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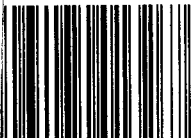
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CliffsNotes™

First-time Investing Online for Canadians

**by Andrew Dagys
and Jill Gilbert**

IN THIS BOOK

- Decide whether online investing is for you
- Research stocks, bonds, and mutual funds online
- Open your online account and make your first online trade
- Monitor your portfolio
- Reinforce what you learn with CliffsNotes Review
- Find more online investing information in CliffsNotes Resource Centre and online at www.cliffsnotes.com

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INTRODUCTION

Online investing takes you to financial markets all over the world with a click of your mouse. It also gives you instant access to the kind of sophisticated research and analysis you could formerly get only if you paid substantial commissions to a full-service broker. Now you can execute your own trades at your convenience — even after Canadian and foreign exchanges have closed for the day — at a big discount.

Why Do You Need This Book?

Can you answer yes to any of these questions?

- Do you need to learn about online investing fast?
- Don't have time to read 500 pages about Canadian online brokerages?
- Do you want to know about the best Canadian and U.S. Web sites for gathering information about stocks, bonds, and mutual funds?
- Do you want to minimize brokerage commissions and transaction costs?

If so, then CliffsNotes *First-time Investing Online for Canadians* is for you!

How to Use This Book

This book is set up so that you can easily find what you need. You can read the book from cover to cover or just check out the information that you need to know now and put it back on the shelf until later. If you want quick and easy access to a particular topic you can:

- Use the index in the back of the book to find what you're looking for.
- Look for your topic in the Table of Contents in the front of the book.
- Flip through the book, looking for your topic in the headings across the top of each page.
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- Look for additional information in the Resource Centre, which offers Web sites and other sources that can give you more information.
- Flip through the book until you find what you want — we organized the book in a logical way.

To help you find important information in the book, look for the following icons in the text:



This icon reminds you of important information, practices, and investing concepts that you shouldn't forget in even the most volatile investment scenario.



This icon points out an investment practice or resource that can improve the profitability of your portfolio.



This icon alerts you to an investment trap or unsound practice that can cost you money.

- Use the index in the back of the book to find what you're looking for.
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CHAPTER 1

SCOPING OUT ONLINE INVESTING

IN THIS CHAPTER

- Looking at online investing and traditional investing
- Thumbing through the different types of investments
- Checking off the equipment you need to get started

Are you ready to take control of your own investments by going online? You can save hundreds or even thousands of dollars in commission costs each year by opening an online brokerage account. You can also enjoy the flexibility and sense of accomplishment you get by managing your own assets.

Online investing, though once perceived by Canadians as fast-paced and risky, is now viewed as the mainstream, economical investing alternative. Even if you have a long-established, comfortable relationship with a trusted broker (who happens to be your brother-in-law), online investing is a trend you should be aware of.

Comparing Online Investing to Traditional Investing

Online investing reduces the money you have to pay a broker to trade securities. Under ideal conditions, you can also react to swings in the market more quickly because you don't have to contact your broker to execute a trade. However, when you take charge of your own investing strategy, you need to start doing your own homework to substitute for the research and advice you get (or are supposed to get) from a broker.

What's different about online investing?

Both online investing and traditional investing are supposed to make you money. You have to decide for yourself whether you profit more from doing your own online research and trading, or from the services of a broker. Table 1-1 helps you compare online investing to traditional investing.

Table 1-1: Comparing Traditional Investing and Online Investing

<i>Traditional Investing</i>	<i>Online Investing</i>
The phone is your key investment tool.	The computer is your key investment tool.
You buy and sell securities by calling your broker, who makes the purchase on your behalf.	You buy and sell securities by using a computer to access the brokerage's Web site.
You pay your broker a commission on each trade.	You pay your brokerage a fee that's normally much less than a full-service broker's fee.
Brokers monitor your portfolio all day long, sometimes calling to inform you of a danger or opportunity.	You monitor your own portfolio by using a variety of online tools and approaches.
Careful research and planning is necessary.	Careful research and planning is necessary.

Evaluating the role of the broker versus the computer

Before you give your broker the boot so you can go online, be sure to evaluate the services you get for the cost of your broker's commission. You may decide that you're getting some benefits from using a broker that you're not ready to let go of — at least not yet!

You may feel more comfortable, for example, relying on the advice of an experienced broker who monitors the market all day (while you're away from your computer doing other things). Your broker usually has the lines of communication needed to assess what other brokers are feeling, and what the current mood of the market is.

Sometimes dealing with a broker is more practical than using a computer. For example, you may like to pick up the phone occasionally to ask a question and talk to the same person each time. Or, if you travel frequently (particularly overseas), you may not always have access to a computer.



Online investing and traditional brokerage services aren't mutually exclusive. If online brokerage Internet service is ever disrupted, you can always contact your traditional broker. Maintaining more than one kind of account gives you continuous access to differing levels of service.



Canadian brokers are overseen and governed by provincial securities bodies such as the Ontario Securities Commission (OSC) or the B.C. Securities Commission (BCSC) to regulate the quality of the advice they give you. Canadian brokers normally have to pass several levels of the Canadian Securities Course to receive a licence. Provincial regulators can discipline brokers who fail to follow securities industry rules and standards when they provide advice to clients. Regulators cannot discipline *you* for failing to properly research your own online investments. By investing online, you assume the responsibility *and* the risk.

Comparing speed

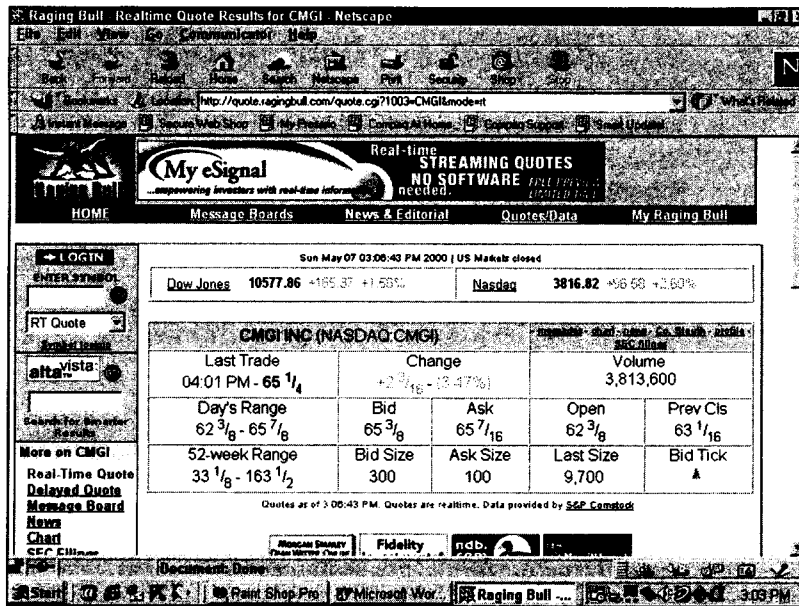
Online investing provides you with a fast communication medium for buying and selling investments and for keeping up with the market. Once you open an account, you can place an order to buy and sell stocks in less than 60 seconds.

Several Web sites also provide you with price quotes to help you optimize the timing of your transactions. Web site quotes are updated at various intervals, depending on the Web site. Intervals range from daily, to every 15 to 20 minutes, or even *real-time* quotes that appear on your screen within seconds of the most recent trade. Most brokerages offer real-time quotes, but some charge you a fee to access them.



The Raging Bull Web site at www.ragingbull.com (shown in Figure 1-1) offers a real bargain for investors who want access to real-time quotes without paying an extra fee. In exchange for providing certain information about yourself and your investment needs, you can receive free access to Raging Bull's real-time quotes. Although no free real-time quote service currently exists for stocks listed on Canadian exchanges, Raging Bull provides real-time quotes for Canadian companies listed on U.S. exchanges. (With free

Figure 1-1: Raging Bull offers free real-time quotes to registered users.



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real-time quote services, you need to weigh the slight loss of privacy against the benefit of having access to the most current quote information.)

Unfortunately, the speed of online investing induces some investors to trade impulsively. Speed can be dangerous for investors who react before researching investment decisions or for those who don't have a grasp of basic investing concepts. (Chapter 2 tells you what you need to know to become more disciplined, and how to prepare yourself before going online.)

Learning investment basics

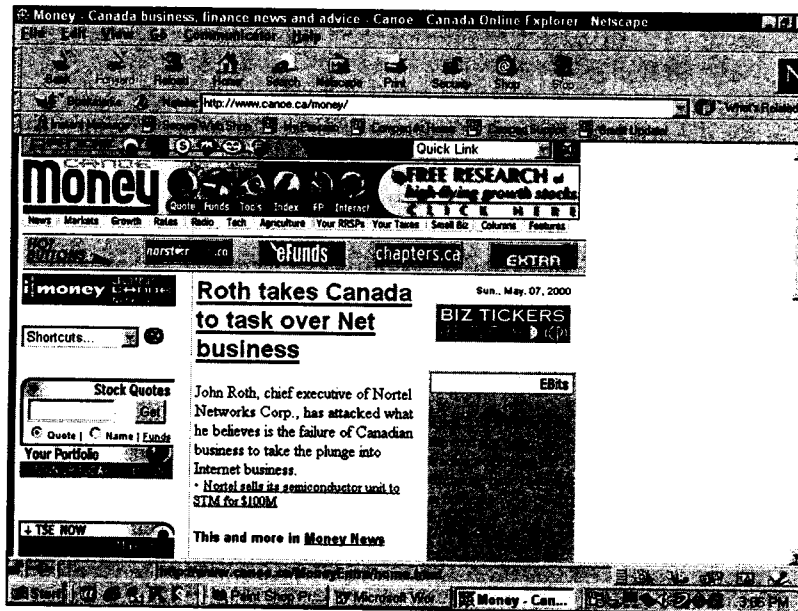
Both online and traditional investing require an understanding of financial markets, products, and basic principles of investing. You can learn how to develop a sound investment strategy from the Canoe Money Web site located at www.canoe.ca/money. Canoe Money has a collection of guides and links to other online resources that deal with investor education, stocks, mutual funds, financial planners, reference material, and risk reduction.

Figure 1-2 shows the Canoe Money home page with links to a variety of investment topics.

Finding out about minimum balances, fees, and costs

Traditionally, brokerage firms have required a fairly substantial minimum balance to open an account — upward of \$1,000. Canadian online brokerage firms tend to be far more flexible about requiring minimum balances. You can generally open online accounts with nominal minimum balances. (Chapter 6 explains how you open an online account.)

Figure 1-2: A Sun Media Web site devoted to educating investors.



Each online brokerage firm in Canada has to disclose all its commissions, fees, and service charges on its Web site. Online brokerage commissions and fees are almost always substantially lower than the costs associated with traditional full-service or discount brokers. However, it's always a good idea to check out the fine print for hidden charges.

Lower online commissions and service fees are due in large part to lower overhead — fewer buildings to maintain and decorate to impress clients, and fewer brokers sitting in them. The competition of having so many brokerage firms posting their fee schedules on the Web also drives down costs. (Chapter 6 tells you more about how to compare fees and services for various online brokers.)

Scrolling Through Online Investment Options

When people think of investing, they usually think of stocks. But one of the basic goals of sound investing is to accumulate a diverse portfolio. Your *portfolio* is your collection of assets, and it should include an array of investments with different levels of risk. Maintaining variety in a portfolio is called *diversification*. (See Chapter 2 for more about the principle of diversification.)

Stocks and the stock market

Buying a stock in a company instantly gives you a stake in its future performance. Generally, the stock of profitable companies appreciates, and you may even get to share in the profits via a dividend distribution. (A dividend is the mechanism by which a portion of company's profits are distributed to shareholders.) You also get to vote for the people who manage the company. You can only buy stock in a *publicly traded company*. A publicly traded company offers stock to members of the public on a stock exchange as opposed to being privately owned (see Chapter 3).



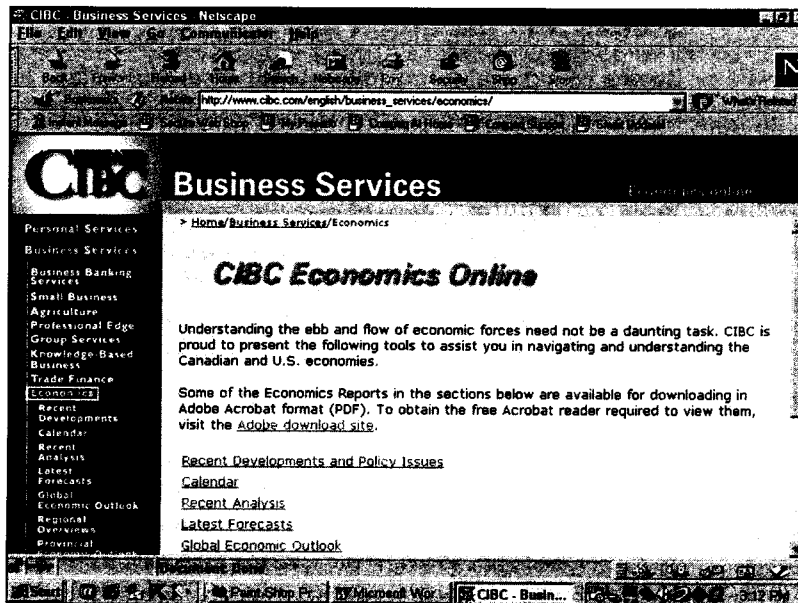
Being online can be a real advantage when it comes to investing in the stock market. You can react to the market more quickly by using brokerage services you can find only on the Web. For example, the E*Trade Canada Web site, located at www.canada.etrade.com, allows you to select the stocks you want to monitor on your screen continuously throughout the day. It will also let you see the changing value of your portfolio in real-time.

Bonds

Having some bonds in your portfolio is a good idea to hedge your bets just in case the stock market ever takes a prolonged

dip. You can't have a diversified portfolio without including some bonds. Bonds are essentially loans you make to government entities or to private companies to be paid back at a pre-determined rate of profit in the form of interest income. Before you actually buy bonds, check out how the overall bond market is doing with CIBC's economics resources at www.cibc.com/products/economics. At this site, shown in Figure 1-3, you can access research and commentary about Canadian and other bonds, interest rates, and the economy.

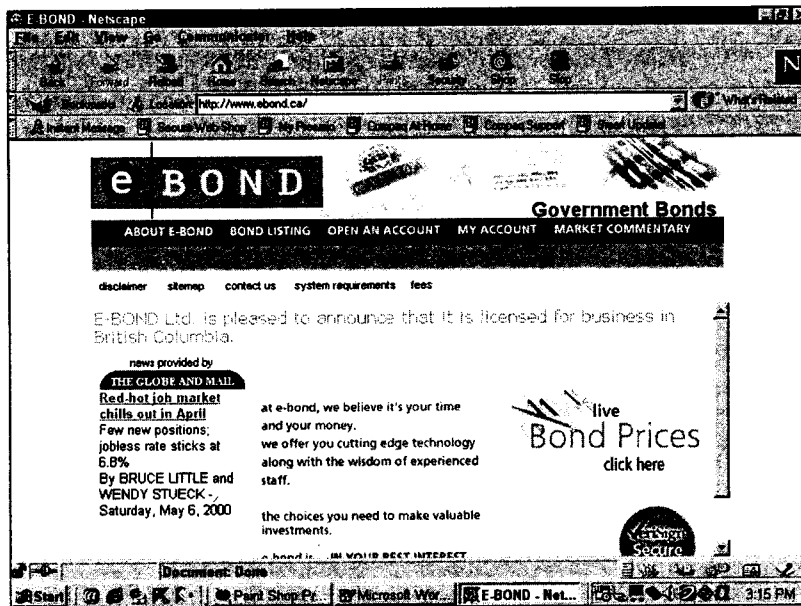
Figure 1-3: CIBC will let you know how the bond market is performing.



Government entities, as well as private companies, issue bonds. The success of your bond investments depends on whether the interest you receive on the bond exceeds the income you may have earned through other types of investments. For example, assume you're receiving 6 percent interest on a bond, while other bond investments are paying 7 percent. Your 6 percent investment is profitable but has a cost to you in terms of lost opportunity.

You can research, select, and purchase bonds online. Check out E-Bond (www.ebond.ca), shown in Figure 1-4. E-Bond is a Canadian and independent online discount bond broker. E-Bond provides most fixed income security buyers/sellers with rates for required terms. You can access live rates, investor news, and your account 24 hours a day. You can trade online or by phone. E-Bond provides overviews of all areas of the bond market, including federal government bonds, provincial and federal zero coupons, and a selection of high-grade corporate debt.

Figure 1-4: E-Bond's Web site allows you to quickly research and compare hundreds of bonds.



Mutual funds

Mutual funds provide you with the benefits of investing in a lot of companies all at once. A mutual fund is an array of stocks, bonds, and even cash managed by an investment company expert on behalf of a group of many investors. Instead



of buying a share in a single company, you purchase a share of the fund. When you buy shares of a mutual fund, you own a portion of its assets along with all the other fund investors.

Hundreds of funds are registered with Canadian regulators. Mutual funds come in all shapes, sizes, and mixes. For example, you can buy shares of an ethical fund (which avoids companies that pollute or flout international labour standards) or a high-tech fund.

A good starting point for mutual fund research is GLOBEfund (www.globefund.com). The site's searchable database allows you to compare hundreds of Canadian mutual funds to each other. (Try asking your broker to do that!) It also lets you calculate fund performance using a measurement called *internal rate of return*, or IRR. IRR can then be compared to a benchmark *stock index* such as the TSE 35. A stock index is a sampling of stocks used to measure the activity and strength of the stock market as a whole. (Chapter 8 shows you how you can use GLOBEfund to help you track your mutual funds.)

Index funds

Index funds are a great way to ride the present-day bull market (refers to a time frame when the markets are steadily rising) without having to do lots of research or put too much effort into diversifying your stock purchases. Expert analysts use special computer programs to construct the index fund and make it available to the public market.

An index fund tracks its stated index — the TSE 300, TSE 35, S&P (Standard & Poor's) 500, NASDAQ or CDNX are examples of indexes — and is expected to provide similar performance results. The fund manager invests in all (or a large percentage) of the stocks that make up that particular index. The idea behind an index fund is that the fund mimics the index by including the same stocks the index analysts have

chosen to represent the market. As the value of the stocks in the index rises or falls, so should your index fund. Because a fund management expense (MER) is charged, an index fund will seldom outperform the index it tracks.

