chapter 1

online investing 101

cyberspace—the final frontier

In 20 short years, the Internet has gone from an abstract concept to a global information network with endless applications in everyday life. In 1999, 40 million households in the United States alone are surfing the Net. Online entertainment is giving television a run for its money. E-commerce is altering the way people spend their hard-earned dollars. As this immense shift changes the nature of the human adventure, entire new industries are blooming. I'm afraid the Age of Aquarius is over. This is the dawning of the Age of the Microchip and our new currency is information.

The success of the Internet has created a maelstrom in the investment world. Conventional brokers, the traditional intermediaries of an investor's game plan, are losing ground as more than seven million investors move to online brokers instead. Reduced commissions and lightning-fast information access have enabled online brokerages to redefine the role of a broker. With a keystroke, traders can access real-time quotes, annual reports, breaking financial news, technical and fundamental analytical data, and investing tips from a multitude of insightful (and not so insightful) market analysts. In seconds you can find out which stocks are hitting new highs or new lows or review an option's volatility. News sites compete for readers by offering daily market analyses, economic reports, and shrewd investment commentary. Market research firms maximize the investment community's ability to track ever-changing fundamentals and technical indicators. Even exchanges offer a variety of free services geared to educate and inform the Net-surfing masses. In fact, there is so much information available on the Internet that it can be overwhelming. The key is to develop a comprehensive game plan that enables you to systematically trade to win.

Competing in today's marketplace requires constant Net awareness. You have to pay attention to various sources of information to keep abreast of what's happening. To diffuse the inherent frustration of searching the Net for useful information, a trader has to implement a master plan. Developing such a plan is a process of evolution; new sites are integrated into the daily routine as other sites are abandoned. The hardest part of this process lies in defining your starting point and destination. You may never arrive, but it's crucial to have goals to work toward. Once these goals have been defined—college for the kids, retirement by age 50, or a house in the country—it is essential to assess where your starting point is. How much money can you afford to place in a trading account? What kind of returns will enable you to attain your goals? How much money can you afford to lose? To determine your financial capabilities, take a discerning look at how much cash you have readily available and the value of assets that could be converted into cash. Once you come up with the total amount of your capabilities, you need to assess your real needs. Do not invest your rent payment, monthly food budget, or any funds critical to your family's future. Do not mortgage the house in order to start trading. Use funds that are readily available and can be traded without attachment. If you don't have enough to get started, start a nest egg, earmark it for your new trading career, and start to learn all you can about trading. When you finally have enough money to open an account, you'll be that much further ahead of the game.

Time is another important consideration. To determine the trading style that best fits your needs, you have to accurately assess your time constraints. In the beginning, you have to allot the time you have available to learning about trading as well as monitoring your trades. To become a full-time trader, you have to monitor the markets more aggressively. If you have only 15 minutes in the morning and evening to track your positions, short-term trading is simply out of the question. You need to structure a trading program that will let you trade in your spare time until you have the resources to make trading a full-time profession.

The next step is to determine the level of risk you find tolerable. Maybe it is naive to think that anyone should find any risk tolerable;

however, the reality of investing is that risk exists no matter what you do. Yes, you can limit risk and you can manage risk; however, *risk is an inherent element of investing*. This refers to financial risk and opportunity risk. To be a successful investor, you have to get the highest return for the amount of available capital you own. To reach this goal, always calculate the maximum risk a trade presents before placing it. If you are buying options, you risk the money paid to purchase the options. If you are selling options, your risk is unlimited depending on the price of the underlying stock. Unlimited risk is a dangerous endeavor. Hedging risk by using option spreads and delta neutral strategies is a viable way to create trades that leverage your resources and maximize profit potentials.

risk
the potential financial loss inherent in an investment.

Since a love affair with anything you do increases your chances of success, you have to make your daily online routine fun. The excitement of surfing the Net drives your performance. To make your journey smooth, your entire computer system must be aligned to support your master plan. Everything from the software you use to the access provider that serves as your gateway to the Internet is an important part of the process. Choose carefully. The road you travel will be much less bumpy if you love the road you have chosen.

getting the right stuff

To the uninitiated, getting hooked up to the Internet is a confusing prospect. Since everything you buy is outdated practically as soon as it's paid for, choosing the right computer and additional high-tech gadgets can be overwhelming. But regardless of all the potential frustrations, getting online is not that difficult. There are four essential products/services that you need: a working computer, a high-speed modem, an Internet service provider (ISP), and a browser. Get ready to blast off into cyberspace by taking a look at each of these components.

computers

The most important part of your system is a personal computer. The next question then becomes PCs (IBM or IBM-compatible) versus the Apple family of computers. Unfortunately, trading software for Apple computers is practically nonexistent. Although this significantly limits a trader to PC use, choosing the right one is still a complex and personal decision. I'm certainly not an expert, but I am aware of certain criteria that can help determine which computer is best suited to a trader's needs. These criteria are processors, random access memory (RAM), hard drive space, and portable convenience.

processors As I write this (July 1999) the microprocessor chip market presents a rather odd situation. Intel recently released the Pentium 3 processor, but few trading programs can take advantage of the additional features it offers. The chips made by Advanced Micro Devices and Cyrix that compete with Intel's Pentium 2 processor run fast enough and do more than most traders will ever need. Until the clock speeds double from their current speeds and trading software comes to market that effectively uses those higher speeds, I feel that some of the older (introduced about 9 to 12 months ago), less expensive chips represent the best values right now. On the other hand, if you can get a faster chip for only a slight price increase, why not go for it and wait for the industry to catch up with you?

chip
a microelectronic device that can store copious amounts of information. A chip is comprised of miniature transistors on a very thin silicon or sapphire rectangle. The type of chip you use contributes to a computer's speed.

random access memory (RAM) Random access memory (RAM) is the operating memory that your computer uses when it's running to open programs, save material and transfer clipboards. If you are running out of RAM, your computer's speed will slow down and make opening several programs at the same time impossible. Adding RAM may increase the speed of your computer more than upgrading the computer chip. Since the price of RAM has been slowly dropping to about

random access memory (RAM)
RAM is the memory available for use while you are working (or playing) on your computer. RAM memory controls just how many software applications you can open simultaneously and stores information before it is saved to a disk or the hard drive. Once a computer is turned off, RAM memory shuts off as well and any material not saved is lost into the great beyond.

$2 per Meg, I suggest putting as much RAM into your computer as you can afford—at least 64 megabytes.

> **meg**
> short for megabyte, which means one million bytes or information units, each consisting of eight bits apiece.

hard drives (storage memory) A hard drive stores all the information on your computer even when the computer is shut down. As the prices of hard drives continue to fall, the memory has been steadily increasing. Most new computers come with 2 to 10 gigabytes of storage memory. You may wonder just how much room you need; that depends on how many programs you want to run. Comprehensive trading programs may need as much as 350 Megs of hard drive space for real-time or delayed data collection. Since 1,000 Megs equals 1 gigabyte, one trading program needs 15% of a 2-gigabyte hard drive. Given all the wonderful programs available that like to eat up hard drive space, the smallest hard drive you're likely to be comfortable with is a 2-gigabyte hard drive, and you may prefer at least a 4-gigabyte hard drive in order to run multiple programs.

