Module 1 Article

How To Buy & Sell Stocks

Key Terms

- **Spread**: In trading, the “spread” is the difference between the highest bid and the lowest ask for a stock.
- **Broker**: A broker is an intermediary between an investor and the market. Brokers receive a commission from competing trades.
- **Buying On Margin**: Essentially like getting a loan; investors “buy on margin” when they use borrowed money to purchase stocks.
- **Pink Sheet Stocks**: Also known as “penny stocks”, these are very small companies that trade under a low threshold of $5 and can be quite risky.

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The “stock market” consists of multiple exchanges, which are electronic marketplaces that connect people looking to buy shares with those looking to sell. Nasdaq and the NYSE are two widely known exchanges.

On an exchange, potential buyers place a bid on a stock, which represents the amount they are willing to pay. Sellers set an ask price, which represents the amount they are willing to sell for. A trade occurs when a bid and ask are matched, and the stock trades hands.

So, how do you actually get started investing?

1. Do Your Research

Buying stocks at random or with minimal thought is the best way to lose all your money. Start with your “circle of competence”, which includes sectors you are generally knowledgeable about.

Don’t dive right into biotechnology investing (which is extremely volatile) if you’re a car fanatic at heart; stick with what you know. Make a list of a few companies, and further your understanding by reading their annual reports.

Don’t be daunted by the high page count; the “business”, “risk” and “management’s discussion & analysis” sections are the most important, while the rest can be skimmed. You should also look into earnings call transcripts and news headlines to keep afloat of your investments’ performance.

2. Don’t (or Do) Be Stingy

Depending on how much money you have to invest, and how many positions you want to hold, determine the number of shares you want to buy in each company on your vetted list. Another somewhat new option is to purchase fractions of shares.

This is especially valuable for investors that want more expensive stocks in their portfolio but don’t have thousands to shell out on them; you can use whatever you have to buy a corresponding portion of a share.

3. Choose Wisely
There are a couple different ways to actually purchase a stock. The two most common are market and limit orders. A market order is an order that buys or sells a stock immediately. The price at which the order is fulfilled is not guaranteed, but usually falls around the bid or ask price for buy and sell orders respectively.

Market orders are privy to the normal daily price fluctuations that occur in markets, and therefore are best for investors that are looking to buy and hold for growth overtime. A limit order is an order that buys or sells a stock at a predetermined price.

If a stock seems overvalued at the time you're looking to buy it, you could place a limit order at a lower price, which will be automatically executed if/when the stock hits that price. The same procedure holds for selling with limit orders. Limit orders can help investors take advantage of volatility in smaller, riskier stocks, but can also have higher fees.