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Stock Market Basics: An Introduction to the Investment World

Stock Basics

Understanding the stock market starts with understanding stocks. A stock represents partial ownership of a company: the smallest share possible. Company's issues stocks to raise capital and investors who buy stock are actually buying a portion of the company. Ownership, even a small share, gives investors rights to a say in how the company is run and a share in the profits (if any). While stocks give owners certain rights, they do not carry obligation in case the company defaults or faces a lawsuit. In a worst-case scenario the stock will become worthless but that is the limit to the investor's liability.

Companies issue stocks to raise capital. They may need a cash injection to expand or to acquire new properties. Each stock issue is limited to a certain number of shares, and when they are issued they are given a par value. The market quickly adjusts that par value according to the perceived health of the company and its potential for growth.

Investors usually buy stocks because they believe the company will continue to grow and the value of their shares will rise accordingly. Investors who acquire stock in a new company are taking more of a risk than buying shares of well-established companies but the potential gain is much greater. Those who bought Microsoft shares early in the game (and did not sell them) saw an exponential rise in their value.

Stock trading is done on stock exchanges like the New York Stock Exchange (NYSE) or NASDAQ (National Association of Securities Dealers Automated Quotation System). This means that only companies listed on a public exchange have shares that can be bought and sold on the open market. Of course, you could also buy partial ownership in a smaller company that is not listed on a stock exchange but that is a very different type of investment than buying stocks.

Because stocks must be bought and sold on a stock exchange, an individual investor needs a broker to make transactions for him. Brokers take orders to buy or sell a certain stock. The order may include instructions to trade at a certain price or simply what the market will bear. Once the broker receives the order he attempts to execute it by finding a buyer or seller as the case may be. The buyer or seller is also represented by a broker and each broker receives a commission on the sale.

Stocks have several advantages over savings investments. Because they represent ownership in a company they give the holder rights to participate in major decisions the company faces. Every share represents one vote and shareholders are regularly asked to vote on important matters. Ownership also allows stockholders to benefit from any profits the company makes. Profits are distributed in the form of dividends, and may be issued once or twice a year at the discretion of the company directors.

If the company prospers the value of the stock will rise and distribution of profits also increases. The downside of this is that if the company does poorly the value of the stocks may fall.

When compared with savings investments (like bonds or bank certificates of deposit) stocks have the potential to earn more money -- but they also carry the risk of loss. Learning about the stock market and the various investment strategies can help to minimize loss, and most investors find they do much better on the stock market than is possible with any kind of savings investment.

Learning the Basics of the Stock Market

The stock market is a complicated game. In order for you to succeed in this business, learning the basics of the trade would be an important factor for your financial growth.

Before risking your money with the stock market, you should be able to recognize the factors vital in choosing which company to invest in. Here are the basics in learning some facts about the company:

1) Revenue. This refers to the amount of money the company makes. Although some companies that are still in the early development stage have no revenues to offer, many of the companies that have been in the market for years make use of the revenues to cover some losses and other costs.

2) Earnings. This refers to the money the company makes. Aside from revenues, the earnings are the money that would not be used in covering expenses. These are the extra money the company makes. Companies with large earning have an advantage in the stock market because investors examine the earnings made by the company they are about to buy stocks on.

3) Debt. This refers to the money the company owes in many ways. Because the company is in debt, the money they have is for paying up for the debit alone. Buying stocks from these companies would be risky because of the instability of the company.

4) Property. This refers to all the assets (money, stocks, and all businesses they own) of the company. Knowing these assets could give you an understanding of the company's position in the industry. If the companies have significant properties in their hands, you could safely trust their background and immediately buy some of their stocks.

5) Financial responsibility. This refers to the account of the companies that they need to pay out. Meaning, if the value of their financial obligations are low, the company is not in danger of becoming in debt. Examining the company's liabilities and comparing it with its assets could help in determining if you are ready to buy stocks from them. Make sure that the assets of the companies are always higher than the financial responsibilities they need to make.

It's never safe to gamble your money away on some company you don't even know. The basics of the stock market lie on the company's background. Make sure you research to ensure your money is in the right hands.

Stock Markets

The term 'Stock Market' is commonly used to encompass both the physical location for buying and selling stocks as well as the overall activity of the market within a certain country. When we hear an expression such as 'The stock market was down today' it refers to the combined activity of many stock exchanges i.e. the New York Stock Exchange (NYSE), Nasdaq etc. in the United States.

The 'Stock Exchange' is the correct term for the physical location for trading stocks. Each country may have many different stock exchanges and usually a particular company's stocks are traded on only one exchange, although large corporations may be listed in several different locations.

Stock exchanges exist throughout the world and it is possible to buy or sell stocks on any of them. The only restriction is the opening hours of each exchange. Both the NYSE and Nasdaq for example operate from 9:30 a.m. to 4:00 p.m. Eastern Time from Monday to Friday. Other exchanges have similar opening hours based on their local time. If you want to trade on the Hong Kong Stock Exchange your order will be executed sometime between 9:30 p.m. and 4:00 a.m. New York time.

The major stock exchanges of the world are located in Japan (Tokyo Stock Exchange), India (Bombay Stock Exchange), Europe (London Stock Exchange, Frankfurt Stock Exchange, SWX Swiss Exchange), the People's Republic of China (Shanghai Stock Exchange) and the United States. The major exchanges in the US are the NYSE, Nasdaq, and Amex.

Stock markets closely follow the economic health of a country. When the economy is doing well the market is bullish. Bull markets occur during times of high economic production, low unemployment and low inflation. Bear markets, on the other hand, follow downtrends in the economy. Inflation and unemployment are rising and stock prices are falling.

Fluctuations in stock prices are also driven by supply and demand, which in turn are determined to a large extent on investor psychology. Seeing a stock rise in price may cause investors to jump on the bandwagon and this rush to buy drives the price even faster. A falling price can have the same effect. These are short-term fluctuations. Stock prices tend to normalize after such runs.

The stock exchange is only one of many opportunities to invest. Other popular markets include the Foreign Exchange Market (FOREX), the Futures Market, and the Options Market.

The FOREX is the biggest (in terms of value of trades) investment market in the world. FOREX traders buy one currency against another and can profit from small changes in value. Most FOREX trades are entered and exited in one 24-hour span, and traders have to keep a close watch on the market in order to make profitable trades.

The Futures Market is a market of contracts to buy and sell goods at specified prices and times. It exists because buyers and sellers of goods wish to lock in prices for future delivery, but market conditions can make the actual futures contract fluctuate considerably in value. Most investors in the futures market are not interested in the actual goods--only in the profit that can

be realized in trading the contracts.

The Options Market is similar to the Futures Market in that an option is a contract that gives you the right (but not the obligation) to trade a stock at a certain price before a specified date. They can be traded on their own or purchased as a form of insurance against price fluctuations within a certain time frame.

All three of these markets are quite risky and require considerable knowledge and experience to prevent substantial losses. They also require close attention to market movements. Stocks, on the other hand, are less risky because movements of the market are usually gradual. Although short-term investment strategies are possible, most view stocks as long term investments.

The Rise of Wall Street: History of the Stock Market

Stock Market is an avenue from which stocks of companies are bought and sold.

For some, they thought that stock market and Wall Street are the same. Wall Street in New York is just one example of a stock market.

Wall Street though is very significant in a sense that this is where the concept of stock market started.

