in which guarantees that you will pay no more than the set limit price. However, if stock prices stay above the limit price, this type of buy to cover order will never be executed.

This type of transaction is typically used by investors who are trying to get into a certain market. You may also want to buy to cover stop orders in such case the stop orders become simple market orders as soon as the price is at or above the stop price. This type of order should be used to get you out of an unfavorable market so that you will not lose any profits. And, last, you may choose to buy to cover a limit order that converts to limit order only when the market price is at or above the stop price. You must become familiar with each of the buy to cover orders so that you can make educated decisions about your investments.

From one decision period to the next in the stock market game, the market moves up and down non-stop, meaning that prices of stocks are at a constant changing point. You may think about purchasing a certain stock at \$65 per share, and in the next second, the price per share has risen to \$165 per share.

This is where the gambling of the stock market comes into play. By learning the advantages of the buy to cover orders, you can increase your chances of earning money on the stock exchange instead of losing money. The most obvious advantage to all of the buy to cover options is that they are in place to make you money, when executed properly. For example, you would not execute a stop loss on a stock that has steadily increased over a 4-month period. If you did this, you would force yourself to waste money to buy the stock in order to cover your mistake.

You decide to buy 175 shares of stocks from Albertson's, a grocery store chain, at \$75 each, for a total investment of \$13,125. Over a four month period, you notice that the stocks have gained in profit, and you would like to do something to ensure that you keep this earned profit. Not knowing any better, you put a stop loss of \$50 per stock without consulting your stockbroker. From that point forward, if your stock decreases to \$50 per stock, you are forced to sell it, and any previous earned profit is null and void. The only chance you have in gaining back that profit, is if you are quick enough in the non-stop stock market game, to purchase the Albertson's stocks before someone else does. However, even if you are able to do this, you have still suffered a great loss monetarily.

This is why you must educate yourself BEFORE playing the stock market game.

As with any game, there is some form of risk involved, however, when playing the stock market game, you can prevent a great deal of heartache by simple taking the time to gain knowledge about all types of order you are able to place on your stocks. If you need help learning about types of orders to place on your stocks, you should consult your well-trusted stockbroker in order to seek professional advice before taking matters into your own hands, inevitably forcing yourself to lose your invested money's profit. Thus, it is absurd to invest your hard earned money into any program before you know all the facts necessary to make a well-informed, educated decision.

Getting Acquainted With the Stock Market Trading System

If you are a beginner in the stock market, you should be familiar with how the system works. It is important that you know what you are getting into.

The trading system, in definition, is the choice you would make on what method to use in entering or buying and exiting or selling the stocks. Choosing the trading system is the most vital part for your money's success.

In choosing a trading system, it is important to research and find a low-risk and high-opportunity companies when buying stocks. Knowing the fundamentals in the price signals and when to sell your stocks when losses occur, would maintain your money's growth.

The trading system has been divided into several groups for the investors to know which company they would enter shares with.

1) **Blue chips**. This refers to the shares of the huge companies. These companies have a trace of profit progression and usually have at least 4 billion dollars in returns yearly. Although entering in to blue chips would provide a large capital in the investor's part, the payment from the shares would be consistent: the dividend is in the middle of winning and losing shares.

2) **Growth stocks**. This refers to the companies that grow quickly. The management of these companies invests the profits from the stock for the development of their company. Companies with growth stocks seldom pay dividends to investors. And if they do, the payments are lower than other companies.

3) **Income stocks**. This refers to the companies' stocks that have high earnings. Income stocks are stable and pay a large dividend or payment to the shareholders. These kinds of shares usually make use of mutual funds for senior citizen plans.

4) **Defensive stocks**. This refers to the companies' stocks that always remain stable even if the market falls. These are the kinds of stocks that could easily reclaim its place in the market when it losses stocks. Since these companies defend their stocks, the investor would lessen the risk in losing money. Defensive stocks are always suitable to purchase because it is suitable in an unstable market and when the economy suddenly falls.

But before entering into one of these categories, one should analyze the risks and dividends of the company. Plus, you should think outside the box and cautiously examine the company's accounting flow, the distribution of the profits to all investors, and other profile of the company.

When you have established the trust on a company's stock, it would be easy for you to buy or sell in the trading system.

Day Trading

Day trading is a controversial word in the world of stock trading. Many see it as a way to make

a living off of the fast paced stock market. The Securities and Exchange Commission (SEC) warns against the practice and cautions against getting involved in the practice.