Others

There are several other types of investments that most financial advisors agree don't belong in the portfolio of the beginning investor because of the high degree of risk and volatility associated with them.



Novice and risk-averse investors should avoid the following:

- **Options:** An option contract gives a speculator the right (but not the obligation) to buy or sell a stock at a given price on a future date called the *strike date*. If the stock price moves in the direction the speculator expects, then on the strike date, he or she can either buy the stock for less than the market price or sell it for more than the market price and earn a profit.

But if the stock price doesn't perform as expected, the right to buy or sell the stock becomes worthless (anyone can get a better price on the open market). The speculator loses the investment and receives nothing in return.

- **Commodities:** Speculators bet on the daily price of *commodities* (raw materials or foods such as cotton, gold, or even pork bellies) through contracts called *futures*. Futures contracts *obligate* speculators to buy or sell a specific amount of a commodity for a given price on the strike date. If speculators guess right, then they can buy below or sell above the market price (depending on the type of futures contract) and make money.

If they guess wrong, however, they have to buy the amount of the commodity specified in the contract above the market price or sell that amount below the market price,

possibly losing more than they invested — sometimes *much* more.

- **Hedge funds:** These are unregulated investment funds. Because they're unregulated, fund managers can invest in riskier and more speculative investments — such as options, futures, and derivatives.

Getting Started: A Checklist

Online investing allows you to replace your broker with a new type of investment advisor — your computer. But first you need to take inventory of your hardware and software to make sure you have the following:

- **Enough memory, processing speed, and disk storage space:** Select a computer that has the memory, processing speed, and disk storage space you need to run your financial and portfolio management software. The requirements for a particular software program appear on the Web site for the program or on the box the software comes in if you're purchasing it off the shelf.
- **Modem:** A modem is the hardware device that allows your computer to communicate over standard telephone lines. Most computers come with modems that transmit data at a maximum rate of 56 kbps. A cable modem is recommended if you want to trade actively because it transmits data at very high rates — a crucial attribute if you wish to time your trades.
- **Internet account:** Just as you need to open an account with your local telephone company to access the public telephone lines, you need to open an account with an Internet Service Provider (ISP) to access the Internet. You can usually find dozens of telephone line-based ISPs in your local phone book. A cable Internet connection and

account can be obtained through your cable company, if cable Internet service is available in your area.

- **Web Browser:** Documents on the Internet are written using special languages such as HTML (Hypertext Markup Language) and Java. To read the materials on the Internet, you need to have a special software program on your computer called a *browser*.

Windows-based programs come with the Microsoft Internet Explorer software. You can also download Netscape Communicator 6.0 software from the Internet by going to the Netscape Web site located at www.netscape.com.

- **Personal Finance Software:** This type of software can help you track and analyze your investments more effectively. The most popular and widely used personal finance software is Intuit's Quicken.ca.

If you don't think you're going to want to manage your cheque book and other accounts online, you may want to consider a program that's limited to portfolio management.

You can register to use portfolio management software that's located on a Web site (such as the i|money Web site, at www.imoney.ca), or you can buy and install a program like Quicken Deluxe 2000 (available at www.quicken2000.com) on your own PC. (See Chapter 8 for a detailed discussion of portfolio tracking.)

CHAPTER 2

MAKING THE ONLINE DECISION

IN THIS CHAPTER

- Navigating the thousands of investing Web sites
- Getting comfortable with the basic principles for online investing
- Understanding investment risk
- Doing a self-assessment

One of the secrets of profitable online trading is preparation. Your success depends mostly on what you do before you make a trade. In this chapter, you learn how to wade through financial data at the more than 10,000 Web sites devoted to online investing. You also learn how to apply basic principles of investing to online trading and how to identify factors every investor should consider when analyzing a potential investment.

Navigating Online Investment Web Sites

Even the most basic Internet query can turn up hundreds of online investing Web sites purporting to give you hot tips and insights you can't get elsewhere. Where do you start?

Online investing requires researching and evaluating information on the Web, not just clicking your mouse to make a stock trade. But you certainly can't read all the information that's available online. There's just too much of it.

Here's how to sift through the proliferation of Web sites for nuggets of online investing wisdom:

- **Don't pay for information you can get for free.** Does the Web site ask you to subscribe? Take advantage of trial subscriptions offered by many reputable organizations, such as Lycos' Quote.com site (www.quote.com) to evaluate any subscription you're considering. Determine if the information is already available to you someplace else for free. For example, the inside financial scoop on most Canadian and foreign companies is available for free in their annual reports and filings. This information can be freely accessed at SEDAR (www.sedar.com) for Canadian stocks, or FreeEDGAR (www.freeedgar.com) for U.S. stocks. (SEDAR and FreeEDGAR are discussed in more detail in Chapter 3.) Free delayed stock quotes are available on the Web site of each Canadian and U.S. exchange, including the NASDAQ.
- **Look for relevant information.** Trying to read everything online about an investment isn't a good use of your time. Your goal is to look at relevant information — such as the investment's current price, historical value, past profits, and management capabilities. Concentrate on Canadian investment Web sites, since the information in those sites may be more relevant to your investment needs. (The section titled "Getting the Answers," later in this chapter, tells you what information to research and where to get it.)
- **Look for objective information.** To determine if a Web site is offering objective information, you need to ask a few basic questions. Is the Web site trying to sell you a subscription? Does anyone get a commission from investments they're advising you to look at? Who's paying for site advertising? The presence of the profiteers can be subtle! With so much information on the Web, bypass the promotional stuff in favour of objective information.



- **Take advantage of not-for-profit Web sites.** The advice that analysts offer is interesting, but the most enduring investing principles and strategies are available for free. The National Association of Investors Corporation's www.better-investing.org maintains a Web site devoted solely to educating investors. Organizations such as this offer memberships for free or for a nominal cost and entitle you to use all areas of their Web sites as well as other support services they provide.

Basic Online Investing Principles

You can't help being interested in hearing what the analyst *du jour* has to say about how to make a killing in the stock market. But avoid the impulse to allow a piece of news or an opinion to send you scampering to your computer to buy or sell stocks.



Online investors may occasionally guess right about the movement of a particular stock and succeed in buying low and selling high over a short time period. Bear in mind, however, that the vast majority of investors who try to use the Internet to anticipate the stock market on a day-to-day basis (the *beat-the-market* approach) lose money in the long run. A day-to-day trading approach is also more time-consuming and stressful.

You should, instead, according to the National Association of Investors Corporation (NAIC), focus on using your computer to find investments that you reasonably expect to double in value over a five-year period. The NAIC recommends that you stick to the following four basic online investing principles.



Principle #1: Invest online systematically

Online investing should never be done on impulse. Snap decisions can be a real danger, because after you've established an account, you can buy or sell any stock in less than 60 seconds. And thousands of Web sites offer you hot tips and advise you to purchase something that is currently "undervalued" or "about to take off."

The NAIC recommends that you invest "regular sums of money once a month in common stock" rather than taking the beat-the-market approach. This systematic approach encourages discipline. More importantly, systematic investing increases your odds of making a profit through the benefit of *dollar cost averaging*.

Dollar cost averaging presumes that the market goes up and down over day-to-day and month-to-month periods. But over a period of several years, dollar cost averaging assumes that the trend is upward. The assumption that the market (as a whole, not necessarily stock by stock) is likely to rise in value over longer time periods is borne out by the past performance of the stock market.



If you purchase large amounts of stock in a particular month and the market goes down two months later, you've lost money. (And you've agonized over your big purchase and the stock's subsequent decline.) However, if you systematically purchase a small amount of stock each month, you can actually *benefit* from declines in the market. In the months when stock prices are down, you buy at a lower price, which, barring fundamental problems at the company, is a bargain.

By making a commitment to buy, you don't need to stay glued to your computer screen worrying about when to buy and sell. Instead, you systematically identify good stocks and

make regular purchases each month without worrying about short-term fluctuations.

Principle #2: Diversify your online investments

Fortunes are made and lost on the principle of diversification. Diversification means that you invest in different types of industries and types of investments instead of just one. This principle is especially important in the fast-paced environment of online investing.

Diversification spreads both risk and opportunity. For example, if your technology stocks suddenly take a nose-dive due to outspoken and pessimistic market gurus, you'll be glad you haven't risked everything and chose to diversify your stock portfolio to include manufacturing, retail, and other types of stocks. If the entire stock market is affected, you benefit even further if you've diversified to include bonds in your portfolio as well.

Principle #3: Reinvest your profits

You can accelerate the process of building your wealth without increasing the time and effort you spend online. Reinvesting your dividends, interest, and the profit you derive from selling an investment compounds your earnings. *Compounding* occurs when you earn profits on your profits, and it makes your assets grow exponentially.

Principle #4: Select online investments for long-term growth

Daytrading is a strategy in which investors try to profit from short-term daily fluctuations in the stock market. According to *Canadian Business Magazine*, only 22 percent of daytraders make money over the long term.

Financial experts agree that you should focus on long-term growth potential. You probably see the wisdom in purchasing only those stocks that you believe have the potential to double in value over the next five years.

The problem is that when you're investing online, becoming influenced by temporary market fluctuations as opposed to the long-term growth indicators on which you need to focus is easy. Continuous quotes scrolling across your screen showing your stock going down can make even the most committed investor jittery about staying the course. The next section of this chapter gives you a few tips on how to research the long-term potential of a stock.



Purchasing investments that increase in value and provide capital gains results in certain tax benefits. That's because capital gains are taxed at favourable rates. Capital gains rates are substantially lower than regular tax rates because only two-thirds of a capital gain is taxable. In contrast, if you earn income in the form of interest, that income is taxed in full.

Getting the Answers

As an online investor looking for profits over the long term, you need to ignore much of the day-to-day market activity. You want to bypass trendy Web sites offering so-called *hot tips* and use your feisty computer to do some *real* research!

For a stock or mutual fund, you need to ask whether you can reasonably expect your investment to double in five years, as recommended by many investment experts. For a bond investment, you're looking to strike a balance between high-interest income and the stability and diversification you expect to get from adding bonds to your portfolio. (In Chapter 5, I explain how riskier bonds pay higher interest and how to assess this trade-off.)

The most useful Web sites for evaluating the three major types of investments — stocks, mutual funds, and bonds — are summarized in Table 2-1. I tell you more about what you can expect to find on these Web sites, and how to use them, in Chapters 3 through 5, which deal specifically with each type of investment.

Doing a Self-Assessment

Investment strategies are as different as fingerprints. You need to do a thorough self-assessment to resolve the following issues:

- **How much can you afford to invest?** If you have a lot of credit card or other high-interest debt, your best investment may be to pay it off first. Paying off a credit card with an interest rate of 19 percent gives you an automatic annual 19 percent return on the money you spend toward it.
- **When and how often will you invest?** Weekly, monthly or annually? Investing incrementally and systematically over time (for example, each month) reduces risk attributable to market fluctuations. You'll purchase some investments at market highs and others during a decline. With systematic, smaller investments, you don't have to worry about the day-to-day or month-to-month fluctuations.
- **What are your investment goals?** Industry experts recommend that you seek to double your investments every five years in working toward larger goals such as college savings or retirement.
- **What is your tolerance for risk?** Risk is inherent in all investments. Many investors, when confronted with unanticipated risks, start selling assets in a panic. This reaction compounds their losses. The best approach to assessing your personal risk tolerance is to identify the

**Table 2-1: Best Web Sites for Online Investment Research**

<i>Investment Type</i>	<i>URL</i>	<i>What You Can Find</i>
Stocks	www.marketguide.com	Stock screening software that allows you to screen Canadian and U.S. stocks based on 20–75 factors you select.
Stocks	www.stockhouse.ca	This site provides links to thousands of articles, and a searchable database you can use to research articles on a specific Canadian company.
Stocks	www.sedar.com	You can access almost any Canadian company's annual report for free.
Stocks	www.carlsononline.com	This subscription-based Web site lets you access detailed company information, such as insider trades, analyst reports, industry profiles, performance ratios, and more.
Stocks	www.canada-stockwatch.com	You can get free stock quotes and charts at this Web site.
Mutual Funds	www.fundlibrary.com	You can access detailed profiles of mutual funds, and informative publications covering the basics of mutual fund investing from this not-for-profit site.

continued

Table 2-1: Best Web Sites for Online Investment Research (continued)

<i>Investment Type</i>	<i>URL</i>	<i>What You Can Find</i>
Mutual Funds	www.bellcharts.com	You can use this site's screening tool to find Canadian mutual and segregated funds that meet your specific performance criteria.
Mutual Funds	www.micropal.com	This Web site contains an enormous searchable database of U.S. mutual fund information.
Bonds	www.dbrs.com www.cbrs.com	Both the Dominion Bond Rating and Canada Bond Rating Services maintain Web sites with comprehensive bond rating systems. These resources help you understand how the rating systems work.
Bonds	www.bondcan.ca	This Web site provides overviews of the Canadian bond market, and links to other Web resources on bonds.
Bonds	www.investinginbonds.com	Provides information and checklists for the beginning investor.
Bonds	www.bank-banque-canada.ca	This Web site provides research, rates, and other information on Canada Savings Bonds and Government of Canada T-bills.

direst worst-case scenario you can psychologically and financially handle and not invest in a way that would increase your losses beyond that.

- **What industries and types of investments should you include in your portfolio?** Diversification is an important step toward minimizing risks. It means that you hold as many varieties of investments purchased at as many different times as possible in your portfolio. You should attempt to diversify the types of industries and sectors of the economy in which you invest (see Chapter 3 for a description of 12 economic sectors), the types of securities you purchase (for example, include bonds and mutual funds as well as stocks), and the timing of your investment purchases.

CHAPTER 3

RESEARCHING STOCKS ONLINE

IN THIS CHAPTER

- Screening stocks online
- Preparing your own analysis
- Reading what the online analysts have to say
- Brainstorming with other investors

What will be the next winner — the next JDS Uniphase, Research in Motion, and Nortel Networks of the investment world? Where do the hottest stock tips come from? Newspapers? Magazines? Friends? Family members? It can be any, all, or none of the above sources. Perhaps you're a Lone Ranger when it comes to selecting stocks. Yet, even the Lone Ranger had Tonto to help him out!

The Internet can be very helpful when it's time for you to research stocks. It can be a powerful tool when used properly. This chapter gives you pointers on how to separate the quality stocks from those that are bad, when it's time for you to make an investment decision.

Diversifying Your Portfolio

Diversification is free insurance. It doesn't protect you against every conceivable risk, but experts unanimously agree that your online stock screening criteria should promote a diversified portfolio. A diversified portfolio insures you against market swings affecting one company, industry, or economic sector.



Diversifying according to sector

When you diversify, the value of your entire stock portfolio won't plummet if a single industry in which you own stock is on the skids. To diversify, purchase stocks that represent different components of the economy, called sectors. A *sector* is a category of related industries.



You don't need to buy stocks in every economic sector — just a healthy array of unrelated industries. Most investment advisors agree that you can achieve a well-diversified portfolio by purchasing stocks in about five sectors. If you over-diversify, you run the risk of having the winners in your portfolio cancel out the losers — resulting in a negligible or negative return.

Economists use different criteria for categorizing businesses into sectors. Table 3-1 provides a list of 12 sectors listed on the Market Guide Web site (go to www.marketguide.com and click the What's Hot link) and examples of the industries they represent.

Table 3-1: Twelve Sectors of the North American Economy

Sector	Examples of Types of Industries Included in Sector
Technology	Computers, Software, Internet, Communications Equipment, Wireless
Consumer Cyclical	Appliances, Recreational Products, Furniture, Apparel
Services	Retail, Business Services, Rental and Leasing, Printing and Publishing, Hotels, Waste Management
Energy	Oil, Gas
Capital Goods	Construction, Supplies, and Fixtures

continued

Table 3-1: Twelve Sectors of the North American Economy (continued)

Sector	Examples of Types of Industries Included in Sector
Transportation	Trucking, Railroads, Airline, Air Courier
Utilities	Water, Electric, Natural Gas
Health Care	Biotechnology and Drugs, Medical Facilities, Medical Supplies
Resources	Paper Products, Forestry, Chemicals, Mining, Plastics, Rubber, Gold, and Silver
Financial & Loans	Investment Services, Insurance, Savings
Consumer Non-Cyclical	Livestock, Tobacco, Food Processing, Fish, Livestock, Beverages
Conglomerates	Large diversified companies (such as Seagrams or Hollinger)

Diversifying according to size

Small companies' stock prices tend to be more volatile than those of large companies. Even within the same industry, stocks of companies of different sizes tend to increase and decrease at different times. When large-company stocks are up, small-company stocks may be down, and vice versa.

A company's size is determined by its market capitalization, or *market cap*. Market cap is determined by multiplying the current price per share by the number of shares of the company's outstanding stock.

The three levels of market cap are as follows:

- **Small cap:** Less than \$500 million
- **Mid cap:** \$500 million to \$5 billion
- **Large cap:** Greater than \$5 billion

At least half of your stock portfolio can comprise mid-cap stocks, and the remaining half split equally between small- and large-cap stocks.

Screening Your Stocks

How do successful investors pick a stock? Usually, they identify financial and non-financial criteria for the types of stocks they want to own. They then decide which stocks meet those criteria — and may proceed to buy them. The process of coming up with a list of stocks that meet your personal investment criteria is called *screening*. Online research beats any traditional investing approach cold when it comes to screening stocks. That's because the Internet empowers you with information that used to be reserved for brokers and analysts. Stock screening is one way to get some of the information you need to reach a better investment decision.

Creating a checklist of stock screening criteria

Investing philosophies are as controversial as political views. When it comes to predicting which stocks will double in value over the next five years, two mainstream “parties” exist — *fundamental* and *technical* analysts.

Fundamental analysis includes a calculation and review of several ratios dealing with earnings, leverage, liquidity, and cash flow. It also requires you to consider the economy, industries, markets, competition, management strength, and other “big picture” factors.

Technical analysis is a more detailed approach that involves checking out the behaviour of the security itself. It includes the study of the indexes that measure market performance, such as the TSE 35 or the NASDAQ, which measure high-tech and

other industry performance. Patterns of historical price movements and momentum help technical analysts spot turning points and predict price changes.

Both fundamental and technical analysts rely on screening criteria to identify stocks that fit with their approach. You can screen stocks by using software designed for this purpose, or by using statistical information from a source such as Carlson Online (www.carlsononline.com).

