

Investopedia's Simulator Training Program

<http://simulator.investopedia.com>

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First off, thank you for becoming a member of Investopedia! You've made a smart choice in selecting our Simulator to help you hone your investing skills, but before you begin trading with your Simulator account, we encourage you to complete our free Simulator Training Program to maximize your value.

Divided into ten easy-to-digest lesson plans, you can work through the program at your own pace, utilizing our market simulator all the way through to learn while you trade with your free simulated account.

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Lesson 1 Simulator Introduction & Buying Stock

Why Use a Simulator?

Investing in the stock market can seem like an intimidating and complex task for many new investors. Investing brings a considerable amount of rewards, as well as risks. So, before putting your hard-earned savings on the line - why not practice with a virtual account?

Our Simulator uses real data from the stock markets in order to reproduce the experience you'd have using a real online brokerage account. Users are provided with a virtual cash balance and can place virtual trades using real market data. Some use it to test out new investing strategies and others use it to experience what it "feels" like to place a trade. Whatever your level of financial knowledge, the Simulator can help make you a better investor

Besides all of the learning, we think using the Simulator is actually pretty fun.

The Investopedia Simulator's operating platform is divided into five main sections:

Your Account	Portfolio	Games	Trading	Resources
Manage Profile	Portfolio Summary	Join Game	Trade Stock	Help
Logout	Trade History	Create a Game	Trade Options	Research
		Manage a Game	Open Trades	Symbol Lookup
		My Games	Failed Trades	Fill out our Survey

In **Your Account**, you can edit your personal information stored in our secure database. Note that you can also log out of your Simulator account if you're sharing a computer.

Portfolio provides a summary of your current holdings as well as a review of your trading history. Don't worry if you don't understand all the information in your Portfolio Summary, you will soon enough!

Games allows you to join a new game, and also create, manage and review the games you're participating in. You can join and play in multiple games with the Change Game drop-down menu on the Portfolio page. It looks like this:

Change Game:

By default, your account begins in the Investopedia Game. We recommend you complete this training program within the default Investopedia Game.

Trading contains the tools you'll need to input your trade orders and review any outstanding trades.

Resources has the tools for researching and selecting the companies you want to trade, such as historical price charts, financial statements, a ticker symbol lookup tool and much more.

Don't worry if you don't understand all of the tools at your disposal - our Training Program will explain the details of each component as you go.

Now that you're familiar with your trading account interface, let's go ahead and execute your first stock purchase. We will buy 100 shares of a well-known American corporation, Wal-Mart Stores Inc, using the following steps.

- ➔ After logging into your Simulator account, click on the Trade Stock link under the Trading menu.

Trading
Trade Stock

In the Make a Stock Trade screen, type in 'WMT' in the Symbol field and '100' in the # of Shares field, leaving all other fields at their default settings, just as shown here:

Step 1: Make a Stock Trade

Make a Stock Trade (Step 1 of 2)

Transaction	Order Type	Symbol	# of Shares	Term
<input checked="" type="radio"/> Buy <input type="radio"/> Sell <input type="radio"/> Sell Short <input type="radio"/> Buy to Cover	<input checked="" type="radio"/> Market <input type="radio"/> Limit <input type="radio"/> Stop	WMT	100	Good Till Cancelled
<input type="checkbox"/> Send Confirmation Email <input checked="" type="button" value="Preview Order"/>				

- ➔ Click **Preview Order** to proceed to the order confirmation screen:
 (*Note that your figures will be different than those below since they're always changing due to the inherent volatility of the stock market.)

Step 2: Make a Stock Trade

Make a Stock Trade (Step 2 of 2)

Preview your order:

Transaction	Quantity	Symbol	Stop/Limit	Duration
Buy Market	100	WMT	n/a	Good till Cancelled
Current Price		Commision	Est. Total Order	
\$47.09		\$19.99	\$4,728.99	

At a price of \$47.09 per share, the value of this transaction is estimated at \$4,709.00, plus commission of \$19.99 for a total of \$4,728.99

Submit Order
Cancel Order

WAL-MART STORES INC		↓ -0.04
(NYSE) WMT		
Last	47.0900	
Change	-0.04	
% Change	-0.08	
Volume	7,317,100	
Day's High	47.4900	
Day's Low	46.7100	
Ask Price	0	
Bid Price	0	

Take a minute to review the details of your order. As you can see, you are buying 100 shares of WMT at its market price. Your transaction type is Buy Market Order (Buy MO), which means you want to buy one share of WMT at the current market price. In order to simulate real life, you will be charged a commission of \$19.99 per trade. Commissions are charged by all brokerage firms for the service of executing trades.

Click on Submit Order to confirm your purchase of 100 WMT shares. Your order is now confirmed and will be filled at the first available opportunity. Please note that if you have made your order outside of normal market hours (9.30am - 4pm Eastern time), your order will be filled at the start of the next trading day. If you place the order during regular business hours, you'll see WMT in your portfolio within 20 minutes. To learn more about why there is a delay, [click here](#).

Now that you've purchased your first stock, let's review the details of your holdings.

Lesson 2 Interpreting Your Portfolio Summary

Your portfolio should now contain 100 shares of WMT and a large amount of remaining cash. (***Note:** if you completed Lesson Two outside of market hours (9.30am - 4pm ET) your Portfolio Summary may not include your WMT purchase at this time. If that is the case, please refer to the sample Portfolio Summary below. Your WMT purchase will appear in your portfolio at the beginning of the next trading day.)

Portfolio Summary					Change Game:	<input type="text" value="Investopedia Game"/>
Account	Account Value	Buying Power	Cash	Rank		
USD	\$99,980.01	\$97,626.01	\$95,272.01	84513 out of 84518		

Stock Portfolio									
	Market	Symbol	Description	Quantity	Book Value	Market Value	Total Value	% Change	Gain / Loss
Sell	USD	WMT	WAL-MART STORES INC	100	\$47.08	\$47.08	\$4,708.00	0.00%	\$0.00
Total Value: \$4,708.00									

Let's start with the main sections at the top of your Portfolio Summary:

- ➔ **Account** simply shows which currency your portfolio uses (U.S. dollars for the default Investopedia Game).
- ➔ **Account Value** displays the total current value of your portfolio, which is updated nightly after the market's close.
- ➔ **Buying Power** refers to your ability to make trades, and is based on the value of your portfolio and cash position. You cannot make a trade which costs more than your current **buying power**.
- ➔ **Cash** displays the amount of cash you presently have in your account. (*Note that your buying power is a better representation as to how much you can spend on further investments, since the default Investopedia Game allows you to trade on margin, which is explained in Lesson Eight.)
- ➔ **Rank** is something you won't see in a real brokerage account - it shows you how your portfolio stacks up compared to all other players in your current game.

Next, notice your Portfolio Summary is divided into three parts, Stock Portfolio, Option Portfolio, and Shorted Stock Portfolio (don't worry about the latter two for now, we'll discuss them in **Lessons Nine and Seven** respectively. Stock Portfolio contains the names of all the stocks you have purchased and currently hold, including the stock's ticker symbol, quantity of shares in each and name of the exchange the company trades on.

- ➔ **Book Value** displays the original cost per share of your purchase.
- ➔ **Market Value** displays the current market value per share.
- ➔ **Total Value** reports the current total dollar value of your holdings. Since you bought only 100 shares of WMT, its Total Value will be equal to 100 times its Market Value per share.