Just what is day trading and why does it cause many to be cautious? Day trading is the practice of rapidly buying and selling stock throughout the day in the hopes to profit from the marginal changes in the market in that specific day. Ideally, this practice allows investors to profit from the fractional increases in the market.

Day traders look at a certain set of criteria when determining whether a stock is suitable for day trading. First, the stock must have a high liquidity. This means that the stock in question has a large numbers of buyers and sellers. The liquidity allows day traders to quickly acquire and then sell stock. Liquidity is based on the volume of transactions on the market, the number of outstanding shares, the total number of shareholders and the number of market makers. Most stocks on the NYSE and NASDAQ have a high degree of liquidity.

A day trader also looks at volume individually, in addition to using it as criteria for liquidity. To be eligible for day trading, a stock should trade at least 500,000 shares a day. Stocks with 500,000 trades a day or more will allow the day trader to acquire or sell a large amount of stock without greatly affecting the price of the stock. Volatility is another factor in evaluating a stock for day trading.

The term refers to the actual or expected price movement of the stock. This movement is up or down over a period of time. Day traders look at the volatility of stocks over an individual day. Stocks that change price frequently over one trading day are ideal candidates for day trading. A fluctuation of at least \$2.00 per day is recommended.

Finally, a day trader evaluates the price transparency of stock. This term refers to the ability to gather information on the order flow of a stock. Also called market depth, price transparency helps the day trader determine just how much money there is to be made on a certain stock. The Nasdaq II quote system offers information on all bids. Day traders who arrange to access the NASDAQ level II quote screens can assess the strength or weakness of a stock and determine its movement in price.

While day trading is completely legal and entirely ethical, it is highly risky. Day traders usually buy on borrowed money with the hope that they will obtain higher profits through their acquisitions and sales. People who are deemed "pattern day traders" by the NASDAQ and NYSE must have at least \$25,000 in their accounts and can only trade in margin accounts. Margin accounts are brokerage accounts in which the broker lends the investor cash to purchase securities. If the value of the stock drops significantly, the investor is required to deposit more cash to cover the margin or sell the stock.

The SEC warns against day trading and has taken many steps to inform people of the associated risks.

The first few months a vast majority of day traders suffer massive financial losses and only a few make it through to become profit-making day traders. For this reason, day traders should only invest money that they can afford to lose. They should never use money for necessities such as living expenses, retirement accounts or second mortgages.

Keep in mind that day traders do not own stocks for longer than a few minutes at most. Stocks are never kept overnight because of extreme risk of prices changing to the detriment of the trader. Day traders do not invest, rather, they speculate on the movement in price of a stock throughout the day.

There are many websites whose sole purpose is to profit off those who wish to become day traders. These websites promise quick returns and offer "hot tips" to their members for a fee. The sources are most often paid to make these recommendations and should be avoided.

Market Orders in Stock Trading

A market order is simply instruction given to you from your broker as to whether you should buy or sell a certain stock at that very moment for the best price possible. Because a market order guarantees execution, either buying or selling stock, it offers brokers low commissions because of the minimal work that is involved.

You have to be careful with market orders on stocks that have a low daily volume, meaning that a certain stock does not increase very much daily, therefore, when you sell it, the profit that you gain, if any, would not match that of what you, in fact, bought each stock for. Therefore, you should feel more secure using a market order on stocks such as Microsoft that steadily increase on a daily basis.

As with all orders, there are advantages and disadvantages to the market order. Focusing on one specific advantage, you are virtually guaranteed that your order will be executed, pending that there are willing buyers and sellers available who are interested in your particular stock. For example, you own 100 shares of stock from Borden, a dairy product provider, from which you have received a steady increase in profits.

Your broker, however, informs you that it would be a wise decision to sell those 100 stocks in Borden in order to purchase stocks from Wal-Mart because those stocks are producing 47% higher profits than the stocks from Borden. Your broker also informs you that there are several people available who would like to buy your stocks in Borden, so you must make the decision immediately as to whether you would like to sell your stocks. You agree due to the higher percentage in profit that Wal-Mart stocks provide, and immediately your stocks are sold due to the fact that people are waiting to purchase them.

A main disadvantage with a market order is that the price you pay when the actual purchase transaction takes place may not be the initial quote that was given to you by your broker. For example, your broker contacts you and says that Microsoft Corporation is offering a tremendous deal on their stocks in which you are able to purchase one share of stock for \$25.00. You quickly agree to purchase 100 shares of stock and before the broker has time to put the order into the computer, the price of the Microsoft stock has increased to \$50.00 per share.