Carlson Online provides many services, including access to Canadian company press releases and research reports on more than 500 Canadian companies. Its subscription service (\$10 per month) also gives you access to data where you can apply stock screening (selecting companies) and ratio analyses (evaluating the selected company's financial strength by applying standard measures of profitability, liquidity, and leverage). You can import financial data to Lotus or Excel spreadsheet programs, for further offline analysis.

For U.S. stocks, check out the *Value Line Investment Survey*, a publication that you can pay to subscribe to at www.valueline.com. You can also use *Value Line* for free at most large Canadian public libraries. *Value Line* contains information on more than 1,800 U.S. and Canadian stocks, and it ranks them according to safety, stability, earnings predictability, and other factors. The *Value Line* rating system is highly regarded by financial experts.

Here are a few of the most widely considered stock screening criteria:

- **Current Price:** The price for which a share of the stock is currently selling.
- **Price Earnings Ratio:** Stock price divided by earnings per share (a low figure may indicate that the company is undervalued).

- **Book Value per Share:** The total amount of shareholders' equity divided by the number of shares of outstanding stock.
- **Current Ratio:** The ratio of current assets divided by current liabilities.
- **Return on Assets:** After-tax income divided by the total amount of assets (a measure of management's effectiveness).
- **Return on Equity:** Income divided by total shareholders' equity (a measure of management's effectiveness).
- **Return on Investments:** After-tax income divided by total assets and long-term debt (a measure of management's effectiveness).
- **Market Capitalization:** The current share price multiplied by the current number of shares outstanding.
- **Beta:** A measure of the volatility of the company's stock price relative to the market as a whole.
- **Dividend Rate per Share:** The total amount of dividends per share expected to be paid over the next 12 months.
- **Yield:** Annual dividend for a share of stock divided by current stock price (expressed as a percentage).
- **Earnings per Share:** Total corporate earnings divided by the number of shares outstanding.
- **High and Low Selling Price of Stock:** The highest and lowest stock selling price in the last six months.

Taking advantage of online stock screening software

Online screening technology can really save you time and help you make money. If you spend hours researching individual stocks, one by one, to see if they meet your criteria,

you won't have time left over for a life! Fortunately, as an online investor, you have access to free powerful software that allows you to simultaneously screen hundreds of stocks based on 20 to 75 different factors.

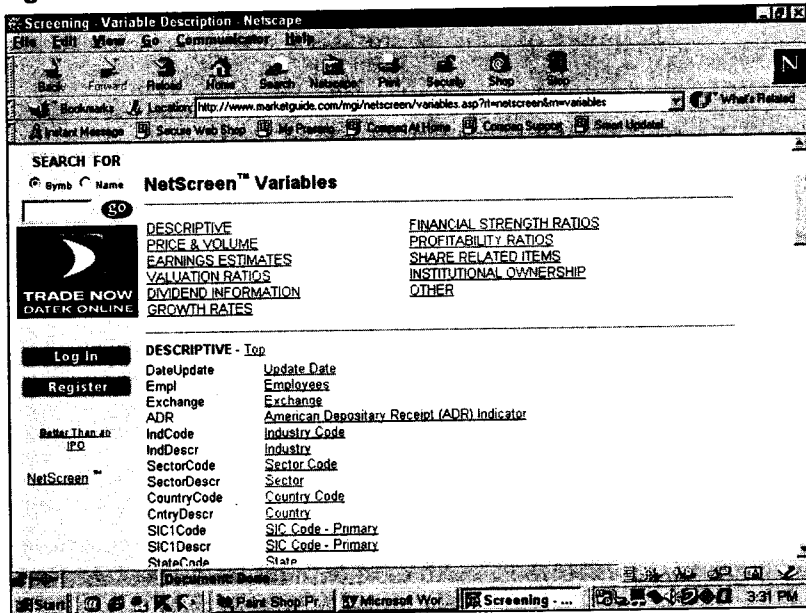
Using the screening software

Equis International — MetaStock (www.equis.com) is a software product that includes a stock screen engine, real-time charting, and a ratio analysis tool. The program is compatible with Microsoft Office 97 or Microsoft Office 2000, which means that you can download data to an Excel spreadsheet or embed charts in Word documents. You set the rules to identify trends and highlight important ratios. Click on a Canadian or U.S. stock price, and the program links your Internet browser to a free Web site that provides the current stock prices. When you purchase the software, you receive a CD-ROM with a historical database of more than 2,100 different U.S. securities, Canadian stocks, mutual funds, futures, and indexes. The price of MetaStock 6.5 for Windows is US\$349.

Two types of powerful screening software are available for free on the Market Guide Web site at www.marketguide.com. An online version, called NetScreen (see Figure 3-1), allows you to screen stocks using up to 20 different factors. The downloadable version, StockQuest, lets you screen for stocks using up to 75 pre-selected criteria after you install the program on your PC.

The NetScreen software program meets the needs of most investors. But you can also take some extra time and download the more robust StockQuest program for free. It's available on the Market Guide Web site by going to www.marketguide.com and clicking Home ⇨ Screening ⇨ StockQuest. The StockQuest program offers you the following additional advantages:

Figure 3-1: NetScreen lets you screen stocks using up to 20 different factors.



- A total of 75 screening factors
- The ability to view a list with an unlimited number of companies that meet your search request (versus the 200 that NetScreen allows)
- Faster, more secure searching because the database is already downloaded onto your PC

If you choose to use StockQuest, you must update the database on your computer to keep it current. This can be a bit annoying. However, both NetScreen and StockQuest are free. The Web site is financed by advertising and from the revenue Market Guide gets from selling its database to other commercial Web sites.

Going beyond the initial screening

The process of screening stocks is a preliminary exercise, not the final step in your analysis. Stock screening software is intended to help you identify potential investments meeting your initial selection criteria, not to analyze the merits of a specific investment.



Accordingly, keep a couple of things in mind when you're initially screening stocks:

- **Web sites used for screening stocks (as opposed to actually trading them) are updated daily.** You should confirm information that could change during the course of the day (such as the purchase price) before you actually make a stock trade.
- **Stock screening programs aren't analytical tools that predict the growth of individual stocks over the long term.** Rather, these programs help you find stocks that meet certain criteria *today*.

After you develop a short list of stocks that meet your initial criteria, use the resources discussed in the next section to thoroughly analyze each stock on your list for its future growth potential.

Evaluating the Stocks You've Screened

After you screen a list of finalists — all the stocks that meet your initial screening criteria — it's time to put those gems under a microscope. You want to look for hidden flaws and profit-making potential.

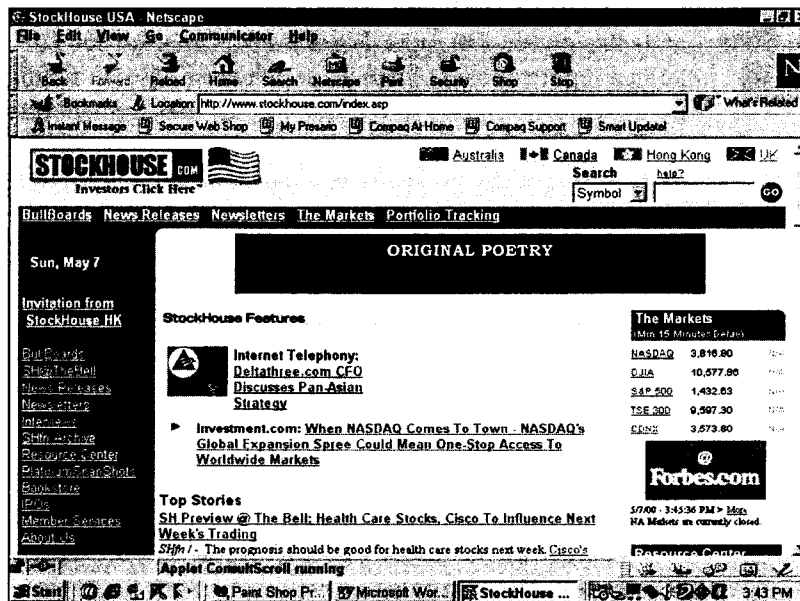
Reading what the analysts have to say

You can't believe everything you read on the Web. If you do, you'll be broke in no time.

But certain Web sites, online newsletters, and so-called e-zines do merit your time and attention. These resources can help you narrow your focus when multiple stocks meet your criteria and you need to decide which ones you should pursue further. They can tell you what's happening in the real world beyond the four corners of the company's balance sheet.

One of the most helpful and comprehensive Web sites to consult when looking for newsletters and online publications known as e-zines is Stockhouse (www.stockhouse.ca), as shown in Figure 3-2. The Stockhouse Web site is a good starting point, whether you're looking for what analysts have to say about a particular stock, or for an overview of the Canadian and world financial markets.

Figure 3-2: The Stockhouse Web site directs you to online investment resources.



Reviewing a company's regulatory filings

In Canada, publicly traded companies are required to file business and financial information with provincial securities regulators. These reports are entered into a government-sponsored database called SEDAR — the System for Electronic Data Analysis and Retrieval (www.sedar.com). In the U.S., the peer site is called EDGAR (www.freeedgar.com). The FreeEDGAR service provides registered users with an e-mail alert every time a certain firm files a document, and then links you to that document. (SEDAR does not have this service — but look out for it to arrive.) Downloadable data from both Web sites can be accessed by individual investors. You also can save SEDAR- and EDGAR-obtained reports on a disk and read them later.



Be aware that annual reports may include more than 50 pages and often exceed 100 pages. For example, Canadian and U.S. annual reports include financial statements, notes to financial statements, supplementary data, wordy management discussions of financial conditions and results of operations, descriptions of the business, legal proceedings, stockholder voting matters, insider transactions, executive compensation, and leasing agreements. Fun stuff! So be selective about how much information you want — and need — to download.

When you search the SEDAR and EDGAR databases, you're asked (via a drop-down screen or report number) for the document you want. The reports are organized in the following manner:

- **Annual reports (*10-K Reports* in EDGAR):** Annual reports that include shareholder information covering the firm's fiscal year
- **Quarterly financial statements (*10-Q Reports* in EDGAR):** Quarterly reports that include shareholder information for the company's last quarter

- **Notice of material change(s) (8-K Report in EDGAR):** Special reports that are the result of a significant contract, lawsuit, or other material event
- **EDGAR S-1 registrations:** Forms required for businesses that want to offer stock to the public; often used for initial public offerings (IPOs); a S-3 registration is used for a secondary offering to offer stock to the public after an IPO
- **Notice of annual or special meetings (14-A Form in EDGAR):** Information about annual general meetings (AGMs) and voting matters, such as candidates seeking election to the board of directors, approval of increase in authorized capital stock, and/or approval of merger or acquisition

After you find the report you want, and after it is opened in Adobe Acrobat Reader or a similar format, you can save the data in just three clicks:

1. Click the File menu at the top-left corner of your Internet browser screen.

2. Click Save.

Your browser displays a dialogue box asking you which drive you want to save the data on and which name you want to file it under.

3. Enter a filename and specify where you want to save the file.

Use the company's name, initials, or ticker symbol for the filename and a file extension of .txt or .doc.

4. Click Save.

Congratulations! You've finished downloading a 50-page document from the Internet!

To read the file, just start your word processing program and open the file.

Looking at annual reports

If you're a shareholder of a company, you'll automatically get a copy of its annual report each year. If you're not a shareholder, you can either call the company to request an annual report or access it from the company's Web site. Usually the company has a hypertext link for you to click to download a copy of the report from the Web site.

Annual reports are gold mines of information because they include the following financial statements and information:

- **Income Statement:** Discloses all of the company's earnings and profits for the year.
- **Balance Sheet:** Identifies all of the company's long- and short-term assets and liabilities.
- **Statement of Cash Flows:** Tells you all of the company's sources for and uses of cash for the past year. In the long run, a company has to generate cash to survive.
- **Research and Development Expenses:** Tells you a lot about where the company's headed in the future.
- **Overhead Expenses:** High overhead expenses relative to total revenues can signal inefficient management or lagging markets for the company's products or services.

Brainstorming with Other Investors

One of the most popular features of the Internet is the ease of multi-party communication it provides through discussion forums. Online discussion forums abound, and come in many different shapes and sizes. They include Web-based

discussion or bulletin boards, Usenet newsgroups, mailing lists, Internet chat, and instant messaging. All the above forums represent electronic venues where people gather to exchange information and ideas on investment topics. The topics usually concern publicly traded companies or investing issues, but you can even find forums on something as unexpected as treasury bills! Many investment supersites, such as Stockhouse (www.stockhouse.ca), host active and popular discussion forums. These forums can help you make, validate, or reconsider investment decisions.



They can also lead you into making ill-advised investment decisions. Always question the motivation behind each posted comment, since many are intended to mislead you, or bash or hype a stock.

Web-based discussion or bulletin boards (also called message boards) make it easy for participants to communicate with each other. They are the most popular form of investment discussion forum. Web sites that host bulletin boards frequently offer free features such as personal e-mail addresses. All you have to do is register and choose a screen name such as "Techspert" or "Sideshow-Pete." Here are some large Web-based discussion forums:

- **Stockhouse** (www.stockhouse.ca) is a Canadian investment Web site that lets you access its "BullBoards" discussion boards about Canadian, U.S., Australian, and Hong Kong companies. It shows you the top boards in terms of number of daily posts. It has an "ignore" feature that lets you block users who post offensive or annoying messages, and profiles interesting contributors from time to time. An index of the most popular posts of the day is also displayed.
- **Raging Bull** (www.ragingbull.com) is probably the most popular and active investment bulletin board on the



Internet. (Board participants have been known to go on cruises together to celebrate a good stock pick!) Although it's an American site, it has excellent board coverage of Canadian stocks — especially of technology stocks. In fact, discussion about some new Canadian stocks can only be accessed here. Like Stockhouse, Raging Bull has top-post, most-active-board, and ignore-poster features. It also profiles board members. Click “Top 40 Membermarks” to see who is watching out for your posts.

- **Silicon Investor — Canadian Stocks** (www.siliconinvestor.com/stocktalk) lets you talk about any Canadian (click Canadian Stocks) or U.S. stocks. A list of companies is shown in its StockTalk page, along with the number of posts and the date and time posted. You can also call up an index of companies sorted by industry. Clicking a company name takes you to the forum. This site focuses on companies in the high-tech sector. It has very fast download times and is easy to use.
- **Investing Canada** (investingcanada.about.com/finance/investingcanada) has a threaded discussion forum about a company that interests you, the economy, taxes, and other investment-related topics. Through its About.com parent site, you can access thousands of Web pages related to Canadian investments and investing.

CHAPTER 4

RESEARCHING MUTUAL FUNDS ONLINE

IN THIS CHAPTER

- Looking at the advantages of mutual funds
- Understanding what makes up a mutual fund
- Reporting income taxes on mutual funds
- Finding information about different types of mutual funds

Canadians now have over \$350 billion invested in mutual funds — more than triple the total at the beginning of 1996! Mutual funds are ideal for Canadians who want the benefit of other people's expertise and research time. But even if you're a do-it-yourself type who prefers watching stock data stream across your screen, the impressive returns on many of the more successful Canadian or U.S. mutual funds may make you consider them.

Looking at How Mutual Funds Work

Would you rather buy a Black Forest cake from an expert baker or make one from scratch? This is the sort of self-assessment you do when you choose whether to buy a mutual fund.

Mutual funds are ready-to-serve portfolios that contain a mix of stocks or bonds selected by a fund manager on behalf of a group of investors. These funds provide immediate investment diversification that you may not otherwise be able to afford. As always, convenience comes at a price — a variety

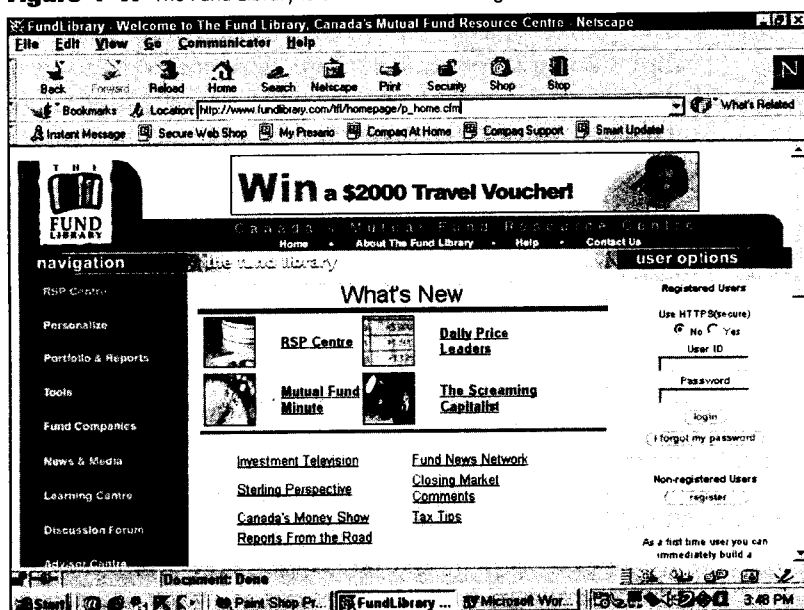
of mutual fund fees. You also have lots of disclosures and performance data to evaluate. Fortunately, getting information about mutual funds is easy on the Web.

Learning mutual fund basics on the Web

Need to start with the basics when it comes to mutual funds? If so, you can visit a Web site dedicated to educating mutual fund novices.

The Fund Library (www.fundlibrary.com) has performance reports on most Canadian mutual funds (shown in Figure 4-1). Its Learning Centre feature provides strategies for using funds to meet your personal investment goals. You can participate in discussion forums about mutual fund investing, and download brochures (in Adobe Acrobat format) on an array of Canadian mutual funds. This Web site also has several online tools, including a calculator that tells

Figure 4-1: The Fund Library is devoted to educating consumers about mutual funds.



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you what your mutual fund is worth today if you invested in it a few years ago. Just about anything you want to know about Canadian mutual funds is available at this site.

Reviewing a copy of the fund prospectus

Mutual funds are legally required to tell all when it comes to

- Past performance of a fund
- The stocks, bonds, and other assets the fund holds
- Any fees associated with the fund

The document that reveals all of this information is called a *prospectus*.

You can usually download a prospectus from a fund's Web site.



When you have the fund prospectus in hand, be sure to check its most recent *net asset value* (NAV). The NAV is the total dollar value of all of the stocks and other securities owned by the fund, less expenses and divided by the number of outstanding fund shares. The NAV determines the price of individual shares of the fund.

