



How to Open an Online Trading Account - Australia & New Zealand

Introduction

With the advent of online 'trading accounts', it is now possible to trade shares from any location, cheaply and efficiently. You only need a minimum of \$500 to make your first share purchase. However many people are confused and get put off applying due to the jargon used in association with these accounts. This guide will help you understand some of that jargon and assist to simplify and clarify the process.

Within these application most of the jargon, you will come across, refers to systems used by the brokers, markets and banks.

A good example of this is bank BSB's, something that we use regularly but do not fully understand. The first two numbers represent the bank, Commonwealth for example, the next number is the state or area in New Zealand and the last two numbers are the physical address of your branch. Although many people would not know this they would still feel confident in using the bank.

For this guide we are using comsec (Commonwealth Bank) for our Australian & New Zealand members as the example. You may want to refer to this guide as you are filling out your application form, so before you start the process print out this guide, then go to www.comsec.com.au

It will take you 5- 10 minutes to complete the online application form. But allow a week for your application to be processed, as you need to post off the completed forms.

Check list of required information you will need to complete the application

- A valid email address
- Your bank account details
- Your tax file number or Exemption code (optional)
- If you're opening a company or Trust account, the ABN or ACN



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Opening a trading account

Comsec is the stock broking arm of the Commonwealth Bank. Often stock brokers like 'comsec', will insist that you open a '*trading account*' in order to trade with them.

This is usually an account that is linked to your '*trading account*', and is referred to in the comsec application as a '*cash management trust*'. This account must have sufficient funds in it for you to conduct and pay for trades.

One of the reasons you must have one of these accounts is to allow the broker in this case comsec, to automatically deduct the payment for your trades directly from that nominated account. You can have a normal bank account, attached to your trading account if you prefer. Just remember that your trade has to be settled (paid for) within three days. Failure to do so may result in a high penalty fee and ultimately the cancellation of your trade.

When you buy shares, the cost of the shares plus your *transaction (brokerage)* fee and stamp duty will be deducted automatically. Also when you sell shares the sale proceeds will be credited to your nominated account after three days, minus the brokerage fee.

What is a T+3 system?

Share trades in Australia and New Zealand operate under what is called a T+3 system. This means from the day you buy or sell your shares you have three business days to settle your trade.

Before this system share traders previously had five business days in which to settle, but that was when they were more reliant on cheques. Brokers now favour electronic settlement, which is why in many cases you have to set up a trading account.

Types of trade or ways of buying shares

When you put in an order to buy shares, your broker will place your order on the market. This should happen fairly promptly although with some brokers it can take up to half an hour. Orders are queued and traded depending on price and time - the better-priced bids will have priority.

If there are several bids at the one price, then the one placed first will have priority. When placing your order you can choose to buy at a specific price. This is called 'at limit'. Or you can buy 'at market'. At market is what it says - the price current at the time of your transaction.

You can also put a time limit on your order so that it is cancelled if it is not executed within the given time. Most brokers will put a limit on the number of days an order can stand.

NOTE: Brokers talk in numbers of shares, **not dollars**. If you only want to spend \$10,000 work out the approximate number of shares otherwise you might find yourself buying 10,000 shares. That could cost you a lot more than you bargained for!



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Tracking your investments

While many people talk about buying shares and putting them in the bottom drawer, it is a better strategy to regularly monitor them to keep track of how your assets are performing. Investing for the long term should not mean clinging on to shares that are never going to recover the value you paid for them. If your shares are under-performing, you may need to make some hard decisions about what to do with them.

Use Pink Investment's portfolio tool to track your investments performance and go to our learning centre for more information on buying & selling shares, along with tax implications.

Building a share portfolio

Because a large number of investors received shares through being members of companies that listed, such as AMP and NRMA, in many cases this means investors aren't diversified enough. Most market watchers believe a portfolio of 10 companies is enough to give you adequate diversification. For more information on this subject see our online learning centre and ebook.

When to Buy and Sell

Knowing when to buy and sell shares is the million dollar question. If you are investing for the long-term the right time to buy is now. Of course if the shares were to drop 20% tomorrow, you would be sorry you had not waited a day, but many an investor has missed out on good opportunities by trying to time the market.

Dummy portfolios (watch lists)

If you're a beginner or hesitant about which shares should make up your portfolio, why don't you monitor a dummy portfolio for 3- 6 months and see how you go? Meanwhile you can be accumulating funds to invest as well as learning about how to invest.

Create a shares watch list with our portfolio tool and monitor the performance of the shares you're interested in over a set period.



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Jargon you may come across when setting up your online trading account.

What is CHESS?

CHESS stands for Clearing House Electronic Sub-register System. Its introduction in 1994 meant that you no longer have to hold share scrip (documentation) to prove ownership of your shareholding.

Instead your ownership is electronically registered either with your stockbroker or with the company. If you sell your shares, your holding is electronically transferred from your broker to the buyer's broker, via the CHESS computer system. You can either be broker sponsored or issuer sponsored. But you need to be sponsored in order to trade. Make sure you store safely any CHESS documentation you receive when you buy or sell shares.

What is Issuer sponsored SRN?

An SRN is a Shareholder Registration Number. This number identifies your registration on an Issuer Sponsored Sub register. An SRN registers you shareholding in a single listed company. If you choose to hold shares in more than one company and be Issuer Sponsored you will have a different SRN for each of your shareholdings.

What does broker sponsored mean?

Broker sponsored means the broker with whom you are dealing provides you with a Holder Identification Number (HIN) for all the stocks you hold. This is similar in concept to a bank account number.

This number is used on anything involving your account and identifies you to the broker with all your transactions. Then when you want to sell shares, you just give the directive and it can be executed.

If you hold shares in multiple companies, these holdings can be consolidated in one registration under a single HIN. Your HIN number uniquely identifies your registration on the CHESS sub registry.

SEATS

SEATS stands for 'Stock Exchange Automated Trading System'. All share transactions are now carried out electronically and SEATS is the system in which your broker will relay your buy or sell order. Only brokers have access to SEATS. Your order will join a queue of other buyers and sellers until the transaction is completed. If you are trading online, your order is sent to your broker's office and entered into SEATS. While you can call your broker any time with an order, the market only trades from Monday to Friday and from 10am - 4pm.

All of these subjects and many more are covered in much greater detail in our eBook available to download from our website.