The Wall Street establishment was built in 1653. Its purpose then is for defense and not for commerce. Dutch settlers fortified themselves from Native Americans and British by building a 12 foot stockade fence,

In 1685, the wall was torn down and replaced by a new street. The British named it Wall Street.

The Stock Exchange

Wall Street is made famous with the emergence of two powerful stock exchanges. This resulted in the chaotic trading which turned out to be the financial markets that we know today.

The first stock exchange in the United States was founded in 1790 in Philadelphia. Two years later, a group of New York traders met and thought about setting up a security business. These 24-man groups are the founders of the New York Stock Exchange.

In 1817, the New York merchants were upset by the bad state of their stock exchange. They sent one of their members to Philadelphia to take a look at their trading. The representative found out that Philadelphia is doing well in their exchange. The merchant returned to New York and discussed to the group how things were being done in Philadelphia. Shortly after, the "New York Stock and Exchange Board" was formally organized.

The exchange center was inaugurated on Wall Street. The rest was history. From a troubled beginning, the New York Stock exchange emerged as the place where billions of dollars worth of stocks and bonds are traded each day.

But the success of Wall Street did not happen overnight. In the early 1990's, the New York Stock Exchange was already on the rise. But this financial boom could not be sustained. In 1929, the stock market crashed, shocked the world and caused the Great Depression.

Although the economy eventually recovered, the mistakes of the Great Depression haunted them back. In 1987, the stock market again crashed. The crash was so crippling that the Dow Jones suffered the largest single-day loss in the stock market's history.

Since then, the government and the industry have been trying to set up measures to prevent such a large-scale crash. Now, the stock market is an essential component in the world's economy. Proper safeguards and systems to reduce or prevent another stock market crash are of utmost importance.

History of the NYSE

The old stone building at 11 Wall Street, NY, NY often inspires awe and hushed voices. It is the home of the New York Stock Exchange, the largest stock exchange in the world (by dollar volume) Futures, and fortunes are made and lost here, but how did it get here in the first place?

It all started in 1792, when 24 stockbrokers signed an agreement called the, "Button wood agreement", outside number 68 Wall Street.

Wall Street, in the south of Manhattan, was named after the wall the Dutch Settlers built to keep the English settlers and Native Americans out, and themselves in. Why Button wood? In the newly formed country of the United States of America, most investments were in land. Merchants and brokers often traded in coffee houses, if not on the street outside those coffee houses.

At that time, in the south of Manhattan, there was a huge button wood tree, (or American Sycamore, as it is more commonly known) outside one of those coffee houses and under which traders and speculators used to met and trade informally. The agreement that began the New York Stock Exchange, was signed under that Button wood tree.

The agreement was only two sentences long, and was basically a promise to only trade with each other and abide by a .25% commission. At that time the only securities to be traded were government bonds and bank stocks. The first stock traded and listed on the New York Stock Exchange was the Bank of New York, New York City's first chartered bank.

On March 8th, 1817 the Buttonwood Agreement was formalized and a charter drawn up. They group renamed themselves, "The New York Stock and Exchange Board". The exchanges first president was Anthony Stockholm. At this time there were 30 stocks traded on the NYSE. The president of the exchange would call out the names of the stocks individually, and the brokers would yell their bids from their assigned chairs. That is why we say people have a "Seat on the exchange."

This practice continued until about 1871. Seats on the New York Stock Exchange are leased or sold by the current owners and not by the exchange itself. In 1817 a seat would cost about 25 USD. In Dec 2005, one seat went for 4 million Dollars. That's one expensive chair! The number of seats on the New York Stock Exchange has increased steadily throughout the years. In 1868 there were only 533 seats.

1817 was also the year the NYSE found its first home indoors, in a rented room at Number 40 Wall Street.

In 1863, the name was shortened to, "The New York Stock Exchange" Two years later, on June 1865; the famous Button wood tree was felled during a storm.

Membership on the NYSE has been very valuable since 1868. There are now 1366 seats on the exchange.

The first ticker was installed in 1867.

The first telephones were put in 1878.

In 1883, the NYSE got its first electric lights.

The electronic displays boards so often seen were first put up in 1966.

To many of us it seems the New York Stock Exchange runs like clockwork and is rarely closed. There are two notable closings of the exchange. The exchange closed briefly just after the beginning of World War One, but reopened in Nov of the same year. It also closed just after the Sept 11th attacks on the New York City's World Trade Center. It reopened on Sept 17th, 2001.

On Feb 18th, 1971, the NYSE, INC was first incorporated as a not-for-profit Corporation.

The New York stock Exchange is about to change again. In 2005 it decided to acquire its rival Archipelago and become a for-profit, publicly traded company. Instead of selling seats on the exchange, the NYSE will now sell one-year licenses to trade on the exchange. There are now over 2700 stocks on the NYSE, including 453 from 47 different countries.

Whatever changes are ahead for the New York Stock Exchange, some things seem certain. That the old stone building on 11 Wall Street will continue to inspire awe is one of them.

Stock Indexes

Stock indexes are a statistical average of a particular stock exchange or sector. Indexes are composed of stocks which have something in common ñ they are all part of the same exchange; they are part of the same industry; or they represent companies of a certain size or location.

There are many different stock indexes, the most common in the United States being the Dow Jones Industrial Average, the NYSE Composite index, and the S&P 500 Composite Stock Price Index. Stock indexes give an overall perspective about the economic health of a particular industry or stock exchange.

There are several different ways to calculate indexes. An index based solely on the price of stocks is called a 'price weighted index'. This type of index does not take into consideration the importance of any particular stock or the size of the company. An index, which is 'market value weighted', on the other hand, takes into account the size of the companies. That way, price shifts of small companies have less influence than those of larger companies. Another type of index is the 'market-share weighted' index. This type of index is based on the number of shares rather than their total value.

Index Funds

As well as giving an overall grade to a particular economy, indexes can also be an investment instrument. Mutual funds based on indexes are known as 'passively managed mutual funds' and have been shown to consistently outperform managed funds. Mutual funds based on an index simply duplicate the holdings where the index is based on. Thus if the Dow Jones rises by 1% the fund based on the Dow Jones also rises by the same amount. This has the advantage of lower costs for research and transactions ñ savings that can be passed on to the investor who participates in these funds.

The Big Indexes

The Dow Jones Industrial Average is one of the best-known indexes in the United States. It follows the stock movements of 30 of the most influential companies in America including General Electric, Coca Cola and General Motors. It is a 'price-weighted average' index ñ thus giving more influence to more expensive stocks. Some analysts feel that the price-weighting does not give an accurate picture of stock market movements and that 30 companies are not enough to form an accurate assessment.

The S&P 500 Index is based on 500 United States corporations. These companies are carefully chosen to represent a broad slice of economic activity. It is second in influence after the Dow Jones and is felt to be an accurate predictor of the state of the United States economy.

Outside of the United States the most influential index is the FTSE 100 Index. This is based on 100 of the largest companies listed on the London Stock Exchange. It is an indicator of the British economy and is one of the biggest indexes in Europe. Other important non-US indexes are the CAC 40 from France and the Nikkei 225 from Japan.

Stock Prices and Quotes

In glancing through the stock prices listed in the newspaper one might wonder how stocks are priced and what affects price movement. After all, there is a wide variety of prices and some well-known companies are traded for relatively low prices while obscure listings may sell at high

prices.

