



Ticker's Tales

"The Long Haul"

What's the difference between speculating and investing? Here's someone who learned the difference the hard way - someone who got wrapped up in the daily trading of stocks.

Young and newly married, this person decided to put every dime of savings into one stock — a very risky one selling for about 75 cents a share. He figured the stock was about to soar. He would buy shares; sell them later in the day, and pocket thousands of dollars of earnings. Not bad for a day's work.

So he asked his online broker to place a market order for thousands of shares at less than a dollar each. But in the brief time before the broker could complete his order, the stock's price soared to more than \$3.00. After the trade, he owed the broker more than \$400,000!

That's speculation! Speculation occurs when someone tries to guess a stock's future price and then buys shares now in hopes of selling them for a profit later in the day, tomorrow, next week, or even next month. In contrast, investing is buying and holding stocks for the long haul — not jumping into an out of stocks every day, every week, or every month.

Investors look to the distant future because the risks of owning stocks diminish over time. The longer they hold stocks, the lower the risk. Sure, there are times when stocks sink unpredictably, so one can lose money over short periods of time. The last couple of years clearly teach us that. But over many years the stock market has gone up, not down.

Of course, investing for the long haul means doing homework to find companies with prospects for long-term growth and earnings. It also means understanding the basics of buying and selling stocks. For example, the young speculator above didn't know the difference between a market order and a limit order. A market order is completed at whatever price exists when the order reaches the market. But a limit order to buy a stock is completed only if the price stays below the level (limit) stated by a customer. Would the story above have been different if a limit order had been used instead of a market order?

Write Now

Use a newspaper to find a story about a company whose stock is listed in the paper's stock tables. Does the story suggest that this company might be a good investment? Why or why not?

If you bought shares of the company you just identified, would you use a market order or a limit order? Why?