> **hard drive (HD)**
> the hard drive is a disk permanently installed inside a computer that acts as a permanent storage area for large amounts of information including programs, files, and graphics. Hard disks are measured by how many megabytes of information they can store.

monitors A good monitor is an essential part of your computer setup. A 17-inch monitor is fairly standard and does the job reasonably well. A 21-inch monitor is the next step but at a very steep price increase. One alternative to buying a 21-inch monitor is to buy a video card (a part that will go inside your computer with one edge of the card showing on the outside) that will allow you to use two monitors on the same computer. The two-screen approach will give you about 30% more screen than a 21-inch monitor and cost about 75% of the 21-inch monitor price. The two monitors together give you the same picture that you get on one monitor; it will just be stretched over two screens. If you are a heavy trader, consider two 17-inch monitors or a single 21-inch monitor. Either way, monitors take up a lot of room. You may want to consider a flat-screen monitor because its footprint is much smaller, but keep in mind that the price of a flat-screen monitor currently exceeds the cost of a 21-inch monitor by a large margin.

> **monitor**
> the visual device that displays the text and graphics generated by a computer.

modems

A modem is a small communication device that connects your computer with the outside world. Modems basically come in two varieties, internal and external. Almost all of the newer computers come with an internal modem, which costs a little less and attaches to the inside of the computer box with one edge on the outside of the computer. However, if you have an older computer and need to buy a modem, go ahead and pay the extra bucks for a top-of-the-line modem—U.S. Robotics, Global Village, or Motorola—with 28.8K to 56K bits per second (bps). An external modem attaches to one of the ports on your computer. It gets its electricity straight from an electric outlet, so you will need to allocate a spot on your surge protector for it. Make sure you get a cable with the modem—there's nothing more frustrating that not being able to find the right cable to make your dial-up networking happen. If you want something even more efficient, you may want to check out a cable access modem. They are a little more expensive but extremely fast and dependable. Call your local cable company for details on modem services in your area.

> **modem**
> an electronic device that connects computers to telephone lines. The modem takes the digital output of a computer and transforms it into an analog signal of the telephone lines and vice versa, enabling connection to the Internet.

compact disc—read only memory (CD-ROM) players (CD players)

Since most data providers and computer software companies use CDs to distribute their information and programs, a CD player has become an integral part of any computer. Among CD players, the speed of the player is the only factor I think is important. Some programs require a CD player with a certain minimum speed, while others don't. If you are looking at a particular program, find out if it requires a minimum CD player speed; if it does, make sure your CD player runs at least that fast. For a program that does not specify a minimum speed, get at least a “24×” speed CD player. Since most new computers come with a built-in CD player with much higher speeds, this should not pose much of a problem.

CD-ROM (Compact Disc—Read-Only Memory)
a thin, five-inch-diameter metal disk that provides storage of computerized data. Software applications are usually stored on CD-ROMs.

telephone lines

Now that we know what kind of computer to look for, let’s start surveying access providers to the Internet. First, let’s consider what type of phone line to use. There are three main kinds: analog, digital, and T1 lines. An analog line is the most common and probably runs into your house to your phones. Most telephone companies provide analog lines that work reasonably well. A digital line costs more, but is more efficient than an analog line (how much more efficient depends on your local telephone company). Finally, a T1 line costs more than a digital line—a lot more. T1 lines are the most efficient of the three because they connect you directly to the Internet. Most people will do just fine with an analog line direct from the phone company. Consider a digital line if you need a slightly faster response time or enjoy playing online computer games. Don’t worry about a T1 line unless you plan to trade every stock on every market in the world every three minutes and you start your trading account with $50,000,000.

analog
information that is in a state of continuous flow, such as sound waves, electrical current, and telephone lines.

digital
information that is transmitted and stored in a binary form of 1s and 0s. Computers store all text, graphics, and sound in digital form.

T1
a telephone line that utilizes digital transmission in order to handle intense telephone use and computer networks.

internet service providers (ISPs)

An ISP allows you to access the Internet through its Internet server. You will want to consider two different types: (1) direct ISPs and (2) indirect ISPs. A direct ISP will hook you directly to the Internet without organizing much material for you to look at. It opens the door and then lets you wander around inside trying to find what you want. If you know where to find what you want, the direct ISP will get you there fastest. Most direct ISPs are local entities that provide local access telephone numbers to only limited geographic areas. Some United States direct ISPs now cover large parts of the country and also provide local access in certain overseas cities.

> **Internet service provider (ISP)**
> company that provides a connection between individual computer systems and the Internet.

An indirect ISP gives you access to the Internet and provides a large amount of information, search engines, and links to both financial and nonrelated topics. The best-known indirect ISPs are America Online and Prodigy. They provide local telephone access numbers across almost all of the United States and many overseas cities. Direct ISPs and indirect ISPs cost about the same for unlimited access (approximately $19.95 per month, although a few providers are beginning to drop that rate to attract new users). If you don't consider yourself Internet literate, you may want to subscribe to an indirect ISP because they are more user-friendly. I prefer a direct ISP because they tend to have less advertising, which helps the screens move faster. However, the most important part of choosing a server provider is to find one that offers a local dial-up number, or you'll have to pay long-distance costs for every minute that you stay connected to the Internet. Reliability is also extremely important. Don't wait to get online before finding out how often the server fails. Call up a few ISPs and ask them how much mail can be received before your mailbox is full. Does the server disconnect after 30 minutes of inactivity? Is there an extra charge for a personal web page? Make sure you keep track of how long you had to sit on hold waiting for a live customer service representative.

internet browsers

If you use a direct ISP, you will need to purchase an Internet browser. A browser is a software program that hosts your Internet journeys. The two most popular browsers are Netscape Navigator and Microsoft

Internet Explorer. While some people swear by one, both are well designed and will help you surf the Net efficiently. If you don't have a preference, then choose whichever one you can get for free (Microsoft Internet Explorer is part of the Microsoft Windows 98 setup). All browsers enable you to send and receive e-mail, bookmark your favorite sites, and easily backtrack your current session.

> **browser**
> a client program that allows users to read hypertext documents on the World Wide Web, and navigate between them. Examples are Netscape Navigator, Lynx, and Microsoft Internet Explorer. Browsers can be text-based or graphic.

data providers

Serious traders need to subscribe to a data provider for real-time, delayed, or end-of-day price quotes. To determine which service fits your trading style best, you need to identify several factors. Do you want to pursue long- or short-term investments? What specific markets do you want to trade? How much money can you commit to your trading account? Table 1.1 is designed to help you decide which kind of data reception is best suited to your needs. Bottom line: If you're going to trade and compete with commercial and professional traders, you need to have the same data they do. Although the siren's song of real-time data feeds and day trading is very seductive, if you are just starting out delayed feed is more than enough to help you get your feet wet. It has everything you'll need to learn and practice trading systems as well as find, place, and exit trades.

> **data provider**
> a source of information that provides you with current price data on stocks, futures, and options, as well as up-to-the-minute news and market analyses. This information can be accessed in a variety of ways including online, cable, FM, satellite, and wireless networks.