Examining the advantages and disadvantages of mutual funds

Mutual funds can offer you great returns without the effort of shopping the Web for individual stocks and monitoring them. They offer the benefit of

- **Professional management:** Mutual funds offer the professional expertise of sophisticated research analysts. You can review the performance of virtually every Canadian mutual fund at BellCharts (www.bellcharts.com).

(There is more discussion about the BellCharts Web site later in this chapter.)

- **Instant diversification:** When you buy a fund, you buy an interest in a lot of stocks or bonds all at once instead of just one type. This variety helps you meet the objective of a diversified portfolio. The fund prospectus (which you can download from the Web) tells you exactly what investments and sectors the fund holds.
- **Low entry costs:** You can invest in a mutual fund without incurring an entry fee. Check out the GLOBEfund Web site at www.globefund.com. Click Fund Filter to search for funds that require no upfront load or deferred sales charge.
- **Shareholder services:** The fund may offer cheque writing and other useful privileges. The fund's Web site will usually promote the services offered or include a link so that you can e-mail a service person to find out about them.

Alas, there is no perfection in the world of investment, and mutual funds come saddled with inherent risks and baggage just like any other opportunity. When investing in mutual funds, beware of the following:

- **High management expense ratios (MERS) and other return-eroding fees:** MERS and hidden fees eat into your total return and represent one reason many mutual funds underperform stock indexes. The average MER for Canadian equity funds is over 2 percent of assets. Be sure you understand the fees associated with the fund, as disclosed in its prospectus. (Fund fees are discussed later in this chapter.)
- **Overreliance on mutual funds:** Discount online brokers want your business and have lowered the cost of investing to about \$35 a trade. They also offer free or discounted

access to superb research, at the same time providing tools to help you track your portfolio. Simply stated, the do-it-yourself route is now easier than you think — and it's fun and educational.

- **Mutual fund investments that may conflict with your ethical standards:** Sure, you can earn above-average returns by investing in those companies that produce hazardous, polluting, and child labour-intensive products. You can even invest in companies engaged in gaming, or in companies residing in politically repressive nations. These types of organizations can be found in the holdings of some mutual funds without you — or even the fund manager — knowing it! Ignorance may be bliss to an investor — but not to a victim. Avoid funds that invest in companies of questionable ethics.
- **Conflicts of interest with advisors and brokers.** While nothing is more important than getting sound investment advice, many Canadians don't do enough due diligence on the advisors they select. A few investors end up getting fleeced. For example, some advisors and brokers will only sell you funds that generate a commission for them. Also, the funds that pay the highest commissions are often the worst performers. That's because fund companies may give a broker a bigger commission carrot to attract cash into a poor-performing fund. Some brokers want you to make many purchases to generate lots of commissions. Be alert to what makes brokers tick!
- **Funds from which solid managers have quit:** After you've invested in a successful fund, you need to keep up with changes in management. For example, when star manager Frank Mersh ceased to manage for Altamira in the 1990s, the value of the fund he managed fell in relation to the stock market as a whole. You need to stay current and check out press releases announcing management changes. You can do this by reading the business section



of your newspaper, or looking at Web sites devoted to reporting mutual fund investment news, such as The Fund Library at www.fundlib.com.

- **Loss of control over income tax issues:** Because the fund manager controls when stocks are sold, you may not always be able to defer your capital gains to years when they'll be taxed at a lower bracket or offset by other losses. (When you invest in individual stocks, you have the ability to control when you sell them.)
- **Misleading sales materials:** Advertising materials for funds may create an erroneous impression as to how the fund is actually managed and what investments are included. For example, a fund advertised as low risk may actually contain some pretty speculative stuff. Download a copy of the fund's prospectus and carefully review it to see what investments are included in the fund.



Whenever you consider a mutual fund to invest in, always keep in mind that a fund's past performance is not a guarantee of a repeat performance — good or bad — in the future. Very often, the opposite is true!

Finding out about fund fees

Fortunately for you, the investor, all the information you need to know about a fund's fees is in one place — the prospectus. You should *never* invest in a fund without reading its prospectus.

After you download this document, scrutinize it carefully to ascertain your obligations for the following:

- **Load fee:** A load fee is a sales commission or charge you pay when you purchase certain funds — generally around

5 percent. A *no-load* fund is one that does not require you to pay a commission or entry fee to invest in the fund. Most experts recommend no-load funds because a load fee instantly diminishes the total return of your investment.

- **Redemption fees:** A redemption fee is often charged instead of a load fee. You pay this fee when you sell your mutual fund shares, as opposed to when you buy into the fund. Typically, redemption fees decline over time to encourage you to hold on to your investment longer.
- **Management fees:** These fees cover the costs of all those lawyers, accountants, and bookkeepers that make sure the fund complies with the rules of Canadian securities regulators. These, too, are disclosed and estimated in the fund prospectus.
- **Annual operating expenses and administrative costs:** These fees cover the basic costs of running the fund and are generally disclosed in the prospectus.

Considering Index Funds

An *index fund* includes only the stocks included in an index such as the TSE 300, TSE 35, NASDAQ, the Dow Jones or the S&P 500. The TSE 35 index, for example, is a selected survey of the 35 largest capitalization (market price of a share times the number of shares outstanding) companies listed on the Toronto Stock Exchange.



You can easily research index funds on the Web. Check out the GLOBEfund Web site at www.globefund.com and click the Fund Filter link to find index funds. You can learn about the TSE at www.tse.com, the NASDAQ at www.nasdaq.com, and the Dow Jones index at www.dowjones.com.

of your newspaper, or looking at Web sites devoted to reporting mutual fund investment news, such as The Fund Library at www.fundlib.com.

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You can easily research index funds on the Web. Check out the GLOBEfund Web site at www.globefund.com and click the Fund Filter link to find index funds. You can learn about the TSE at www.tse.com, the NASDAQ at www.nasdaq.com, and the Dow Jones index at www.dowjones.com.

Considering a Fund-Stock Hybrid: Index Stocks

While index mutual funds are currently very popular with Canadians, why not consider index stocks. An index stock is a hybrid of a mutual fund and a stock. Index stocks represent ownership of a trust that buys the stocks that make up the index being imitated (e.g., TSE 35, TSE 300, NASDAQ).

A TIPS 35 index stock is a TSE-traded security that invests in the network companies, banks, auto parts manufacturers, phone and other companies that make up the TSE 35 index. Unlike pure mutual funds, the MER of TIPS is about 0.05 percent — a tiny figure that's a whole 2 percent better than the average Canadian equity mutual fund MER! You still get the dividends paid by the company in the index. Similarly, U.S. index stocks such as DIAMONDS (DIA-AMEX) and SPDRs, or "Spiders" (SPY-AMEX), also outperform their costlier index mutual fund peers.

Considering Bond Funds

Stocks aren't all you'll find when you look at mutual funds. Bond funds offer professional management and diversification as well.

We discuss bonds more fully in Chapter 5, but a bond is basically an IOU from a government entity or corporation. You lend them the money, and they promise to pay you interest and principal. The riskier the bond investment, the higher the rate of interest. You can search for bond funds at Canoe Money (www.canoe.com/money). Click the Mutual Fund icon to access a list of bond funds.

Bond fund managers offer professional expertise in balancing the risk and return of various types of bonds. There are

three major differences between investing in a bond fund as opposed to purchasing an individual bond:

- **Diversification:** Bond funds offer you the advantage of a calculated mix of bond investments.
- **No fixed maturity date:** Individual bonds mature on a specific maturity date; bond funds do not mature. You decide when to sell your shares in a bond fund.
- **Fixed return:** When you purchase an individual bond, you know how much interest and principal is to be paid. When you buy into a bond fund, you may ultimately sell your shares at a gain or loss.

Finding a Fund That Meets Your Objectives

There's a smorgasbord of funds out there. You need to have several types on your plate to be diversified. Chapter 3 discussed screening tools for stocks; this section explores screening tools for mutual funds.

You can access and use online fund-screening tools available at GLOBEfund (www.globefund.com), The Fund Library (www.fundlib.com), and Canoe Money (www.canoe.com/money). Click their Tools icons to access filters that let you view funds by performance, RRSP eligibility, asset class, MER, and type of load (explained above).

Screening tools also let you search for funds that represent the following categories:

- **Large-, mid-, and small-cap funds:** You can buy funds that specialize in large-, mid-, and small-cap stocks. Smaller capitalization correlates with higher risk and higher potential returns. Many investment advisors recommend that you select funds that specialize in a variety of market caps. (See Chapter 3.)

- **Aggressive growth funds:** Fund managers look for funds that have the highest growth potential. These stocks may be highly volatile, and you shouldn't invest in them if you may have to sell them at a time when the market is down. This type of fund may also include risky options and futures. (See Chapter 1.)
- **Income funds:** These funds focus on companies with high dividend-paying potential.
- **Sector funds:** These funds purchase stocks in particular market sectors of the economy — such as health care or consumer goods. (See Chapter 3.)
- **Tax-efficient funds:** These funds are managed so as to minimize taxable gains, and they include bond funds that invest in federal, provincial, and municipal bonds.
- **Socially conscious or ethical funds:** These funds invest to be consistent with investors' personal as well as financial objectives.
- **International funds:** Managers of international funds undertake the complex research necessary to profit from overseas markets, which can be risky and complicated but can offer high returns.
- **Emerging market funds:** These funds are a high-risk version of international funds — specializing in Latin American, Middle Eastern, Asian, and other economies with volatile currencies.
- **Index funds:** Besides the S&P's index, index funds are available that invest in small-cap index, international index, mid-cap index, bond index, and others.

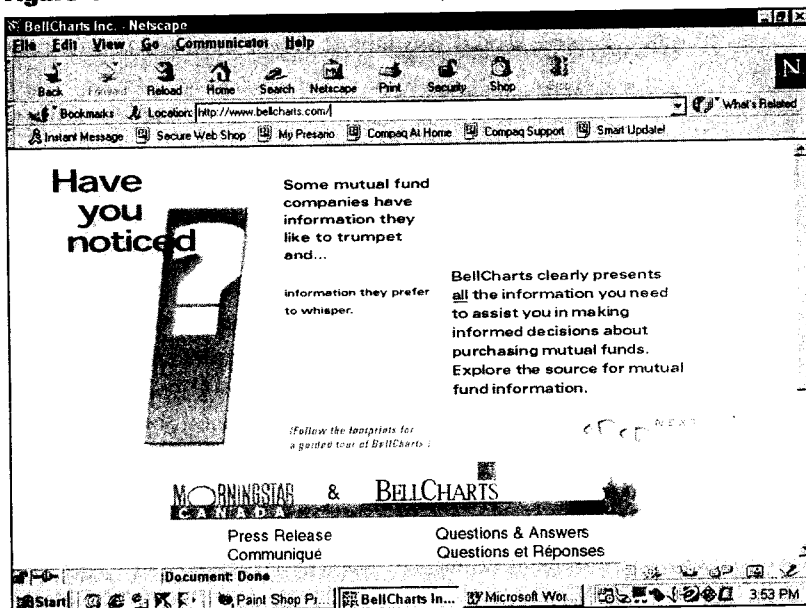
Researching Mutual Funds on the Web

Hundreds of Web sites promote mutual funds and are devoted to fund research. This section leads you straight to a few of the very best to help you get started.

Comparing Canadian funds: BellCharts Web site

BellCharts' Web site at www.bellcharts.com, shown in Figure 4-2, is a leading resource for fund information. This site monitors all Canadian mutual funds, including segregated and index funds. (A segregated fund is essentially a mutual fund that is administered by an insurance company.) You can use the site to get free basic performance information about a single fund. For a fee, you can conduct a more extensive and precise search for funds that meet a host of

Figure 4-2: The BellCharts Web site is a comprehensive source of fund information.



more sophisticated criteria. Check out their Web site for a list of services and associated fees.

Comparing funds: Standard and Poor's Micropal Web site

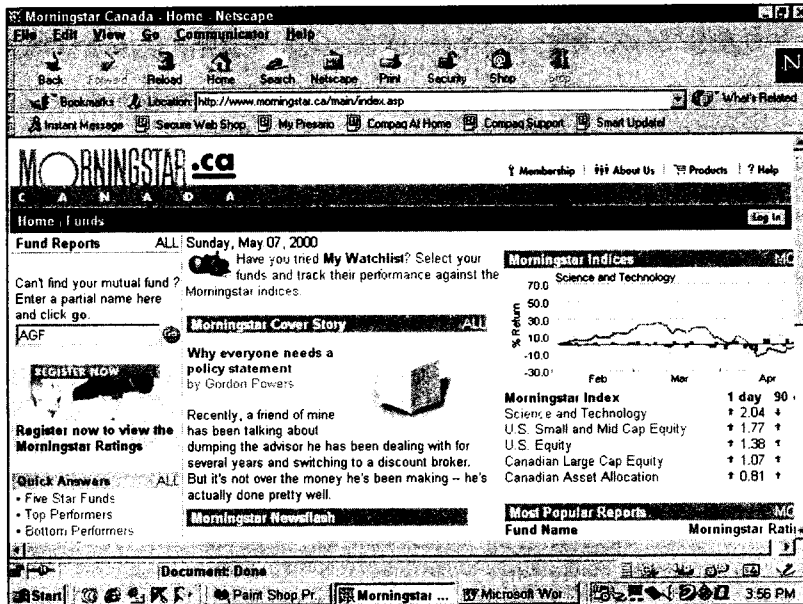
Micropal monitors more than 38,000 funds "across the globe on a daily, weekly, and monthly basis." You can use the site to get information about a foreign mutual fund, search for funds meeting your criteria, and compare the performance of funds identified by your specific search.

The Micropal home page contains a drop-down list of "live" databases. Each database contains a broad group of fund types, such as U.S. Mutuals or Offshore Funds. To use the Web site features, you select one of these databases from the drop-down menu by clicking it. You can search only one database at a time.

Using Morningstar Canada commentaries and fund screener

The recently introduced Morningstar Canada Web site (www.morningstar.ca), shown in Figure 4-3, is geared to fund managers, professional advisors, and other investment industry professionals. However, it does offer all Canadians online access to free commentaries, in-depth reports and analyses of individual funds, and in-house ratings of more than 2,000 mutual funds. With Morningstar Canada, you get a library of mutual fund-related cover stories and articles. You can read the opinions of qualified experts, sometimes with opposing views, to help you make sense of all the raw numbers you get when you use its fund-screening software. You can also read about industry trends, view the most popular funds, and access a frequently asked questions and glossary section.

Figure 4-3: Morningstar Canada provides a database of mutual fund articles.



Buying Mutual Fund Shares Online

You can purchase mutual funds through registered representatives of banks, trust companies, stockbrokers, discount brokers, and financial planners. To purchase mutual funds via the Internet, go to an online broker's Web site. (See Chapter 7 for a discussion of online trading.)

If you purchase your funds directly from the mutual fund company, by accessing its Web site, you can save the cost of the brokerage commission that a broker may charge. You'll still be charged a transaction fee, but it may be less than a broker's commission would be. You can access a mutual fund Web site directly from many of the research sites discussed in this chapter, such as The Fund Library, GLOBEfund, or Morningstar Canada. You register by completing an online application form.

CHAPTER 5

BUYING BONDS ONLINE

IN THIS CHAPTER

- Understanding bond features
- Assessing bond risk
- Finding the best bond Web sites
- Exploring bond-buying strategies

Who says bonds are boring? True, bonds don't offer the thrills you get from watching stock prices soar and plummet on your computer screen, but bonds are especially important for the thrill-seeking online investor. They counteract riskier investments and can still provide handsome profits.

You can't afford to ignore bonds. Investment advisors say bonds should make up at least 30 percent of your portfolio. This chapter explains how bonds buffer market risk, and how you can use the Web to find the ones with the most profit-making potential.

What's a Bond?

When you buy a bond, you're not buying a share of a company — you're issuing a loan and becoming a creditor of the company. Because you're not an owner, you don't get to vote or divvy up the profits. But, no matter how badly things go for the entity, you have preferred status to receive your principal and an agreed-upon rate of return on your investment (as long as the issuer is solvent).

Looking at the bond issuer

The promise to repay is worth only as much as the credibility of the entity making the assurance. If an entity becomes insolvent, it may be unable to pay even its guaranteed obligations. For this reason, the most important characteristic of a bond is the issuing entity. The following types of entities issue bonds:

- **Bank of Canada:** Government debt instruments such as Canada Savings Bonds and treasury bills are backed by the full faith and credit of the Canadian government, and are the safest investments this country has to offer.
- **Other Canadian government agencies:** From time to time, government agencies and enterprises issue bonds to finance their projects and agendas. Examples include Canada Mortgage and Housing Corporation and Ontario Hydro bonds. Most (but not all) of these obligations are backed by the full faith and credit of the federal or provincial government. You need to ask the issuer to find out whether a bond is government-guaranteed.
- **Corporations:** Corporations issue debt to finance their operations. They offer higher interest rates than government obligations because they're considered riskier.
- **Provincial and municipal governments:** These government entities issue bonds to finance government projects and activities, and may use project revenue to retire the bonds.
- **Foreign governmental entities:** These bonds are guaranteed by the governments of issuing countries, and often provide a higher rate of return than Canadian debt obligations. However, they may be much riskier, depending upon the political climate and solvency of the issuing country.

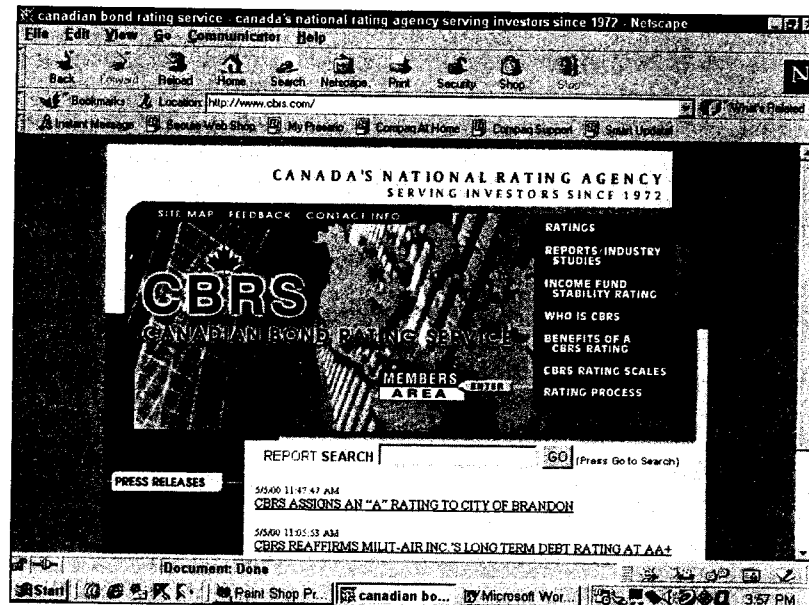
Researching the issuer's credit rating

Bonds can be the cornerstones of your portfolio, offering you security and stability when the stock market's in a panic. Or they can literally be what investors call junk. *Junk bonds* are issued by financially shaky companies that offer higher-than-market interest rates because they absolutely can't get credit elsewhere. Junk bonds are considered *very* risky.