To a certain extent stock prices are determined by investor confidence but that confidence in turn is based on real or perceived performance. Companies report their financial status on a quarterly basis when they disclose cash flow, sales and earnings. These hard numbers are the foundation of a company's worth, but investor speculation can undermine or override actual financial data.

Rumors abound on the stock market, and if there is news that a company is about to make a strategic move buyers may flock to buy that stock. As with any other market, the principal of supply and demand applies. If there is a sudden upsurge in investor interest, the price of a stock will rise accordingly. Conversely, fear among investors can cause a stock price to plummet. In the long run, however, company performance and worth are the biggest factors in determining stock prices.

Stock prices are available from many sources. Newspapers carry market summaries of the day's movements and online sources can provide current prices around the clock. Stockbrokers can also provide quotes--either online or by telephone in the case of full-service brokers.

A stock quote table in a newspaper or Internet web site is full of useful information that can help the investor make decisions about buying or selling stocks. Being able to read a stock table is a necessary skill for anyone interested in the stock market.

A typical table looks something like this:

Symbol	Price	Net	Latest Change			Volume	52 Weeks		
			%	Time	High		Low	High	Low
BCE	31.150	-0.480	-1.52	16:57	31.750	31.110	3,643,000	33.000	27.150
BGM	17.060	-0.280	-1.61	15:54	17.300	17.040	207,400	26.850	17.110
IBM	79.820	-0.290	-0.36	16:01	80.680	79.560	4,999,200	99.100	71.850
MSFT	24.670	-0.310	-1.24	16:00	25.050	24.670	73,696,700	27.940	23.820

The first column tells you the name of the company by its ticker symbol: a 3 or 4 character abbreviation. BCE is Bell Canada Enterprises and MSFT is Microsoft. Ticker symbols can be looked up on the Internet.

The latest price is the price at the time of publication of the table. In newspapers this would generally be the day's closing price, but Internet tables may be updated every few minutes. Publicly viewable stock prices on the Internet usually have a lag of 15 or 20 minutes.

Change is the difference between the previous day's closing price and the current quote. Time shows the time of the last transaction. High, Low, and Volume all refer to the current (or last) trading day. High is the highest price the stock sold for, Low is the lowest price, and Volume is the number of shares that have been traded. Finally the 52-week High and Low shows you the highest and lowest prices in the previous year.

There may be additional columns for information about Bid Price (the price a buyer is willing to pay), Ask Price (the price a seller is willing to sell), Price/Earnings ratio (P/E:the stock price divided by the earnings per share), Market Cap (outstanding shares multiplied by current market price), and Dividends Per Share (the current annual dividend the company pays).

Types of Trading

The stock market is a reliable indicator of the actual value of companies, which issue stock. Values of stocks are based on verifiable financial data such as sales figures, assets and growth. This reliability makes the stock market a good choice for long term investing--well-run companies should continue to grow and provide dividends for their stockholders.

The stock market also provides opportunities for short-term investors. Market skittishness can cause prices to fluctuate quite rapidly and investor psychology can cause prices to fall or rise ñ even if there is no financial basis for these variations.

How does this happen? News reports, government announcements about the economy, and even rumors can cause investors to become nervous or to suspect that a company will increase in value. When the price starts to fall or rise, other investors will jump on the bandwagon, causing an even faster acceleration in price. Eventually the market will correct itself, but for savvy short-term investors who watch the market closely, these price changes can offer opportunities for profitable trading.

Short-term traders are divided into 3 categories: Position Traders, Swing Traders, and Day Traders.

Position Traders

Position trading is the longest term trading style of the three. Stocks could be held for a relatively long period of time compared with the other trading styles. Position traders expect to hold on to their stocks for anywhere from 5 days to 3 or 6 months. Position traders are watching for fundamental changes in value of a stock. This information can be gleaned from financial reports and industry analyses. Position trading does not require a great deal of time. An examination of daily reports is enough to plan trading strategies. This type of trading is ideal for those who invest in the stock market to supplement their income. The time needed to study the stock market can be as little as 30 minutes a day and can be done after regular work hours.

Swing Traders

Swing traders hold stocks for shorter periods than position traders--generally from one to five days. The swing trader is looking for changes in the market that are driven more by emotion than fundamental value. This type of trading requires more time than position trading but the payback is often greater. Swing traders usually spend about 2 hours a day researching stocks and executing orders. They need to be able to identify trends and pick out trading opportunities. They usually rely on daily and intraday charts to plot stock movements.

Day Traders

Day trading is commonly thought of as the most risky way to play the stock market. This may

be true if the trader is uneducated, but those who know what they are doing know how to limit their risk and maximize their profit potential. Day trading refers to buying and selling stock in very short periods of time--less than a day but often as short as a few minutes. Day traders rely on information that can influence price moves and have to plot when to get in and out of a position. Day traders need to be rational and analytical. Emotional buyers will quickly lose money in this type of trading. Because of the close attention needed to market conditions, day trading is a full-time profession.

Stock Options

Stock options are contracts to buy (or sell) a stock at a certain price before a certain time in the future. Buyers of options have the right to buy the stock at the specified price, but they are not obligated to exercise their option. Sellers of options have the obligation to sell the underlying stock if the buyer of the option wishes to exercise it.

A contract to buy is called a 'call option'. The buyer of a call option hopes the price of the underlying stock will rise, allowing him to buy it at less than market value. The seller of the call option expects that the price of the stock will not rise, or at least is willing to accept a partial loss of profits made from selling the call option.

For example: An investor buys a call option on IBM with a 'strike price' (the price the stock can be bought) of \$50. The current price of IBM stocks is \$40 and the cost of the call is \$5. If the price rises above \$55 (strike price + cost of call) the buyer could exercise his right to buy and make a profit by reselling on the open market. The seller would still gain from the increase in price from \$40 to \$55 plus the \$5 he made by selling the call. If the price remains below \$55 the call would not be exercised and the seller would profit by \$5 per share and the buyer would lose his \$5 per share.

Options are traded on specific stocks. They detail the name of the stock, the strike price (the price the stock can be bought or sold at), the expiration date and the premium (the price of the option itself). After the expiration the option cannot be exercised and is worthless. Options have a value and are actively traded. An option to buy Microsoft, for example, is listed like this:

MSFT Jan06 22.50 Call at \$2.00

This tells us that an option to buy 1 share of Microsoft at \$22.50 before the third Friday in January 2006 can be bought for \$2.00. Options usually expire on the third Friday of the specified month, and they are usually traded in lots of 100. To buy this particular option you would have to pay \$200 (plus brokerage fees).

An option to sell a stock is called a 'put option'. This gives the holder the right (but not the obligation) to sell a particular stock within a certain time period at a certain price. In this situation the buyer is expecting the price of the stock to fall but does not want to sell outright in case the price rebounds. The seller feels that the price is stable or is willing to acquire the stock at the low price.

For example: An investor buys a put option on Microsoft with a 'strike price' (the price the stock can be sold) of \$35. The current price of Microsoft is \$40 and the cost of the put is \$5. If the price falls below \$30 (strike price + cost of put) the buyer could exercise his right to sell at a higher price than market. The seller would have to buy the stock at the higher-than-market price but any losses are offset by the \$5 he made by selling the put. If the price remains above \$30 the put would not be exercised and the seller would profit by \$5 per share and the buyer would lose his \$5 per share.

As can be seen, stock options can be used to protect against loss or as an investment opportunity in their own right. They are generally used as part of a trading strategy, which combines the purchase of stock with the purchase of options.