Portfolio Summary

Change Game:

Account	Account Value	Buying Power	Cash	Rank
USD	\$99,980.01	\$97,626.01	\$95,272.01	84513 out of 84518

Stock Portfolio

	Market	Symbol	Description	Quantity	Book Value	Market Value	Total Value	% Change	Gain / Loss
Sell	USD	WMT	WAL-MART STORES INC	100	\$47.08	\$47.08	\$4,708.00	0.00%	\$0.00

Total Value: \$4,708.00

- ➔ **Gain / Loss** gives the dollar amount of your gains or losses in each stock, and %
- ➔ **Change** reports the gain or loss as a percentage of your original cost.

Now that you have learned how to analyze your Portfolio Summary, let's look at how to find other stocks to buy.

Lesson 3

Analyzing Stock Symbols & Financial Information

As you noticed in Lesson Two when buying one share of Wal-Mart, all brokerages (simulated or not) require you to input the company's stock symbol to order any trade. In fact, all stock exchanges employ stock ticker symbols.

Why Symbols?

When a company is first listed on a stock exchange, the company is assigned a unique stock symbol. No other company listed on that exchange can ever use that ticker symbol, and thus all participants in the stock market have a universal, fool-proof way to correctly identify companies on an exchange. The ticker symbols are chosen by the companies themselves and can be as few as one letter, or as many as five. For example, Ford Motors is simply 'F'. Sometimes the ticker resembles the company name (Microsoft uses 'MSFT') while others are used somewhat as a marketing ploy - Anheuser-Busch Companies Inc, the makers of Budweiser Beer, trades under 'BUD'.

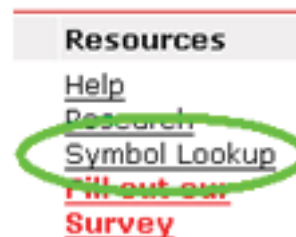
Another reason for the use of standardized stock symbols is that it minimizes trading mix-ups. One company's name may be quite similar to another's - in spelling, in sound or in an abbreviated format. (*Note: newspapers and other publications often put a company's abbreviation in brackets after the company's first reference in a story. This is NOT the ticker symbol, but rather a shortened standard name for the firm in question. To avoid incorrect stock selection, we recommend that you always look up a company's ticker symbol.)

It's also much easier to enter shorter symbols. Imagine having to type in "Hewlett-Packard Incorporated" instead of 'HPQ'

To buy shares of a company you're interested in, you must know its ticker symbol. Never guess a ticker symbol, or you may end up buying shares of a company that makes potato chips in Mexico rather than computer chips in Taiwan. Fortunately, all major brokerages offer symbol lookup tools with their accounts. Let's find some ticker symbols using the Simulator's *Symbol Lookup* tool.

Let's research the ticker symbols for two stocks previously bought by two legendary investors, Warren Buffett and Richard Aster Jr as featured in Investopedia's *Coattail Investor* newsletter: [Tellabs](#) and [Pier 1 Imports](#).

➔ Click on *Symbol Lookup* under *Resources* to proceed to the symbol lookup screen.



Alternatively, you can just go to: <http://research.investopedia.com/SymLookup.aspx>

➔ Now, type “Tellabs” into the search field, and click on *Lookup Symbol*.

Enter a portion of the company name to find the corresponding ticker symbol.

Enter Name:

You should see search results similar to those shown here:

1 results for 'Tellabs'

Click the symbol for a detailed quote.

Symbol	Name	Market	Trade Stock	Trade Option
TLAB	TELLABS INC	NASDAQ	Trade	Option Chain

As you can see, Tellabs Inc trades under the ticker symbol ‘TLAB’. We want to buy TLAB, so click on Trade under the Trade Stock section to proceed to the order input screen. Enter and confirm a market buy order for 100 shares of TLAB. (Refer to [Lesson One](#) if you need help).

You should end up at the Portfolio Summary screen. Now, go back to the Symbol Lookup screen and search for ‘Pier 1’. You should see the following results:

1 results for 'pier 1'

Click the symbol for a detailed quote.

Symbol	Name	Market	Trade Stock	Trade Option
PIR	PIER 1 IMPORTS INC	NYSE	Trade	Option Chain

➔ Click on Trade to proceed to the order input screen, or Make a Stock Trade (Step 1 of 2), and confirm a market buy order for 100 shares of PIR.

Now that you’ve learned about stock symbols and how to find them, let’s look at how to determine which stocks you most want to buy based on your analysis of financial information. There are endless ways to analyze stock market information; countless valuation theories and trading systems have been created to attempt systematic profit generation from the stock market. Alas, there is no crystal ball, no hard-and-fast rule you can follow to guarantee success 100% of the time. However, the goal of every investor should be to make logical investment decisions that they can be comfortable with.

A key component in any investor's decision-making process should be a keen analysis of available financial information - from the business and markets sections of newspapers to websites to financial news providers. Most online brokerages offer detailed quotes and research material to their clients, and the Investopedia Simulator is no exception. Let's work through a basic analysis of a detailed stock quote for well-known technology company Apple Computer Inc (AAPL).

➔ First, click on *Research* under the *Resources* section:



You will proceed to the opening screen of our Research section, which should look like this:

Enter Symbol: Get Quotes [Symbol Lookup](#)

Index	Last	Change	%	Open	High	Low
NYSE	7051.00	-28.86	-0.41	7079.85	7080.89	7040.25
NSDQ	1977.18	+5.63	+0.29	1970.80	1982.20	1967.08
S&P 500	1169.97	-1.14	-0.10	1171.10	1173.20	1166.65

Delayed 20 mins.

Market Commentary

■ **Opening Bell Report** May 12, 2005

The markets opened lower despite encouraging retail sales results for April with the Dow falling 20 points to 10,281. Nasdaq slipped 1 point to 1,971.

[MORE](#)

As you can see, the Investopedia Simulator provides the latest market data, delayed by 20 minutes, throughout the trading day. The three charts and corresponding tables report changes in the overall New York Stock Exchange (NYSE), the Nasdaq exchange (NSDQ) and the Standard & Poor's 500 Index (S&P 500). (For more information, see our tutorial on [Index Investing](#).) The Market Commentary section provides recent aggregate market news as well.

- ➔ To analyze the current condition of Apple shares, type in 'AAPL' in the search field and click on Get Quotes.

Enter Symbol: [Symbol Lookup](#)

You should now see a research screen filled with details of AAPL shares. Let's start with the data we are first presented with, which is the detailed quotes section:

- **Last Trade** is the most recent price AAPL traded at. In other words, this is the price the stock is currently valued at.
- **Trade Time** is simply the time of day applicable to the currently reported market price (Last Trade value).
- **Prev Close** is the stock's closing price on the previous trading day.
- **Change** details the difference between Last Trade and Prev Close.
- **Open** is the price it opened at the start of the current trading session.
- **Bid and Ask** are the current prices at which you can buy (bid) and sell (ask) AAPL.
- **Day's Range** displays the lowest and highest prices AAPL has traded at during the current trading day.
- **Volume** reports the number of shares of AAPL which have traded so far today.
- **Key Statistics** table reports the main ratios and performance measures needed to analyze a company's past and estimated future performance.
- **P/E (ttm)** is the price-to-earnings ratio for the company. The ttm simply refers to the PE over the past year, or trailing twelve months (ttm). (See [Understanding the P/E Ratio](#) for more on this important ratio.)
- **EPS (ttm)** is its earnings per share over the trailing twelve months, which is the 'E' in the P/E ratio.
- Market Cap measures the company's size by multiplying the share price by the number of shares outstanding.
- **Avg Vol (3m)** is the average number of shares traded each day over the previous three months and Shares Out is its total number of shares outstanding.
- **52wk High** and **52wk Low** report the highest and lowest share prices for the stock over the last year.
- The next four items deal with dividend payments, which we won't cover in detail in this lesson, (see [The Importance of Dividends](#)). For now, understand that Dividend is the dollar amount per share paid to shareholders in the last dividend, and Dividend Yield is simply the Dividend amount divided by the current share price.

