

Trading Common Stocks with Stock-Trak

Stock-Trak allows you to trade common stocks in much the same way you would with an individual brokerage account that supported trading on the Internet. This includes buying, selling, and selling short common stocks trading on the major markets—NYSE, AMEX (the American Stock Exchange), and NASDAQ. There are a few restrictions, however. For example, Stock-Trak restricts trading to common stocks trading at a price of \$5.00 or more per share. Thus, many small-company stocks cannot be traded. Stock-Trak also requires that all stock trades be in multiples of 25 shares. You should consult the most recent Stock-Trak rules on the Web site for other possible restrictions that might apply.

There are four basic types of stock trades:

1. Buy to open or increase a long position.
2. Sell to close or reduce a long position.
3. Short sell to open or increase a short position.
4. Buy to cover or reduce a short position.

When buying a stock, you take a long position with the hope that the stock price will increase. By selling stock you are closing all or part of a long position. Selling short refers to selling stock shares that you don't own with the hope that you can later buy them back at a lower price. Buying stock shares back to close all or part of a short position is called covering a short position. We will discuss these four types of orders in the sequence of transactions described immediately below.

Suppose you want to buy 1,000 shares of Texas Instruments and short sell 800 shares of Citigroup. These stocks trade on the NYSE under the ticker symbols TXN and C, respectively. Your orders would look like this:

Transaction	Shares	Symbol <small>(Lookup)</small>	Order Type	Price ¹	Term ²
<input checked="" type="radio"/> Buy <input type="radio"/> Sell <input type="radio"/> Sell Short <input type="radio"/> Cover Short	1000	txn <small>(ex. IBM)</small>	<input checked="" type="radio"/> Market <input type="radio"/> Limit <small>?</small> <input type="radio"/> Stop <small>?</small>		GTC
My Buying Power					<input type="button" value="Preview >"/>

Transaction	Shares	Symbol <small>(Lookup)</small>	Order Type	Price ¹	Term ²
<input type="radio"/> Buy <input type="radio"/> Sell <input checked="" type="radio"/> Sell Short <input type="radio"/> Cover Short	800	c <small>(ex. IBM)</small>	<input checked="" type="radio"/> Market <input type="radio"/> Limit <small>?</small> <input type="radio"/> Stop <small>?</small>		GTC
My Buying Power					<input type="button" value="Preview >"/>

After execution, you would have a 1,000-share long position in Texas Instruments (TXN) and an 800-share short position in Citigroup (C).

Now, suppose you later want to reduce your long position in TXN to 600 shares and increase your short position in C to 1,200 shares. The necessary orders would look like this:

Transaction	Shares	Symbol <small>(Lookup)</small>	Order Type	Price ¹	Term ²
<input type="radio"/> Buy	400	txn	<input checked="" type="radio"/> Market		GTC
<input checked="" type="radio"/> Sell		(ex. IBM)	<input type="radio"/> Limit <small>?</small>		
<input type="radio"/> Sell Short			<input type="radio"/> Stop <small>?</small>		
<input type="radio"/> Cover Short					

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Transaction	Shares	Symbol <small>(Lookup)</small>	Order Type	Price ¹	Term ²
<input type="radio"/> Buy	400	c	<input checked="" type="radio"/> Market		GTC
<input type="radio"/> Sell		(ex. IBM)	<input type="radio"/> Limit <small>?</small>		
<input checked="" type="radio"/> Sell Short			<input type="radio"/> Stop <small>?</small>		
<input type="radio"/> Cover Short					

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After execution, you would have a 600-share long position in TXN and a 1,200-share short position in C.

To close out your long and short positions completely, you would submit these orders:

Transaction	Shares	Symbol <small>(Lookup)</small>	Order Type	Price ¹	Term ²
<input type="radio"/> Buy	600	txn	<input checked="" type="radio"/> Market		GTC
<input checked="" type="radio"/> Sell		(ex. IBM)	<input type="radio"/> Limit <small>?</small>		
<input type="radio"/> Sell Short			<input type="radio"/> Stop <small>?</small>		
<input type="radio"/> Cover Short					

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Transaction	Shares	Symbol <small>(Lookup)</small>	Order Type	Price ¹	Term ²
<input type="radio"/> Buy	1200	c	<input checked="" type="radio"/> Market		GTC
<input type="radio"/> Sell		(ex. IBM)	<input type="radio"/> Limit <small>?</small>		
<input type="radio"/> Sell Short			<input type="radio"/> Stop <small>?</small>		
<input checked="" type="radio"/> Cover Short					

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After execution, you will have closed out both positions completely. Your Stock-Trak account will then reflect any gains or losses on these transactions, including commission costs.

We should note here that Stock-Trak (and most brokerage accounts) has a restriction on margin purchases. For example, after reading the chapter, you have decided to purchase a stock on margin. Stock-Trak will not permit a margin purchase as long as you have cash in your account. In other words, in your Stock-Trak account, you cannot purchase on margin until you have the initial \$500,000 fully invested. Any purchases above this amount will be margin purchases.

Stock-Trak Exercises

- 1. Stock Transactions** You have decided to purchase 1,000 shares of Caterpillar and short 600 shares of SBC Communications. Complete these transactions on Stock-Trak.
- 2. Stock Transactions** The next day, you decide that you want only 600 shares of Caterpillar and want to short 200 more shares of SBC Communications. Complete the necessary transactions.
- 3. Stock Transactions** You have now decided to close your long position in Caterpillar and close out your short position in SBC Communications. Complete the necessary transactions. What is your total dollar gain or loss on these transactions?