For example, in a bull (rising) market you could buy stocks and call options and sell put options. This allows you to take full advantage of rising stock prices ñ the stocks you buy will rise in value, the call options will allow you to buy stock at less than market prices, and if the market dips and the buyer of your put option exercises it, you can pick up additional stocks at low prices. If the buyer does not exercise the option, you make money from the sale of the option.

Conversely, in a bear market, you can sell stocks, sell calls, and buy puts to limit losses and generate profits. Unstable markets can use a mixture of puts and calls to maximize profit potential.

Options are traded on Futures and Options Exchanges. There are 6 such exchanges in the United States including the American Stock Exchange (AMEX) and the Chicago Board Options Exchange (CBOE). In Europe the main options exchanges are Euronext.liffe and Eurex.

Getting Started

Anyone with money to invest can buy and sell stocks. Stock trading has its own specialized vocabulary but once you have the basics under your belt you can understand better how the market works. As with any investment, the more knowledge you have about stock trading the more successful you are likely to be.

Most stock trades are done through a broker: an intermediary who takes orders and executes them. Brokers can also offer advice about which stocks to trade and the condition of the market. These 'full-service' brokers charge a relatively high commission. To cut costs, many people use discount brokers that charge significantly less. You don't get advice, but to some, that is an advantage.

Some of the services commonly offered by brokers include online trading, broker assisted trading and some brokers offer options like Interactive Voice Response System for placing orders by telephone and wireless trading systems for making orders by using web-enabled cellular phones or other handheld devices.

Some brokers have their own proprietary software for placing orders over the Internet while others allow you to access their order department through their website with a password.

Whichever systems they use, almost every broker offers a variety of charting options that allows you to track movements on the stock market. Analysis software may also be included in their service or available for an extra fee.

Types of Orders

There are different types of orders that can be made when buying or selling stocks. A 'market order' is an instruction to buy or sell at the current market price. The order is usually executed very near the price you are quoted at the time of your order. However, if the stock price is fluctuating or is not actively traded there may be a difference between the quote and the actual transaction.

A 'stop order' or 'limit order' can be placed if you expect the stock price to move and wish to buy or sell at a certain price above or below the current market price. A stop order instructs the broker to trade at a certain price, while a limit order is an instruction to trade at a specified price or better.

A stop order helps to limit losses or protect profits. They become effective when the market hits the stop price but may trade above or below the stop price because they are traded at market price after they become active. Limit orders may not be placed at all even if the market reaches the limit price. If the market moves quickly there may not be time to execute your order before the price falls out of the limit price range.

For example: You buy Bell Canada (BCE) at \$50 and then put in a stop order of \$45. If the price of BCE falls to \$45 your stop order will become effective and your stock will sell at market price. Conversely, if you place a limit sell after buying BCE for \$60, when the price rises to that level your stock will be sold at a profit. You could also buy BCE with a limit buy order for \$45. This allows you to (possibly) buy stock at less than current market. If the price does not fall to your limit buy price, however, you will not buy any of that stock.

All orders can be placed as 'good 'til cancelled' (GTC) or as a 'day order.' GTC orders remain in effect until they are cancelled but day orders remain effective only until the end of the current trading day.

Stocks are usually traded in 'round lots' and lots of multiples of 100. It is possible to trade other amounts of stocks, but this kind of trade is called an 'odd lot'. Trading software can handle both types of orders, but odd lot orders are slightly more difficult to fill than round lot orders.

Stock Brokers

Brokers handle most of the buying and selling on the stock market, and the average investor will use a brokerage service to handle his trades. There is a broad range of brokerage services available. There are brokers who offer many services for aiding their clients meet their investment goals. These 'full-service brokers' can give advice about which stocks to buy and sell and often have full research facilities for analyzing market trends and predicting movements.

These perks are not free--full service brokers charge the highest commission rates in the industry. Whether or not you decide to use a full-service broker depends on your level of self-confidence, your knowledge of the stock market and the number of trades you regularly make.

Investors who wish to save on commission fees can use a 'discount broker'. These brokers charge much lower commissions but don't offer advice or analysis. Investors who like to make their own trading decisions and those who make many trades often use discount brokers for their transactions. Some traders may use both types and there is no reason why you can't have two brokers.

The least expensive way to trade stocks is usually with an online brokerage. Both full-service and discount brokers usually offer discounts for orders placed online. Some brokers operate exclusively online and offer even better rates.

No matter what type of broker you choose, you must first open an account. Each broker sets their own requirements for maintaining an account balance but it is usually between \$500 and \$1000. When choosing a broker look at the fine print and find out about the fees involved. Some brokers charge an annual maintenance fee while other charge fees whenever your account balance falls below the minimum.

There are two basic types of brokerage accounts. A 'cash account' offers no credit--when you buy you pay the full amount of the stock price. A 'margin' account, on the other hand, allows you to buy stock 'on margin': the brokerage will carry some of the cost of the stock. The amount of margin varies from broker to broker but the margin must be protected by the value of the client's portfolio. If the portfolio falls below a specified amount the investor will have to add more funds or sell some stock. Margin accounts allow investors to buy more stock with less cash thereby realizing greater gains (and losses). Because they involve more risk than cash accounts, margin accounts are not recommended for inexperienced traders.

Before choosing a particular broker the investor should carefully consider his needs. Does he wish to receive advice about which stocks to buy? Is he uncomfortable making trades on the Internet? If so, he should go with a full-service broker. Technology savvy investors who have the knowledge and confidence to make their own trading decisions are better off with a discount broker.

After deciding which type, compare a few competitors. There can often be significant differences in costs when all the annual fees and brokerage rates are factored in. Try to gauge how many trades you expect to make in a year, how much cash you can deposit into your account, whether you wish to use margin accounts and which services you need. This information will allow you to compare the actual costs of various brokers.

Do You Need A Broker?

The question in the title is misleading. Most individuals have no choice whether to use a broker, since they're not members of an exchange. Those members (their employees, really) are the

only ones who can actually execute a trade and they don't take calls from individual investors.

They're called Floor brokers and they're the one's who actually buy and sell securities on the floor of a securities exchange. You can watch them on TV waving their hands vigorously and yelling at one another.

So the question really should be: "What Kind of Broker Do You Need?"

Prior to 1975, Full-Service brokers were about the only choice. Then the world gave birth to discount brokers and life changed. In the 1990s, it changed again with the beginnings of Internet trading for average investors. Note that trading over networks had already been going on between large investors for decades.

Along with the changes in technology, making trades as easy as a few mouse clicks, came changes in the kind, amount and availability of research. Now any investor could, sometimes for free but rarely for more than a modest fee, get up-to-the-minute information about a company's earnings per share, historical profits and dividends, along with a bewildering array of more technical data.

Those two facts - technology and research - are the basis for deciding what kind of broker you need.

Some are comfortable with executing trades by making those few mouse clicks, others want some human contact - even if nothing more than an efficient-sounding voice - before plunking down a few thousand.

Full-Service brokers, if you find not only the right company, but that special individual, can provide you with more than an efficient-sounding voice. Good brokers, and they do exist, offer their clients sound advice based on good research.

No one can predict with certainty any particular price for any stock five hours from now, nor five years from now. But massive statistical studies are undertaken and research analysts do conduct and study them then pass on their recommendations to brokers.

