

**If you're thinking
about investing on line,
read this first.**

**The
A B C's
of On-Line
Investing**





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If you're thinking about investing on line, read this first.

Today, you can buy almost any kind of stock, bond, or mutual fund on line; there are hundreds of firms with millions of accounts.

Investing on line **can be** convenient, and on-line commissions **can be** lower than commissions you would pay a stockbroker, but be careful.

In traditional securities trading, investors use different kinds of stockbrokers. That's because investors who are aware of their own needs and investing goals seek certain services, fees, and styles of stockbrokers.

As an on-line investor, you'll seek the same things.

Know your investing needs, and make sure the on-line firm you select meets your needs.

The Oregon Division of Finance and Corporate Securities, Investor Information Program, hopes you'll read this **before** you invest on line.



The ABC's of On-Line Investing

ACCESS

The Internet isn't always available. Faulty servers, bad Internet connections, busy phone lines, natural disasters, peak-hour overload — all can get between you and your on-line firm. Find out from the firm how it will ensure access to your account in the event of phone or Web outages. Remember that your click of the mouse represents a **request to execute a trade**. You are **not** directly connected to the stock market. All trades will be executed by your on-line firm's brokers/dealers, presumably as quickly as possible.

BEWARE

Don't proceed without enough information to make you feel comfortable about investing. **Don't** rely on hunches, tips, or "chat-room" gossip. **Do** conduct your own research. **Do** read national financial publications that evaluate on-line brokers, and **do** visit sites on the Web. (See WEB SITES, Page 8.) Take your time: **Don't** be pressured into a hasty decision that you'll regret.

COMMISSIONS

Commissions vary according to what firm you select, what stocks you trade, how often you trade, and whether or not "limit" or "stop" orders are involved. (See LIMIT ORDERS, Page 5.)

CONFIRMATION

Be certain that you understand your firm's method of confirmation that a trade has been executed. You could lose a lot of money duplicating orders that you think have not been processed. Confirmation that a trade has been executed can take as long as, or longer than, it took for you to request a trade.

CUSTOMER SERVICE

Before you select a firm, make sure it has an adequate method of dealing with customer complaints or inquiries. Some of the most common complaints about on-line firms are rude customer service representatives and lack of response to customer inquiries or complaints.



DAY TRADING

On-line trading differs from day trading. A typical on-line trader may make 8-10 trades a year and uses technology to execute a traditional kind of investment strategy. A day trader trades all day long, attempting to make tiny profits on many trades, then zeroes out his or her account.

DIVERSIFICATION

Many on-line investors deal primarily in stocks. Don't forget about the importance of **balancing** your portfolio with stocks, bonds, and cash.

EXPERIENCE

The biggest difference between trading on line and dealing with a stockbroker is that on line **you** are responsible for answering your own questions. Inexperienced investors may want to start with a stockbroker.

FEES

Discount firms offer a variety of services and charge many types of fees, including annual, maintenance, account closing, inactivity, and other fees. Write to firms you're interested in and request an up-to-date fee and commission schedule before you open an account. (Some firms will pay **you** to open an account with a minimum balance.)

FILING COMPLAINTS

If you have a complaint against your on-line firm, promptly file a written (not e-mail) complaint with the broker. Include details of the transaction and copies of pertinent documents. If there is no response within two weeks, write another letter. Send a copy of the complaint to the National Association of Securities Dealers (NASDR) and to Oregon DFCS. The address for NASDR's nearest office is Two Union Square, 601 Union St., Suite 1616, Seattle, WA 98101-2327. DFCS' address is on Page 8. If your complaint is not satisfactorily resolved, your next step may be requesting mediation (non-binding) or arbitration (binding).

HARDWARE/SOFTWARE

There are a couple of considerations: one is whether your personal computer and its software (browsers and WEBTV, for instance) are compatible with the firm's; the other is whether the firm's system is adequate to handle sometimes-huge increases in numbers of clients. On-line firms have intentionally restricted the number of individuals able to transmit orders at any given time to prevent overloading their systems. And although firms advertise 24-hour-a-day Internet access, some firms at this stage of on-line investing may not have systems capable of handling the load imposed on them.

LAWYERS

If you have filed a complaint against your on-line firm, and it gets to the level of arbitration, you'll want a lawyer experienced in securities cases. (See WEB SITES, Page 8.)

LEVEL OF TRADING

How many trades you expect to make in a day, a week, or a month can help you decide what commissions you're willing to pay. Some firms offer price incentives for "active" trading patterns; while this may benefit the firm by bringing in more commissions, it may not be to your advantage as an investor.