APPLE COMPUTER INC (Nasdaq:A

Quote Summary:

Last Trade:	34.45
Trade Time:	3:09PM ET
Change:	0.32 (0.94%)
Prev Close:	34.13
Open:	34.20
Bid	34.46
Ask:	34.45
Day's Range:	34.07 - 35.23
Volume:	21,396,623

Key Statistics:

P/E (ttm)	37.90
EPS (ttm):	0.90
EPS est:	0.75
Market Cap:	28.12B
Avg Vol (3m):	26.74M
Shares Out:	823.93M
52wk High:	45.44 (02/17/2005)
52wk Low:	13.18 (05/17/2004)
Dividend:	0.00
Dividend Yield:	0.00%
Dividend Pay Date:	12/15/1995
Ex Div Date:	11/21
Last Split:	2-1 (02/28/2005)
Previous Split:	2-1 (06/21/2000)
Option Roots:	AAQ;QAA

Now that we understand all the information in the Detailed Quotes section, let's briefly touch on the other key information contained in the Research section:

- **Historical** is where you can look up past trading day's prices for a stock, and Options is where you'll find stock option prices (don't worry about these for now, we'll cover them in [Lesson Nine](#).)
- **News & Info** contains a Chart feature, feel free to play with it to get comfortable with stock charts. They can be a useful tool to quickly get a sense of a stock's past performance.
- **News** is where you'll find links to the most recent news stories involving a company and Profile simply describes the company and reports its executive team. SEC Filings is where you can find links to a company's quarterly and annual reports.
- **Financials** contains a company's financial statements, as well as a host of ratio data.
- We also provide links to the Trading screen to help you quickly trade the company you are researching in the Simulator section.

▶ Quotes
Detailed Quotes
Historical
Options
▶ News & Info
Chart
News
Profile
SEC Filings
▶ Financials
Income Statement
Balance Sheet
Cash Flow
Ratios
▶ Simulator
Buy Stock
Sell Stock
More Info

Now that you have a handle on researching a company, you're probably asking yourself, "Great, now how does this information tell me what stock will be the next winner?" Unfortunately, a quick look at a few numbers will never tell you the entire story, but what it can do is provide a great starting point. We can't possibly fit every common analysis technique into this short lesson, but we encourage you to read through our educational content. A few of our favorites are:

[Stock Basics Tutorial](#) - an excellent rundown of equity finance principles.

[Investing 101](#) - an overview of the importance and nature of financial planning

[Five Investing Pitfalls To Avoid](#) - a must-read for new investors!

[Guide to Stock-Picking Strategies](#)- a first-rate tutorial that looks at some of the most common (and successful) methods for selecting stocks.

These readings will give you a great head start on your way to successful personal investing. However, some investors find they aren't comfortable doing all their own research and prefer some guidance in their decision-making. Investopedia offers several services to assist small investors make well-informed decisions, such as:



Investopedia Advisor with industry expert David Harper offers unbiased, detailed stock picks from a man whose stock picks produced 60% returns in 2004!



ChartAdvisor is a great way to profit from advanced technical indicators produced by our analyst team. Subscribe today and receive technical stock trade instructions emailed directly to you as they develop!

Now that you have gotten your feet wet with financial data, it's time to put your analysis skills to use.

Lesson 4

Building a Diversified Portfolio

Probably the worst mistake a new investor can make is to not properly diversify their portfolio. Simply put, it is foolish to invest all of your money in one investment. It may be tempting to invest your life savings in a “hot stock tip”, but one of these hot tips may burn up your entire net worth. In short, diversify.

Since we are buying stocks throughout the course of this Training Program, let's focus on building a diversified equity portfolio. To do this, we need to understand a little bit about the nature of diversification, which is actually more common sense than you might expect. For example, consider fast-food chain [McDonald's Corporation](#). They've been very successful in the past, but if a new healthy diet fad hit North America, their profits would likely take a nosedive. In fact, similar companies such as [Wendy's International Inc](#) and [Yum! Brands Inc](#) would surely suffer comparable losses. If you had chosen to “diversify” your portfolio by investing in a bunch of different fast-food companies, you'd probably lose just as much money as someone who dumped their life savings into McDonald's stock.

Diversification is not simply spreading your money around into different companies; you have to diversify your investment funds into different types of companies. For example, if you currently owned shares in [Wal-Mart](#) and wanted to make another investment, you'd be better diversified by investing in oil giant [Exxon Mobile](#) than Wal-Mart rival [Target Corp](#).

Of course, when we're making real-life diversification decisions, investors use a more scientific approach. The widely used [GICS](#) (global industry classification standard) system divides the economy into ten general sectors, which we'll use as a model to diversify our portfolio. The ten sectors are listed below, with the number of stocks we'll purchase within each sector as well (we'll purchase more stocks from the larger sectors).

Sector	Stocks to Buy	Stocks Held
Energy	2	
Financials	2	
Materials	2	
Industrials	2	
Utilities	2	
Information Technology	1	
Telecommunication Services	0	TLAB
Consumer Discretionary	0	WMT, PIR
Consumer Staples	1	
Health Care	1	
Total	13	3

Since you already own WMT, PIR and TLAB, we don't want to purchase any more companies from the Consumer Discretionary or Telecom sectors. However, we do need to purchase 13 more stocks, two from each of the top five sectors listed, and one from the remaining three. Feel free to use a stock screener, such as [Zacks Custom Screener](#) to get a list of stocks within a given sector.

For example, you could run a Zacks stock screen for each Financials sector to produce a list of stocks currently trading under that sector, and pick one or two companies from each sector which interest you and meet your analysis criteria. If you don't wish to go through screening at the moment, here's a list of relatively large companies which you can choose from out of each GICS sector:

Sector	Potential Stock Picks (Screened With Zacks Stock Screener)
Energy (pick 2)	BHI , COP , HAL , IMO , KMG , OXY , PCZ , RIG , STO , MMP
Financials (pick 2)	CI , LEH , ABCB , ACF , FNB , ITG , CLFC , BER , CCRT , AFG
Materials (pick 2)	AGU , BAY , BHP , RIO , RTP , ATI , CLF , CMC , EMN , SRDX
Industrials (pick 2)	AIT , AOS , B , CAT , CCK , JOYG , MINI , BEZ , BRC , DE , DHR
Utilities (pick 2)	AEE , CEG , CIG , CPL , EE , EGN , EMT , EOC , FE , ILA , MDU
Information Tech. (pick 1)	ADBE , ADS , NTGR , AAPL , CNET , CRM , ELX , DRIV , GOOG
Telecommunication (pick 1)	CMTL , DSPG , NICE , PWAV , CHL , PGI , SKM , TSU , TWTC
Consumer Disc. (own WMT)	BDK , HNI , LAMR , PUB , SBTV , VIA , OMC , KZL , JAH , HLT
Consumer Staples (pick 1)	BG , CHD , COH , GIL , HRL , K , KSWW , KO , MON , PPC , UL
Health Care (pick 1)	AGP , BCR , DADE , FSH , JNJ , MNT , PDX , UNH , VRX , WLP

Go ahead and make your stocks picks (one or two as noted beside sector name) from each sector. Ideally, you'd spend more time researching if you were buying stocks for a real portfolio. However, for our purposes, it makes sense to learn by doing. What's the worst case, you lose a few thousand of virtual cash?

