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Stock Market 101: Everything You Need to Know About Buying, Selling and Trading

The stock market is hot right now. Here's what you should know if you want in on the action.

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Stocks mentioned in this story: [AAPL](#), [MSFT](#), [AMZN](#)

The stock market ended 2016 with a series of record-high days, and the Dow Jones industrial average has continued to inch toward a milestone level of 20,000. Soaring stock prices may have some people wishing they could [get in on the action](#), but the process of buying, selling and trading stocks can be intimidating. Fortunately, it doesn't have to be that complicated.

"The average person thinks there is this secret sauce or fancy algorithm they have to learn," says Sam Seiden, chief education officer for Online Trading Academy. "But it's not rocket science."

Here are the basics you need to know to start investing.

Where to learn the jargon. Stocks come with their own language. There are things like "limit orders" that dictate buying at a certain price or "trading on margin" which is essentially borrowing money to purchase stocks. Jeff Reeves, executive editor of InvestorPlace, a resource for individual investors, says people shouldn't worry too much about the terms when they are starting out. Rather than try complicated transactions, new investors are best served by simply buying securities at market price. As people get comfortable with the basics, they can then branch out into more advanced trading scenarios.

"In a bygone era, there would be an investing club or a group getting together for breakfast at Denny's," Reeves says. These would allow new investors to learn from more experienced ones.

Today, people may have to look elsewhere, such as in Facebook groups, to get that type of mentoring and education. Other resources, such as Online Trading Academy and the mobile app *invstr*, let people participate in simulated stock trading so they can experience the process firsthand without putting any money on the line.

How to pick the right stock. While new investors don't need to worry too much about learning stock terms, experts do recommend they put in plenty of time [researching which stock to buy](#). Annual reports and price-earnings ratios are helpful, but Reeves says his best piece of advice is for people to buy what they know. "Say I'm a doctor," he says. "It may make sense to invest in medical device companies because that's what I understand."

Although people may be eager to own a piece of Apple (ticker: [AAPL](#)) or Microsoft Corp. ([MSFT](#)), new investors should remember they [don't have to buy individual stocks](#) if they want money in the market. "I'm a big believer in index funds," says Adam Bergman, a senior tax partner with IRA Financial Group. "They do a really good job for the novice investor."

Typically sold as mutual funds or exchange-traded funds, these combine a number of stocks in one fund that is designed to mimic the returns of the Standard & Poor's 500 index, Russell 2000 or another stock market index. Each index tracks a section of the stock market. For instance, the Nasdaq composite tracks technology firms, while the Russell 2000 includes smaller businesses.

Buying at the best time. Once you know what to buy, don't run out and make a purchase immediately. "There's a reason Wall Street makes money consistently and the average investor doesn't," Seiden says. According to him, that's because Wall Street investors wait until the share price drops before making a purchase, while many new investors buy when prices are highest.

"Here's the trap for the new person," Seiden says. "They will focus on the stocks where the news is good, but by the time they get the news, everyone else [in the know] has already bought it." This cycle means new investors are often buying when prices are highest. A better route is to watch a stock price and buy when it's down, a tactic Seiden encourages as a way to buy shares at a sale price.

The difference between investing and trading. As for when to sell, it depends on whether a person wants to invest or trade. Investing in stocks means buying and holding shares for an extended period, while trading refers to buying and then quickly selling for a profit. While day trading can sometimes result in a fast windfall, Reeves doesn't advise it. "For a beginning investor, you shouldn't be thinking about buying in terms of days or hours," he says. "The longer you hold, the more successful you are."

Bergman notes many people get [confused about taxes](#) as they apply to trading and investing in stocks. If shares are held at least a year before a sale, the profit is subject to capital gains tax, which is currently 20 percent. Gains from stocks that are sold in less than a year are taxed at the same rate as a person's other income.

The best place to buy. The final piece of the puzzle for new investors is where to purchase stock. For ease, Bergman recommends starting where you already have an established business

relationship. "Start with your bank," he says. "Most banks have a brokerage firm, and they will set you up very quickly."

Having a broker buy and sell stocks on your behalf may be easy, but it's not the cheapest way to go. "A share of Amazon ([AMZN](#)) is a share of Amazon wherever you buy it," Reeves says. He recommends going with the brokerage with [the lowest fees](#).

Buying, selling and [trading stocks](#) can seem confusing at first, but it doesn't have to be overwhelming. Some research and a few simple transactions is all it takes to have a portfolio of shares that could make you money off the rising market.