

# FACTS ABOUT ONLINE INVESTING



Department  
of Commerce

Division of Securities

## THE INTERNET: A TOOL FOR FINANCIAL MANAGEMENT

The Internet has become a round-the-clock source of financial products, services and information. Electronic trading, or online investing, has become popular. As more investors explore the Internet for the purpose of personal financial management and investing, it is important to remember that it is just a tool. A working knowledge of basic personal finance, good decision-making skills and an understanding of the potential risks are essential to investing, especially when investors enter cyberspace.

### Before beginning any online investment, be sure to:

1. Understand that, most likely, you are not linked directly with the market and that the click of your mouse does not instantly make a real-time trade or cancel an order.
2. Determine if there is a delay in the stock quotes and account updates you are receiving.
3. Check out the online broker's ability to get the best price for investors. Most brokerage firms provide this information on their websites.
4. Obtain information about entering and canceling orders (market, limit, and stop loss) and the details and risks of margin accounts (borrowing to buy stocks).
5. Get information from the firm about delays, website outages, interruptions, ease and speed of trading. Make sure that the firm has an alternative way to execute trades.
6. Know how to contact a customer service representative at the firm if problems should occur.
7. Don't forget to contact the Ohio Division of Securities to verify the registration status and discipline history (if any) of the online brokerage firm, or to file a complaint, if appropriate. You can contact the Ohio Division of Securities at 1-800-788-1194 or online at [www.com.ohio.gov/secu](http://www.com.ohio.gov/secu).

### Choosing an Online Brokerage Firm

Discount or "online only" brokers serve as order fulfillment centers. You will not have your own personal adviser assigned to make recommendations suited to your specific needs. The research, choices and decisions of what stocks to buy and when to sell are 100% your responsibility. Since these brokerages do not have to support research departments and large staffs to offer the one-on-one customer service of a full-service broker, they can charge deeply discounted transaction fees.

While all discount brokers may offer low transaction fees, there are differences among them. You must conduct some research to find the one that best fits your needs. Each online broker will have a required minimum deposit amount to open an account. In addition, some require that a specific number of trades be conducted per quarter or per year in order to avoid a maintenance fee. If you plan to make a lot of trades, that type of fee requirement wouldn't be a factor in your decision. If you don't make a lot of trades, it might be wise to keep looking. With regards to your conducting research on an investment opportunity, some online brokers have a very limited in-house research capability while others have large investment-oriented libraries open to their customers. The ability to do research on a company of interest is an important tool for a self-directed investor. The same research information is available elsewhere, but you would have to find it for yourself. Is ease of access worth paying a little more per trade? That is for you to decide.

There are other differences among discount brokers that could be of significant importance to you as an online investor. Additional perks, such as all-in-one accounts, are offered by some discount brokers, especially at higher deposit levels.

Most, but not all, online brokers now trade mutual funds. The same is true as far as providing concise year-end, cost-basis information that makes tax time so much easier.

Nuisance fees also vary widely among the discounters. Some don't seem to have any and some have an extra fee for just about everything. Any fees charged in addition to the transaction fees, such as postage, issuance and delivery fees, etc. may be small, but must be factored into the overall cost. Finally, the discount broker's website should be easy to navigate. You should be able to find and read your statement easily and there should be information available on how to talk to someone if you have a problem.

### Tips To Protect Yourself Online

In order to help investors guard their online financial information from predators, the Ohio Division of Securities recommends the following tips:

1. Ask your online brokerage to always confirm all transfers and transactions.
2. Never use unprotected computers, whether at an airport, library or an office, for use when accessing your financial accounts or records.
3. Keep the security features of your computer software current. This includes your Web browser, virus scan software and firewall. Email attachments and links within email can contain viruses and infect your computer without your knowledge.
4. Never provide your online account information when requested by email - your online broker would already have this information! Don't respond to unsolicited emails from companies that you do business with requesting that you re-validate your personal information or that provide a link to web sites that require you to re-validate your account information. These links often lead to bogus web sites that look legitimate in order to fool you into providing secure information.
5. Before entering personal information on any web site, look for the "locked padlock" icon on the browser frame, or "https" at the beginning of the web address to ensure that the site is secure.
6. Change passwords regularly.
7. Log off the website after you have submitted an application or concluded a secure online session.
8. When your computer is not in use, shut it down or disconnect it from the Internet.
9. If you think you may have fallen victim to an online scam, change your passwords, contact your online brokerage account immediately, and monitor your account activity closely.
10. If you see any inaccuracies concerning your account, contact your online brokerage immediately.

### Know Who You Are Dealing With

A savvy investor takes the time to check out the background of the brokerage firm (and financial professional as applicable) BEFORE doing business with that company. If you already have entrusted your money to a brokerage firm WITHOUT doing a background check, it is important to take the time do so now by calling the Ohio Division of Securities at 1-800-788-1194.

### Central Registration Depository (CRD).

The Central Registration Depository is a database of licensing and other regulatory information that encompasses nearly all broker dealers, investment advisory firms, stockbrokers and individual investment advisers in the United States. Accessing the CRD through the Ohio Division of Securities is a quick and easy way to check out the company (and individual, if applicable) that you are considering doing business with. For more information on the CRD and what information it can supply, call the Division toll free at 1-800-788-1194 or visit our website at [www.com.ohio.gov/secu](http://www.com.ohio.gov/secu) and select "How do I ...check the background of my professional or investment firm."

### More Resources for Online Investors

Whether you are interested in finding out what it's like to trade online, how a margin account works, or you simply want more information on how to better protect yourself online, the following resources may be helpful as you research investment products and services. Always consider the source of the information as you determine the accuracy of any information obtained online.

**Investing Online Resource Center**

[www.investingonline.org](http://www.investingonline.org)

**North American Securities Administrators Association, Inc.**

[www.nasaa.org](http://www.nasaa.org)

**U.S. Securities and Exchange Commission Online Investor Education**

[www.sec.gov](http://www.sec.gov)

**Financial Industry Regulatory Authority**

[www.finra.org](http://www.finra.org)

**If you think you have been a victim of  
Securities Fraud telephone or write to the  
Ohio Department of Commerce, Division of Securities.  
Call the Division at 1-800-788-1194  
or visit our website at  
[www.com.ohio.gov/secu](http://www.com.ohio.gov/secu)  
for a complaint form.**