Rather than contacting you about the cheap price of Microsoft stocks, your trusted broker should have simply purchased the stock at the moment to ensure that you would receive the lower purchasing price. So, it is typically better, when you invest in larger corporations to have

your broker instantaneously make decisions that will gain profit for you in the long-run.

That being said, the absolute best time to execute a market order is when low volumes of shares from a particular company are not gaining any profit, pending that people are waiting to buy that particular company's shares of stock. For instance, you own 10 shares of stock in Best Buy, an electronics company, but you don't feel that you are gaining enough profit from it. So, you contact your broker for a consultation.

After the consultation, you realize that if you sold your 10 shares of stock from Best Buy and bought just 5 shares of stock in J.C. Penny, a department store, your profits would increase by 39%. Plus, there are eager buyers available to purchase your Best Buy stocks for 25% more than you paid for them. (If you paid \$1500 per Best Buy share, people are currently waiting to buy them for \$1875. That's an \$1875 profit that you could use to purchase even more stock in J.C. Penny in order to increase your earnings!) Just remember: as with any stock market transaction, there is a certain amount of risk involved.

Becoming more educated about exactly how the stock market functions will help to reduce the amount of risk you take with your stocks if you are the type of person who is not a risk taker.

Market orders have great potential to work totally at your advantage if you have a trust-worthy broker in which you secure all your money transactions. As with any stock market transaction, it takes a genuine relationship with your stockbroker to ensure gains in profit as well as reduced stress about investing your money into such a fluctuating financial market.

Selling Short with Stock Trading

Investors that implement selling short are taking the gamble that they will be able to buy the stock at a lower price than the price in which they sold short. Basically, the investor is selling stock that they do not own in order to make a profit. In other words, the investor sells stock that is promised to be delivered.

This concept may sound thoroughly confusing, but actually, selling short is an advanced stock market order that, once explained, is easy to understand.

When you sell short any given stock, your stockbroker lends it to you. The stock usually comes from either a personal investment of your broker from another customer in which your stockbroker works with. The shares are sold and the profits are given to you, the investor. If this seems too good to be true, you are right! Later on, you must buy back the same number of shares and return them to your broker, with an interest rate added to the cost of each stock. Basically, you are taking out a loan in which to purchase stocks, and then, whether you have made profit or not, you must repay the stocks to the broker.

Pending that the price per stock drops, you are able to buy back the stocks at a lower price, which means that you have gained money, however, if the price per stock increases, you must still buy back the stocks, and thus, you lose money. In general, you can hold a short for as long as you want, meaning that you can wait until you have made enough money to buy back

the stocks before doing so.

However, there are times when the stockbroker wants his stocks returned and at that point, you are forced to purchase the stock. Obviously, stockbrokers are unable to sell stocks that they do not have, therefore, if they have over compensated and sold all of their stocks, it is quite possible that your broker will begin to pressure you to buy back the stocks.

Obviously, when you begin to “play” with your brokers stocks, there are risks involved. Below are 4 distinct risks when selling short.

In general, stocks tend to appreciate in price, therefore, when it comes time for you to buy back the stocks in order to repay your stockbroker, you lose money due to the fact that the price per stock has gone up. For example, you borrowed stocks from your stockbroker that are sold at \$350 each. When you buy back the stock to repay your stockbroker, you notice that each stock is now being sold for \$500, therefore, you are losing money.

You can lose more money than you initially invested. Because selling short involves using borrowed money, it is extremely easy for losses to get out of hand. This type of order is similar to a credit card. Most people, when using a credit card, overspend; the same is true with selling short because it is not your money that you are working with. Initially, when you borrow the money, you are sure that you are able to make the total amount of borrowed money, plus a profit, so you oversell the stocks. Then, when it comes time to repay the stockbroker, you have lost money, and could quite possibly not have the funds for repayment.

If a stock starts to rise and a larger number of short sellers try to sell their stock, it can force the price of each stock to rise. Therefore, it is more expensive to purchase each stock, thus, you lose money.

Taking these risks into consideration when selling short can help to reduce the total amount of money that you lose.

Pending that short selling fits into your risk tolerance, it is an easy and quick way in which to make money when you don't have any. However, it takes extreme knowledge to be able to effectively execute a short sell. It is better to leave a short sell up to professional investors that have numerous years of experience in the stock market.