When those brokers are astute they can make reasonable judgments about the likelihood that long rock-solid Acme, Inc will fold in three months, or that newcomer Whizzard Techno-Babble is about to skyrocket.

If that kind of advice and 'partnering' is worth the commissions you'll pay, then a Full-Service broker is for you - especially if you have neither the time nor the temperament to undertake that research yourself.

Others, with more time or analytical interests - or perhaps, just more chutzpah - may find it not only financially worthwhile, but intellectually and emotionally satisfying to take the reins themselves. This is especially true for short-term traders, day traders even more so.

To these types, research isn't a burden or a bafflement it's an adventure. And the deep discount brokers, or pure Internet trading accounts, are the perfect fit for them. Reports, some free

others available at varying cost, can be had in greater abundance than even they have time or desire to study.

So, along with determining how much money can be saved by using the broker behind Door #1 vs. Door #2, study yourself and decide which kind of trader you are. That's the best way to choose which kind of broker you need.

Choosing the Broker That is Right for You and Your Money

In order to ensure overall positive achievement with stock trading, it is highly important that a stockbroker is chosen to help you achieve your investment goals. A stockbroker is a professional person who acts as an agent to aid investors in the buying and selling of stocks. Basically, a stockbroker acts as your financial counselor, advising you as to which stock to purchase or sell in order to meet your financial goals.

Choosing a stockbroker should not be a chore but rather an adventure to find someone who fits your personality as well as someone who you feel can help you to make the correct investments that fit your needs. Although there is not one set way in which to choose the best broker for you, there are four distinct categories of stockbrokers that will help you in this decision making process.

The Discount/Online Broker

The discount/online broker is basically an order taker, either via the Internet or telephone. When contacted by phone, you will discover that this type of broker is not interested in general conversation, but rather gets right down to business by taking your stock trading orders. This type of broker does not offer any advice about the stock you are interested in purchasing, he or she simply takes your stock order, offering assistance with only the order taking process.

Therefore, you must know exactly what stock you wish to purchase and when to sell it in order to reap the financial benefits of that certain stock. When dealing with this type of broker, since all they do is take your stock order, it is probably easier to simply correspond via the Internet through email to ensure that you have a record of your order to prevent any misunderstandings that could occur. This type of investor/broker interaction is strictly business.

The Discount/Online Broker with Assistance

The discount/online broker with assistance is basically the same as the broker mentioned above with the added bonus of offering the investor some expertise in stock trading. They may also offer to send you their monthly newsletter, which contains information about stock trading that might prove to be helpful. These brokers are not only there to take your stock order, but to provide a limited amount of assistance when you have questions that you would like answered.

The Full Service Broker

The full service broker seeks to meet all the needs of their clients, by first forming a trusting

relationship with them and then, providing honest service about stock trading. This broker takes the time to sit down with you, the investor, to take a detailed financial assessment of your personal situation in order to accurately recommend investment possibilities and stocks that will directly meet your needs. After reviewing your financial assessment, the full service broker will create a custom investment plan for you to review and approve. Once you have reviewed the plan and worked with your full service broker to adjust it, your broker will take that information and complete the investments that you would like to participate in.

Periodically, the full service broker will schedule a meeting with you to discuss the progress of your investment(s) and together you will decide where to go from there. Because the full service broker assists you in the whole investing process, from start to finish, this type of broker is wonderful to use if you are the type of person who would like to invest in stocks, but does not want to put forth the effort to learn more about stock trading.

The Money Manager

The money manager is a broker who handles significant investment portfolios. Therefore, the investor must have a large lump sum to invest in order to work with a money manager broker. Because money managers become the sole individual working with your money, they will invest your money as well as manage your portfolio for a certain percentage of your earnings through your investments. Basically, this broker is taking your money and investing it for you, so, in essence, you have no say as to where your money is invested. The money manager's main goal is profit for themselves because the more money they make for you, the investor, the more money they make for themselves.

Whatever type of broker you choose to use, make sure that they are reliable and not a scam artist waiting to take your money. Make sure that you are totally comfortable with your broker before you invest one dime of your money to ensure that you are not taken advantage of.

Finding the Right Broker for You

All investors have one thing in common. Whether they trade in penny stocks or are long-term value stock investors, they all have to work through brokers. When entering the world of the stock market for the first time, choosing a broker is your initial step and potentially the most important decision you will make. There are many choices in brokers and it is important to understand the key differences in each in order to better make your decision.

Traditionally, full-service brokers were the only type available. They charged high commission fees but also offered a lot of advice and guidance in choosing investments. In 1975, all of that changed and the discount brokers became the reigning champs of the investing world. In the last ten years, the Internet has allowed individual investors to research and investigate potential stocks themselves, and even buy and sell stock. There have been advantages to the advent of the discount broker and online brokerage firm, but for some investors it has led to more mistakes in less time. The key is doing the research and investing wisely.

On one end of the spectrum are the discount and online brokers. These brokerage firms act as order takers for their investors. The investor places an order on the phone or online. The only help offered is with the technical aspects of the website or the ordering process. There is no guidance for what stocks to buy, when to buy or when to sell. Many online brokerage firms offer their members access to stock market research, but this is provided by a third party. The account management tools help you understand how much you have invested and where it is going.

These tools are normally online or downloadable. The discount and online brokers are perfect for people either already familiar with the stock market, or those who do not have much money to invest. They do require that the investor spend time researching and planning investments. If you are interested in research or want to avoid hefty brokerage fees than discount and online brokers may be for you.

The next step in service is a discount or online brokerage with an assistance broker. The assistance broker will offer a marginal amount of help. In online brokerage firms, the assistant broker takes the form of more research available and newsletters with investing tips. There is still a degree of research that needs to be done by the individual investor, but these brokerages at least point their clients in the right direction.

The traditional full service broker provides recommendations for specific stocks that would be good for your portfolio. The broker analyzes your financial situation to determine your needs. They put together an investing plan that is reviewed periodically and adjusted as needed. Full service brokers are an excellent choice for those who don't have the time or the interest in staying on top of the latest financial news.

The full service broker does all the research for you and presents you with the best investments for your situation. Their clients are handled with attention to personal details and goals. This attention does come with hefty commission fees, but considering the amount of work and dedication that full service brokers provide these fees are understandable. Traditional full-service brokers make money based on the amount of transactions they facilitate.

A money manager is one step up from a full-service broker in their level of financial services. Money managers (also called financial advisors) will work with clients to improve their entire financial picture, which may or may not include investing in stocks. Money managers hold stocks and bonds for clients. Each one has his or her own unique style and so it is important that you choose wisely to make sure your money manager has the same financial philosophy that you do.

The money manager will give you personalized service, an individualized portfolio and ongoing management of your finances. Money managers charge flat fees based on services rather than on transactions. A professional money manager does not receive commissions on transactions. They are paid from a percentage of the assets under their management. In that way, they are working for you and themselves at the same time. If your portfolio grows, their commission grows as well.

You the Dummy, and the Stock Market

Ok, so you want to dabble in the stock market. Unfortunately, you don't know how and where to begin. So what do you do?

Well, the first relevant thing to do is ask the basic question of what is a stock and its significance.

A stock symbolizes ownership of a company. Some view stock as certificates. So the more stocks a person owns of a particular company, the more of the company they own. And the more the company they own, the bigger the influence they have in running the company. This is called equity investment.

The next thing to do is familiarize yourself with financial terms such as "price-earnings ratio," "margin," "option," "earnings per share" and "leverage."