Just like you, bond issuers are given a credit rating. A poor credit rating affects their ability to get credit. One of the great benefits of being online is that you can look up the credit rating of a bond issuer in a matter of minutes.

The two most respected bond rating services are the Canada Bond Rating Service at www.cbars.com (shown in Figure 5-1) and the Dominion Bond Rating Service at www.dbrs.com. Both maintain their own alphabetic rating system,

Figure 5-1: The Canada Bond Rating Service Web site has a database of rated bonds.



which can be viewed at their sites. Both sites let you search for bonds based on type of debt, nature of industry, issuer, rating, and other factors. You can generate a screened list of bonds that meet your criteria at these Web sites.



Only bonds with a high-quality or very strong rating are considered investment quality bonds. However, non-investment quality bonds may have a place in your portfolio, but only in moderation. If you invest in them, do so with risk capital (money you can afford to lose). They don't have the same portfolio-stabilizing effect as higher-grade bonds and, in fact, add a significant element of risk.

Taking inflation into account

An insidious, creeping threat to your bond portfolio is inflation. Because bonds pay a fixed rate of interest, rising interest rates and inflation can drive down your purchasing power. If you have a well-diversified portfolio, your stocks and other equity investments should rise in value to offset your losses from inflation.

Inflation and interest rates also determine how much a bond is worth on the secondary market. The *secondary market* consists of bonds sold after they're originally issued but not yet matured.

If interest rates have risen since the bond was issued, the bond is worth less and sells on the secondary market at a *discount*. For example, a \$1,000 bond paying interest at 5 percent (called the *coupon rate*) when interest rates are 6 percent may actually sell for \$900 — a \$100 discount.

If interest rates have gone down, the bond sells at a *premium*. It's worth more because it pays higher-than-market interest.

The *yield* for a bond is the return you actually receive on your investment based on what you paid for it and the

coupon interest rate. Yield is calculated by dividing the amount of annual interest by the bond purchase price. For example, if you purchase an 8 percent bond for \$1,000, your yield is 8 percent (\$80 divided by \$1,000). If you buy the bond for \$900, the yield is 8.89 percent. The higher the yield, the better your investment. (Of course, you also need to take into account the bond's rating as discussed earlier in this chapter.)

The BondCan Web site (www.bondcan.com) lets you access bond yield data, and lets you screen for bonds that meet your search criteria. Click the Historical Yields, Daily Quotes, and other links for detail on specific debt instruments.

BondCan also has a daily commentary feature that provides a summary of the day in the marketplace. There is a discussion forum on bonds, and a Bonds 101 primer that introduces you to the fixed income investment marketplace. A glossary teaches you bond market jargon. Links to bond market-related articles, and to Statistics Canada, provide critical information for any bond investor.

Understanding Bond Variations and Features

Although bonds have a reputation as low-risk investments, many types of bonds are as risky as any stock. Thousands of variations are out there. Many brokers make their living speculating and trading in bonds based on these variations and the ever-fluctuating interest rates.

A checklist of bond features

Here are a few of the different bond features you can find by perusing the Web:

- **The credit rating of the entity issuing the bond:** This rating reflects the likelihood that the issuer will default on the bond.
- **Coupon rate:** The rate of interest that the bond pays.
- **When interest is paid:** The interest may be paid quarterly, semi-annually, annually, or upon maturity.
- **Maturity date:** This refers to the date when you get back your original investment plus any unpaid interest.
- **Whether the bond is indexed for inflation:** If the bond is indexed in this way, the bond pays an amount above the interest to compensate for inflation.
- **Premiums and discounts:** These amounts reflect the value of bonds on the secondary market due to fluctuating interest rates.
- **Call features:** These features allow the issuer to pay the bond earlier if interest rates go down. (This feature *never* works in the investor's favour.)

Differentiating notes and bills

Often when investors and Web sites talk about bonds, they're referring to instruments technically and correctly called *notes* and *bills*. You'll see these terms on the Web, and knowing what they mean is important.

Bonds, notes, and bills are called *fixed income securities* because the amount of income you earn is predetermined. Whether a fixed income security is a bond, note, or bill depends solely upon its maturity date. The distinctions are as follows:

- **Bonds:** The maturity date is more than ten years from the issue date.
- **Notes:** The maturity date is between one and ten years from the date of issue.



- **Bills:** The maturity date is within one year from the issue date.

Researching Bond Basics Online

Bond research on the Web can be a real eye-opener. If you've always thought of bonds as a simple IOU, you may be surprised to see a lot of bond Web sites geared toward bond brokers and speculators. In fact, finding a Web site that's geared toward the needs of an individual online investor may take some surfing.

The Bond Market Association is a not-for-profit organization made up of about 265 institutional members — bond issuers and investment groups. The Web site (www.investinginbonds.com), shown in Figure 5-2, offers checklists and other materials to all bond investors free of charge.

Figure 5-2: The Bond Market Association Web site can help you learn more about bonds.



The Investor Learning Centre of Canada (www.investorlearning.ca) has lots of articles about how the Canadian bond market operates. It also provides links to bond-related Web sites.

Visiting the Bank of Canada Web Site

Government of Canada bonds are considered very safe investments. You can research and evaluate these bonds using the Bank of Canada Web site at www.bank-banque-canada.ca/english/intro-e.htm.

In the United States, Congress sets limits on the total dollar value of securities that the Treasury can have outstanding at one time. From time to time, however, Congress increases the public debt limit. You can find out about new issues of Treasuries, read about the types offered, and buy them online on the Public Debt Web site.

Finding treasuries on the Web

The federal government sells Canadian treasury securities to the public in order to pay off maturing debt and raise the cash needed to operate the Canadian government. The Bank of Canada auctions them every other week. There are three general types of treasury securities, in both Canada and the United States. A U.S. treasury bill, which is a popular form of treasury security, has a minimum purchase requirement of US\$10,000. Canadian treasury bills require minimums of \$5,000 (for terms of 6 to 12 months) up to \$25,000 (for 30- to 60-day terms). A U.S.-denominated Canadian treasury bill (guaranteed by the Canadian government) has a minimum requirement of US\$100,000. You can select from the following debt instruments:

- **Treasury bills (T-bills)** mature in three months, six months, or one year. Treasury bills are purchased at a

discount, so interest is actually paid. Your return, or interest, is the difference between the purchase price and the maturity value.

- **Treasury notes (Canada notes)** are considered intermediate-term securities and mature in 2 to 10 years. Canada notes are denominated in U.S. dollars and provide interest payments to note holders.
- **Treasury bonds (Canada bonds)** are long-term securities that have maturities that range from 10 years to 30 years. They are sold by auction to securities dealers and banks.

Referring to online sources for more information

Government information is written in a way that makes purchasing treasuries seem more difficult and complex than it really is. But don't get discouraged. For more information about understanding and purchasing Canadian and U.S. treasury securities, refer to the following additional online resources:

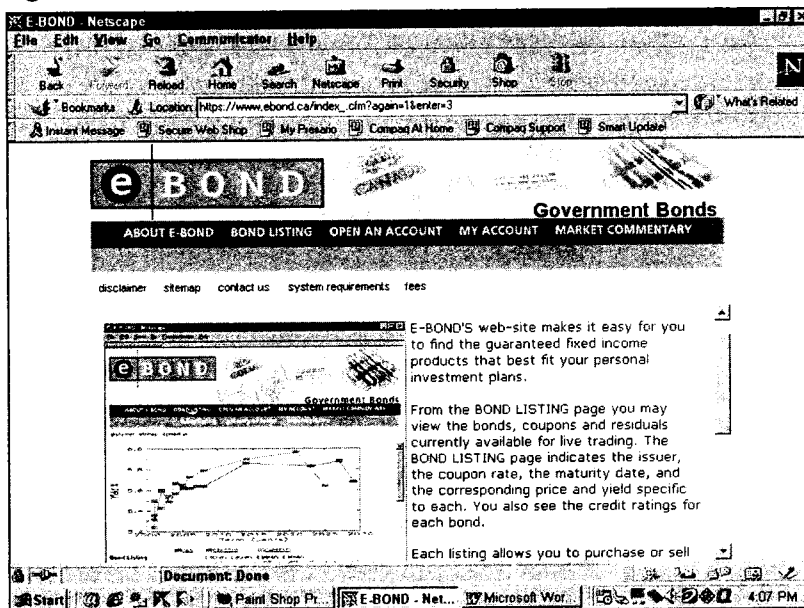
- **CIBC:** CIBC's economics site at www.cibc.com/products/economics lets you access research and overviews about Canadian government bonds, interest rates, and the economy.
- **GovPX:** This site, located at www.govpx.com, provides quotations of U.S. government securities. The site also provides active lists of treasury bonds, notes, and bills with each financial instrument's coupon rate and maturity date. Lists include buyers' bid prices, sellers' asking prices, changes from the prior trading day, and yields.
- **Quote.com Street Pricing:** This site, located at www.quote.com, provides quotes for Canadian and U.S. treasury, and government agency securities. Specific

information includes interest rates and spreads, quotes on active treasuries, and quotes on government agency securities. Cost is US\$9.95 per month for the basic service.

Buying, rolling over, cashing in, or selling your treasury securities

If you want to buy bonds online, check out E-Bond Ltd. (www.ebond.ca), shown in Figure 5-3. E-Bond is a Canadian, independent brokerage/investment firm and online discount bond broker. You can trade treasury bills (and other fixed-income securities) online or by phone. At E-Bond's site, you can access live rates, investor news, and your account. E-Bond deals with all areas of the bond markets and reviews a variety of other investment vehicles as well, including federal government bonds, provincial and federal zero coupons, and a selection of high-grade corporate debt.

Figure 5-3: E-Bond lets you buy treasury bills online.





Canadian and U.S. treasury bills mature at various intervals of time. When your treasury bill matures, you have two choices. First, you can roll over your investment and reinvest in the face value of another T-bill (with the same or a different maturity). Second, you can cash in and have the proceeds deposited to your holding account. For example, say that your \$15,000 T-bill with a maturity term of 13 weeks matures. You can elect to reinvest in another \$15,000 T-bill for 13, 26, or 52 weeks. If you choose not to reinvest your \$15,000 at maturity, your holding account is credited with \$15,000, or a cheque for \$15,000 is sent to your home.

A third T-bill disposition option exists. You can sell your treasury securities before they mature, through a broker. But this will cost you extra money in commissions.



If you need to sell your U.S. treasury security, the U.S. federal government will help you. You can sell directly through Treasury Direct — without a broker. The government gets quotes from different dealers and offers you the best price. The fee is US\$34 for each security sold. You can even have the proceeds from the sale of the treasury security deposited directly into your chequing account, less the transaction fee. See www.publicdebt.treas.gov/sec/secbsr.htm for additional information, including special requirements for non-U.S. residents.

CHAPTER 6

OPENING AN ONLINE BROKERAGE ACCOUNT

IN THIS CHAPTER

- Understanding what online brokers do
- Assessing your service needs
- Comparing commissions, costs, and services
- Opening an online brokerage account

In this chapter, we assume that you're not interested in paying full-service commissions to a full-service broker — that you want to pretty much keep things between you and your computer.

But no man or woman is an island — even one with a really fast modem. Although you may have decided to replace your PB — personal broker — with a PC, you still need to establish an online brokerage account to buy and sell investments on the Web. With more than ten Canadian discount brokers online and vying for your account business, you shouldn't have too much trouble. This chapter tells you how to find one that delivers what you need.

Looking Over Online Brokerage Services

You can purchase most things these days by entering your credit card number on a Web site. But you can't buy everything this way. To trade stocks, bonds, mutual fund shares, or other securities, you must first open an online brokerage account through a brokerage firm.

In the world of Web-based trading, your online brokerage firm is responsible for

- **Executing trades:** When you tell a brokerage firm that you want to buy or sell stocks, bonds, mutual fund units, or other securities, the firm is responsible for communicating with the *securities exchange* or entity through which these securities are sold. Your order status should be readily available.
- **Maintaining account records:** The brokerage firm is responsible for maintaining information about the cash and securities held in your account, and updating this information periodically. It should let you see your portfolio position and present a summary of trading activity.
- **Providing updates and information:** Your online brokerage firm is an important link to the investing world. The firm's Web site should provide quotes, updates of the market, and access to charts, news, and research reports.
- **Providing other convenient services:** You may get the benefit of free chequing, a no-charge self-directed Registered Retirement Savings account, and other handy services with a particular broker.

Who Regulates Online Brokers?

Finding a broker that you are comfortable with can be as confusing as selecting a stock to invest in. Since it's your money at stake, you want to be sure you've selected the right one. Because a broker's business is based on its reputation, most of Canada's online brokers have management controls to ensure that your money is in safe hands. Also, because there are only a few online brokers Canadians can choose from, it's easier to regulate them.

The regulation of Canadian brokers is split between federal and provincial governments. In general, banking is regulated federally, and securities-related matters are governed provincially. However, there are some twists:

- **Chartered banks** now own stakes in securities dealers. The federal government oversees these large enterprises.
- **Large brokerage firms** operate around the world, so the scope of their business is beyond provincial or federal jurisdiction.
- **Insurance companies** are regulated by both federal and provincial governments. The federal government oversees matters related to corporate solvency. The provincial government oversees consumer and contractual issues.
- **Credit unions** can look much like banks but they are under provincial jurisdiction.
- **Stock exchanges and other self-regulating organizations (SROs)** have rule-making powers of their own. The Investment Dealers Association of Canada is an SRO with powers to audit brokerages and enforce rules. It conducts inquiries if a broker has violated any regulations.

Each province has a securities commission, but the scope of their overseeing powers varies widely. The Ontario Securities Commission (www.osc.gov.on.ca) is the largest commission, and it even provides services to smaller ones in other provinces. The British Columbia Securities Commission (www.bcsc.bc.ca) is also fairly large. Provincial securities commissions govern their respective SROs and act as appeal bodies if an SRO's decision is contested. Stock exchanges are mainly responsible for regulating trading activity.



To check out a prospective broker, type in the name in a search engine, such as Yahoo! Canada (www.yahoo.ca) to see if there is any negative or SRO-related news about it.

Then check out your local Better Business Bureau (BBB) Web site (www.bbb.org) to see if any complaints have been registered about a broker. (The BBB online complaint process is designed to result in a follow-up within two weeks of an complaint of your own.)

Although the Canadian Investor Protection Fund (www.cipf.ca) acts as an insurance fund to cover certain investment losses, subject to limits, nothing replaces a bit of advanced homework on your part. The Internet makes this important reference-checking process easy.

Understanding Commissions, Costs, and Fees

Looking for a broker with low commissions? You should always try to get the most for your money, but a broker's advertised commissions may not tell the whole story.

Questioning the advertised commission

Sometimes you'll see a broker advertise a "flat-rate" commission or "commissions starting at" a certain amount.

You need to make sure when you're comparing commissions that you're comparing apples to apples. Make sure that you ask whether advertised commissions change based on the following:

- **The type of order placed:** Commissions may vary depending on whether you're placing a market or a limit order. A *market order* directs your broker to buy or sell shares at the best market price currently available. A *limit order* directs the broker to buy or sell shares only at a specified maximum or minimum price. Brokers may charge a higher commission for executing a limit order, but may only advertise the lower fee they charge for a market order.

Be sure to check. (Market and limit orders are discussed in detail in Chapter 7.)

- **The kind of securities you're buying:** Sometimes brokers charge a higher commission for buying or selling an over-the-counter stock as opposed to a listed stock. A *listed stock* is one that is traded on a major stock exchange, such as the Toronto Stock Exchange, the CDNX, NASDAQ, or the New York Stock Exchange. A stock that isn't listed is called an *over-the-counter stock*. The NASDAQ is the leading market for over-the-counter stocks.
- **The amount of shares you're buying or selling at one time:** An advertised "flat-rate" commission may be good only up to a certain number of shares. Find out how many shares you can buy or sell before a surcharge applies to the flat rate.

Looking for hidden fees and costs

You may think that commissions are the only costs involved with online trading. Unfortunately, this isn't the case. Several types of hidden costs can nibble away at your investment profits.

Here are a few fees to watch for when opening an account, all considerations being equal:

- **Fees to close the account:** Some brokerages charge a fee of \$70 or more to close down an active account.
- **Charges for a copy of your statement:** If you need a copy of a prior month's statement that isn't online or you simply like to receive your statements in the mail, you can be charged up to \$10 per page.
- **Charges for transferring funds to or from your account:** If you need access to the funds in your account or plan to purchase additional securities by wiring funds,



you should inquire about any associated charges for these types of transactions.

Asking the Right Questions before Deciding on an Online Brokerage

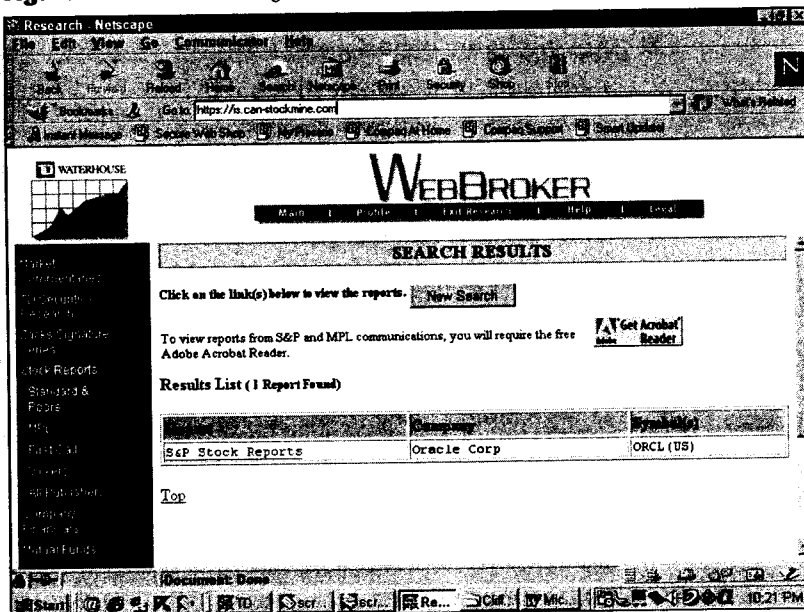
Online brokerage services are competitive and eager for your business. They offer an ever-increasing and innovative range of services to entice you to open an account with them. Accordingly, use the following checklist to determine which services interest you, and remember to ask who offers them.