This brief lesson is only the tip of the stock analysis iceberg (read our Stock-Picking Strategies tutorial for more in-depth coverage), so we can't possibly explain everything you might want to look at when comparing stocks. Just for example, you may want to look at the P/E ratios of all the energy stocks listed in our table. Which one has the lowest P/E ratio? Do you think its low P/E ratio is an indication it may be undervalued? If so, that could be one of the factors compelling you to choose that stock. Feel free to dig around the numbers and compare these stocks to each other, but don't spend too much time doing so; more advanced analysis techniques can be learned by reading through our website's many resources. A select few would be:

- ➔ [Fundamental Analysis Tutorial](#)
- ➔ [Technical Analysis Tutorial](#)
- ➔ [Advanced Financial Statement Analysis Tutorial](#)
- ➔ [Ratio Analysis Tutorial](#)
- ➔ [Investopedia's Industry Handbook](#)

Feel free to read through these and other resources we offer periodically as regular reading goes a long way in improving your investment knowledge.

Lesson 5

Cashing Out: Selling Stocks from Your Portfolio

Depending upon how quickly you have worked through the previous six lessons, the stocks in your portfolio might not have seen very big changes in price yet. Usually, investors who are looking to buy and hold stocks do not sell them until, at the very least, a few months after their purchase. However, in this case our goal is to train you how to sell a stock, not to pick the optimal time to do so (learn more about when to sell a stock in *The Art of Selling a Stock*). Let's walk through a few stock sales so that you can learn exactly what you need to do for when it really matters.

The first question you're probably asking is, "how do I decide when it's time to sell a stock?" Let's start by taking a look at your current Portfolio Summary, which should look something like this:

Stock Portfolio									
	Market	Symbol	Description	Quantity	Book Value	Market Value	Total Value	% Change	Gain / Loss
Sell	USD	HAL	HALLIBURTON CO	100	\$41.10	\$40.76	\$4,076.00	-0.83%	-\$34.00
Sell	USD	OXY	OCCIDENTAL PETRO CP	100	\$66.45	\$65.31	\$6,531.00	-1.72%	-\$114.00
Sell	USD	AFG	AMERICAN FNCL GRP HLD CO	100	\$31.63	\$31.80	\$3,180.00	0.54%	\$17.00
Sell	USD	LEH	LEHMAN BROS HLDG INC	100	\$87.30	\$89.22	\$8,922.00	2.20%	\$192.00
Sell	USD	BAY	BAYER AG ADS	100	\$32.95	\$32.78	\$3,278.00	-0.52%	-\$17.00
Sell	USD	RTP	RIO TINTO PLC ADR	100	\$116.16	\$117.55	\$11,755.00	1.20%	\$139.00
Sell	USD	CAT	CATERPILLAR INC	100	\$89.02	\$89.83	\$8,983.00	0.91%	\$81.00
Sell	USD	BRC	BRADY CORPORATION CL A	100	\$30.77	\$31.65	\$3,165.00	2.86%	\$88.00
Sell	USD	EE	EL PASO ELECTRIC CO	100	\$19.06	\$18.83	\$1,883.00	-1.21%	-\$23.00
Sell	USD	ILA	AQUILA INC	100	\$3.19	\$3.19	\$319.00	0.00%	\$0.00
Sell	USD	AAPL	APPLE COMPUTER INC	100	\$34.59	\$35.61	\$3,561.00	2.95%	\$102.00
Sell	USD	NICE	NICE-SYSTEMS LTD ADR	100	\$38.29	\$38.75	\$3,875.00	1.20%	\$46.00
Sell	USD	PUB	PUBLICIS GROUPE SA ADS	100	\$29.60	\$29.73	\$2,973.00	0.44%	\$13.00
Sell	USD	GIL	GILDAN ACTIVEWEAR INC	100	\$45.48	\$45.28	\$4,528.00	-0.44%	-\$20.00
Sell	USD	JNJ	JOHNSON & JOHNSON	100	\$67.05	\$67.46	\$6,746.00	0.61%	\$41.00
Sell	USD	WMT	WAL-MART STORES INC	100	\$46.89	\$47.09	\$4,709.00	0.42%	\$19.65
Total Value:					\$78,484.00				

As you can see in this example Portfolio Summary, some of the stocks purchased have increased in value while others have decreased, as is very likely the case with your own. Take a look through your portfolio and pick a stock which has experienced a solid percentage gain thus far.

In this example portfolio, we will sell BRC to demonstrate the selling process.

- ➔ To sell this stock, we simply need to click on the *Sell* link next to its listing in our *Stock Portfolio*.

Sell	USD	BRC	BRADY CORPORATION CL A	100
Sell	USD	EE	EL PASO ELECTRIC CO	100

You should proceed to the Trading screen with the correct sale information pre-entered into the required fields. Click *Preview Order* to proceed to the order confirmation screen, where you can then click *Submit Order* to confirm your sale for execution. Be sure to submit your order as a market sell order.



Assuming you submit your sell order during normal market hours, it will be executed by our trading system within 20 minutes. If you submitted it outside of normal market hours, your order will be executed at the start of the next trading day.

Let's do one more stock sale just to make sure you have the steps down. This time, identify the stock which has experienced the biggest decrease since you purchased it. Maybe it is a good time to limit your losses in this stock to what you have already endured. In this example portfolio, we'll sell **OXY**.

➔ Once again, to sell this stock, we simply need to click on the *Sell* link next to its listing in our *Stock Portfolio*.

Sell	USD	OXY	HALLIBURTON CO	100
	USD	OXY	OCCIDENTAL PETRO CP	100

You will again proceed to the Trading screen with the pre-entered data already in the required fields. Click *Preview Order* and then *Submit Order* to confirm your sale for execution. Again, be sure to submit your order as a market sell order.

Now that you've sold two stocks from your portfolio, you should replace them with new investments. It's probably a good idea to replace the stocks you sold with new ones from the same sector, so that your portfolio will maintain its diversification. In our example portfolio, we sold BRC and OXY which were from the Energy and Industrials sectors, so we'll make our new stock picks from those same sectors. So, the steps for entering buy orders are very similar to the sell orders we just processed, but if you need a refresher, feel free to review how to buy a stock in Lesson One.