Then, it's on to knowing where and how to actually buy stocks.

There are two ways to buy stocks:

1. Brokerage service
2. Online exchanges (e.g. banks)

Exchanges are services that allow investors to access stocks all over the world. Here, they can buy and sell stocks without the need for a broker. Certain banks allow you to set up your own stock portfolio and buy and sell stocks online using the money you have in these banks.

Brokerage services are rendered by brokers. These middlemen do all the work for you. They research the stock market, give advice, and buy and sell stocks according to the wishes of their clients. These brokers earn a commission from the stocks bought or sold.

Once you have chosen how to buy and sell stocks, the next thing to do is to open an account. As stated earlier, exchanges allow you to monitor and control your stock portfolio personally. If you choose to enter the stock trade with a bank, then ask your bank the specifics of setting up your own account.

If you choose to trade stocks via a broker, find a reputable broker and ask them to open and manage an account for you.

After you have successfully set up an account, it's time to study the stock market and plan your strategy: will you be conservative in investing your money? Or will you be aggressive? Are you in it for the long term? Or are you a day trader?

After you have identified your plan, it's time to do some research on the stocks offered in the market. Having a broker will significantly make it easier for you as they will do the research and give you advice. But, it is still best to study the market yourself.

Be warned though, the stock market is volatile. Be prepared for a roller-coaster ride.

The Stock Market System

The stock market system is an avenue for the trading of shares of stock of listed corporations. As a corporation is formed, its initial shareholders are able to acquire shares of stock from the point of subscription when a company is created. When a company starts to be traded to the public, the primary market comes in where those who subscribe to the initial public offering (IPO) takes on the shares of stock sold from point of IPO. When those who bought into a company at IPO point of view decides to sell their shares of stock to other people, they can do so by going to the stock market.

The stock market is a secondary market for securities trading wherein original or secondary holders of a company's shares of stock can sell their stocks to other individuals within the frame work of the stock market system.

The stock market has buyers of stocks or those who wants to own a part of the company but wasn't able to do so during the initial public offerings made by the company to the public when it has decided to list itself as a publicly listed company. The secondary market or the stock market allows other individuals to sell shares of the company when the initial shareholders may have realized that they want to sell their shares after gaining either significant profit or realized significant loss from point of acquiring a company from its IPO price.

As the stock market has developed and progressed over the years, the way shares of stock are transferred from one individual to another has become more complicated and more challenging to be regulated. Technology has aided in providing more efficient ways of transactions. Front and backend solutions are put into place that helps direct the exchange of shares of stock in timely and secure manner.

Public education over how the stock market works is one of the primary concerns of the investing public in order to promote the trading activities of the stock market to other individuals who may also benefit from doing transactions over this secondary type of equities market.

With the abundance of relevant company information on performance of publicly listed companies, this information will help the investors to become more aware of the directions of the companies where they have share of stocks on and this will also aid them in directing their investment strategies.

Indispensable Information In Stock Investing

Stock market investments present one way for an individual to make money even with a minimum investment. However, several items have to be weighed thoroughly before one pursues such an investment.

There are several options a potential investor has to buy stock, or partial ownership in a company. Probably the most popular is the buy-and-hold approach. Under this strategy, an investor simply holds on to shares regardless of stock price. The shares are eventually sold only

after the individual has earned enough to buy a house, secure his/her education, or retire.

One benefit to this strategy is that it entails few transaction charges because of the limited stock activity. Buy-and-hold investors are also able to pay lower capital gains taxes on their investment. Other approaches include short-term trading and direct investment plans

Investors must identify where their target stock is listed and its stock symbol to ease any transaction. Microsoft is listed on the Nasdaq as MSFT, while General Electric and Hewlett-Packard are on the New York Stock Exchange under the symbols GE and HWP respectively. For some non-US companies, UK mobile phone giant Vodafone is listed on the London Stock Exchange as VOD.L, game-maker Nintendo has a Tokyo listing as 7974, and Germany's Siemens AG appears on the Frankfurt market as 723610.F.

First-time market investors will quickly realize how business and economic news influence stock price movement. A sales increase, higher earnings, lawsuits, a management revamp, and a new product or service are among internal factors that can drive share prices. On the other hand, the emergence of new market rivals, a change in government policy and inflation and other economic news are among external factors that can affect stocks.

Today's information technology-driven "new economy" has made it possible for some companies or particular industries to better take advantage of the market than their counterparts. First-time investors would do well to identify these "niche" players and consider their stock. However, such selection should still be backed up by research, particularly on a target company's management structure, expansion plans, product development and financial results.

Since stock market investors buy shares in a company expecting to gain, it is imperative then that they review the financial reports of their target companies to determine earnings growth potential. The Securities and Exchange Commission requires these annual disclosures, which are made on different months, as businesses generally do not cover the same calendar or fiscal year.

Investors should also note that some companies, such as Sears and other retailers, often have higher earnings in quarters immediately following the holidays.

Stock Market 101: Stock Market Crash Course

Stock market is like a market place for businessmen. In a public market, goods are sold to the public. In a stock market however, stocks are sold to the public. Company stocks are sold in the form of shares. The more shares a person buys in a company, the higher his or her stocks are for that particular company.

The stock market consists of the primary market and the secondary market. Primary market is where companies raise finances for their operating expenses by selling shares to investors. The secondary are investors who buy and sell those shares to other investors. Their decisions are constantly based on changing market conditions.

A stock market is like an auction house. It is a systematic method of buying and selling. In a stock market though, it is a common sight to see people shouting and gesturing at one another.

The buying and selling of stocks begins in different places. If a person decides to purchase stocks in a particular company, a broker is contacted. This broker in turn takes the money of the investor and coordinates with a floor broker at the stock exchange. Usually a floor broker works for the broker or with the company selling the stocks.

At the stock exchange, floor brokers purchase the stock that the investor wants. When a deal is consummated, it is made known to a broker and the investor becomes a stockholder of the company.

That investor may decide to sell the stock. This is usually done when the price per share has gone up. This entails profit for the investor. For example, if a person bought 100 shares at \$20.00 per share and the price increased to \$25.00, selling those 100 shares results in \$500.00 profit.

The economic principle of supply and demand is the driving force of the stock market. The number of shares of stocks that are open to the public dictates the supply and the number of shares that investors want affects the demand.

Movement of stocks in a certain market causes the constant changes in the prices of stocks.

For example, if most people believe that the economy is growing, they would buy more stocks. But if the economy is in a downfall, their tendency is to sell their stocks.

Many businessmen choose to make a long-term investment in the stock market. There are instances where stocks decrease in value causing a stockholder to lose money. The stock market does not guarantee profit. The better a person is in reacting to the changes at the stock exchange; the better his chances are for profit.

The Stock Market: A Historical Perspective

Perhaps one of the most commonly known investments (and most successful for that matter) in which people participate on a regular basis is stock trading. Stock trading empowers people to meet the financial standards and objectives so that the maximum amount of profit can be achieved. Therefore, it is imperative to have a working knowledge of the stock market and stocks so that you are able to see how they work together to better enhance your investment future.

When individuals think of the stock market, usually they immediately associate it with Wall Street, which is the place where the world's largest financial market was invented and, has since prospered. Amazingly enough, the name Wall Street can be traced back to 1653 when it was set up as a defense mechanism against the Native Americans by settlers of Dutch descent. Little did the people know that the 12-foot stock fence was later to become the world's largest

financial establishment for stock trading. The fence lasted until 1685, when it was torn down so that a street could be built in which the British named Wall Street.