Lastly, you need to take a look at price. Trading is a business. If you sign up for real-time data feed, expect to pay (including exchange fees) anywhere from $150 to over $1,000 a month depending on the markets you want to trade. This monthly expense almost im-

table 1.1 types of quotes

Type of Quote	Description	Advantages	Disadvantages
End-of-day	Anything from paper charts to Internet remote quotes and chart retrieval or a dial-up download of end-of-day data directly to your computer for analysis.	1. Cheapest form of data available. Much of it is even free, if you can find it. Overall, it's a great way to start. 2. Many part-time traders can use end-of-day data to find opportunities after the market closes and place trades before the market opens the next day.	If you are an intraday trader, end-of-day data is of little use to you.
Delayed	Real-time streaming data that is delayed by 15 to 20 minutes.	1. A great way to collect tick-by-tick data at a cost less than real-time data. 2. Can be used by many trading software analysis programs to find longer-term investment opportunities.	Comes at least 15 minutes after the actual event. So, if you are trying to trade during the day using delayed data, you will not enjoy as much success as you would with real-time data because by the time you see a big move in a stock with delayed data, the big move is over.
Real-time	Tick-by-tick streaming data received from a quote service as the prices at the exchange change.	1. Cable receivers are easy to install. Online collection data is continuous feed, which will be collected and stored at your PC for review and analysis. 2. Receive real-time quotes directly over the Internet from vendors that resell data in real-time format. Check out eSignal (www.dbc.com). 3. Can be used by many trading software analysis programs to find various investment opportunities.	1. Can be expensive depending on the level of service you need. 2. If you want to set up an FM receiver, the cost for the reception equipment will be billed in advance by the data vendor. You have to make room for a three-foot satellite dish, complete with stand, which needs concrete blocks to secure to the ground.

mediately forces you to make trades to generate profits to cover your data cost. Forced trades are seldom profitable. To become a successful trader, you have to learn to walk before running. That's why conservation of capital through controlled expenses is a must. As your experience level increases, you can always increase your data speed.

one computer or two? laptop or desktop?

Many people may never think of owning more than one computer, but it can be a real asset for a trader. Trading involves collecting real-time, delayed, or end-of-day data; displaying, formatting, and analyzing trading data; doing online research; and basic spreadsheet and word processing. The first two tasks can take a major bite out of the computer's memory resources. If you try to do all four tasks at the same time, your computer may freeze up and you run the risk of damaging files or your whole system in the process. Two computers when trading are not essential, but otherwise you have to make sure that your computer uses a fast processor and holds a lot of RAM and hard drive memory.

> **laptop computer**
> a portable personal computer that is small enough to fit in a person's lap. Weighing less than eight pounds, laptop computers usually have a flat screen and LCD display, and are powered by a rechargeable battery. They can be connected to a larger monitor or other peripherals when back at the office.

> **desktop computer**
> a stationary computer with a full-size monitor and hard drive.

You may want to consider getting a laptop as a second computer. Laptops are extremely convenient if you need to keep track of your portfolio while you're on the road. Unfortunately, most laptops are not equipped with the fastest processors and usually do not contain as much RAM as a desktop computer. Those that do can be quite expensive. If you choose to buy a laptop as your primary computer, you may want to purchase a 17-inch monitor and a keyboard with a mouse to plug into the back of the laptop when you are not on the road.

search engines

Once you're on the Net, the most basic way to find what you're looking for is to use one of the many search engines (Excite, Yahoo!, Lycos, AltaVista, etc.). Simply type in a keyword and the search engine will find sites or topics that match your subject. You can then scroll down the list and by double clicking on a URL (uniform resource locator) be directly transported to that site's home page. A URL usually begins with "http://" (omitted in this book because the newest browsers automatically add this prefix) and has a variety of endings including "com" (the most popular) or "net" (if it's a business), "org" (short for nonprofit organization), or "edu" (denoting school). The first main screen of a site is referred to as a home page. Links are then provided to alternate screens on that site for further viewing.

search engines
Internet portals that enable users to search for web sites that have a connection to the specific word used in the search.

links
a pointer in an HTML document that leads to another World Wide Web site, or to another place within the same document; also called a hyperlink. Linked text is usually underlined or shown in a different color from the surrounding text. Sometimes graphics are links or contain links. A link is activated by clicking on it.

Once you've made your purchases and hooked everything up, you're ready to go online and take your first steps toward financial independence. But don't jump the gun. There are still a number of decisions to be made. You have to choose an online brokerage, pick out trading software, and determine which resource sites (if any) are worth the price of subscription. This process can be quite time-consuming, especially when you're champing at the bit to start trading. A word to the wise: Take your time. Don't worry about missing some trend or losing out on the next winning initial public offering (IPO). There's always another great trade on the horizon. Take the time to arm yourself well; it'll pay off down the road.

online research

The rise of online trading has added a whole new dimension to the investment ball game. The Internet is literally overflowing with financial investment sites and online brokerages. To lend order to the seemingly infinite nature of available information, it is important to forge consistent investigative patterns while leaving a little room for spontaneous forays into uncharted territory. Online trading is a balancing act. You have to determine what information is important, find out where it can be easily located, and decide how you want to keep track of it. There are very few shortcuts in this process. Finding the optimum combination of resource sites as well as the best online brokerage is a process of evolution. You just have to surf from site to site until you develop a daily ritual that works for you. This process will take its own sweet time and it's important to enjoy each part of the process. As Rumi, a renowned thirteenth-century philosopher, said, "A good traveler is not intent upon arrival."

Likewise, to enjoy online trading you have to delight in cultivating your own resources, investigating specific industry sectors, developing a watch list and a portfolio, and keeping track of your positions. Finding a potentially profitable trading opportunity is only the beginning. There is plenty of research that needs to be done to verify the stock's capacity for price movement. Once you have established the trend within the market, you may want to analyze the industry group it belongs to as well as any psychological market indications of the bearish or bullish nature of the marketplace. If a company continues to look promising, there are software programs that can help you to find the most profitable strategy to employ. However, it is important to remember that the marketplace is an uncontrollable force. Your ability to respond to the market's seemingly random impulsiveness will determine how much money you make or lose. If you have already developed a system for studying the markets, you may find the next section a bit redundant. Feel free to skip ahead, as this section is devoted to those who are getting their feet wet for the first time and need to know how to get started.

bearish
a declining market, especially over a prolonged period of time. Often caused by the mass conviction that a weak economy depresses corporate profits.

bullish
a rising stock market, especially over a long period of time—at least six months. Often caused by the mass conviction that a strong economy produces increased corporate profits.

analyzing the market

Currently, there are more than 9,300 available stocks to trade. A stock is an extremely sensitive trading instrument. Its price is the result of the unanimous consent by all market participants as to the value of that stock. At any moment, the mass psychology of the trading public can shift, triggering trend reversals that often defy the odds. Perhaps that's why trying to analyze a stock in order to forecast price movement has a seemingly infinite number of variables and methodologies. To take advantage of trading software or financial research sites, it is vital to develop a healthy understanding of fundamental market data, technical indicators, and the effect that news, commentary, and analysts have on market opinion. The public's subsequent reaction to this information guides the mass psychology that drives investors to buy or sell, ultimately determining stock and option prices. You may wonder how we can ever hope to forecast price movement when human unpredictability controls our financial future.

stock
a stock, also called a share, is a unit of ownership in a company. The value of each share is based upon a wide variety of factors including the total number of outstanding shares, the value of the company, its earnings and debts, what the company produces now and is expected to produce in the future, and the overall demand for the stock.

In general, traders analyze stock prices by comparing the present to past performance, while expectations are based on future events. Current events change prices by changing the way investors forecast the future of a company and the general economy. If a future move is anticipated, when it happens it won't change the price all that much because investors have already paid for the future. (There's a scary concept!) This area of trading can be overwhelming to a novice trader. There seems to be no end to the details that need to be taken into account. To become adept, you have to be willing to persistently reconnoiter the markets on a day-to-day basis. In the beginning, you may feel buried by an avalanche of numbers, statistics, and indicators. Just keep reading and watching how the markets react to such things as earnings estimates, analyst upgrades and downgrades, the release of new products, management changes, and the threat of interest rate adjustments.