If you need help selecting stocks from the various industry sectors, refer again to our screened list compiled using Zacks Stock Screener:

Sector	Potential Stock Picks (Screened With Zacks Stock Screener)
Energy (pick 2)	BHI , COP , HAL , IMO , KMG , OXY , PCZ , RIG , STO , MMP
Financials (pick 2)	CI , LEH , ABCB , ACF , FNB , ITG , CLFC , BER , CCRT , AFG
Materials (pick 2)	AGU , BAY , BHP , RIO , RTP , ATI , CLF , CMC , EMN , SRDX
Industrials (pick 2)	AIT , AOS , B , CAT , CCK , JOYG , MINI , BEZ , BRC , DE , DHR
Utilities (pick 2)	AEE , CEG , CIG , CPL , EE , EGN , EMT , EOC , FE , ILA , MDU
Information Tech. (pick 1)	ADBE , ADS , NTGR , AAPL , CNET , CRM , ELX , DRIV , GOOG
Telecommunication (pick 1)	CMTL , DSPG , NICE , PWAV , CHL , PGI , SKM , TSU , TWTC
Consumer Disc. (own WMT)	BDK , HNI , LAMR , PUB , SBTV , VIA , OMC , KZL , JAH , HLT
Consumer Staples (pick 1)	BG , CHD , COH , GIL , HRL , K , KSWS , KO , MON , PPC , UL
Health Care (pick 1)	AGP , BCR , DADE , FSH , JNJ , MNT , PDX , UNH , VRX , WLP

If you ever need to review the details of your sell trades (or any trades for that matter), you can easily do so by clicking on Trade History under the Portfolio section. Again, these transactions will be delayed 20 minutes when the market opens and if the market's closed, they won't appear until after the next trading session opens.

Trade History - SmartMoneyJohn

Date	Ticket	Trade Type	Symbol	Quantity	Price	Fee	Total Cash Value	Balance
5/16/2005 1:42 PM	6610007	Buy_To_Open Put	GOU RT	1	\$1.00	\$21.74	\$121.74	\$99,468.57
5/16/2005 11:23 AM	6607737	Sell Market	WMT	100	\$47.43	\$19.99	\$4,723.01	\$99,490.31
5/16/2005 10:30 AM	6606647	Market Open Sell	WMT	99	\$46.71	\$19.99	\$4,604.30	\$99,456.66
5/16/2005 10:15 AM	6605663	Short MO	GM	100	\$30.83	\$19.99	\$3,102.99	\$99,494.81
5/16/2005 10:08 AM	6604073	Market Open Buy	WMT	100	\$46.71	\$19.99	\$4,690.99	\$99,514.80
5/16/2005 10:08 AM	6604072	Market Open Sell	WMT	1	\$46.71	\$19.99	\$26.72	\$99,534.80
5/16/2005 10:08 AM	6604068	Market Open Buy	WMT	100	\$46.71	\$19.99	\$4,690.99	\$99,555.06
5/13/2005 3:36 PM	6600026	Buy Market	WMT	99	\$47.25	\$19.99	\$4,697.74	\$99,599.43
5/13/2005 3:35 PM	6600009	Buy Market	JNJ	100	\$67.05	\$19.99	\$6,724.99	\$99,619.42

With the completion of this lesson, you now know how to perform basic market buy and market sell orders.

Lesson 6 Advanced Trade Types

So far, you've only bought and sold stocks using market orders, which is essentially you instructing your online brokerage to "trade the numbers of shares I've instructed you to at the current price other people are trading this stock at". Your first stock purchase, WMT, was bought with a market order. Shortly after you made this trade, you probably noticed that WMT went a little bit higher or lower immediately after buying it. Then, later on in your training, we helped you sell a stock you owned which had risen in value by entering a market sell order.

While simple market orders are fine to use, there are more advanced trading orders you can place.

Let's walk through the **limit order** first. Essentially, a limit order is an instruction to your brokerage to buy (or sell) a specified number of shares of a company for any price lower than (or, in the case of a limit sell order, higher than) the limit price you submit. For example, in **Lesson Four** our example portfolio purchased shares of Apple Computer (AAPL) for \$34.59 a share. Based on our analysis of the company's future prospects and the current share price, we aim to sell our AAPL shares after they realize a \$10/share, or 30%, increase. However, rather than checking the market several times in a single day, with the intent of entering a market sell order once AAPL reaches \$45 per share, we can submit a simple limit sell order to do that for us.

➔ To do so, we would click on *Trade Stock* under the *Trading* section.

Trading
Trade Stock

Once at the order entry screen, you can input the trade instructions for a limit sell order:

Transaction	Order Type	Symbol	# of Shares	Term
<input type="radio"/> Buy	<input type="radio"/> Market	AAPL	100	Good Till Cancelled
<input checked="" type="radio"/> Sell	<input checked="" type="radio"/> Limit		45.00	
<input type="radio"/> Sell Short	<input type="radio"/> Stop			
<input type="radio"/> Buy to Cover				

Send Confirmation Email

Preview Order

Clicking on *Sell* for the Transaction type, and *Limit* for the Order Type, we inputted 45.00 as the limit price - this will ensure your order to sell AAPL shares will not occur until you can get you no less than \$45.00/share for your AAPL shares - and 100 for the # of Shares. We keep the order's *Term* set at "Good Till Cancelled", which means the order will stay listed with your brokerage and be processed once AAPL shares reach or exceed your limit price. (***Note:** we could have set *Term* to be "Day Order", which means the order would expire at the end of the current trading day).

Select a stock from your portfolio and set up a sell limit order for it, with a limit price, say 50%, higher than the price you paid for it using the same steps we've outlined in the above AAPL example above.

Finally click on *Preview Order* and then *Submit Order* to finalize your limit sell order. The Simulator will then store your trade instructions and process them once the share price of your stock meets or exceeds your limit price. As you can see, the use of limit sell orders are very useful if you wish to sell a stock at a specific target price, but are unwilling or unable to regularly check intraday or daily closing prices of the stock. Also, an added advantage of using limit sell orders is they remove the emotional component of making trading decisions. Too often, investors will be tempted to hold on to a winning stock even once it becomes overpriced despite logic telling them that it should be sold. Submitting a limit sell order immediately after you buy the stock is a good time to avoid any emotional complications, allowing you to better maintain your strategy and realize superior long-term returns.

Similarly, limit buy orders are equally useful. You can enter a limit buy order with a certain limit price, which allows you to buy a set number of shares only if they can be purchased at a price equal to, or lower than, the maximum limit price you submit. In our example portfolio we purchased AAPL for \$34.59/share with a market buy order. But perhaps we thought APPL was a bit overpriced at the time, so we could have used a limit buy order to purchase 100 shares only if AAPL fell to \$32/share or less. That way, we only buy at a price we believe is fair. If AAPL does not fall to \$32, the order will not be processed.

Clearly, this type of order could work to our advantage as we can potentially realize greater returns if we can enter a position in AAPL at a lower price.

Now that we understand how to use limit orders to specify prices we want to buy or sell stock at, let's walk through a [stop order](#). A stop order, or stop-loss order, can be a useful tool for limiting risk exposure to a particular stock position.

Essentially, a stop order is "dormant" until activated and processed once a stock's price falls to the specified "stop price". For example, in our example portfolio we also purchased shares of Google Inc ([GOOG](#)) for \$228.57 per share. Many investors take the strategy of limiting their losses, meaning that they'll automatically sell if a stock goes down a certain percentage. Entering a stop order is an efficient and cost-effective means of limiting losses by avoiding the agony of regularly checking your stock and deciding whether to hold or sell it. For instance, if a so-called growth stock has headed south, an investor may choose to hold, hoping the share price might rebound, but if it doesn't, losses can quickly mount.