Located in Philadelphia, in 1790, a group of 24 merchants were intrigued by the financial transactions that were taking place on Wall Street, so they met to discuss the possibility of establishing a similar entity in their very own city. Because things were not going so well in New York, where Wall Street is presently located, representatives were sent to Philadelphia to observe the happenings. The New York representatives must have learned quite a bit because they returned to Wall Street and reorganized it, thus, opening a "new" Wall Street that functioned even better than before!

As is well known, the stock market experienced prosperity during the 1800's however, during the 1900's; it took a turn for the worst. In 1929, the stock market crashed meaning that people, who had invested millions of dollars, lost every single dollar! People were in great despair which resulted in suicides as well as plummeting the nation into the Great Depression, a time of financial despair where all people suffered hunger, homelessness, and hopelessness.

Because of United States becoming involved in World War II, however, the nation's economy began to repair itself, therefore, ending the Great Depression and allowing the stock market to recover. The stock market began again on its road to prosperity and continued in this direction until 1987, when another crash occurred. The stock market crash of the 1980's was not as detrimental as the one in 1929; however, people still lost millions of invested dollars. In fact, the day of the 1987 crash was the largest single-loss day in the whole history of the stock market!

The 1987 stock market crash prompted the United States government to prepare the nation in the event that a crash like the Great Depression happened once again. The government worked to pass rules in regulations that would help to protect all investors who put their money as well as their faith into the New York Stock Exchange. It is important for the government to become involved in order to provide the investors some protection because in New York City alone, 2.2 trillion dollars in transactions ensue each and every day!

With such a great amount of dollars in the stock exchange, logically, this is the best investment to pursue in order to establish a sound future for you and your family. As history tells, at the beginning of Wall Street, there was great risk involved with investing money; however, as time went on, people began to get more comfortable with Wall Street as they invested more and more of their hard earned money. As more investments were obtained by Wall Street, the stronger the stock market became, thus, when the 1987 crash occurred, it did not affect the economy as well as the nation as harshly as during the Great Depression.

This should ease your mind about investing your money into stocks through Wall Street. Yes, there is a degree of risk involved, as with any investment, however, it seems most logical to invest your money into an entity that is the largest financial institution in the world! The more educated you become about the stock market and how it operates the more you will learn that the stock market is the way to go with investing.

The Stock Market Crash of 1987

The stock market crash of 1987 is the largest crash in recent United States History. Although there was a minor crash at the turn of the 21st century, it was nothing in comparison to the end of the 1980s. In fact, the 1987 crash is the worst single day in American financial history. There was a 22% loss in the market on October 19, 1987 or Black Monday. That is almost double the 12% loss experienced by investors in 1929 on Black Tuesday.

The 1980s, similar to the roaring 20s, was characterized by a period of financial growth and excess in the United States. The psychology of the time was “spend, spend, spend” and rampant consumerism drove the national economy and stock market to record highs.

1986 and 1987 were record years for the stock market. The bull market that started in the summer of 1982 was being carried through to create record markets 5 years later. The market was being primarily powered by hostile takeovers, leveraged buyouts and what seemed to be merger fever. The most important thing for many companies was to raise capital in order to buy other companies. It was thought that companies would grow exponentially by purchasing other companies. In leveraged buyouts, a company would raise capital by selling junk bonds to the public. Junk bonds are bonds that have a high-risk rate, and therefore a high interest rate. The capital from selling the junk bonds was used toward the purchase of another company.

Another common phenomenon was the use of IPOs. An IPO, or Initial Public Offering, is when a company issues stocks for the first time. The burgeoning computer industry was created with many IPOs in the market and people were investing in personal computers because they saw potential for great profit.

This created an inflated market with lots of stock at low and reasonable prices available for purchase. Even the most timid investor was tempted to get involved in the market.

Unfortunately, the bull market also created an opportunity for many scam IPOs and conglomerates to take advantage of uninformed investors. The SEC had its hands busy trying to keep up with the shady companies. In early 1987, the SEC began investigating illegal insider trading. This created wariness in investors and slowed the market. There was also a fear of inflation due to the strong economic growth that occurred in the previous five years. To compensate, the FED raised short-term interest rates to prevent inflation. This effected stocks negatively as well.

Many large firms began using portfolio insurance as a way to protect against further stock dips. This practice uses futures contracts as an insurance policy on a stock portfolio. If the market crashed, people with futures contracts could profit and stabilize the market by offsetting the losses in stocks.

The use of portfolio insurance worried many common stockholders. They saw it as a sign of an impending market crash. Many experts believe that the common perception during the time was that the market was beginning to resemble the 1929 market. This caused panic, and led people to sell their stocks immediately.

The fear became a self-fulfilling prophecy and as thousands tried to sell simultaneously on October 19, 1987, the market crashed because there simply weren't any buyers. Within that day over 500 billion dollars left the Dow Jones index. The effect of the US crash affected every country around the world producing a global market crash.

Many people lost millions in a matter of minutes. Most investors didn't even know why they were selling; they just heard that everyone else was selling and followed suit. Most futures and stock exchanges were shut down for the day. In some extreme cases, the duress brought on by the loss of massive amounts of money caused some investors to kill their brokers. There were several instances of clients entering brokerage firms and opening fire.

Fortunately, the crash of 1987 did not result in a similar depression. The Federal government stepped in and lowered short-term interest rates to avoid a banking crisis. The market returned to a bull market rather quickly. Companies buying back their undervalued stocks fueled this new prosperity.

The addition of the circuit breakers system is a lasting impact of the 1987 crash. The system prevents stocks from trading if they plummet too quickly. This will prevent any future vertical drops in the market.

The Stock Market: The Basics of Stock Trading

Learning the basic principles of the stock market can be a daunting task when not given the tools in order to properly learn about the stock market. Once you know about the vast amount of tools available to you, the lay investor, and the less pressure you will feel as you embark on the stock-trading journey.

As an investor, you must analyze the essentials of investing in stocks by examining the following questions that determine the fundamentals of any given stock for a certain company.

- How much have other investors paid for one stock?
- How much are investors likely to pay for one stock in the future?
- What details will change the investors' perspective about the stock?

Through proper inquiry of these questions, you, the investor, will have the tools to make an educated decision about the stock you are planning to purchase.

As an investor, be prepared to rank the return expectations on the stocks that you are planning to buy. For example, if you are planning on buying three different stocks from three different companies, you must estimate how much money you feel that you would earn from each. After you have your estimation, you need to determine if it is logical to purchase these stocks. Pending that you will earn at least 20% more than you invested, it is probably a good investment, therefore, you should consider buying stock in that company.

Once you have efficiently analyzed all of the stock options that interest you, it is time to choose the stocks that best meet your needs for a secure financial future. This is most easily done by

keeping a running record of each stock that you feel is a good, risk-free investment. Then, when you are ready to invest, you will have notes to compare in order to decide what option is best for your situation at that time.

Now that you have purchased some stocks that you feel will help to advance your financial future, you need to learn about stock trading. If you feel that your stock is not exactly producing the return you had hoped for, then you may want to consider trading in your stock. Stock trading is great because if you purchase a stock that you are dissatisfied with, then you may want to consider trading it for a stock that you will be more satisfying to your financial needs. In order to simplify the explanation of stock trading, it is simply trading in your current stock for another stock that will produce a higher return rate.