As a small investor, you have to carefully select your analysis tools because you are competing with traders who have access to scores of analysts studying a wide array of price variables daily. In order to help you, I have divided the complex realm of market research and price forecasting into three basic fields: individual stock assessment, broad market analysis, and psychological market criteria. The first category—individual stock assessment—can further be broken down into fundamental and technical analysis. Let's take a closer look at these research and analysis fields.

individual stock assessment

For the beginner, picking the right stock is what trading is all about. In the past, finding a profitable stock has been an arduous task. You had to manually take into account a variety of fundamental and technical variables which is why professional analysts got paid big bucks for their services. But times have changed. Stock screening programs act as online data research engines enabling traders to find stocks with the click of a mouse. Just choose which parameters are important and your computer will instantaneously generate a list of stocks that fit these criteria.

A multitude of software programs and online sites offer stock screening functions and options position searches. Some of the online sites are free and others require a monthly subscription fee for more advanced searches. INVESTools (www.investools.com) is an excellent site with two different stock screening services available—one free and one that costs $9.95 per month. The free screen lets you choose from nine preset search screens (Growth and Value Screen, Strong Growth Screen, Stock Winners Screen, Low Price-to-Book Screen, Blue Chip Stocks Screen, Small Cap Screen, Low P/E Ratio Screen, High Dividend Yield Screen, Insider Ownership Screen). The subscription service allows you to customize your search by choosing among 68 variables in 12 key categories. Although the free screening can offer some great insights into possible hot markets, the lists tend to be long. For a narrower search, try the 30-day free trial subscription service.

Another excellent web site, Wall Street City (www.wallstreetcity.com), also has a screening service that can be found by clicking "Search for an Investment" on the left-hand sidebar. It has a host of preselected screens including analyst rankings, pattern breakouts, and quarterly earnings surprises. The premium subscription service includes options searches as well.

Hoover's Online (www.hoovers.com) also features an excellent free stock screening using up to 20 performance criteria. This screening service requires the input of specific detailed parameters. You can select everything from the type of industry you prefer to company size, rates of return, and volatility.

Stock screening yields some very useful information but to be able to use it effectively you must understand the inner workings of specific fundamental parameters. Understanding the value of individual stock indicators is a complex process. Let's take a look at a few of the more important fundamental and technical analysis indicators in order to get a basic sense of how search engines can be programmed. A comprehensive list can be found in Appendix B.

fundamental analysis

Fundamental analysis forecasts price movement by focusing on economic and production data. Corporations have miles of paper trails that review every contributing factor of a company's strength including product development and reception, targeted customer identification, consumption, profit outlook, management strength, and supply and demand for products. Economic data includes income statements, past records of earnings, sales records, present assets, annual reports, and new product consumption rates. Fundamental analysts use this data to determine whether a stock's current market price is overvalued or undervalued and to anticipate stock price trends and the future success or failure of the company.

fundamental analysis
an approach to trading research that seeks to predict stock price movements using a variety of indisputable basic facts including income statements, past records of earnings, sales, assets, management changes, and products and services.

In its most refined state, fundamental analysis produces two basic theories that affect market perception: If a stock's fundamentals are bullish, the stock's price should rise; if a stock's fundamentals are bearish, the stock's price should fall. Low prices relative to the company's real value increase demand, which in turn drives up the price of the stock. Higher prices reduce the demand for shares and the increase in the supply of shares leads to lower prices. This cycle feeds on itself, deftly creating market dynamics.

Traders must also pay attention to the competition among different companies in the same industry sector. For example, there is extreme competition among high-tech corporations where breakthroughs in technology spawn dramatic market movement. Trying to stay on the cutting edge of these markets is a full-time job. Studying the entire industry is vital to being able to forecast a company's success. And that's where the money is!

Most of the information you gain from television or newspapers is fundamental analysis. Perhaps a company's product is selling like hotcakes, or a management change is altering the direction in which a corporation is going. Perhaps a disaster occurred triggering the selling of a corporation's stock shares. Fundamental analysis ranges from the mundane to data that is so economically complicated it may require a degree in business to understand it. As you progress as a trader, you will learn to gauge what data is important enough to take notice of and what can be filtered out. There are no right or wrong answers. Anything that helps you to get a feel for a market is valid. It simply takes time and energy to develop a discerning ear for fundamental information and practice to know how to apply it correctly.

Almost every web site is capable of downloading basic fundamental information. Just type in the stock's symbol and you'll instantly receive a "snapshot" of a company's fundamentals, which reveals information that is valid for a specific period of time. I pay close attention to the 52-week high and low because this indicates where the current price is in relation to where it's been. Volume is another important factor. I look for volume spikes and tend to avoid stocks with less than 300,000 shares trading daily.

A stock's quarterly earnings growth is another key to assessing its profitability. The earnings per share value (EPS) is calculated by dividing the net income of the company in one quarter by the number of outstanding common shares. A comparison between the current EPS and one from the same quarter of the previous year can be used to determine earnings growth. In addition, analysts project a company's earnings and the price of the stock often reflects that projection. However, as the end of the quarter approaches, there is much speculation as to whether a company can live up to its EPS projection. This speculation often inspires volatility and that means market movement, which is one of the keys to finding profitable option trades.

Price-earnings ratio (P/E) is another important value because it compares a company's stock price to the earnings per share. Computed by simply dividing a stock's price by the annual earnings, it tells you how many times the earnings a stock is trading at. The P/E of individual stocks is then compared to the P/E for all stocks of a given industrial sector. Be aware that many Internet-related stocks do not have valid P/E ratios because they are operating at a net loss and still enjoying unparalleled success when it comes to demand for shares of stock. The sales-to-price per share ratio is a much more accurate benchmark for evaluating emerging-growth companies.

Accumulation-distribution reflects a stock's daily long shares compared to short stock shares. This rating is one of the most important indicators of a stock's strength or weakness. In general, a stock with an A rating means there is plenty of demand for the stock (high volume) and the price will probably continue to rise. A stock with an E rating means that the supply for a stock is greater than the demand and could trigger a drop in price. I like to focus on A's only for buying and E's for a bearish approach.

A company's fundamental data also include the closing price, the change from previous day's close, the day's high and low, the 52-week high and low, and volatility. This area of analysis enables traders to make educated comparisons, but it may take a little time to get comfortable with all those imposing little numbers. For your convenience, a list of fundamental analysis tools can be found in Appendix B.

Although there are many web sites that you can consult for fundamental data, Hoover's Online (www.hoovers.com) is definitely one of the best. It offers a cache of fundamental analysis tools, SEC filings, and company reports. You can also sign up for e-mails that make timely investment recommendations.

I also highly recommend VectorVest (www.vectorvest.com). Although the majority of this site is subscription-based, it does provide free fundamental stock analysis. VectorVest has developed a unique system for evaluating a stock's actual value by analyzing a variety of fundamental indicators including earnings, earnings growth rate, dividend payments, dividend growth rate, financial performance, current interest, and inflation. It also provides additional indicators including relative value, relative timing, and VST-Vector. Its subscription services are comprehensive including extensive historical data, recommendations, and the inherent values of call and put options.

If you want to see what a company has to say for itself, check out Companies Online (www.companies.online.com). This comprehensive site is the brainchild of business experts Dun & Bradstreet and the search engine moguls at Lycos. Before trading hit the Net, Dun & Bradstreet specialized in obtaining credit data directly from commercial firms and combining this information with data solicited from their creditors. This information was eventually made available to subscribers in reports and a ratings directory. Companies Online hosts a comprehensive business database for report requests and links to more than 100,000 corporations' web sites. You can browse by company and industrial sector, check out the company of the week, or link to Dun & Bradstreet's home site to request a company report.

technical analysis

Technical analysis is built on the theory that market prices display repetitive patterns that can be tracked and used to forecast future price movement. It evaluates price movement by creating charts that study market strength and gauge weakness by analyzing statistics generated by past prices and volume. Although understanding market behavior can be challenging for novice traders, a good technical analyst can review a variety of factors and forecast future price action with a certain degree of confidence. To understand how to identify trends and reversals, you have to learn how to look at a chart. There are three main kinds of trends: major, intermediate, and minor. A major trend is one that lasts more than six months. An intermediate trend lasts from one to six months, and a minor trend lasts less than a month.