For our example portfolio, we could set up a stop-loss order for GOOG by clicking on *Trade Stock* under the *Trading* section, and then enter the fields as below:

Transaction	Order Type	Symbol	# of Shares	Term
<input type="radio"/> Buy	<input type="radio"/> Market	<input type="text" value="GOOG"/>	<input type="text" value="100"/>	<input type="text" value="Good Till Cancelled"/>
<input checked="" type="radio"/> Sell	<input type="radio"/> Limit	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="radio"/> Sell Short	<input checked="" type="radio"/> Stop	<input type="text"/>	<input type="text" value="200.00"/>	<input type="text"/>
<input type="radio"/> Buy to Cover				

Send Confirmation Email

Clicking on *Preview Order* and then *Submit Order* will finalize our stop-loss order, which will remain dormant in our Simulator account, only becoming active if GOOG drops to \$200/share or less. Our stop-loss order obviously cannot prevent losses from occurring, but it does make sure that small losses don't become big losses.

Following the steps outlined in the above example, select a stock from your portfolio and set up a stop-loss order, specifying a stop price, say 20%, lower than the purchase price.

An important point to note is that stop-loss orders carry commissions just like any order, but only if it is executed. So, if the stop-loss order is never triggered, it's essentially a free safety net. However, note that stop-loss orders and limit orders usually carry a slightly higher commission than simple market orders. The Investopedia Simulator charges \$29.95 for stop and limit orders, while market orders only cost \$19.95.

Now that you have learned about stop and limit orders, try placing a few with the stop/limit prices near to the current prices of your stocks. You'll see how these get automatically executed over time. While stop-loss orders can help limit your potential for serious losses, it is entirely possible to *profit* from falling prices - a topic covered in following lesson.

Lesson 7

All About Short Selling

Most small investors cringe at a bear market when it seems like all stocks are in steady decline. There is, however, a technique for profiting from falling stock prices called “selling short”, or short selling. Essentially it involves an investor borrowing shares and then selling them in the hope that its price will fall in the future when the investor then buys back the shares they owe, or are “short” of, for a lower price than they first sold them at before returning them to the lender.

The methodology of a short sale may be difficult to understand at first, so let’s use a simplified example to help explain it. Suppose you believe that shares of General Motors Corp (**GM**) are overpriced and likely to decline in the future. In order to profit from this expected price drop, you’ll need to short GM stock. To do so, you borrow shares from someone else (your brokerage facilitates this) and then immediately sell them on the open market. Suppose you short sell GM at \$30 per share today, and in two weeks time it is trading at \$25 per share. At this point, you “cover” your short position by purchasing GM shares and returning them to your lender (your brokerage). Since the stock fell, for every share of GM you shorted, you will profit by \$5. (Read our [Short Selling Tutorial](#) for more details on short sale trades)

Let’s walk through a short sale trade with the Investopedia Simulator. As usual, go the Trading screen by clicking on the Trade Stock link. Enter in the following trade details as shown:

Transaction	Order Type	Symbol	# of Shares	Term
<input type="radio"/> Buy	<input checked="" type="radio"/> Market	<input type="text" value="GM"/>	<input type="text" value="100"/>	<input type="text" value="Good Till Cancelled"/>
<input type="radio"/> Sell	<input type="radio"/> Limit <input type="text"/>			
<input checked="" type="radio"/> Sell Short	<input type="radio"/> Stop <input type="text"/>			
<input type="radio"/> Buy to Cover				

Send Confirmation Email

As you can see, we want to make our Transaction type a Sell Short for 100 shares of GM at the current market price. Essentially, we are telling our broker we wish to borrow 100 GM shares from them and sell them immediately at the current market price. Click on Preview Order and then Submit Order to confirm you short sale instructions.

Once your trade goes through, you'll be able to see GM listed in the Shorted Stock Portfolio section of your Portfolio Summary, as shown here:

Shorted Stock Portfolio							
	Market	Symbol	Description	Quantity	Book Value	Market Value	Total Value
Cover	USD	GM	GENERAL MOTORS CORP	100	\$30.83	\$30.93	\$3,093.00
Total Value: \$3,093.00							

Basically, your "shorted" stock holdings are reported in your Portfolio Summary in the same way as the stocks you own (your "long" positions), with the only difference being the gains and losses reported for your shorted stocks are opposite in nature to your long holdings. This means that as the price drops for a stock you have shorted, your gains will increase.

Now that you understand how an investor can profit from short sales, let's discuss the inherent risk associated with short selling. An investor profits from short sales as a stock's price decreases, however, a stock's price can never go lower than zero. So there is a limited amount of profit you can earn from a short position in a stock. Conversely, if you take a long position in a stock, your investment can continue to increase in value to multiple times its original cost over a long period of time. There is no theoretical limit to a stock's appreciation.

But this is of no benefit to an investor when they short a stock. In fact, this unlimited nature of a stock's upward movement means that an investor could theoretically experience unlimited losses if the short sale turns sour. If you are having difficulty understanding this, consider our example short sale of GM shares.

Suppose there are two investors interested in GM stock, however one decides to buy (go long) 100 GM shares and the other shorts 100 GM shares. The investor who went long on GM can, in the absolute worst-case scenario, lose the entire value of their investment, or \$2,500 (\$25/share multiplied by 100 shares, not including brokerage fees). What can the investor who went short lose?

To answer this question, let us suppose GM climbs to \$100. The investor who shorted GM, who made the same initial investment of \$2,500, would lose \$7,500 on their investment (or a \$75 loss per share multiplied by 100 shares)! In theory, if GM continued to perform well the investor's short sale could amount to huge losses from a relatively small investment.

This risky nature of short selling must be assumed (or at least dealt with by offsetting investments) by an investor, and as such is not recommended for novice investors. However, provided an investor understands the risks involved, short selling can be a valuable tool for earning solid returns even amid a bear market.

For those not wishing to expend the time and effort in implementing limited-risk short sales, or for those who need professional stock analysis before risking their savings with a short sale, *Investopedia's Chart Advisor* provides individual investors with professional technical analysis using advanced chart patterns to single out optimal short-selling opportunities. Members receive detailed trade instructions based on our technical analysis, complete with stop-loss prices to ensure your losses are limited when our trades do not work out as planned.



Subscribe today and receive technical stock trade instructions emailed directly to you as they develop!

Intelligent use of short selling to compliment prudent long positions in good stock picks can help an investor outperform the market over a long period, especially during a flat market.

Lesson 8

Margin Accounts: The Power of Leverage

Although we've used virtual cash so far in our Training Program, we've dealt with investing from the perspective of an investor trading stock with their own money. However, there's an important aspect of stock market investing everyone should know about - investing using other people's money! In financial parlance, this is referred to as trading on [margin](#).

We're not going to spend too much time explaining the intricacies of margin accounts in this lesson; feel free to read our [Margin Trading Tutorial](#) for more information.

In simple terms, trading on margin is borrowing money to invest. Your brokerage provides the cash needed for the cost of the trade by providing a loan to your account which is secured against the assets you already hold within it. Of course, your brokerage will charge you interest on your loan. Your goal when making a trade on margin is to profit by more than the relatively small interest cost, thereby boosting the returns you can earn with the original savings you contributed to the account.