- **Do quoted commission costs vary?** Does the advertised low commission vary with the size of the trade? Is there a minimum charge for small trades? A surcharge for a maximum number of shares?
- **Are there other transaction costs?** Does any “handling” or “service fee” or other transaction charge apply in addition to the commission?
- **Are minimum deposits and balances required?** What is the minimum required initial deposit? Am I required to maintain a minimum balance in the account?
- **What types of orders are accepted?** Does the online brokerage accept the types of orders you may want to make? What is the policy for cancelled orders?
- **How quickly are orders filled?** Does the brokerage have the ability to quickly execute orders so that you can take advantage of changes in the market throughout the day?
- **How quickly are orders confirmed?** Does the brokerage give you immediate confirmation that an order has been executed?
- **What emergency communications are available?** Can you reach the broker by telephone or fax in case you can't get online?

Chapter 6: Opening an Online Brokerage Account

- **What portfolio information do you receive?** How often is your account information updated? Will you receive an income tax or transaction summary?
- **Do they pay interest on idle funds?** If you maintain a substantial cash balance in the account, does the brokerage pay interest on “credit” balances? Some brokerage accounts automatically “sweep” credit balances to a higher-interest-bearing account.
- **What research resources are available?** Does your brokerage make reports and research available to you? If so, is this service subject to an additional charge? The TD Waterhouse Web site, shown in Figure 6-1, offers free research reports.
- **What checking and wiring services are available?** Do you receive free chequing services? Can you wire funds to and from the account free of charge?

Figure 6-1: Some brokerages offer free research reports if you open an account.



- **How is the brokerage firm rated by the experts?** How do the services of the brokerage firm measure up using the online rating services we discuss later in this chapter?
- **Do you get price quote information?** Some online brokerage services, such as E*Trade Canada (www.canada.etrade.com), offer continuous price quote information.
- **How easy is the Web site to navigate?** Some online brokerage Web sites are easier to navigate than others. Are you comfortable with the user interface on your broker's Web site?
- **How easy is it to connect to the Web site?** Connection time is especially important to those investors who trade a lot.
- **Do you get portfolio tracking and alerts?** Does your online brokerage provide portfolio tracking services such as online software? Does the brokerage provide service to alert you to important changes in your portfolio?
- **Can you trade bonds, foreign securities, and derivatives?** Not all brokers trade bonds, foreign securities, and derivatives such as options. If *you* trade them, then you want to make sure your online brokerage does, too.

Canada's Online Brokerages

Most of Canada's online brokers are affiliated with or owned by banks or trust companies. The major Canadian brokerages include

- **TD Waterhouse** (www.tdwaterhouse.ca)
- **Bank of Montreal Investorline** (www.investorline.com)
- **CIBC Investor's Edge** (www.cibc.com)
- **National Bank InvesTel** (www.invesnet.com)

- **Scotia Discount Brokerage** (www.sdbi.com)
- **Royal Bank Action Direct** (www.actiondirect.com)
- **CT Securities** (www.canadatrust.com)
- **E*Trade Canada** (www.canada.etrade.com)
- **Charles Schwab Canada** (www.schwabcanada.com)
- **HSBC InvestDirect Services** (www.hsbcinvestdirect.com)
- **Sun Life Securities** (www.sunsecurities.com)

Opening Your Account: The Process

Opening an account varies a bit from brokerage firm to brokerage firm, but the basic process is the same. You must first access the Web site for the brokerage firm. You then find a link that says something like open an account now (this link is unsurprisingly easy to locate) and perform some variation of the following steps:

1. Complete a secure online application. The application asks you for your social insurance number, whether you're opening a joint account, and other information necessary to get you set up on the company's system.
2. Return your signed application by mail. Some firms allow you to receive an account number and begin trading right away, but your signed application must be received within three days of your first trade.
3. Fund your account. You can get money into your account by mailing a cheque, providing a credit card number, or authorizing the brokerage to create an electronic cheque from an existing account, depending on the policies of the brokerage.



Should you open more than one brokerage account? On one hand, you want to avoid opening more accounts than you need because this tactic can increase fees. On the other hand, consider opening a second account with another brokerage firm if your primary account is with a popular firm that may experience periodic capacity overloads and transaction delays.

Trading with U.S. Online Brokers

Some of the prices advertised on U.S. online brokerage Web sites border on the incredible. It would therefore be natural for Canadian investors to jump on the better-priced U.S. broker bandwagon, wouldn't it? Perhaps not. That's because Canadians who use U.S. discount brokers may be bending the law!

Is it really possible for Canadians to trade through a U.S. broker? The answer is — it *may* be. All you are required to do is find a U.S. broker willing to take you on as a client. You will be asked to complete a "Form W8" for Internal Revenue Service (IRS) purposes. This form registers you, a Canadian, as a foreigner for U.S. tax purposes.

To be sure, if you go this route, you may be flouting a few provincial securities rules. For example, the "public interest" provisions under the Ontario Securities Act can remove an investor's trading rights. These provisions allow the regulators to step in to protect you from yourself. You have to make a call as to the likelihood that the regulators will enforce this — or have the resources to enforce it.

Currently, all trades in Canada have to be verified against a client's stated investment goals and knowledge. In the United States, online brokers assume that investors are already knowledgeable. As a result, execution times for trades are often faster there. In the near future, however, Canadian

rules in this area may be harmonized with those of the United States.

If you go with a U.S. broker and enter into a dispute, however, you have no remedy beyond what the firm is willing to do to help you. On the other hand, clients of Canadian brokers can complain to the Ontario Securities Commission, the Investment Dealers Association of Canada, or similar regulatory bodies.

It is important to note that U.S. dealers cannot serve Canadian clients without first registering with a provincial securities commission. At the date of writing this book, none of the low-cost U.S. brokers had done so. If you plan to sign up with a U.S. broker that accepts Canadian clients, first ask whether it is duly registered.

Most U.S. brokers are eager for new business. Few will turn down Canadian clients. Most have online application forms that accept foreign customers. This makes it easy to sign up.



You have to ask yourself about the wisdom of taking the U.S. broker route if you don't expect to be trading much. You also have to assess whether you want to give up some of the investor protection mechanisms outlined in this chapter. If you proceed, then consider yourself a rule-breaker! As with many things, the choice is yours to make.

CHAPTER 7

MAKING YOUR FIRST ONLINE TRADE

IN THIS CHAPTER

- Getting a current quote
- Placing different types of orders
- Cancelling an order
- Executing and confirming a trade
- Trading when the markets are closed
- What to do if you can't get online

When you decide that a stock is selling at the right price, it's time to move quickly. This chapter tells you how to place an order and explains how you decide what *type* of order to place. (In fact, you can initiate four different types of orders.)

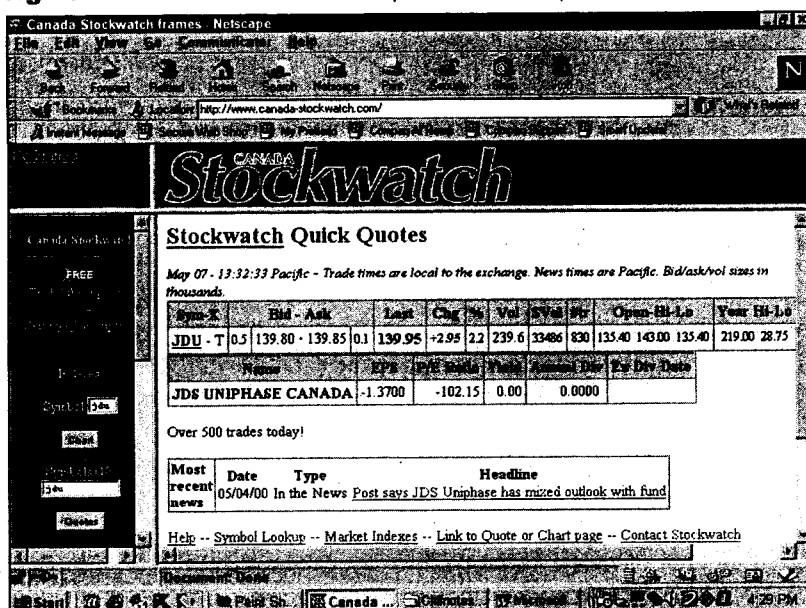
After you successfully place and confirm your online trade, this chapter takes you behind the screens to the big stock exchanges and electronic trading networks. You discover how your order gets filled by lots of people and computers you never even see.

Getting the Current Market Price

You can't be an informed buyer or seller if you don't know the most basic information — the price. Stock prices can change in a matter of seconds. Mutual funds shares are revalued daily. Bonds sold on the secondary market are less volatile, but can also change value quickly. Before you take the plunge, you need some relatively current price data.

Your online brokerage's Web site is likely to provide current market quotes for stocks, bonds, and mutual funds. You can also get free stock quotes at Canada Stockwatch (www.canada-stockwatch.com), shown in Figure 7-1, or Stockhouse Canada (www.stockhouse.ca). You can even get free real-time quotes (for stocks trading on U.S. exchanges) at Raging Bull (www.ragingbull.com). These services are mostly supported by advertising.

Figure 7-1: Web sites such as this one provide free stock quotes.



For mutual fund and bond price quotations, you can go to Web sites specializing in those types of financial instruments. For example, GLOBefund (www.globefund.com) and Morningstar Canada (www.morningstar.ca) have comprehensive databases of mutual funds, complete with free quotes, charts, and profiles. For bond quotes, you can go to E-Bond's Web site at www.ebond.ca. For quotes on both Canadian and foreign bonds, you can check out Quote.com Fixed Income at www.quote.com, at a cost of US\$9.95.

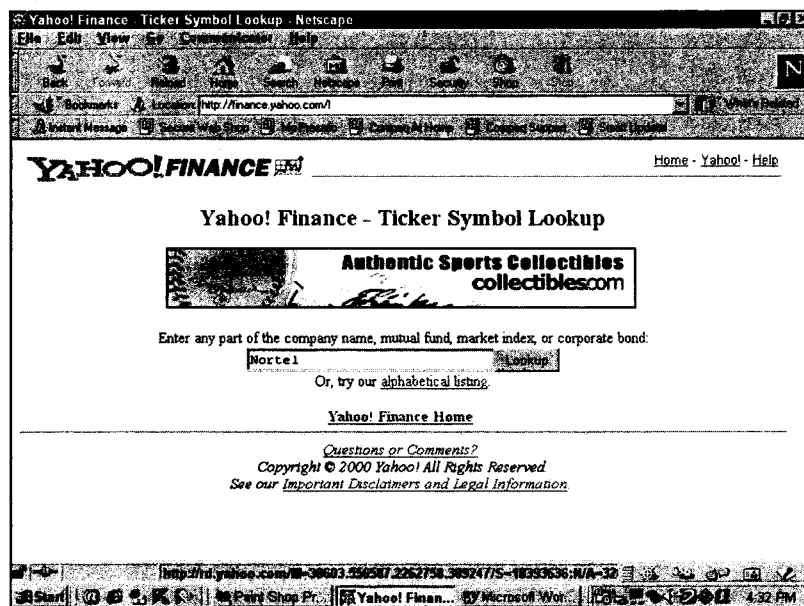


Stock quote formats differ greatly from site to site. However, they all show the stock on close of the last trading day and the *net change* since closing. The net change is the increase or decrease in price since the close of trading on the previous day. You then figure the current price by adding or subtracting the net change. The price of JDS Uniphase stock, according to the information in Figure 7-1, is \$139.95.

To get stock pricing information, you must first know the company's abbreviation, or ticker symbol. You can find it using the Yahoo! Finance Symbol Lookup feature at finance.yahoo.com by clicking the `symbol lookup` hyperlink, shown in Figure 7-2. You can simply type the name of the company into the Yahoo! Finance company search tool.

To search for a mutual fund ticker symbol at GLOBEfund (www.globefund.com) or Morningstar Canada (www.morningstar.ca), simply type in the name of the fund in

Figure 7-2: Searching for a stock ticker symbol at Yahoo!Finance.



the appropriate field. A brief fund company profile — including the ticker symbol — will be generated. For bonds, you generally have to locate a directory of bonds (sorted by type and maturity date), and click on the bond to get more detail.

Figure 7-2 shows a search for Nortel, for which the ticker symbol is NT. The search results also display the exchanges on which the stock is traded and the full company name.

Deciding What Kind of Order to Place

Trading a stock requires more than merely picking a company and monitoring its price. Your decisions concerning the conditions under which you place the order can also mean a great deal of money to you. For example, do you want to buy the stock at the current market price (whatever that may be), or do you want to buy the stock only if it reaches a particular price?

You can choose from four types of orders: market, limit, stop, and stop limit. Most online brokerage Web sites allow you to specify the type of trade by using a drop-down menu. Understanding the implications of each type of trade is important to successful online investing; the following sections explain each order type.

Buying or selling at market

When you place a market order, you're directing the brokerage to buy or sell a specified quantity of stock at the current market price. Because the price of a stock changes constantly, you may find yourself placing an order when the stock is at one price, only to find that it's filled at a different price. The price may have moved an eighth of a point or more in the intervening minutes.

A market order automatically expires at the end of the trading day. If you place an order after the close of trading (for example, late at night), it's technically good for the entire next trading day. In practice, it's usually filled shortly after the opening of trading.

The advantage of market orders is that they can always be filled because you're willing to pay the prevailing price. The disadvantage is that when markets are volatile, or when trading volumes are very low, you may find that your order was executed at a price that was significantly higher or lower than you expected.



Market orders are the most popular type of order. With heavily traded stocks, a market order should serve your purposes.

Issuing a limit order

Limit orders provide you with the convenience of not having to constantly watch the market. They can also protect you against dramatic movements in the market.

A *limit order* directs the brokerage to buy or sell stock when the price drops or rises to a specific number. When you place a limit order, the brokerage is limited to

- Buying the stock at the specified price or lower
- Selling the stock at the specified price or higher

For example, a limit order to purchase 500 shares of XYZ stock at \$40 a share means the broker may fill the order at \$40 or less, but not at \$40 $\frac{1}{8}$ per share. Alternatively, a limit order to sell at \$40 means that the broker can't accept a fraction of a penny less than \$40 for your stock.

When you place a limit order, you need to specify whether the order is a *day order* or a good till cancelled (GTC) order. A day order expires at the end of the trading day. A *GTC*

order doesn't expire. You have to remember to cancel it, as we discuss later in this chapter.

Placing a stop order

A *stop order* is a contingency order that becomes a market order when the stock trades, is bid, or is offered at a specific price. Stop orders differ from limit orders in that stop orders happen at a particular price rather than within a price range.

A stop order can help you stay in control of your portfolio when you can't get to your computer or reach your broker by phone. Stop orders are also very helpful when the market is on the move.

For example, if you purchased XYZ stock at \$45 a share hoping it would go up, but now the price is dropping, you may want to limit your losses by placing a stop order to sell the stock if the price drops to \$42 a share.

Understanding the complex stop limit order

A *stop limit order* is more complicated to understand than the other types of orders, but can be very useful to you given the right market conditions.

An example of a stop limit order is "Buy 100 shares of XYZ stock; stop at \$120 with a limit of \$120¼." This means you want your order to be activated to purchase stock at \$120 per share, but not if it goes above \$120¼ per share. Sell stops are used below the market price, and buy stops are used above the market price.

The advantage of this type of order is that it gives you more control over the price at which your order is filled. The disadvantage is that your order may go unfilled if your specifications can't be met.

Another variation: Fill or kill

The so-called *fill or kill* instruction has a name that's pretty descriptive of its function. Some online brokerage services allow you to specify that a limit order should expire — or be killed — if it can't be executed within a certain time frame.

Executing, Confirming, and Cancelling Orders

Are you ready to invest a chunk of your savings with a couple of clicks of your mouse? Indeed, all it takes is a few clicks to reallocate or change the character of your portfolio.

Executing and confirming an order

Now that you've scoped out the market, you're ready to make a move. Fortunately, it's easy to act with most online brokerages, barring the occasional technological glitch.

The procedure for executing a trade is similar from brokerage to brokerage, but the user interface that appears on your screen varies. The Web page for entering orders with TD Waterhouse can be found at www.tdwaterhouse.ca.

Regardless of which online brokerage you use to place a trade, you need to have the following information ready to enter:

- **Quantity:** Specify the number of shares of stock you want to buy or sell.
- **Ticker symbol:** Enter the ticker symbol for the stock you want to trade.
- **Price:** Enter the price at which you want to buy or sell the stock.
- **Order type:** Indicate whether you want to place a market, limit, stop, or other type of order.

- **Expiration:** Specify when you want the order to expire.

After you place your order, a confirmation message appears on your screen. If this message doesn't appear, call the brokerage immediately. If you simply repeat the steps you took to enter the trade, you may end up owning *twice* as much stock as you'd planned.

Cancelling or changing an order

Changed your mind? Got cold feet? Fortunately, cancelling or changing an order online is not a complicated proposition.

All brokerages allow you to cancel an order before the brokerage executes the trade. Normally, cancelling an order costs you nothing, and you accomplish it pretty much the same way you placed your initial order.

Cancelling an order usually takes about as much time as placing one. Unfortunately, scrapping your order can seem painfully slow in a volatile market when you've changed your mind. Don't be surprised if your cancellation is confirmed *moments* after your order is filled (and once your order is executed, you can't turn back). It's nobody's fault; that's everyday life in the world of online investing.

Taking Advantage of After-Hours Trading

After-hours trading when stock exchanges are closed is the newest rage. This U.S.-based phenomenon is made possible by the emergence of the Electronic Communications Network (ECN).

When you use an ECN to trade after hours, you're trading exclusively with other investors using that ECN. The ECN uses an electronic order-matching system that automatically pairs up limit orders to buy and sell.

Trading after hours has definite advantages. You have more time at night and it's quieter. But it can also present some unique risks.