> **technical analysis**
> technical analysis uses historical price movement and volume to predict a market's future strength or weakness. Since price is the bottom line, technical analysts look primarily at price movement to determine price patterns. From these patterns they try to extrapolate future price movements.

> **trends**
> a market that is increasing steadily to the upside or decreasing steadily to the downside is said to be a trending market. Catching the trend is one of the keys to successful trading—"the trend is your friend."

There are an abundance of technical analysis techniques including Bollinger bands, chi-squares, the Elliott Wave theory, candlestick charts, Kagi charts, and the maximum entropy method. Most of these technical methods are very complicated and require computer programs to view. It is definitely worthwhile to become familiar with a few of these techniques even if it's just to know what the competition is using. However, do not feel compelled to buy every technical analysis book you can find—it will only lead to analysis paralysis.

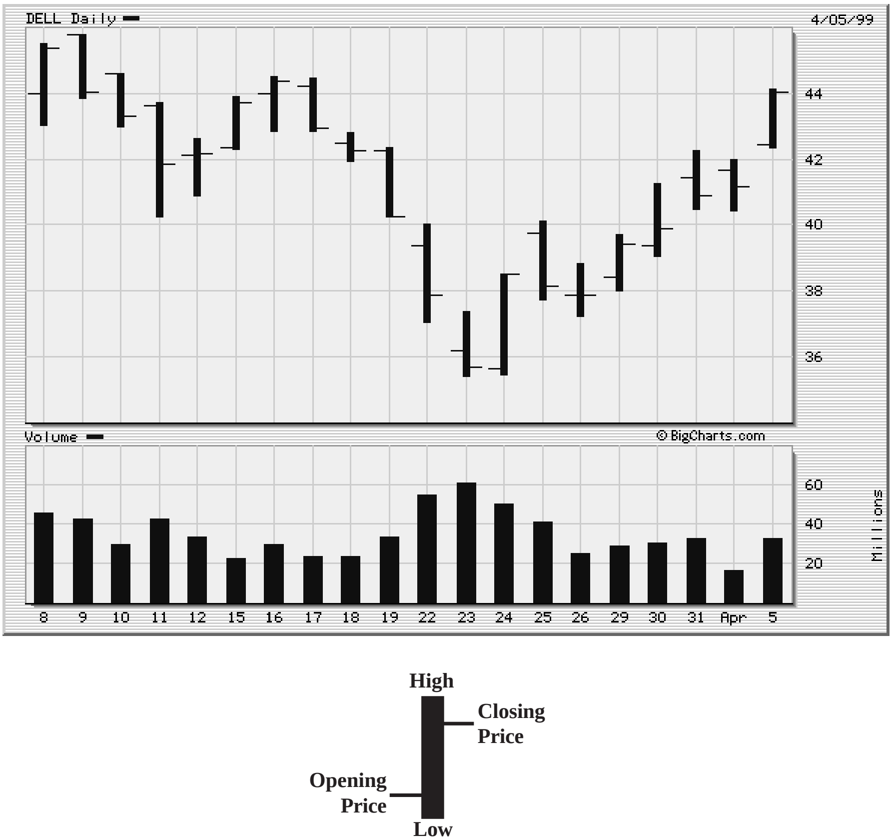
Since trading is a game of timing, charts were devised to speed up the process of information gathering. Charting techniques show a stock's price movement over time. Charts can be constructed to represent specific time perspectives—intraday, daily, weekly, or monthly. The vertical axis represents price fluctuation and the horizontal axis denotes time.

There are three basic kinds of charting techniques: bar charts, line charts, and candlestick charts. A bar chart uses vertical lines, each with two small horizontal bars at 90-degree angles. The vertical line itself represents the stock's price range for a specific period of time (hourly, daily, etc.). The horizontal bar to the left indicates the opening price; the one to the right, the closing price. Line charts are less complex. They just show a stock's closing price from day to day, week to week, and month to month like some kind of join-the-dots game. Candlestick charts are a little more elaborate. Like bar charts, they show a stock's daily price range. But they are also color coded to reveal the relationship between a stock's open and close. If a stock closed higher than it opened, the body of the candlestick is white, indicating a bullish market. If the candlestick is dark, then the stock closed lower than it opened, indicating a bearish market. (Figures 1.1, 1.2, and 1.3 show each of these basic charting techniques.)

As an options trader, you are looking at markets over the longer term. To assess a market's movement, you have to look at annual charts, paying close attention to the most recent few weeks. Online technical sites are geared to provide you with various charts that show price movement over various time spans. You can easily check out a stock's daily movement for the past year at one stroke of the keyboard. However, it's one thing to gauge a market's movements by looking at a chart and another to be able to insightfully analyze what you see. Technical analysts have a broad range of analysis patterns that can be used to try to forecast price movement. Price patterns are signposts, not laws; but these signposts help to create the mass psychology of the marketplace. A pattern has influence only if people believe it to be true. Therefore, although it is helpful to be able to know the difference between a head and shoulders pattern and a double top and bottom (see Appendix B for pattern definitions), it is not as essential to the process as many technical analysts would have us think. But since many investors look to pattern analysis, it doesn't hurt to know what they're thinking.

Volume is another important element of chart pattern analysis that helps traders to assess a trend's strength or weakness. Volume bars can usually be found at the bottom of price charts. Each bar corresponds to the number of shares traded—the higher the bar, the heavier the volume. Strong uptrends are usually accompanied by heavy volume. When an uptrend starts to lose momentum, volume decreases. A divergence occurs when price and volume start to move in

figure 1.1 basic charting techniques: bar charts—30-day dell computer bar and volume chart

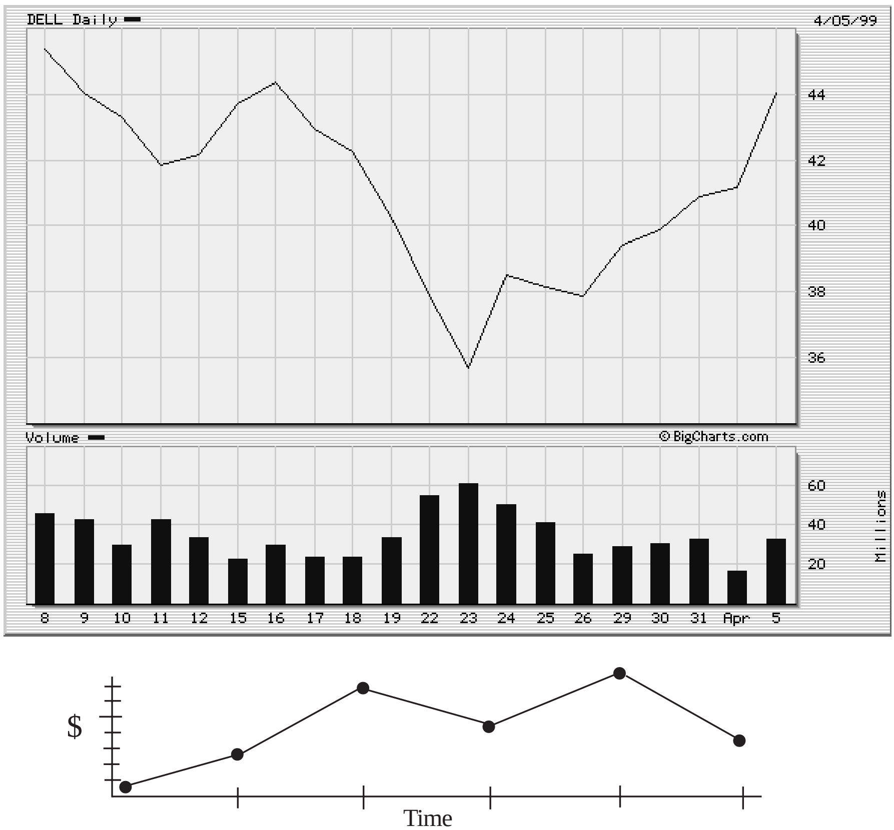


source: www.bigcharts.com. reprinted with permission.

opposite directions, signaling an end to the trend. I look for dramatic volume increases to catch a trend as it takes off.