Philosophies Used With Stock Trading

Because stock trading can be such an intimidating task, it is important to study the philosophies of others who are more seasoned at stock trading in order to form your own philosophy that will ensure your success. By studying the stock trading philosophies of others, you are enabling yourself to be knowledgeable about suggestions that have proved successful in which you can incorporate into your own philosophy. Creating your own stock trading philosophy can be a fun and rewarding adventure as you continue to learn how to make money by investing in stocks. Below are three stock trading philosophies that will shed some light for you to help you shape a philosophy that will best suit your needs.

The Growth Philosophy

Investors whom are supporters of the growth philosophy are interested in purchasing stocks from companies who show potential for earning more and more as the company grows. People who fit into the philosophy are even willing to take a risk and invest in the stock of a small, new company if they feel it will eventually grow. Needless to say, there is a high risk with this philosophy because people in this category take the knowledge that they possess and make a guess as to whether a certain company will be successful.

If that person emotionally feels that a certain company has the potential at success, then that person will immediately invest in that possibility. Basically with the growth philosophy, an individual is relying on their opinion as opposed to solid facts and investing their money into a big possibility instead of a stock that has a little more stability.

The Value Investor

Value investors are on the look out for stock purchases that other people have overlooked, especially if the stock of a certain company is priced lower than that of their competitors. A value investor is interested in purchasing a low price stock that will create a high potential of earning a significant amount of profit. The difficulty with this philosophy is that the value investor must be certain that there are immoralties with the company that they are planning on purchasing stocks from.

In other words, value traders must ensure that the company they are purchasing stocks from does not have a negative agenda by selling lower priced stocks to stockholders. Basically, the philosophy of the value investor is to find a solid company to purchase low priced stocks from and then hold those stocks until the company becomes recognized and the return rate on the stocks sky rockets. With this philosophy, there is moderate risk involved because a value investor must be absolutely sure that the company in which they are interested in is solid, reliable, and honest. This requires extensive research on the part of the value investor about any company chosen to purchase stocks from to ensure that the business will not take advantage of their stockholders.

The Income Investor

This is the most straightforward and conservative philosophy dealing with stock trading. An income investor obviously uses income as their motivator, so they must target big companies that offer consistency as well as high returns on their stocks. The target companies for this philosophy are the large, well-established economical monsters that seem to rule the market. As the stock prices increase, the income investor simply trades in their stocks for their high return of investment and uses the money to purchase more stocks in the same company, knowing that the next return on investment will be significantly higher as the company gains more and more stockholders. Even though all stock trading philosophies have some type as well as degree of risk involved, the income investor philosophy offers the lowest risk possible.

These three philosophies work to accompany the stock trading scene. It is quite possible that you fall into more than one of these categories. If this is the case, take a little knowledge from each of the three philosophies and work to develop a stock trading philosophy that will work to

fulfill your investment goals. If you feel that you fit into only one of these stock trading philosophies, then, use those particular characteristics to mold the philosophy to fit into your unique situation.

Remember that these philosophies only offer a model for you to consider, leaving you to create the final stock trading philosophy that you can work with.

Program Trading: Should You Care?

Probably you know by now that the big boys don't play nice. In the stock market, institutional and other investors with large sums have much more influence on events than the average trader. One way they do that is through the use of something called 'program trading', the purchase (or sale) of a group of stocks, usually by automated buy/sell orders.

Originally the term had little to do with 'computer program'. Program Trading got its name when index funds and other institutional investors embarked on large-scale trading to replicate a stock index. Before long, clever statistical analysts joined hands with even more clever arbitrageurs to try to 'beat' the market through the use of sophisticated trading algorithms, assisted by (then) new, high-speed computer programs.

Fundamental analysis met technical analysis and introduced themselves to software. The rest is rather bumpy history. In one famous case, though some studies deny this, it may have contributed heavily to the well-known Black Monday of October 1987 when the market dropped by over 20% in one day.

While not the largest drop in history (a larger percent decline occurred in 1914 and later a larger point drop, in 2001), nevertheless within one day, 500 billion dollars evaporated from the Dow Jones index. And, the event continued in markets around the world. Hong Kong shares fell over 45% (some say this happened before the U.S. decline - accounts differ) and London over 26%.

Out of favor for, oh say maybe a day, program trading continued - albeit after a few software tweaks. New SEC rules were devised and major market players altered thresholds to slow or halt trading when certain percentage declines are reached.