In the default Investopedia Game provided in our Simulator, players are allowed to trade on margin, meaning they can spend more money buying stock than they have cash in their account. This example portfolio shows an account trading heavily on margin:

Portfolio Summary

Change Game:

Account	Account Value	Buying Power	Cash	Rank
USD	\$97,874.51	\$10,070.11	-\$77,734.29	74292 out of 84341

Stock Portfolio

Market	Symbol	Description	Quantity	Book Value	Market Value	Total Value	% Change	Gain / Loss	
Sell	USD	MSFT	MICROSOFT CORP	500	\$25.34	\$25.22	\$12,610.00	-0.47%	-\$60.00
Sell	USD	GE	GENERAL ELECTRIC CO	500	\$36.11	\$35.70	\$17,850.00	-1.14%	-\$205.00
Sell	USD	MMM	3M COMPANY	200	\$76.70	\$75.61	\$15,122.00	-1.42%	-\$218.00
Sell	USD	AAPL	APPLE COMPUTER INC	500	\$36.11	\$34.77	\$17,385.00	-3.71%	-\$670.00
Sell	USD	TM	TOYOTA MOTOR CORP ADS	300	\$73.75	\$71.52	\$21,456.00	-3.02%	-\$669.00
Sell	USD	BRK.B	BERKSHIRE HATHAWAY CL B	8	\$2,805.03	\$2,767.00	\$22,136.00	-1.36%	-\$304.24
Sell	USD	GOOG	GOOGLE INC CL A	100	\$227.25	\$229.24	\$22,924.00	0.88%	\$199.00
Sell	USD	LUV	SOUTHWEST AIRLINES CO	1000	\$15.29	\$14.87	\$14,870.00	-2.75%	-\$420.00
Sell	USD	LVS	LAS VEGAS SANDS CORP	400	\$35.26	\$33.78	\$13,512.00	-4.20%	-\$592.00
Sell	USD	TLAB	TELLABS INC	100	\$7.90	\$7.84	\$784.00	-0.76%	-\$6.00
Sell	USD	LLL	L-3 COMMUNICATIONS HLDGS	260	\$66.35	\$65.23	\$16,959.80	-1.69%	-\$291.20

Total Value: \$175,608.80

As you can see, the total value of the equities purchased exceeds \$175,000 even though the Investopedia Game only provides players with \$100,000 starting cash. The opportunities margin trading provide can be easily seen with this example portfolio. Suppose the stocks picked by this investor all rise in value to push up the total value by 20% in one year. A respectable return for the portfolio, no doubt, but let's look at the investor's returns a little closer.

If the \$175,000 portfolio increases in value by 20% (or \$35,000), it'd now be worth \$210,000. The investor could then sell all of their stocks and have \$210,000 in cash (less brokerage fees). Of course, about \$75,000 of that \$210,000 is the brokerage firm's money, which they lent to the investor to purchase stocks with. Subtracting the brokerage's money from the \$210,000 leaves the investor with \$135,000.

Thus, since the investor started with \$100,000, they have profited by 35% (\$35,000) even though their portfolio only returned 20%. The brokerage firm's money they invested with on margin helped the investor earn extra returns for their own pocket! Keep in mind that there would have been interest paid to the brokerage firm that we have not included in our calculations.

Of course, this amplification of profits can also work against the investor, should their portfolio experience losses. Let's say, for example, that the \$175,000 portfolio lost 20% of its value in the same one-year period. In this case, the investor's stocks would only be worth \$140,000 ($\$175,000 - \$35,000$). At this point, the investor still owes about \$75,000 to the brokerage firm, so subtract that amount from the portfolio and the investor is left with only \$65,000 - a \$35,000 loss. Had the investor not invested on margin, they would have been better off, as a 20% drop in the portfolio's value would have left them with \$80,000.

As you can see, margin essentially acts as an amplifier, increasing the size of your trading account's gains and losses. For this very reason, margin trading may not be suitable for risk-averse investors. It is also important to consider the risk of receiving a [margin call](#) when your brokerage requires you to either contribute additional funds to your margin account or sell your investments to ensure you will not lose their money. Margin calls occur when your portfolio loses enough money to cause your equity value to be less than your brokerage's margin requirement, and if you don't have the extra money, you'll end up being forced to sell your stocks if they fall too much! Read about the margin call provisions applicable to your Simulator account by [clicking here](#).

For all of these reasons, margin trading is considered risky and should only be used by experienced investors.

Lesson 9

Options Trading

So far we've discussed investments in the stock market. The Investopedia Simulator also allows you to trade options. Options aren't stocks, although there is a link between the equity markets and the options markets.

We won't go into the details of these financial instruments in this lesson (we highly recommend our [Options Basics Tutorial](#) if all the jargon in this section makes your head spin), but do understand that a [stock option](#) is an investment vehicle which simply provides the owner the opportunity, but not an obligation, to buy a set number of shares of stock (usually 100) at a set price until a specified date.

There are two types of options, calls and puts. An option to buy an asset is a call and an option to sell an asset is a put. Said another way, a person who buys a call option will profit when the stock's price goes up, while the buyer of a put option profits when the stock drops.

Options are highly versatile financial instruments, and thus can be used as a highly speculative and risky investment, a tool to add safety to your portfolio and protect an investment from declining, and anything in between. In this lesson we'll go over some examples of buying a call option for stock as a speculative trade and the use of a put option to protect a portfolio from excessive losses.

First, let's consider the use of options as speculative investments. Most stock options have an expiry date of no more than nine months from the date the contract is written, although some longer term options, known as [LEAPS](#), can have timelines of up to three years. In order for a speculative investor to profit from options trading, they need to not only correctly predict the future direction a stock's price, but by how much it will change and within what time frame. This may sound complex but should become clear as we work through the following example.

Suppose you'd like to make a speculative trade on the future price of Cory's Tequila Co (CTC). Say you believe CTC's research in proprietary Agave harvesting technology may soon pay off with substantial profits. Suppose CTC is currently trading at \$67 a share on June 1, and you decide to purchase a European August 70 call, which expires on the third Friday of August (options are typically written to expire on the third Friday of their expiry month).

The term "European" means the option contract is such that you may only exercise your right to purchase the shares on the specific exercise date written in the contract. This contrasts against an "American" option in which the option holder can exercise the option at any time up until the exercise date.

If the premium (cost) for the option is \$3.15, then the total cost of the option contract for you would be \$315 (\$3.15 multiplied by 100 shares), excluding brokerage fees for simplicity. Suppose that in only three weeks time CTC has risen to \$78.00 a share (\$8 higher than your option's strike price of \$70.00). Because of this upward price movement, your option contract, which you bought at a \$3.15 premium, is now priced at, say, \$8.25. Note that the value of the option (\$8.25) is greater than the \$8 difference between the strike price (\$70) and the market price (\$78). This is due to the time value component of the option, which we won't touch on in this lesson for the sake of brevity (see [Using The Greeks to Understand Options](#) to learn more).