You can also use indicators to track existing trends. There are two basic kinds of indicators: lagging indicators and oscillators. Lagging indicators are techniques that confirm a trend divergence after it has happened. Oscillators forecast a market as overbought or oversold by assessing when a market has reached a high to the upside or a low to the downside. When a market reaches a peak in either direction, it is ripe for a reversal, and managed risk strategies can be applied to take advantage of this movement.

figure 1.2 basic charting techniques: line charts—30-day dell computer line and volume chart

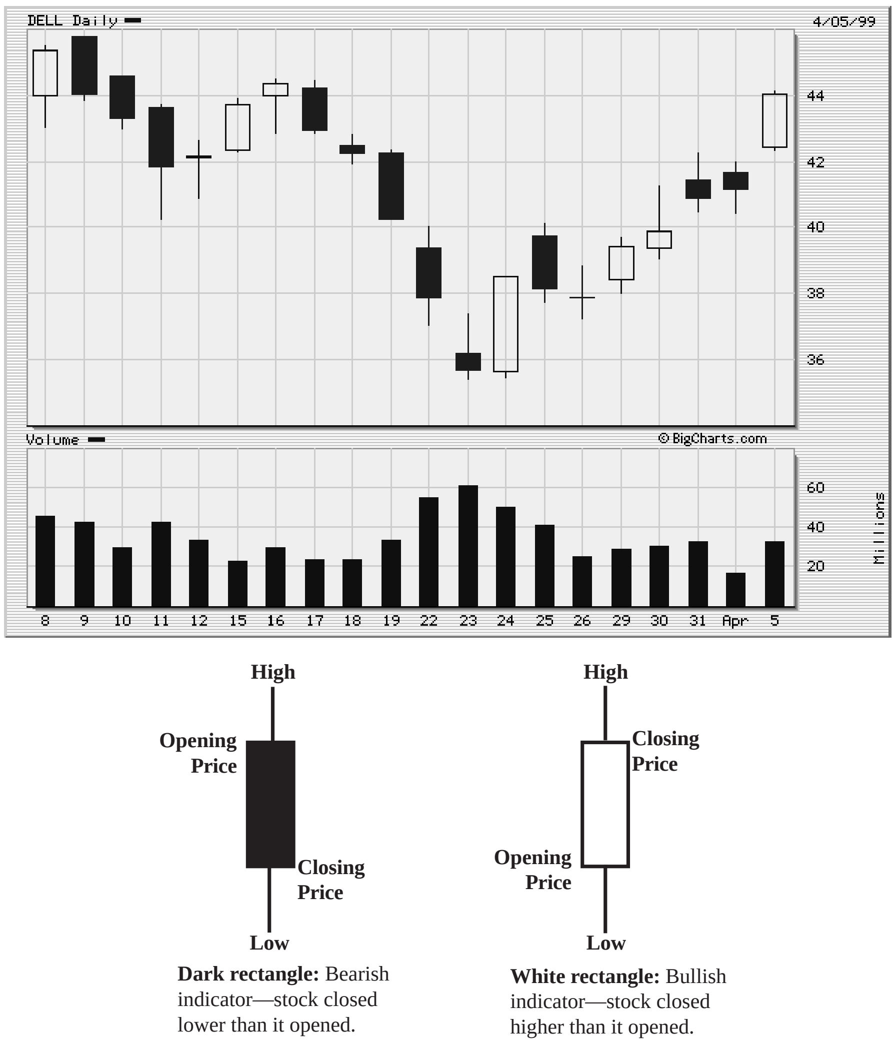


A line chart is composed of closing interval prices joined together.

source: www.bigcharts.com. reprinted with permission.

A moving average—the analysis of price action over a specified period of time on an average basis—is one of the most popular lagging indicators. A moving average adds together the closing prices of a market over a period of time—50 or 200 days is standard—and then divides the sum by the number of days used. Each day a new number is added and the oldest is dropped, creating a slightly different average. You can either look at one moving average line at a time or check out more than one at a time to look for crossovers. For example, you may look at the price of IBM trading right now and how that price compares to the average of the past 50 days and the aver-

figure 1.3 basic charting techniques: candlestick charts—30-day dell computer candlestick and volume chart



source: www.bigcharts.com. reprinted with permission.

age price over the past 200 days. When the 50-day average goes below the 200-day average, you sell; and conversely when the 50-day average goes above the 200-day average, you buy. This is a very simplistic explanation. Technicians go to great lengths to fine-tune which time spans and averages to use. Although you can play around with this technique studying a variety of time spans, it is advisable to use a 50-day or 200-day average as a base because they are the most commonly used.

lagging indicators
a method of technical analysis that confirms a trend divergence after it has happened (like a moving average) and gives clues to where it is headed, or an economic indicator that lags behind the overall pace of economic activity (like the unemployment rate)

oscillator
a technical indicator used to identify stocks and options with overbought or oversold prices that may trigger a trend reversal.

moving average
a moving average—probably the best known, and most versatile, technical indicator—is a chart used for judging a market's current trend. The moving average uses a simple mathematical procedure to smooth or eliminate the fluctuations in data and to assist in determining when to buy and sell.

Oscillators are indicators that help traders to predict a market's momentum by focusing on the rate at which a market is moving. Utilizing price and volume statistics, oscillators are used to predict the strength or weakness of a current market, determine overbought or oversold conditions, and locate turning points within the market. Momentum charts and rate of change (ROC) oscillators can help you initiate momentum investing in order to trade with or against the momentum of the market in hope of profiting from it. Geologists study volcanoes looking for indications of impending movements that may lead to eruptions. It's the same with momentum investors. They study the markets watching for pressure to start building, followed by an explosion and a calm thereafter. You might catch the first move, place the appropriate strategy, and then get off when the momentum fizzles. A slowdown follows the eruption, often triggering a reversal. If you miss the eruption, you can still make a profitable trade by using a contrarian approach—a practice in which you trade against the majority view, fading the trend. In general, fast moves up lead to fast moves down and vice versa.

momentum
when a market continues in the same direction for a certain time frame, the market is said to have momentum. A momentum indicator is a technical indicator that utilizes price and volume statistics for predicting the strength or weakness of a current market. Momentum trading exists when a trader invests with (or against) the momentum of the market in hopes of profiting from it.

contrarian approach
a contrarian is said to fade the trend by going against the majority view of the marketplace.