While the NYSE defines a program trade as a basket of 15 stocks or having a total value of \$1M (or more), trades can be executed in small lots (100-300 shares, for example). In theory, this allows orders to be completed before other investors get wise, and helps avoid large price movements before positions are solidified or liquidated.

As finance professors and large-firm specialists develop ever more sophisticated methods of taking advantage of small price discrepancies across global markets, program trading becomes ever more complex. In many cases, the individuals involved don't themselves understand well the consequences of implementing a particular strategy.

Program trading now comprises over 50% of NYSE volume on average and it can introduce large swings in a few stocks or large portions of the market. Clearly, the big boys wouldn't bother unless they believed - backed now by decades of studies - that there was an advantage in using the technique.

But whether villain or savior, it's here to stay. Over 50% of the volume on one exchange that trades over 1.6 billion shares a day is a huge amount of arbitrage activity. That effect can work against the average investor or for him, but only if included in a trading strategy that pays attention to where those trades are going.

How to Get a High ROI in Stock Market Trading

The Return on Investment (ROI) in stock market trading is the profit you make on the sale of a security or other asset divided by the amount of your investment. ROI in stock market trading is expressed as an as an annual percentage rate.

Return on investment (ROI) is stock market trading includes all the income you earn on the stock. It also includes any profit that results from selling the stock. If the sale price plus any income is higher than the purchase price, then you have a positive ROI. If the sale price plus any income is lower, then your ROI is negative.

Of course as a stock market trader you are always looking not just for a positive but a high ROI. Below are some ways to ensure that you get a high ROI in stock market trading:

Always know what you're buying

The most important thing to do to ensure high ROI in stock market trading is to acquire as much information as possible about the company you are planning to invest in. Do some basic analysis to find out if the stock is worth the price or else you will be gambling. You can always ask other people to do the research for you if you don't have time. Reliable sources are websites of major brokerage houses, finance publications and mutual-fund companies.

Don't confuse smart investing with a bull market.

There are many reasons why you could be getting a high ROI in stock market trading. One is you could really be investing smartly. Another is that you could just be lucky enough to be in the right place at the right time and made money with hardly any effort. Sometimes we feel smart when the market is going up so we're tempted to trade more frequently and take on riskier positions.

Avoid active trading

It is tempting to trade frequently especially when your gaining. This is particularly true with online stock market trading where investing is only a few clicks of the mouse away. But remember that it's tough to make money by beating the market consistently. It is advisable to employ a buy-and-hold strategy to ensure a high ROI in stock market trading.

Mind the taxes

Frequent trading could also be very costly particularly so with high income taxes triggered by profits that could reach as high as 40%. To get a high ROI in stock market trading therefore, it is advisable to buy and hold for a period of at least a year so you would qualify for the lower capital gains rate of 20%.

Small Scale Stock Traders Must Consider Hidden Costs

There are those who buy and sell stock as a profession. They either handle their own assets or act as brokers for customers who put them in control of investment portfolios. These expert handlers of stocks are able to make large-scale deals that can generate or lose substantial sums of money. Those in these professions are experienced and trained to evaluate not only the cost of stocks at any given minute, but also the costs involved in making transactions. They consider all of this information before moving their own money or that of their clients.

Smaller scale stock traders, including those who approach trading as a way to “play the market” in hopes of generating some extra money, day traders who see the market as a way of making money via stock gambling and others are often blind to the costs of making a deal until they see their final numbers.

It is easy to become preoccupied with other aspects of a deal. For instance, if you purchased two hundred thousand shares of a stock for ten dollars and saw its value escalate to thirty dollars per share, you would know immediately that a sizable profit could be generated by selling (if you believed the time to be right). The various costs of doing business would decrease the profitability of the sale, but there is no way a deal like that could be anything less than a winner in terms of improving the overall bottom line.

The process is muddied considerably when looking at a small-scale transaction. Imagine you bought ten shares of the same stock and the same price tripling occurred. You could sell the stock and reap a two hundred dollar profit, right? After all, the stock went up by twenty dollars per share, and you have ten shares.

This is why smaller scale traders must look at some details before making a decision. From that \$200 profit, how much will be lost in fees and expenses? This number can vary considerably based upon the exact set up the individual stock trader uses. However, it is possible that one's overall profit margin could be reduced by as much as thirty percent on a deal like the one mentioned, even before any taxation considerations.

