



## Chapter 3

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# Investment Information and Securities Transactions



# On-Line Investing

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- On-line tools include
  - Financial planning calculators
  - Stock-screening programs
  - Charting
- On-line buying and selling
  - Convenient
  - Relatively simple
  - Inexpensive
  - fast



# Types of Investment Information

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- **Descriptive**

- factual data on the past behavior of the economy, the market, the industry, the company, or a given investment vehicle.

- **Analytical**

- available current data in conjunction with projections and recommendations about potential investment.



# Types of Investment Information

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- **Economic** (and current events)
  - data related to economic, political, and social trends.
- **Industry & company**
  - relates to specific industries and companies
  - most relevant to stock, bond, or derivative investments.



# Types of Investment Information

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- **Alternative investment vehicles**
  - data on real property investments and other non-traditional investments.
- **Price information**
  - current price quotes and volume info
- **Personal investment strategies**
  - Educational and advisory recommendations on investment strategies and trends



# Sources of Economic and Current Event Information

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- Financial Journals and Newspapers
  - WSJ, Barron's, Investor's Daily, USA Today, local newspapers and special financial
- Institutional News
- Business Periodicals
  - Newsweek, Time, and US News & World Report.
- Government Publications
  - Federal Reserve Bulletin
  - Shareholder Reports / Regulatory Filings
- Special Subscription Services
  - Brokerage Offices
  - Newsletters



# Averages and Indexes

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- Allow investors to
  - Gauge general market conditions
  - Compare portfolio performance to market portfolio
  - Study market cycles, trends, and behaviors
- **Average**
  - arithmetic average price behavior of a representative group of stocks at a given point in time.
- **Index**
  - measures current price behavior relative to a base value set at an earlier time.



# Dow Jones Averages

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- Dow Jones prepares five stock averages which appear daily in the Wall Street Journal.
  - Dow Jones Industrial Average (DJIA)
    - 30 high-quality stocks which represent the American economy.
  - Dow Jones Transportation Average (20 stocks)
  - Dow Jones Utilities Average (15 stocks)
  - the Dow Jones 65 Stocks Composite Average
    - includes the 65 stocks of the other three
  - (newest) Dow Jones Global-US Index
    - a market-weighted index.



# Standard and Poor's

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- Standard and Poor's (S&P) publishes six indexes relating the current price of a group of stocks back to 1941-1943.
  - S&P 500
    - a composite of an industrial index (400 stocks),
  - Transportation index (20 stocks),
  - Utility index (40 stocks)
  - Financial index (40 stocks).
  - S&P Midcap 400 index
    - 400 medium-sized companies.
  - Small Cap Index
    - 600 small-sized companies



# S&P vs Dow

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- Many experts prefer S&P indexes to the Dow averages
  - S&P is based on market values as opposed to share prices
  - This may more accurately reflect the price behavior of the market.



# Other Indexes

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- The NYSE, AMEX, and Nasdaq indexes
  - based on activity on the respective exchanges
  - calculated in a manner similar to the S&P indexes.
- Value Line, the Wilshire 5000 Index, Barron's, and the New York Times also publish indexes.



# Bond Market Indicators

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- **Bond Yields**

- Summary measure of total return
- Reported as annual rates of return

- **Bond Indexes**

- Dow Jones Corporate Bond Index
  - 96 bonds (32 industrial; 32 financial; 32 utility/telecom)



# Security Transactions

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- In developing a sound investment program, need to consider
  - procedures required
  - Costs
  - types of orders that can be placed



# Stockbrokers

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- Act as intermediaries between buyers and sellers
- Types of Brokers
  - Full-service broker
    - provides clients with a full array of brokerage services.
  - Discount broker
    - charges low commissions
    - provides little or no research information or investment advice.
  - On-line broker
    - typically a discount broker
    - investors can execute trades electronically on-line through a commercial service or on the Internet.



# Brokerage Accounts

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- **Cash accounts**

- most common

- **Margin accounts**

- Allow investor to borrow funds from the brokerage house to purchase securities.

- **Wrap accounts**

- customers with large portfolios pay a flat annual fee that covers the cost of a money manager's services and the commissions on all trades.



# Transactions

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- **Round lot**
  - 100 shares or multiples thereof
- **Odd lot**
  - less than 100 shares.



# Orders

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- **Market order**

- buy or sell at the best price available

- **Limit order**

- buy at or below a specified price or to sell at or above a specified price.
- Fill or Kill
- Day Order
- Good `til cancelled (GTC)



# Orders

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- Stop Loss
  - Sell/buy a stock when its market price reaches or drops below a specified level
  - Still exposed to risk when markets are closed



# Transaction Costs

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- Used to compensate stockbrokers for their services.
- Commissions vary depending on
  - the investment vehicle
  - type of order.
- Types
  - Fixed (small transactions)
  - Negotiated
    - agreed on by the client and the



# Investor Protection

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- SIPC
  - Account insured up to \$500,000
    - Guarantees securities will be returned (not value)
    - claims for cash are limited to \$100,000
- Some brokerage firms insure customer accounts for amounts in excess of \$500,000.



# Arbitration and Mediation

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- Arbitration and mediation.
  - Arbitration is a formal dispute resolution process in which a customer and a broker present their arguments before a panel, which then decides the case.
  - Mediation is an informal, voluntary dispute resolution process in which a customer and a broker agree to a mediator, who facilitates negotiations between them to resolve a case of disagreement.



# Investment Advisers

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- Provide advice for a fee.
- Wide range of services
  - Newsletters
  - Specific tailored advice
- Registration & reporting required under The Investment Advisers Act of 1940
  - make full disclosure of information about their backgrounds, conflicts of interest, etc.
  - Registration does not guarantee competence



# Investment Clubs

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- A partnership of investors
- Specified organizational structure, operating procedures, and purpose,