Given the increase in your option contract's value, you decide to close out your option position. Selling out of your contract position yields you \$825, which means that you have profited by \$510 (\$825 - \$315) from your initial investment of only \$315, a gain of 160% in a very short period! As you can see, the nature of options allows you to reap great profits in a short period; this is the power of leverage at work since you are able to own the right to purchase 100s of shares for a relatively small price. Of course, should CTC's price have declined after your purchase, your option contract would have expired worthless and you would have lost your entire investment of \$315. As you can see, options can certainly be risky investments when traded this way.

Nevertheless, options are a useful tool to add safety to your portfolio. In our example portfolio, we made the following purchase in high-flying tech play Google, Inc.

Stock Portfolio

	Market	Symbol	Description	Quantity	Book Value	Market Value	Total Value
Sell	USD	GOOG	GOOGLE INC CL A	100	\$228.57	\$229.24	\$22,924.00

At \$228.57 with a very high P/E ratio of about 90, at the time of writing, [GOOG](#) is not an inexpensive stock. If anything should cause Google to lose profits, or even grow their profits at a slower rate than expected, this stock could be in for a sharp decline. As responsible investors, we would certainly want to protect ourselves from any significant downside risk, and a GOOG put option is a handy tool to do just that.

In our Simulator account, we can bring up a quote for GOOG by clicking on Research, typing in GOOG and hitting *Get Quotes*. Near the bottom of the screen, you should see the following links to under *Option Roots*.

➔ Click on these to proceed to Google's option quotes screen, which should look like the screens on the next page:

Last Split:	
Previous Split:	
Option Roots:	GGD:GO

(GOOG) GOOGLE INC CL A	
Last	229.4
Day's High	229.9500
Day's Low	228.5700

Expires After: Friday, May 20, 2005

 Options: **May - 2005** | [Jun - 2005](#) | [Sep - 2005](#) | [Dec - 2005](#)

Strike Price	Calls						
	Symbol	Last Trade	Chg	Bid	Ask	Vol	Open Int
80.00	GOQ EP	149.00	0.00	149.30 [98]	149.60 [108]	0	247
85.00	GOQ EQ	143.60	0.00	144.30 [105]	144.60 [115]	0	168
90.00	GOQ ER	138.70	0.00	139.30 [105]	139.60 [115]	0	112
95.00	GOQ ES	133.70	0.00	134.30 [98]	134.60 [98]	0	72
100.00	GOQ ET	128.70	0.00	129.30 [98]	129.60 [98]	0	169
105.00	GOQ EA	123.40	0.00	124.30 [105]	124.60 [105]	0	65
110.00	GOQ EB	111.00	0.00	119.30 [98]	119.60 [98]	0	66
115.00	GOQ EC	115.40	0.00	114.30 [98]	114.60 [98]	0	131

If you click on the Jun - 2005 link at the top of the Calls table (or another month of your choosing), you can view all the existing GOOG options that have an expiry date of the third Friday of that month. We want to protect ourselves from a drastic price drop in GOOG shares; in other words, we want to make sure we can sell our Google shares for a price reasonably close to what we paid for them. We decide that a 10% loss is acceptable, but we won't sell for anything less than \$200/share.

Now, let's go to the *Puts* table, shown below or beside *Calls*, and pick out a put option, like so:

200.00	GOQ RT	0.95	-0.15	0.90[1,528]	1.05[1,031]	192	7,146
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We see that the Ask price, in this example, is \$1.05, meaning we'll need to pay \$105 for a put option contract for 100 shares. Click on the hyperlinked text (GOV RT) beside the options price of 200.00 to proceed to the trading screen.

Make a Option Trade

You are trading in the **Investopedia Game** portfolio. To switch to a different portfolio [click here](#).

Transaction	# of Contracts	Ticker Symbol	Type	Strike Price	Expiry Month
<input checked="" type="radio"/> Buy to Open <input type="radio"/> Sell to Close	<input type="text" value="1"/>	<input type="text" value="GOV RT"/>	Put	<input type="text" value="200.00"/>	<input type="text" value="June"/>

Send me a confirmation email.

If everything looks good in the Preview Order, we would hit Submit Trade to confirm the order for the Google put option. In about 20 minutes, the trade will be processed and the option would appear in the Option Portfolio section of our example Portfolio Summary. Now, as the coming month goes by, we enjoy the benefit of using the option as a safety net. No matter what happens to Google's stock price in the coming month, we will not sell your shares for anything less than \$200 per share. The \$105 (plus brokerage fees) paid for the put option is essentially an insurance premium, which we pay to limit the downside risk on the investment. Since, in our example portfolio, we have a \$23,000 position in Google stock (100 shares multiplied by \$230 per share), spending \$105 plus brokerage fees on an insurance package to limit our potential losses does not seem terribly expensive.

Feel free to dig around the option quotes for some of your stock holdings, and purchase a put option contract on a few of your stocks, following the same steps we have outlined above in our Google example.

And on that note, we end this lesson about risk management using stock options with a quote from legendary investor Warren Buffett, who advises that "An investor needs to do very few things right as long as he or she avoids big mistakes". We may not always be able to avoid big mistakes in our stock picks, but we can limit the damage from our mistakes by using stock options to our advantage.

Lesson 10

Continuing Your Investment Education

We have covered a lot of topics in this Training Program, and the numerous types of investment styles and vehicles may have come as a bit of a surprise to you. We first learned how to conduct basic market buy and sell orders, and how to interpret your Portfolio Summary. Coupled with financial analysis, as introduced in Lesson Three, you're now able to undertake building your own diversified portfolio and execute buy and sell trades as your investments progress over time. You have also been sufficiently introduced to the use of advanced trade types, such as short selling, margin accounts, and even options trading.

The investing techniques we have covered here all have their supporters and detractors. The key, however, to being satisfied with your investment decisions is to make sure they are best suited to your individual risk preferences and investment objectives. If you're interested in actively managing your own portfolio of stocks, the best thing is to keep up-to-date with the financial markets by regularly reading business and markets news. Also, many investors are most comfortable putting in a portion of their savings into the stock market, combining equity investments with safer bonds or other fixed-income securities. For a good start to understanding bonds and other types of investments, we encourage you to read our extensive online resources, such as:

Bond & Debt Basics - A great tutorial for those new to the bond markets

Advanced Bond Analysis - Solid bond analysis tips in this outstanding tutorial!

Diversification Beyond Equities - Learn to diversify with different investments.

Ten Tips For The Successful Long - Term Investor - Great tips for every investor!

For those investors who do not feel comfortable making investment decisions entirely on their own, it might be worth considering less self-directed forms of investment, such as actively managed mutual funds. Read our [*Mutual Fund Basics Tutorial*](#) to find out about the pros and cons of these types of managed investment vehicles.

Alternatively, if you wish to take your financial future into your own hands (something we think everyone should do!), it's worth considering hiring a qualified financial planner or full-service broker who can help determine your investment objectives and provide guidance in the decision-making process to help you avoid any big and costly mistakes. However, these financial professionals often charge hefty fees which may significantly reduce your returns. For less expensive investment advice which still leaves you in complete control of your investment decisions, consider subscribing to one or more of *Investopedia's advisory services*, such as:



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Thank you for taking the time to complete our free Simulator Training Program. We hope you have found it worthwhile and will continue to practice the lessons you have learned in your Simulator account to hone your trading skills! If you have any comments or questions regarding this Training Program, or would like to provide us with feedback or request future lessons for our Training Program, please do not hesitate to [Contact Us](#).

Cheers,
The Investopedia Team!