

## How to open an account

In order to trade stocks and/or options, you will need to have an account with a brokerage firm. The firm will act as the middleman between you and the stock and option exchanges, relaying your buy and sell orders from you to the market makers who can match your order up with someone willing to be on the other side of the trade.

With the advent of the internet browser, there are now a tremendous number of online brokers that allow you to place trades over the internet... and there are, of course, still a lot of good old-fashioned full service brokers around too if you prefer dealing with someone face-to-face (or at least voice-to-voice) when making investments. The important thing to remember when choosing a broker is that you are looking for an outfit that can provide you with the level of service you desire at a price you are willing to pay.

On a separate page, we have included a list of brokerage firms that handle stock and option trades, and before you open an account, we encourage you to contact several of them to learn more about what they offer (or do not offer!) for the service fees and commissions they may charge.

Once you have settled on a brokerage firm to handle your stock (and perhaps option) trades, you will need to fill out a number of forms with them so that they know who you are, what your investment goals are, etc., and you will most likely also be sent additional reading material once you initiate the process of opening a new account.

### Some of the forms and documents you are most likely to see include:

**a) An actual account application** - This set of documents will ask you for information about your employment status, net worth, investment goals and objectives, as well as a variety of other questions that that will allow the brokerage firm to do their "due diligence" in making sure they "know you as a customer." Be sure to think carefully before signing up for the different types of accounts you may come across during the application process:

- **Cash account** - the most basic of accounts, and most definitely the best place for an investor new to the world of stocks to start.
- **Margin account** - a logical next step for an investor once they have familiarized themselves with (and spent a reasonable amount of time trading) a basic "buy and hold stocks" strategy. *Warning: using margin increases the rate at which you lose money when stocks move against you AND you pay interest on the borrowed money used to "leverage" your positions!*
- **Option account** - this type of account will allow you to trade options. If you open one, you will be confronted with yet another set of choices about what type of options you want to trade. *Warning: Definitely a choice for only the seasoned investor who has taken them time and effort to educate themselves on the mechanics of (and risks involved with) trading options.*
- In addition, you may have the option of opening an IRA account (or other variations of a retirement account).

**b) Asset deposit forms** - Before your brokerage firm will let you trade securities, you will have to make a deposit in the form of cash or securities that you already own but hold elsewhere.

**c) Options application/consent form** - If you think you are ready to trade options and request this form, the brokerage firm will ask you a number of additional questions about your history and experience with stock and option trading. After reviewing this information, the brokerage firm will either deny your request for an options account or open an account for you and assign you to a "level" of options trading that you are approved for based on their evaluation of your situation.

**d) Characteristics and Risks of Standardized Options** - This booklet is published by the Options Clearing Corporation (OCC), and is mailed to anyone who has expressed even the smallest interest in trading options. The booklet does an excellent job explaining the mechanics of placing stock and index option trades, as well as pointing out the many risks involved in option trading. It is very unlikely that any broker will approve you for option trading unless you acknowledge in writing that you have read and understood this document.