

HOW A STOCK IS BOUGHT AND SOLD

The following chart is a detailed explanation of how a stock is traded. It illustrates how one transaction looks from three different perspectives – the buyer, seller, and the stock market professionals who execute the trade.

1. Roger Smith of Des Moines, Iowa, decides to invest in the stock market.
- 1A. Diane Whitford of Hartford, Connecticut, decides to sell 100 shares of Gap Stores stock (GPS) to help pay for a new car.
2. Roger consults a broker who is a member of the New York Stock Exchange. They discuss a number of possible long-term investments. Roger asks his broker for a quote – the highest bid (to buy) and the lowest offer (to sell) for a stock at any given time – on Gap Stores stock (GPS).
- 2A. Diane calls her broker, a member of the New York Stock Exchange, and asks for a quote on Gap Stores (GPS).
3. The brokers access an electronic market data system to obtain quotes on (GPS) Gap Stores stock from the NYSE floor. A number of information vendors offer this service to brokerage houses. The information vendors get quotes from the NYSE systems via direct high-speed lines.
4. Taking into account what he already knows about GPS – and after a discussion with his broker – Roger instructs his broker to purchase 100 shares of GPS at the current market price. Or Roger goes to his online computer at his home or office and enters the order through his online account which links to SuperDot.
- 4A. Diane instructs her broker to sell 100 shares of GPS at the current market price. Or Diane goes to her online computer at her home or office and enters the order through her online brokerage account which links to SuperDot.
5. The two brokers send their orders to the floor of the NYSE. Orders can be sent to the floor in two ways: electronically to a booth around the perimeter of the floor and displayed via touch screen in an order management system called Broker Booth Support System (BBSS). Floor brokers are given these orders in printed form or by wireless voice or data terminals, and represent these orders in the trading crowds. If the SuperDot system is used, the order is sent directly to the workstation.
6. At the post, the specialist who handles GPS makes sure the transactions are executed fairly and in an orderly manner.
7. The two floor brokers compete with other brokers on the Trading Floor to get the best price for their customers. The brokers representing Roger and Diane agree on a price.
8. After the transaction is executed, the specialist's workstation sends notice to the firms originating the orders and to the consolidated tape so that a written record is made of every transaction.
9. The transaction is reported by computer and appears within seconds on the consolidated tape displays across the country and around the world.
10. The transaction is processed electronically, crediting Roger's brokerage firm and debiting the account of Diane's brokerage firm. Both Roger and Diane receive a trade confirmation from their respective firms within a few days describing the trade, its terms and conditions, and the exact amount to be tendered or credited.
11. Roger settles his account within three business days after the transaction by submitting payment to his brokerage firm for the 100 shares of GPS, plus any applicable commissions.
- 11A. Diane's trade is also settled in three business days. Her account will be credited with the proceeds of the sale of stock, minus any applicable commissions.