There are two ways in which stock trading can occur. The first method is on the exchange floor, which constitutes images of movies and television portraying how the stock market works with thousands of people rushing around and yelling in an environment of total chaos. Although the chaos occurs, at the end of the day, all trading options are worked out and the employees must get ready for the next day.

More simplistically, what takes place is you want to buy 100 shares from Company X so your broker, the person who makes your stock purchases for you, sends your order to their floor clerk, the person that processes your stock order, on Wall Street. The floor clerk communicates with one of Company X's floor clerks to determine who would like to sell 100 shares of Company X.

Once determined, Company X's floor clerk and the floor clerk of the person wanting to sell 100 shares to you set a price for the shares. This price is communicated back to your broker who finally notifies you with the final price for 100 shares of Company X. Once you tell your broker that the final price is acceptable, the shares of Company X will be purchased and you will receive confirmation in the mail in about two weeks.

The second method is much less complicated because it is done electronically through computer systems, which are much faster as well as more efficient. The buyer must still obtain a broker because the public does not have access to Wall Street's investment programs, however, once purchased, the buyer usually receives instant confirmation of bought shares via email and the transaction is complete.

No matter how you intend to purchase shares of any particular company, the most important task you, as an investor has, is choosing the right stock that will fulfill your future financial goals.

The Basics of Stock Trading

When someone uses the word "trade" in regard to stocks, they are referring to the act of buying or selling stocks. There are two main methods that stocks are traded: through the Internet or on the exchange floor.

The New York Stock Exchange (or NYSE) is a person-based stock trading system. The NYSE does handle a small percentage of its trading electronically, but the vast majority of trading is done on the stock exchange floor. The stock exchange floor is the most common image in people's minds when they think of trading stocks. Within the chaos of hundreds of traders shouting and making gestures, shares are being traded. The process starts when the customer tells their broker to buy 50 shares of Company X at market. The broker then sends the order to a clerk located on the exchange floor.

The clerk finds a trader on the floor and informs them of the order. This trader then finds another trader who is willing to sell 50 shares of Company X stock. All traders on the floor are highly trained and know who is representing which brokerage firm and what stocks are available for trade. Next, the two floor traders agree on a price for the 50 shares and complete the transaction. The floor clerk is informed, who in turn informs the broker of the trade. The broker calls the customer back and discloses the final price. In a few days, the customer gets a confirmation by mail of the transaction. The actual time of the stock trade can take only a few minutes.

While this is a relatively simple process for a single trade, the practice can get a bit more complicated. There are more complex trades that take place on the stock market floor involving larger blocks of stocks. The fact that the New York Stock Exchange market handles one billion shares of trading every day is a marvel of modern times.

While the New York Stock Exchange is a person-based system, the NASDAQ stock exchange is handled entirely electronically. The NASDAQ system uses large computer networks to handle the process of matching buyers and sellers. This is in contrast to the NYSE's process of using live brokers. The advantage of the NASDAQ is that the system is efficient and fast. Large institutional traders, like mutual funds and pension funds, prefer trading with the computerized NASDAQ system.

When an individual investor uses the NASDAQ system, they get almost instant confirmations on all trades. Some prefer this method because it puts the investor in more control of the investing removing the middleman and bringing them a step closer to the market. With NASDAQ there is no need for the floor clerk or floor trader, the computer system handles these tasks. With NASDAQ, however, there is still a need for a broker. Investors do not have access to the exchange market. The broker accesses the electronic network and arranges the trading. They login to the market to find the buyer or seller depending on the customer's order.

With online investing, there are a variety of buy and sell orders that the individual investor can take advantage of in order to gain more control over the process. The most basic orders are market orders, limit orders and stop loss orders.

A market order is the simplest of these orders. It instructs the broker to buy or sell the stock at the market price. These are the most inexpensive orders since there aren't many brokerage fees for market orders.

Limit orders are used to direct the broker to trade a stock at a particular price. The transaction will not be carried out until the requested stock reaches that price. The benefit of using limit orders is that they allow the investor to control their entry to and exit from the market. The

one drawback is that limit orders may have much higher brokerage fees than market orders. An investor may be better off watching the market and placing a market order when their stock reaches the desired price.

Stop loss orders live up to their names. They stop further losses from occurring on stocks that are declining in price. A stop loss order establishes a price trigger. At the point that a stock reaches that price trigger, the brokerage will sell the stock. A stop loss order can be seen as a form of insurance to protect the investor from big drops in stock.

Stock Market History

The stock market system is almost as old as the United States itself. The system dates back more than 200 years to colonial times. The colonial government used a system of bonds and government notes in order to finance the war. These government bonds were sold to the colonials with a promise that the government would pay them back at a later date with a profit. At the same time, private banks began to use a similar system.

The banking industry began to raise money by selling stocks (or shares) of the bank in order to raise money for the bank. The new system began being used by the rich to become even richer. By 1792, there were many banks and companies involved in trading stocks. In this year, there was a meeting between twenty-four large merchants in the New York area. These merchants agreed to meet daily on Wall Street to trade stocks and bonds from banks, companies and the government. This meeting created a market that came to be called the New York Stock Exchange.

The Industrial Revolution (lasting from approximately 1750 to 1900 in the United States and United Kingdom) also played a role in helping the stock market develop. New forms of investing began to emerge. The most common new method was the re-selling of stock to others who wanted to own part of a company. This marked the beginning of a secondary market, which was the speculator's market. In the speculator's market, a speculator would purchase large amounts of stock in a company that was predicted to grow large. Once the company grew and the stock was in demand, the speculator would sell the stock for much, much more than he paid for it. This created a more volatile stock market, which ran on highly subjective speculation of growth, rather than a company's actual growth.

The NYSE represented a more stable market in contrast to the speculator's market. This market only traded with well-established companies and acted as a safer place for unsure investors to place their money.

By the mid-1800s, the United States was growing rapidly and expanding into the seemingly endless West. Many companies required funds to grow and meet the new demands of the quickly developing nation. They realized that many investors would be interested in owning parts of the company and buying stock. Since history had already proven that stocks facilitated the growth of companies, many companies in the 1800s made their stocks public. The result was rapid growth in wealth for these companies that helped fund the expansion into the West.

By the turn of the 20th century, there was millions of dollars worth of stock traded in the stock market. The stock market thrived and experienced a major boom (or bull market) throughout the 1920s until the fateful stock market crash of 1929. On Black Tuesday, October 29th, 1929 the NYSE experienced a record 12 percent loss. By the end of the following month, investors lost \$100 billion in assets. It marked the end of a bull market and the start of the Great Depression. The market eventually bottomed out in July of 1932.

In 1934, the government decided that regulations on the stock market were necessary in order to protect investors. In this year, Congress passed the Securities and Exchange Acts. This act formed a government body called the Securities and Exchange Commission (SEC), which regulates the American stock market trading. It oversees the companies that issue stock shares for investors and in turn, oversees those who invest and provides companies with relevant information about the potential investors. The SEC also manages the daily actions of the stock market and exchanges.

With these regulations, the stock market and NYSE changed from being a hobby of the rich. The rules and protection made it possible for the average person to make safer investments. More people began to see the value of stocks, in comparison to traditional investments such as land or houses.

For years, the NYSE was the largest and most stable stock market in the United States. Today, there are several markets, such as the American Stock Exchange (AMEX) and NASDAQ, which contribute to the national and global economy.

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