When trading after hours, be wary of the following:

- You may encounter wider *spreads* between bids and offers than during usual market hours. This difference means that the ECN gets to pocket a larger portion of the price you pay or receive for stock.
- You're competing against professional traders with more information and analyses at their disposal.
- Some stocks are very *liquid* (they sell quickly) during extended-hours sessions; others aren't liquid at all (nobody wants to buy them). This situation happens because you're limited to trading with other ECN users during after-hours sessions.
- News events may have a greater impact on stock prices, and in general, stock prices may be more volatile.

Only NASDAQ stocks are available for trading during after-hours sessions. TSE, CDNX, NYSE, and American Stock Exchange securities are not eligible for extended-hours trading.

Coping When You Can't Connect

It's bound to happen. Perhaps a problem occurs with your broker's Web site or a local ISP server, or maybe it's the telephone lines. But for whatever reason, you can't connect to your broker.

Here are a few precautionary and coping strategies:



- **Use an online brokerage that offers telephone trading as well as online services:** This feature can be difficult to find because fewer online brokerages than you may think offer you the option of placing a trade by phone. Don't assume that yours does, so ask.
- **Open more than one online brokerage account:** If traffic is heavy on one brokerage site, maybe you can place your trade on another site experiencing less volume.
- **Enter trades of less than 1,000 shares on the NASDAQ:** The NASDAQ offers some safeguards that are an outgrowth of the 1987 stock market crash, when market makers' phones went unanswered as stocks plummeted. Current U.S. regulations require that trades of less than 1,000 shares on the NASDAQ must be swiftly executed. This *Small Order Execution System* requires that trades of less than 1,000 shares be executed within a matter of minutes. If things get really volatile, consider trading large amounts of stock in separate trades of less than 1,000 shares.

CHAPTER 8

MAINTAINING YOUR PORTFOLIO ONLINE

IN THIS CHAPTER

- Deciding when to sell an investment
- Keeping track of the paperwork
- Tracking your portfolio online

Remember the tortoise and the hare? Some investments are hares; others are tortoises. You can't take your eye off the race for a minute.

Sometimes your hare stays the course and makes you a winner. Sometimes it's your safe, steady tortoise of an investment that meets your goal of doubling your investment in five years. Or maybe the hare and the tortoise both take a snooze.

This chapter tells you how to monitor and track the performance of your investments and how to decide when and if it's time to pull your bets from a lagging contender.

Deciding When to Sell a Stock

Even failed investment decisions were full of promise at the start. No one buys an investment expecting to sell it at a loss. But it happens.

If you're investing with long-term goals in mind, do you try to ride out the rough spots? Or is it wiser to sever yourself from an investment headed south? Both strategies have their time and place. And to complicate things further, experts

sometimes advise selling a *profitable* investment if a better opportunity comes along.

Table 8-1 highlights six scenarios that might induce an informed investor to consider selling a stock.

Table 8-1: When to Consider Selling a Stock

Scenario	When to Consider Selling
You observe fundamental changes in market dynamics or management	Events that spell uncertainty for the company or industry should cause you to reevaluate your investment.
Profits are both lagging and not satisfactorily explained	Sometimes the company provides a good (and temporary) reason why profits don't meet expectations. But if you don't feel that the explanation is satisfactory, plausible, and encouraging, it may be time to sell.
The company's growth cycle has peaked	New companies that fill a market niche can experience a meteoric rise in the early years. But profits peak and level off as competition increases. If recent growth has been stagnant for a previously profitable investment, it may be time to cash out and move on to new horizons.
You can use a tax loss in the current year	If you can sell an investment at a loss in a year when you're facing high taxes, you may be wiser to write it off now than wait for a rebound.
The critics pan it	If several respected analysts and publications are suddenly giving an investment the thumbs-down, you should at least consider their reasoning. But never take what only one brokerage house says as the final truth. Brokerages are far from perfect.
A better opportunity comes along	Sometimes a good investment needs to be replaced with a better one to maximize the overall performance of your portfolio.

Rolling Over Your Mutual Funds

Usually, the best strategy for mutual funds is hands off! You want to avoid churning your mutual funds for a couple of good reasons:

- You generally have to pay a fee to get in or out of a mutual fund. (See Chapter 4 for a discussion of load and redemption fees.)
- You're paying for the management expertise of a fund manager who doubtless knows that the fund isn't performing well. If you sell, you may not benefit from the fund manager pruning the portfolio tree for non-performing stocks and cultivating better performance. Pulling out of the fund may cost you the benefit of the manager's rebounding strategy.

Nevertheless, at times you may see that it's time to sell your fund shares. Table 8-2 outlines three unfortunate scenarios that may rightfully cause you to bail out.

Table 8-2: When to Consider Selling a Mutual Fund

<i>Scenario</i>	<i>When to Consider Selling</i>
A change in fund management followed by losses	You need to keep up with changes in fund management and philosophy. If either of them no longer inspires your confidence based on performance, analyst reviews or intuition, it's time to make a move.
An industry or sector on which the fund focuses is lagging	Sometimes events that affect an industry or sector as a whole affect the potential of your fund.
You've met your long-term goals	After your investment has grown to a certain level, you may decide to invest some of your profits elsewhere and increase your level of diversification.

Deciding When to Part with a Bond

Because bonds mature all by themselves, the decision as to when to end the investment relationship is made for you, to some extent, by the specified maturity date. But you may decide to sell a bond on the secondary market rather than wait for it to mature.



Bonds are less responsive than stocks to market rumours and hype. The value of a bond on the secondary market on any given day is determined mainly by prevailing interest rates.

You may decide that a particular bond has no place in your portfolio if you experience any of the following scenarios:

Table 8-3: When to Consider Selling a Bond

<i>Scenario</i>	<i>When to Consider Selling</i>
Interest rates are on the rise	If you seriously suspect that you're headed for a period of high inflation and interest rates that may erode the real value of your investment, it may be time to sell.
You have more bonds than you need for diversification	Bonds are important for stability and diversification, but if your portfolio consists of more than 40 percent bonds, you may consider selling off a few in favour of some higher-growth-oriented investments.
Events have affected the stability of your corporate bonds	Corporate bonds are like stocks in that events that adversely affect the company may also affect the stability of your investment. A bond's credit rating can change overnight, and you need to keep current on changes that may affect the rating.

Saving the Right Paperwork

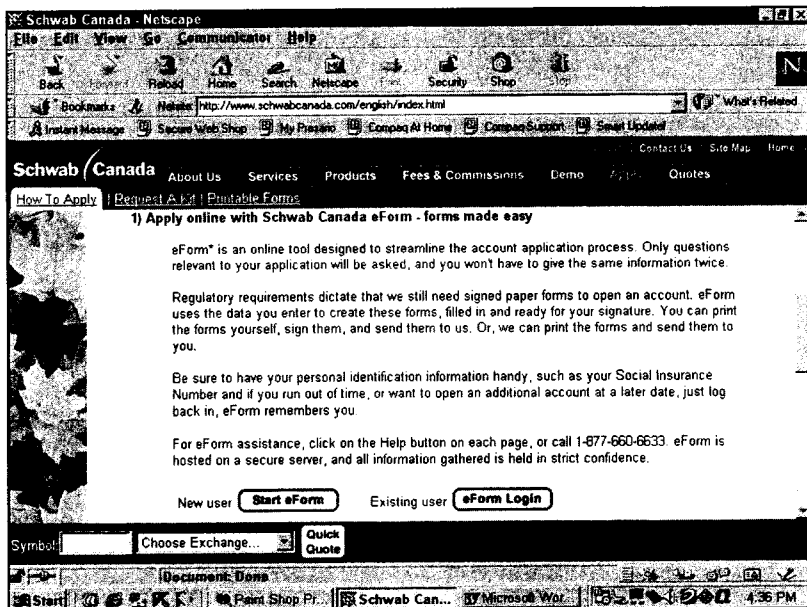
Did you think that as an online investor you'd be immune from a mailbox stuffed with investment paperwork? Not so. Your online investments are going to generate as much recycling fodder as your full-service brokerage ever did.

What must you save from the morning mail, and what can you safely toss? This section gives you a few filing (and shredding) tips.

Safekeeping the essential documents

Your online account begins generating paper before your first trade. You even generate some of it yourself by downloading and printing it from your computer. The following list highlights important documents that you should save for your records:

- **The contract to open your online investing account:** When you first open an online account, you're asked to print out, sign, and mail an agreement. The instructions for mailing a contract to open an account with Charles Schwab Canada (www.schwabcanada.com) are shown in Figure 8-1. The agreement contains the current terms and conditions of your relationship with the brokerage. You should save a downloaded copy of the signed agreement in case the brokerage amends the form in the future.
- **Account balance information:** When you access information about your account via the Web, you only get the current information. To maintain a history of your account activity, print out hard copies of your account information or save it to a file every month.
- **Brokerage statements:** Be sure to save the monthly or quarterly statements your brokerage sends you. Save all these statements indefinitely, because the Canada Customs and Revenue Agency (formerly known as Revenue Canada)

Figure 8-1: Save a copy of your online brokerage agreement.

may want to see your historical account information in the event of an audit.

- **Annual summary:** You receive an annual summary from the brokerage that contains information to help you prepare your income taxes, but not as much detail about specific transactions as you get on the monthly and quarterly statements and trade confirmations. Hold on to the annual summaries for as long as you keep your account open or as long as you hold a certain investment.
- **T5 or T3:** Sometime after the close of the tax year but before the end of February, you'll receive an Agency T5 or T3 for each of your brokerage accounts. These tax slips disclose any dividends, interest income, and capital gains distributions you may have received during the year. The Agency receives a copy of the slip and matches the information on its copy to what you report on your return. Save this form with your annual tax documents.



A good filing system is a must! A separate expanding file for each online account or investment you maintain works well.

Discarding what you don't need

Luckily, not everything that you receive from your online brokerage has to be saved. Here are a few items you can safely toss:

- **Annual Reports:** Annual reports take up a lot of space and contain tons of promotional hype, and the information you need is readily accessible elsewhere.



If you want to compare a prior year's performance to that of the current year, you're better off getting your information from a source such as SEDAR (www.sedar.com) or Carlson Online (www.carlsononline.com). These Web sites provide data for several prior years at a glance, already organized into a format that facilitates comparison.

- **Proxy notices:** A *proxy notice* informs you that, as a shareholder, you have a right to vote on pending matters, such as the election of the board of directors. After the vote has been taken, you don't need to hang on to the proxy notice.
- **Advertisements:** You can pitch any advertising materials your brokerage sends you about stocks or investment opportunities as soon as you've reviewed them.
- **Individual transaction confirmations:** Save the individual transaction and trade confirmations that you get in the mail until you receive the monthly or quarterly statement that details each. After you've matched the information, you can safely discard these notifications.

Tracking Your Portfolio Online

Losing track of your existing portfolio while you're immersed in research of what to buy next is a mistake you can't afford



to make. Keep track of the securities you own and what it's worth because this information is essential to your financial well-being.

Before you decide on a portfolio tracking system, get a handle on what you want to monitor. You certainly don't want to waste a lot of time gathering extraneous information, nor can you afford to overlook critical data.

Most investment experts agree that, at a minimum, investors should keep tabs on the following:

- What securities you own, how much of them you own, and their current value
- What securities you may want to sell in the near future
- What securities you may want to buy in the future, if their price moves into your range



You should also stay current with events that may affect a company or market sector in which you've invested. For example, a medical breakthrough that you see in the newspapers may cause you to reevaluate your health care sector stocks.

Reevaluating investments is similar to your initial evaluation process. The Bloomberg (www.bloomberg.com) and Morningstar Canada (www.morningstar.ca) Web sites are good sources of investment-related news that may spur you to look at your portfolio.

Your Portfolio Tracking Options

Gone are the days when investors hovered over stock ticker machines, waiting to pick out the market price of each of their investments from a mass of endlessly curling tapes. Online portfolio tracking software lets you see changes to your investment values instantly and at a glance.

The Internet offers three types of portfolio management programs:

- **Web-based portfolio management programs:** Investor supersites, Internet portals, and large news organizations generally sponsor online portfolio management programs. These programs usually don't require any software downloading, and they constantly update your portfolio.
- **PC-based portfolio management programs:** These programs present portfolio tracking as a feature of a personal software program like Quicken 2000 (www.quicken2000.com) or Microsoft Money 2000 (www.microsoft.com/money). PC-based portfolio tracking can be done with a software program downloaded from the Internet. These programs can be very inexpensive or free. PC-based portfolio tracking programs usually have more choices and functions than Web-based portfolio management programs. Many handle both Canadian and U.S. stocks.
- **Portfolio management with your online broker:** Portfolio management with your online broker is automatic. Your online broker knows what you traded, so the brokerage can automatically update your portfolio. The advantages of using your broker's portfolio management system are that you don't have to manually input transactions made, and your portfolio always reflects the current value of your investments.

Using Web-Based Portfolio Management Programs

Many Web sites provide online portfolio tracking services. Some of these services are free and others are fee-based. The aim of Web-based portfolio management tools is to help

you make better investment decisions and thus increase your capital gains. Each Web-based portfolio management program offers something different.

Canoe

Canoe Money (www.canoe.ca/money) provides a personal portfolio of your Canadian stock holdings. It updates your portfolio at the end of each day. The portfolio management program requires your free registration. Canoe's portfolio tracker handles as many portfolios as you want. Canoe has a portfolio tracker for both Canadian mutual funds, and Canadian and U.S. stocks. From the Canoe Money home page, click Portfolio.

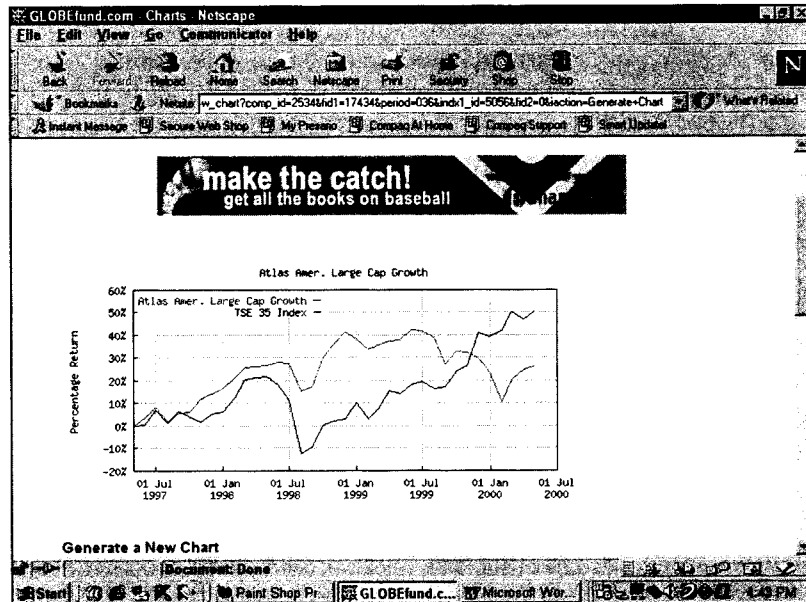
i|money

i|money (www.imoney.ca) also provides a personal portfolio of your Canadian stock and mutual fund holdings, and updates your portfolio at the end of each day. Like most Web-based portfolio management programs, it's free. i|money's portfolio tracker handles as many as ten portfolios, with up to 30 stocks or mutual funds in each portfolio. For example, you can have one portfolio to track your RRSP investments, another portfolio for tracking mutual funds obtained for your children's education fund, and still another portfolio for your regular stock trading account. i|money is free, but you need to subscribe to the service. Click My Portfolio from i|money's home page.

GLOBEfund

GLOBEfund (www.globefund.com), shown in Figure 8-2, is no longer just about mutual funds. GLOBEfund now offers a new stock portfolio tracker (much like Canoe's and i|money's) in addition to its comprehensive mutual fund tracking program.

Figure 8-2: GLOBEfund calculates and compares the performance of your mutual fund portfolio to market benchmarks.



If you want to track mutual funds, GLOBEfund allows you to determine your daily gain or loss as compared to the previous day, beginning of the month, or beginning of the year. It calculates performance using a return on investment measurement called "internal rate of return," or IRR. IRR is useful when you want to compare the performance of your mutual funds to benchmark indexes like the TSE 300 or TSE 35. You can perform such a comparison on a fund-by-fund or total portfolio basis.

Stockpoint

Stockpoint Portfolio Management (www.stockpoint.com) provides a personal portfolio, stock news, and end-of-the-day e-mail portfolio updates. The portfolio management program requires your free registration. Stockpoint Portfolio

Management allows you to download current share options in a Quicken software format and handles up to 50 U.S. and Canadian stocks, mutual funds, and stock indexes (so that you can compare the performance of your investment selections). From the Stockpoint home page, click Portfolio.

Thomson Investors Network

Thomson Investors Network (www.thomsoninvest.net) has both free and fee-based services. Registered guests have free use of the U.S. and Canadian portfolio tracking services. Guests are allowed 25 portfolios containing 25 securities each. The portfolio displays values in fractions or decimals (for Canadian stocks), account history, and commissions. Microicons indicate charts, alerts, breaking news, and research reports about your investment.

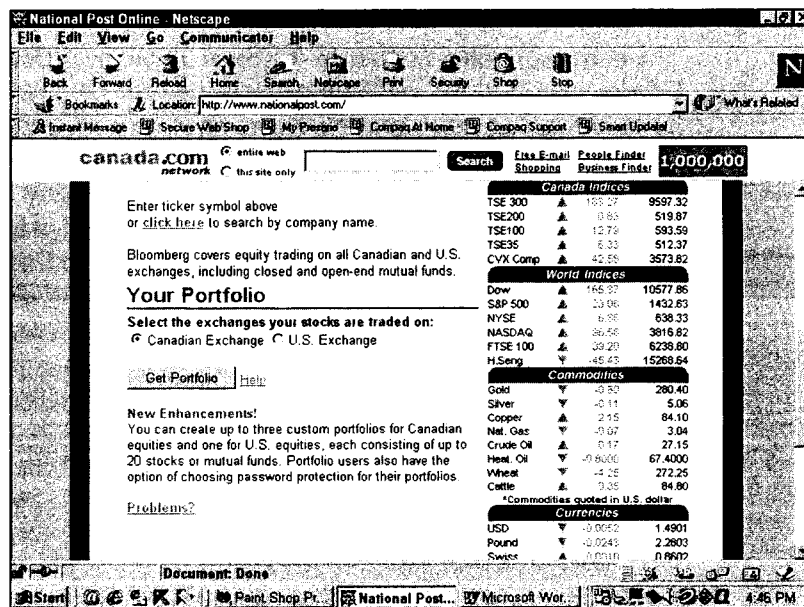
Membership is US\$9.95 per month or US\$89.95 per year for unlimited access. Other membership services include flash mail (reports sent directly to your e-mailbox), 25 mutual fund reports and 25 company reports per month, company and mutual fund screening tools, and intraday updates of market news and analyses. Thomson also includes municipal bond news, bulletin boards, chats with experts, and an education centre.

