

HOW SECURITIES ARE TRADED

The buying and selling of securities is, to the ordinary investor, a fairly simple procedure. A telephone call to the broker is all that is needed to place an order and cause a given number of shares or bonds to be traded. Behind the execution of that order, however, lies a complicated and efficient system; and even the statement of the order must follow one of a variety of forms, so that it will follow the investor's actual wishes. The creation or issuance of securities, and the subsequent exchange of them between investors, requires the participation of a large number of financial professionals, who are subject to precise regulations in their actions.

We examine in this chapter the institutional details and mechanics of making investments in securities. We see how firms issue securities in the primary market and then how investors trade in these securities in the secondary market. The secondary market is further specified, depending on the type and structure of the exchange where trading takes place. How the trading is handled varies with the type of exchange, but the details seen by the investor are similar. We explain the notion of trading using margin, in which security is provided for borrowed money or short sales. The cost of trading in securities is an important factor affecting returns, and it is related to the services provided to the investor. Finally, we present the subject of how securities markets are regulated by various bodies to protect the interests of investors by guaranteeing a degree of openness and fairness in trading.