LIMIT ORDERS

Because the price of your stock may move up or down before your trade is executed, a limit order can protect you. A limit order instructs your brokerage to execute your trade only at the price you specify. For instance, if you made a decision to buy a stock you liked at \$9 a share, and instructed your on-line firm to buy 100 shares, and the price had gone up to \$20 a share by the time the purchase was executed, you could have saved a lot of money by having had a limit order in place at \$10 a share. Be aware that most firms charge higher commissions for limit orders.

MARGIN ACCOUNTS

Brokers can open a margin account for you, allowing you to borrow against the market value of your portfolio, so that you can purchase securities on a non-cash basis. "Margin" means that you are borrowing money from the firm to buy stocks. In addition to the risks of the market, you will be charged interest on the money the broker loaned you. If prices — and the value of your stocks — fall, there may be a "margin call," in which your broker can sell your stock to repay your loan. The broker may contact you first to ask for more collateral — but he or she isn't required to.



MEDIATION and ARBITRATION

To open accounts, customers pledge to resolve disputes through mediation or arbitration in lieu of the court system. Neither mediation nor arbitration is free; mediation is non-binding and less expensive. Arbitration is binding, meaning that the parties in the case must accept the arbitrator's ruling, with limited appeal options.

MINIMUMS

Most brokers require a minimum deposit to open an account, and a few charge if your account balance falls below a minimum. Minimums range from nothing to \$15,000 — and some firms require that you hold other assets as well.

PROFIT

Many investors don't make a profit. Start small and **don't invest more than you can afford to lose**. Not surprisingly, those who do thorough research are most likely to profit. Don't fall for the "easy wealth" concept promoted by some advertisers of on-line investment firms.

QUOTES

Know whether the stock quotes you get from your firm are delayed or real-time and when your account information was last updated. Some firms charge a monthly fee for real-time quotes, some offer 100 free quotes per trade, and some may not offer real-time quotes.

RESEARCH

Some firms offer free basic research, such as capsule financial reports and summary earnings estimates. Some offer no research, and others charge for it.

SPEED of TRADING

You can **usually** access your account on the Internet, but orders won't be **executed** until the market is open or until the firm executes your trade. It may be minutes or hours — and prices will probably have changed by the time your trade is executed.

STOP-LOSS ORDERS

A “stop-loss” order or “stop” order sets a sell price for a broker. When the stock's price drops below the stop-loss level, the stock is automatically sold, thus preventing the investor from further loss. There is a fee for stop-loss orders.

TOO-QUICK CLICKS

Double-check before you click so you don't buy the wrong stock. Clicking the mouse is easy — making sound investing decisions is not.

VERIFICATION

Verify the registration, licensing, and disciplinary history of on-line brokerage firms with the Oregon Division of Finance and Corporate Securities, Securities Section, (503) 378-4387.






WEB SITES

These are a few of the Web sites you may need:

- ◆ For help finding a securities lawyer:
www.abanet.org (American Bar Association)
or www.martindale-hubbell.com
- ◆ To find an arbitrator: piaba@piaba.org (Public Investors Arbitration Bar Association)
- ◆ To file an on-line complaint or find a mediator: www.nasdr.com (National Association of Securities Dealers)
- ◆ To access lists of state regulators and investor information: www.nasaa.org (North American Securities Administrators Association)
- ◆ To find out about on-line investment scams: www.sec.gov/consumer/cyberfr.htm (Securities and Exchange Commission)
- ◆ To contact Oregon Division of Finance and Corporate Securities: www.oregondfcs.org
- ◆ To read ratings and customer comments about on-line brokers:
www.astro.utoronto.ca/~philf/discount.html

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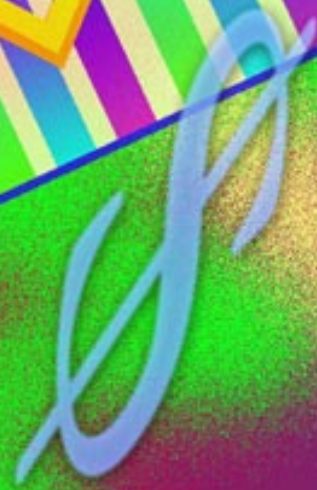


350 Winter St. NE, Room 410
Salem OR 97301-3881
Phone: (503) 378-4387
Web address: www.oregondfcs.org



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The central graphic features the official seal of the State of Oregon, which includes the text "STATE OF OREGON" and "1859". To the right of the seal is a bar chart with seven vertical bars in shades of blue, green, and purple. A thick yellow line graph is overlaid on the bars, showing an overall upward trend with some fluctuations. The entire graphic is tilted slightly to the right.



\$40