National Post Online

Many large news organizations provide portfolio tracking services that can make tracking your portfolio very convenient. The portfolio tracking functions of online news organizations generally require the security's ticker symbol, quantity of securities you purchased, purchase price, and date of purchase. In return, your portfolio tracker shows today's delayed market price, today's change, market value of your shares, the value of your investment, and your gain or loss.

The National Post Online edition (www.nationalpost.com), shown in Figure 8-3, is one such news service. It allows you to create up to three custom portfolios for Canadian equities, and one portfolio for U.S. equities, each consisting of up to 20 stocks or mutual funds. National Post Online has all the bases covered, and it's free. If you feel uncomfortable about tracking your portfolio online, you can opt for a free password protection option at this site.

Figure 8-3: National Post Online lets you track a mix of Canadian and U.S. stocks and mutual funds.



CBS MarketWatch

CBS MarketWatch (portfolio.marketwatch.com), a free program, allows you to create an unlimited number of portfolios and track up to 200 ticker symbols for options, mutual funds, and stocks on all the major exchanges in each portfolio. You can also customize price and value views to display the data. Prices are automatically updated every five minutes.

My Yahoo!

Portals are not to be outdone in the portfolio tracking business! Portals are colossal Web sites that are designed to be the Internet user's first window onto the Web — the first page that comes up when the user accesses the Web. Often, portals can be personalized so that the user can get news, sports, current portfolio data, or interest rate information before moving on to other sites. Yahoo (www.yahoo.com), AltaVista (www.altavista.com), Lycos (www.lycos.com), and Excite (www.excite.com) are examples of portals.

Look at the My Yahoo! personalized portfolio program (my.yahoo.com). (Other portals have similar features.) To use the free portfolio, you need to set up an account with My Yahoo! Click the Log In link that appears on the Portfolio line and then click Create an Account. Click the Edit link that appears and enter a portfolio name. Add the ticker symbols of your Canadian or U.S. investments separated by commas where indicated. Enter or edit the number of shares or purchase prices by clicking the Enter More Info button at the bottom of the page.

Quotes are delayed by 15 minutes for NASDAQ and 20 minutes for other exchanges. Portfolio management information includes company ticker symbol, price at the last trade, amount of price change at the last trade, trading volume, number of shares held, the total value of the issue, dollar and percentage of change between the purchase price and the current value, amount paid per share, and dollar capital gain or loss and percentage of capital gain or loss.

Personal Portfolio Management Software That You Can Buy and Install

If you want more analysis, including graphs of your investments' performance, tax data, and price and volume alerts,

you may want to consider a PC-based portfolio manager (a software program that operates on your PC). For example, you can select Microsoft Money 2000 Financial Suite or Quicken Deluxe 2000 (which you may already use for your online banking), shareware (software that you can download for free or for a very small fee), or free Internet programs. In the following sections, we describe and provide examples of PC-based portfolio management programs.

Personal finance software programs frequently offer much more than what you pay for. They provide a way to access online banking, organize your personal finances, understand what you have and what you owe, and organize your financial accounts for the tax man. Also, portfolio management programs track and analyze your portfolio's performance. In most personal finance software programs, your portfolio's gains and losses are automatically used for your net worth calculations. With many personal finance programs, if you are connected to the Internet, you can automatically update securities prices. Following, we describe the two most popular personal finance software programs: Microsoft Money 2000 Deluxe and Quicken Deluxe 2000.

Microsoft Money 2000 Deluxe

Microsoft Money 2000 Deluxe (www.microsoft.com/money) is a personal finance software program that can help you stay organized by tracking activities in your savings and chequing accounts, and it can do your banking and bill paying online. You can also manage your investments by downloading quotes and brokerage statements from the Internet. You can plan your retirement and more. The Deluxe program costs \$99 and includes a free six-month subscription to MSN Investor (investor.msn.com).

Microsoft Money 2000 Deluxe's portfolio management function allows investors to view performance, holdings, quotes, fundamentals, positions, and the asset allocation of the portfolio. You can track employee stock options and create a Watchlist of investment candidates. Portfolio information is linked via your hard drive to MSN Investor (investor.msn.com). However, to access MSN Investor you must pay an additional US\$9.95 per month.

Quicken Deluxe 2000

Quicken Deluxe 2000 (www.quicken2000.com) is a personal finance software program that can assist you with your home and small business finances, and help you prepare for retirement and educational costs. The Quicken Deluxe 2000 portfolio's table-style format is easy to read and can be organized into customized views. It also tracks tricky financial transactions like stock splits and corporate takeovers. You can download up to five years' of stock quotes for trend analysis and record keeping. Quicken can also help you calculate your capital gains taxes (not always an easy task what with Canada's frequent tax rule changes).

Quicken Deluxe 2000 has a feature called Online Investment Tracking. This feature connects individuals to financial institutions for online banking, online bill paying, and online investment tracking through the Open Financial Exchange Server. The Open Financial Exchange Server software was developed by Microsoft, Intuit, and CheckFree.

Intuit's online Investment Tracking (www.intuit.com/ofs/invest_tracking.html) allows participating brokerages to download current account statements directly to individuals, which allows investors to stay up to date by seeing recent transactions, holdings, and balances. In other

words, investors don't have to wait until the end of the month to see exactly what they own. The Quicken Deluxe 2000 program costs Cdn\$95.

Downloadable portfolio management programs

Several hundred portfolio management programs are available for your investment tracking. The programs vary in price from free to \$500. Many of the freeware and shareware portfolio management programs include an amazing number of features but are somewhat cumbersome to work with. Some brokers give free portfolio management programs to customers who open an account. To discover what works for you, try some of the free demonstrations or trials that vendors offer. Following are a few examples of PC-based portfolio management programs:

Fund Manager for Windows 98 (downloadable at rocketdownload.com or www.zdnet.co.uk/software/) is a top-rated portfolio management program for stocks and mutual funds for the average individual investor. Fund Manager provides many easy-to-read graphs, charts, and reports that are printable. You can update prices by clicking Internet. Fund Manager imports from Prodigy, MSN, Quicken, and other sources. The program uses Windows 95/98. It's free to try, US\$34 to own, and US\$5 to upgrade.

StockTracker is free, downloadable software available at www.stockcenter.com. You need to register and download the software to use this program. StockTracker can automatically update security prices, value the portfolio, and provide price alerts that you predetermine. The program can be connected to the Internet and have access to all the principal U.S. and Canadian markets. You can create up to 12 portfolios.

Using Online Brokerage-Based Portfolio Tracking

Usually, you must update Web-based portfolio management programs when you buy or sell securities, pay a commission, or receive a dividend or stock split. This is time-consuming and it's possible you could make an error. Such inconveniences can be especially troublesome for active traders. The portfolio management function of your online brokerage eliminates this problem. Following are several electronic brokerages that provide portfolio management programs:

TD Waterhouse (www.tdwaterhouse.com) has a portfolio tracker that can be used to monitor a portfolio to analyze returns and percentage gains and losses. You can also track up to five portfolios in real time. Each portfolio can contain a combination of up to 10 stocks, options, mutual funds, and/or indices from a recognized North American exchange.

Royal Bank Action Direct (www.actiondirect.com) gives you the ability to create custom portfolio reports and produce graphs to monitor information such as capital gains, profits, losses, and rate of return. You can perform more detailed analyses by exporting data to other software programs. It also includes a diary function that allows you to set up price alerts and reminds you of maturing investments.

E*Trade Canada (www.canada.etrade.com) provides a portfolio management tool with your free registration. To create your portfolio, simply enter the name and a description (for example, Registered Retirement Savings Plan). Enter the ticker symbol, type of security, quantity, cost, and the date the security was acquired. The portfolio management program displays your portfolio performance. You can manually edit, add, or split investments into multiple portfolios (the education account, the retirement account, and so on).



E-Bond (www.ebond.ca) lets you track the value of your bond holdings, but only if you hold them in an E-Bond account. This Canadian independent bond brokerage firm allows you to access your account 24 hours a day.

CHAPTER 9

AVOIDING ONLINE SCAMS

IN THIS CHAPTER

- Avoiding pump-and-dump schemes
- Watching out for stock scalping
- Finding Web sites that protect you

Canadian newspapers have printed many stories about Internet stock fraud and scams. No doubt the Web is a new communication medium for an old pastime: scamming people who are looking to get rich quick.

This chapter gives you pointers on how to protect yourself while investing on the Web. Your best defence against online fraud is thorough and patient research.

Looking at Who Gets Cheated and How

How treacherous is the Internet? It's likely no more dangerous to the individual investor looking to get rich on a single hot tip than traditional investing has been. The increased potential for online stock scams lies in the Internet's ability to reach so many investors in so short a time.



Most scams involve *penny stocks*, which are stocks that sell for less than a dollar per share. These stocks have a limited trading volume and a low share price, and these factors make it easier for the bad guys to significantly affect the price of the stock quickly. Causing this type of effect on the price of heavily traded stocks listed on the Toronto Stock Exchange or the NASDAQ is much more difficult.

The pump and dump

The *pump-and-dump* scheme involves feeding false information onto the Web to pump up the price of a stock. The perpetrators of the scheme own a huge chunk of the company's stock prior to the scam, which they dump by selling it to eager investors who believe the rumours of an imminent takeover, scientific breakthrough, or whatever other story the unscrupulous promoters have concocted.

This scam was used to drive up the price of a technology company called Pairgain Technologies, Inc. The scammers posted a report to a Yahoo! message board claiming that an Israeli rival was buying out the Pairgain stock for a hefty price. The stock price quickly rose 30 percent as a result of the bogus report, which was cleverly disguised to look as if it had originated at the Bloomberg News site.

The stock closed at the end of the day as the twelfth most heavily traded on the NASDAQ — ahead of even popular stocks like Amazon.com. After the rumour was exposed, however, share prices plummeted, leaving investors holding huge losses. Even sophisticated investors were taken in by the scam.



Verify the source of information that you act on. Check that the reports actually appear on the Web site addresses, commonly referred to as the Uniform Resource Locators (URLs) that they say they do, and that the URLs actually point to the Web site that they say they do.

Stock scalpers

Scalping is the practice of an “advisor” recommending that an investment group buy a particular stock that, unbeknownst to the group, the so-called advisor is trying to unload at a profit. Canadian regulators have stepped up efforts to prosecute such bogus stock tipsters.

One scalping scheme involved a man who went by the name of Tokyo Joe (and who also posted messages as Tokyo Mex). A reputed financial guru, he charged Web surfers up to \$200 a month for his stock picks and other investment advice.

In 1999, the Securities and Exchange Commission (SEC) brought charges against Tokyo Joe and his company, alleging that he misled his group into buying a stock that he had previously purchased and then sold at a profit to take advantage of the rise in price that his advice caused.

Web Sites That Protect You

You don't have to feel like helpless prey on the Web. Government regulatory agencies and consumer agencies are fighting crime and exposing scams with their own Web sites.

The following list provides sample Web sites that work to protect you:

- **The Ontario Securities Commission (OSC):** This site (www.osc.gov.on.ca) represents the largest of Canada's provincial securities commissions. It governs the Toronto Stock Exchange, and acts as appeal body if a decision made by the exchange is contested.
- **The British Columbia Securities Commission (BCSC):** This site (www.bcsc.bc.ca) also represents one of Canada's largest provincial securities commissions and acts as appeal body.
- **The Office of the Superintendent of Financial Institutions (OSFI):** OSFI (www.osfi-bsif.gc.ca) is a federal regulator of banks, trust companies, federally registered pension plans, and certain lenders. It also has a complaint and dispute resolution process.

- **The Canadian Investor Protection Fund (CIPF):** This site (www.cipf.ca) acts as an insurance fund to cover certain investor losses, subject to limits.
- **Better Business Bureau (BBB):** This site (www.bbb.org) has an online complaint form that you can complete and promises to follow up within two weeks of your complaint.
- **Securities and Exchange Commission (SEC):** This site (www.sec.gov) has a comprehensive online complaint process that Canadians are entitled to use.
- **National Fraud Information Center (NFIC):** This site (www.fraud.org) forwards your complaint to the appropriate organizations and includes it in their Internet fraud statistics (which may not help you get your money back, but may be helpful to other online investors). It's a good place to go to check out an investment that sounds too good to be true.
- **The Federal Trade Commission (FTC):** This U.S. agency, which monitors securities activities, maintains a Web site at www.ftc.gov. Click Consumer – Investments to arrive at the Web page which provides you with fraud alert information and extensive advice on how to avoid getting burned online. You can also find out about the agency's latest regulatory efforts and interesting scams that the FTC has uncovered.
- **The Stock Detective:** This commercial site, which you can find at www.stockdetective.com, is devoted to reporting all sorts of information about stocks, but with a special emphasis on reporting “stinky stocks” and cyber-scams.

CLIFFSNOTES REVIEW

Use this CliffsNotes Review to practise what you learn in this book and to build your confidence in making online investment decisions. After you work through the review questions, the problem-solving exercises, and the fun and useful practice projects, you should be well on your way to achieving your goal of profitable online investing.

Q&A

1. Which of the following is a not-for-profit organization that maintains a Web site devoted to educating individual investors and helping them develop sound investment strategies?
 - a. The Toronto Stock Exchange at www.tse.com
 - b. The Office of the Superintendent of Financial Institutions at www.osfi-bsif.gc.ca
 - c. Investor Learning Centre of Canada at www.investorlearning.ca
2. The investing principle that helps protect your portfolio against loss from adverse events that affect a particular company or industry is called _____.
3. *Dollar cost averaging* refers to which of the following practices?
 - a. Investing regular amounts at regular time intervals
 - b. Buying stocks costing an amount within an average range
 - c. Buying stocks at a price consistent with their historical average cost
 - d. Predicting future performance based on historical trends
4. An *index fund* is
 - a. A mutual fund that discloses its performance publicly to the Morningstar Canada mutual fund index
 - b. A mutual fund that buys stocks that have a price point within an average indexed range

- c.** A trust that funds research in the CDNX index
 - d.** A mutual fund that's designed to mirror the performance of a major stock index
- 5.** Placing a stock trade after the NASDAQ has closed for the day is made possible by using a(n) _____
- _____.
- 6.** A stock that's *not* listed on the Montreal Exchange but that's traded on the NASDAQ may be referred to as
- a.** A penny stock
 - b.** An option
 - c.** A high-risk investment
 - d.** An over-the-counter stock
- 7.** TD Waterhouse offers a service that allows you to view your portfolio on your computer screen, which is called _____
- _____.
- 8.** A Web site that contains discussion forums is
- a.** www.sedar.com
 - b.** www.edgar.gov
 - c.** www.stockhouse.ca
 - d.** www.gomez.com
- 9.** The process of creating a list of stocks or mutual funds that meet your initial criteria and merit further research is called _____
- _____.
- 10.** Which of the following is a good source of accurate historical data reflecting a company's performance for the past five years?
- a.** Chat rooms
 - b.** A company's annual report

- c. A company's prospectus
 - d. www.carlsononline.com
11. The document(s) that contain(s) the income tax information reported to the Canada Customs and Revenue Agency concerning your investment is _____
12. At which of the following Web sites can you access all documents filed by a company with the securities regulators?
- a. www.betterinvesting.com
 - b. www.sec.gov/edgarhp
 - c. www.sedar.com
 - d. www.gomez.com
13. A *limit order* specifies a limit for _____

Answers: (1) c. (2) diversification (3) a. (4) d. (5) Electronic Communication Network (6) d. (7) portfolio tracking (8) c. (9) screening (10) d. (11) T5 and T3 (12) b. and c. (13) the maximum or minimum price you're willing to settle at

Scenarios

1. You have a stock mutual fund which experienced a loss in the last two months, but which is still profitable for the year. What do you do with the fund? _____
2. Your investment portfolio consists of carefully selected small-cap, mid-cap, and large-cap stocks diversified across industry sectors. What other investments should you consider adding to your portfolio? _____

- 3.** You own a stock that has always been profitable in the past, but has been lagging over the past nine months. You suspect it's because other competing companies have begun to market similar product lines. What do you do? _____
_____.
- 4.** A buddy from your Yahoo! Investment Club forwards a message about an imminent takeover of an obscure company, which is expected to send the price of the stock skyrocketing. The stock is only \$3.50 a share. You're tempted. At \$3.50 a share, how much can you lose? _____
_____.

Answers: (1) The best course of action is to continue to watch the mutual fund, but probably not to sell your shares at this point. Investments fluctuate over the short term, and fees associated with mutual funds are a further deterrent to selling them to look for greener pastures over the short term. (2) You should invest 30 percent of your portfolio in bonds to achieve diversification and stability. (3) You should definitely research the events that may have adversely affected the company's market share and re-evaluate the situation. (4) You can lose \$3.50 a share (your entire investment), plus brokerage commissions.

Consider This

- During no 20-year period in history has the stock market lost money. This includes the 20-year period spanning the Great Depression.
- The Dow Jones Industrial Average, the most widely reporting stock market tracking index, is based on the performance of just 30 stocks.
- The average actively managed mutual fund beat the performance of the average index fund in 1999 for the first time in ten years. In the past, index funds have outperformed actively managed mutual funds. Is this a fluke, or are fund managers becoming more skilled and savvy?

CLIFFSNOTES RESOURCE CENTRE

The learning doesn't need to stop here. CliffsNotes Resource Centre shows you the best of the best — links to the best information in print and online about online investing and the Internet. And don't think that this is all we've prepared for you; we've put all kinds of pertinent information at www.cliffsnotes.com. Look for all the terrific resources at your favourite bookstore or local library and on the Internet.

Books

This CliffsNotes book is just one of many great titles on investment and financial topics published by CDG Books Canada and IDG Books Worldwide, Inc. If you want some great next-step books, check out these other publications.

Investing Online For Canadians For Dummies, by Andrew Dagens and Kathleen Sindell, tells you everything you need to know to invest online and includes a directory of investing Web sites. CDG Books Canada, Inc. \$27.99.

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