There are many web sites dedicated to providing technical analysis tools and data for the online investor. BigCharts.com (www.bigcharts.com) is one of the best technical analysis sites on the Net. It's a quick and easy site that offers a wide variety of technical charts and graphs absolutely free. Just type in a stock's ticker symbol and single click on "Interactive Chart" and the next screen will provide you with an abundance of charting choices, from moving averages to stochastics. You can also save your favorite charts for easy reference.

Barchart.com (www.barchart.com) is another excellent free site that serves up technical charts per your parameters. Created by Market Research, Inc. (MRI), Barchart.com is well stocked with all kinds of technical charts, quote screens, and custom portfolios, and will even send you end-of-day data on the stocks of your choice directly to your e-mail address absolutely free.

broad market analysis

There are three distinct ways for the marketplace as a whole to move: up, down, or sideways. If the market moves up, it is a bullish market. If it declines, it is a bearish market. If it stays in the same place, it is a neutral market. Discerning this distinction is the fundamental issue of a broad market indicator.

One of the primary methods of assessing stock market activity is to review the performance of indexes. An index is a group of stocks that make up a portfolio in which performance can be monitored based on one calculation. Broad market indicators use indexes as the basis for several analyses since they represent significant cross sections of the marketplace.

The Dow Jones Industrial Average (DJIA) is probably the best-known index. It is widely quoted as the quintessential economic indicator of market direction. Everyone has heard the Dow mentioned on the evening news as a key indicator of the day's trading performance. The closing prices of the DJIA stocks are averaged to determine if the overall mood of the marketplace was bearish or bullish. But what is the Dow and how did it get started? In 1884, Charles Dow surveyed the average closing prices of nine railroad stocks and two manufacturing companies that in his opinion represented the general trends in the national economy. He printed the results in his newspaper, a forerunner of today's *Wall Street Journal*. Over the next 12 years, he honed that list until settling on 12 industrial stocks. In 1896, Charles Dow began to publish this list and the overall average every day. Today's Dow Jones Industrial Average reflects the performance of 30 major companies representing key manufacturing and energy industries worth approximately 25% of the total value of all stocks listed on the New York Stock Exchange (NYSE).

In today's highly unpredictable markets, there are seven other indexes that track market movement in an attempt to forecast stock performance and direction. The New York Composite Index represents all stocks traded on the NYSE. Likewise, the AMEX Market Value Index and the Nasdaq Composite Index monitor all of the stocks traded at their respective exchanges. In a completely different vein, the Standard & Poor's 500 Index is considered the milestone for large investors. As its name implies, the S&P 500 examines the performance of 500 major stocks and is widely traded as a futures index.

Value Line is an independent investment service that tracks the performance of more than 1,800 stocks. It also has an excellent subscription-based web site (www.valueline.com) that offers free quotes, graphs and charts, featured articles, and a plethora of research information on mutual funds, stocks, and options. The Russell 2000 index tracks 2,000 smaller U.S. companies, especially up-and-coming stocks that hit the market most recently as initial public offerings (IPOs). The Wilshire 5000 is the largest index. It keeps track of all the American-based stocks traded over-the-counter (OTC) and in the exchanges—currently more than 7,000 stocks.

Each index can be reviewed in terms of unique time frames. The first place to start is by looking at the closing price. Next, check out the previous day's close as well as the percentage change between the two. Then take a look at the shift in price since the previous year and the overall change for the year to date. These four time frames can help you to understand the index's current trend. Trends in the indexes tend to be similar and often reflect the general mood of the economy.

Keeping tabs on industry group leadership is another important key to analyzing the marketplace. Almost 200 industrial groups ranging from restaurants to chemicals and plastics are ranked on the price performance of their respective stocks. This confirms which group has been experiencing the highest percentage of price movement fluctuation. Many investors believe that almost half of a stock's price performance can be attributed to its respective industrial group.

The advance-decline line (A/D line) is calculated by taking the percentage of stocks advancing and subtracting the percentage of stocks declining on a daily or weekly basis. This total is then plotted on top of the Industry Index to create the advance-decline line. The A/D line moves upward when a greater percentage of stocks in the group are advancing and moves downward when a majority of companies are declining in price.

The stock market acts like a pendulum, swinging back into balance until another economic hurricane hits. Once again, check out BigCharts.com. Its welcoming format can help you to analyze the general conditions of the marketplace by clicking on "Broad Market Overview." Start by scrutinizing "Advancing, Declining, and Unchanged" lists to determine the bull-to-bear ratio. Review price and volume charts for the major indexes and compare the number of stocks with new highs to those with new lows.

a quick course in macroeconomics

The Federal Reserve System essentially controls the flow of money in the United States. The Fed is a conglomerate of 12 separate district banks governed by a seven-member Board of Governors. In many ways, the Fed works more like a government agency than a corporation. It handles everything from the U.S. government's daily banking to receiving unemployment, withholding, and workers' compensation taxes. The Fed is also responsible for fulfilling the financial obligations of the U.S. government including providing Social Security and Medicare payments.

Federal Reserve System
established by Congress in 1913, the Federal Reserve System regulates the U.S. monetary and banking system by supervising, among other things, the quantity of new bills printed, and interest rates; it keeps a watchful eye over member banks, and acts as the government's bank.

The Fed also controls the release of new money. Every six weeks, the Fed's Open Market Committee meets to regulate monetary policy by balancing the amount of money in circulation without creating inflation. It typically takes about six months for the economy to react to changes in monetary volume control. This delay causes the economy to have a life of its own, especially because many decisions do not trigger the originally intended impact. To further control the money supply, the Fed adjusts interest rates to balance out the rate of inflation while attempting to inspire national growth.

The Federal Reserve discount rate is the interest rate banks must pay to borrow money from the Federal Reserve. This rate is extremely important because it is directly related to the flow of money in the economy. An interest rate is the annual percentage rate charged for the privilege of borrowing money. A change in interest rates can affect anything from bonds to the adjustable interest rate on your monthly mortgage payment. Subsequently, a relationship exists between interest rates, the prices of bonds, and the stock market. The dynamic among the three can be used as a guide to understanding market movement—bearish or bullish. Table 1.2 illustrates the typical interaction among interest rates, bonds, and stocks. When interest rates rise the stock market usually declines. However, there will be times when the interest rates may increase and the stock market advances, or vice versa. This is referred to as a divergence.

A bond is a debt instrument issued by a government or corporation that promises to pay its bondholders periodic interest at a fixed rate (the coupon), and to repay the principal of the loan at maturity (a specified future date). Bonds are usually issued with a par or face value of $1,000, representing the principal or amount of money borrowed. The interest payment is stated on the face of the bond at issue. A bond's interest rate stays the same for the duration of the bond's maturity. That's why bonds have an inverse relationship to national interest rates. If interest rates rise, the value of a bond usually drops; if interest rates drop, the value of a bond usually rises in comparison.

table 1.2 typical economic interrelationships

Interest Rates	Bonds	Stocks
Up	Down	Down
Down	Up	Up
Sideways	Sideways	Up

For example, let's say that you decide you are going to lend me \$1,000 for a five-year period of time. I agree to pay you interest at a rate of 8% each year, which happens to be the market rate for interest charges. Therefore, I will pay you \$80 per year interest. The very next day, interest rates jump to 10% (I am exaggerating to make a point); you now could have lent the same \$1,000 and received 10% interest. This would give you \$100 per year. Did the value of the first loan go up or down with the interest rate rising? The value of the 8% loan went down because you do not have the opportunity to lend it out at the higher rate of interest. Therefore, when interest rates go up, bond (loan) prices fall.