This is because most smaller traders will be paying fees for each transaction and may be on the hook for additional costs, too. The larger traders may be able to pull this off with little concern -the costs will be less as a total percentage to bigger players and any loss in fees and expenses will eventually be offset somewhat once tax season rolls around.

Smaller investors don't always have the luxury of looking past fees and costs. Thus, they must first shop for the best possible deal. They must remember that their total per transaction profit

may not always be sizeable and should make sure the fees they are paying will not eventually end up sucking up a great deal of their margin on any given deal. After finding the right services, the smaller stock trader must also keep the costs of making transactions in mind as they approach handling their stock investment portfolio.

Being a small investor can be both fun and rewarding, but it is also something of an uphill struggle. Fees and costs can be a real margin reducer, and the smaller investor really often does need to work harder than his larger counterpart in order to make the same percentage of profit.

These realities have led some to simply invest in mutual funds with a profile they appreciate and leave the trading to the "big boys." This is not necessary, however. With a strong understanding of the real price of doing business, combined with earlier careful service selection, even a small investor on the stock market can begin to carve out profits for himself or herself. It may require some efforts to build one's stock trading investment up enough to become one of the larger investors, but it is possible. Even the smallest stock trader can find ways to profit if they keep their costs squarely in mind when effectuating a transaction.

End of the Year Maintenance for Your Stocks

As the end of each year winds down, there are five distinct procedures that you need to be sure to do in order to keep your stock portfolio current as well as to save you some money. This also helps to get your stock trading in check before the start of the new year. By providing a little maintenance to your stock portfolio, you can guarantee that your stock trading will be ready to go for the new year.

The following are five procedures in which you, the investor, need to be aware of before the end of the year in order to properly maintain your stock investments.

Tax Planning

In the United States, the Internal Revenue Service (IRS) allows you to offset any monetary gains with any monetary losses. For example, with your stock trading, this year you earned a total of \$15,000 but you owe the IRS \$5,875 in taxes. The IRS would take the \$15,000 and subtract \$5,875 from it and allow you to keep \$9,125 of your stock earnings. Also to be considered, if you have sold some stocks during the year and you lost money on them, you may be able to claim them as a loss.

If you are able to claim a loss, the IRS simply will not tax the amount that you lost. For example, you bought 100 stocks for \$25 each, for a total of \$2500, but you decided to sell all 100 of them. At that time, you only received \$15 per stock, for a total of \$1500. Therefore, the government would not tax the \$1000 that you lost when you sold your stocks. Be sure to consult with a tax adviser because there are numerous tax breaks that you will receive just from investing in stocks.

Re-Balancing

Take the time to thoroughly review your stock portfolio with your broker so that any revisions that need to take place will get done. It is important to do this because you may have some stock that needs to be sold. For example, you purchased 100 shares of stock for \$50 each, but your broker just got wind that if you don't sell it before a certain date, then each share will drop in value to \$25 per stock. If you and your broker did not take the time to discuss your portfolio, then you would obviously lose a significant amount of money due to not re-balancing your portfolio.

New Plan

It is quite possible that your portfolio is completely out-of-date after just one year of investing in the stock market. Any considerable change that has taken place in your personal life needs to be address, such as marriage, divorce, the birth of a baby, etc. because an event such as this could catastrophically change your investment portfolio dramatically. Once you have met with your broker at the start of a new year, it is imperative that you meet quarterly to discuss any changes that might have taken place in your life.

Something Totally New

Make a New Year's resolution to learn a new, fundamental aspect about stock investments to apply to your current investment goals. This new aspect does not have to be complicated, but rather an investment fact that you can really "sink your teeth into" in order to benefit your investments. This is intended to raise your awareness even farther into investing as well as to challenge your comfort level of investing. Remember that knowledge is power, so the more you know about investing, the better your chances are of gaining a hefty return on your investment. This new-found knowledge could plunge your financial situation into a whole new realm.

Make an Expanded Commitment

Now is the time to search out new markets that you would like to purchase stocks from. By reviewing your portfolio, you may find that certain stocks did not do as well as you had expected. If that is the case, expand your knowledge by researching new markets in which to invest. For example, you thought that the snack cake industry would explode, so you purchased a great number of stocks in Little Debbie.

In examining your portfolio, you noticed that you only earned a 5% return, but you had estimated a 25% return on your investment. Now would be the time to research other avenues of interest in order to find a new industry in which to purchase stock from that you feel will prosper in the new year.

By following these five steps, you can rest assured that your investment portfolio will stay in wonderful shape for the coming year.

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