When interest rates go down, bond prices rise. If interest rates drop to 5%, an investor would receive only \$50 on the same \$1,000 investment. If you are already receiving \$80, the value of your loan increases. That's how bonds are traded. As interest rates fluctuate, the value of a bond rises and falls in opposition. If a market is interest rate–driven, this refers to a point in the business cycle when interest rates are declining and bond prices are rising. This is often enough to inspire a stock market rally as money shifts from interest rate instruments to equity-based instruments.

> **interest rates**
> the charge for the privilege of borrowing money, usually expressed as an annual percentage rate.

In general terms, this inverse relationship also holds for the stock market and interest rates. Hence, bond prices and the stock market move in tandem. Why? Let's assume your company has to buy \$10,000 worth of equipment. You don't want to pay cash for the equipment; therefore, you finance the purchase. To finance anything, you pay interest. In this case, you pay 8% interest—\$800 per year. Interest is an expense that gets subtracted from what you earn. Therefore, if you earn \$20,000 before interest expenses, you will have earned \$19,200 after interest is paid (\$20,000 – \$800 = \$19,200). However, if interest rates are 10%, the same \$10,000 loan costs \$1,000 annually. Now your earnings are reduced to \$19,000 (\$20,000 – \$1,000 = \$19,000). In this way, the value of a stock is inversely linked to interest rates—the higher your interest rate, the less money flows to your earnings. Since paying higher interest rates reduces earnings, a company's value will also decrease. This can seriously affect stock prices. Therefore, an increase in interest rates (or a fall in bond prices) should trigger a decrease in stock prices. This inverse relationship does not always hold. There are periods when a divergence will occur and a company's earnings will increase regardless of interest rates' direction. However, these divergences are generally short-term in nature.

Another voice to be listened to is that of the Federal Reserve chairman, currently Alan Greenspan. Whenever he speaks, the stock market hums with volatility. Twice a year, the Federal Reserve chairman officially speaks to Congress (Humphrey-Hawkins Testimony) and stocks rally or descend in anticipation of what he'll say. In the wake of his testimony, the rising or lowering of interest rates may realign the course of the economy. This kind of information has a powerful effect on the markets.

The releases of several government reports also influence the economics of the country and thereby the markets as well. The employment report is released on the first Friday of the month. It contains the current unemployment rate. A high unemployment rate speaks of more people looking for fewer jobs. This can lead to a decrease in wages because of increased competition. Less money for employment leads to lower production costs, tempering inflation. Ultimately this may lead to lower interest rates and turn the market from bearish to bullish.

The consumer price index (CPI) is another important report for an avid investor to review. The CPI directly measures inflation by studying the change in the cost of a standardized quantity of goods and services paid by consumers. A general increase in the CPI may lead to an increase in interest rates and that can have a bearish effect on the markets. A retail sales report released monthly by the Commerce Department has a similar message. An increase in retail sales shows a strong economy, as does a significant increase in new housing in the housing start report. Prolonged increases may lead to higher interest rates to discourage inflation. A report on the gross national product (GNP) acts as a litmus test for the economy by taking everything into account.

If you want to be alerted as to when these reports will be released, go to InfoBeat (www.infobeat.com) and sign up as a subscriber. InfoBeat will e-mail daily newsletters that include a calendar of report releases as well as news, commentary, and portfolio updates.

psychological market indicators

Psychological market indicators can be thought of as criteria that analyze the subconscious of the marketplace. These indicators can be obtained by analyzing current market conditions. However, they are psychological by nature because their utilization depends on your interpretation of the facts. Keep in mind that some scenarios may inspire contrarian interpretations of the findings.

You can start by comparing the number of bullish investment advisers to the number of bearish investment advisers. Although this information is relatively straightforward, this percentage can be interpreted to be contrarian in nature since a vast number of advisers are wrong a lot of the time. Therefore, more bulls than bears may indicate that the market is topping out, getting ready for a fall.

Another way to gauge investment sentiment is to analyze options trading volume. Since buying puts is a bearish move and purchasing calls is a bullish move, the ratio between the two is supposed to reveal how many investors are bullish and how many are bearish. However, since the majority of investors are wrong, investors often insist that this ratio actually indicates yet another contrarian point of view. You can also study the ratio between put premiums and call premiums with a similar contrarian view. If put premiums are more expensive than call premiums, they must be experiencing higher volatility which leads to an increase in put prices—a bearish indicator.

One of the most inclusive subscription sites that report this kind of information can be found at Daily Graphs Online (www.dailygraphs.com). Developed by William O'Neil, the founder of *Investor's Business Daily* (*IBD*), this comprehensive site features 70 key technical and fundamental interactive factors on more than 11,000 stocks traded on the NYSE, AMEX, and Nasdaq. Additional data is available on 2,800 companies that have met a stringent set of financial criteria designed by the *IBD*. To access the service, you have to download and install special software directly onto your hard drive and pay a subscription fee. Psychological market indicators can be accessed from the "Market Indicators" screen.

conclusion

Whether you actually execute your trades online or just use the Internet to research and select the companies you want to pursue, the Internet is an invaluable resource for traders. This chapter was designed to get you up and running. In addition, we covered some of the more popular approaches to selecting stocks from fundamental and technical analysis to trading on market sentiment. There is a trading methodology that suits just about everyone's temperament; it's just a matter of finding that method through trial and error. Once you decide what kind of information is necessary to your trading process, it can easily be found on the Internet at either a free site or one that charges a small subscription fee.

As a fundamental analyst, you will need to access all of the data that gives you a picture of a company's current status and future prospects. Unless you have a strong business background or are very familiar with a particular industry, this method of trading will probably take some time to master. To determine the true growth prospects for a company, you need to gather a number of fundamental criteria and review the firm's competitors, as well as how the company's products are received by consumers. This kind of information can be found at www.hoover.com, www.zacks.com, and www.edgar.gov. If you work in an industry and are familiar with all of the players, you are just that much ahead of the game.

As a technical analyst, you need to understand how to interpret sophisticated charting technology. There are literally hundreds of sites that will instantly create a daily chart with historical prices. Some of the best sites—such as www.stockpoint.com, www.bigcharts.com, and www.clearstation.com—will also give you the ability to choose which technical indicators you want to include. The best way to learn how to use charts is to visit these sites and experiment with the technical indicators. By looking at the graphs with the indicators overlaid, you can start to get a sense for what types of indicators are useful.

The debate on fundamental versus technical trading is an old one. Some traders swear by one and hold great disdain for the other. Other traders successfully integrate both methods. For example, fundamental analysis can be used to forecast market direction while technical analysis can trigger appropriate entrances and exits. Determining what works best for you will probably entail a period of experimentation. Ultimately, it depends on what kind of trading you wish to pursue. Perhaps you just want to buy stock and hold it until it makes a profit. Then you are looking for methods that help you to determine when a stock is undervalued and on the move up. My own preference is for nondirectional options strategies that capitalize on volatility swings.

Whichever market analysis techniques you choose to employ, make sure you test them over a sufficient period of time. You can do this by using current prices and watching market movement or by back-testing using trading software. Inevitably, as the markets change, suitable methods of analysis will change also. The key is to remain open-minded and flexible so that you can take advantage of whatever works. Although each of these trading methods deserves a chapter of its own, my purpose has been to briefly introduce them and inspire you to investigate them further by visiting sites that offer the best selection of trading tools.

The road to online investing prosperity is an individual experience. On your journey, you will undoubtedly encounter certain obstacles that block your path. Although no one can really tell you how to navigate around these impediments, you can try to learn as much as you can from other people's mistakes. Since my own journey has been filled with major victories and devastating losses, I hope you can use what I've learned to avoid making a few of your own mistakes.