TRANSCRIPT

Investing 101: What you need to know

Jacob Ellis: Hello to everyone viewing today; welcome. I hope you've come ready to learn, because we do have a lot to share with you today. In fact, I am Jacob Ellis. And with me is Brett Yoder. The two of us are members of Fidelity's Trading Strategy Desk. We spend the majority of our time in settings like this, teaching trading topics to interested investors as yourself. If you find the material helpful and would like to dive deeper into any of the subject matter that we will discuss briefly today, there are two main ways to do so. The first is by visiting fidelity.com/coaching. These are 30- to 60-minute sessions held throughout the day, on topics ranging from advanced option analytics to beginner-level trading plans. The second is by accessing the Learning Center on fidelity.com and selecting "Classes for Beginners" which, again, it would be found on the right-hand side. Here you'll find four-week-long courses related to technical analysis, options trading, Active Trader Pro, and even trading basics. The "Trading Basics" course takes the material we present today and expands upon it and would be a great spot to start, if you'd like to learn more.

Today we'll give an overview of the key ideas that a beginner, and all traders, should consider as they formulate a trading plan. We'll be focusing on four main items, the why behind why you are placing your trade, which will include

some form of analysis, the how much to invest in each idea, and two different what-price criteria, one for entry and one for exit. With that on the docket for today, I'll turn the time over the Brett Yoder, who will introduce us to the main investment vehicles that a beginning investor will commonly use.

Brett Yoder: Yeah, absolutely. And hi, everyone. Brett Yoder here. As Jacob mentioned, I am a member of the Trading Strategy Desk as well. And if this is your first exposure to the idea of trading, the idea of taking your assets and putting them into, you know, the veiled stock market and trying to get some sort of return, whether it's value-based or growth-based, you have to make a determination of how you plan on doing that. How do you get the equity exposure? That being said, there's three major ways that we get exposure to the stock market and ownership of stocks.

The first and most straightforward is actually just buying the stock itself. You can buy direct ownership in a company by buying shares of that stock. You truly are an owner of the company, albeit might be a small percentage. But still, you do have ownership directly, of that company. That being said, your investment in that company is directly related to the price of that one stock. So the value of the stock goes up, your assets would go up. The value of that one stock goes down, your assets then go down.

We're going to differentiate the different ways to invest, two major differences between these three things, the tradability, as well as the timeframe and how often someone usually use those. Because when we take a step away from stocks, we move towards the idea of putting your assets into a fund. And that might be a mutual fund, as we see to the left of stocks. That might be an exchange-traded fund or ETF, as we see to the right. But whereas a stock is pretty straightforward to understand... I buy shares of a stock. I own part of that company. That's direct ownership. Where, a mutual fund, you have indirect ownership. Now you are investing into a fund of money, truly a pool of money. And you'll have some sort of manager, fund manager, that takes your money and then buys different stocks, maybe different types of assets, to try to achieve some sort of investment objective. And investment objectives can -- very diverse. You can have an investment objective where a mutual fund takes your money and tries to invest for value or invest for just a general return, with a more or less stable price with those investments, maybe a lower-volatility investment but it's paying dividends. Right? You're getting some sort of return for your money being invested in that investment, interest, another way to think about a mutual fund. Another way a fund could take your money is to invest it in some sort of stocks or composition that tries to follow an index, some sort of major index. Think of the S&P 500, which is the 500 largest

companies that trade, or maybe the Dow Jones index or even the NASDAQ Composite. In any case, those types of investment funds are passively managed. And they're just trying to achieve a benchmark return. And I don't mean to throw terms at you that you're not quite familiar yet. But imagine this. We're here today trying to understand the framework of taking our assets and then choosing tactically how to invest in this company or that index or this factor, to get some sort of return back on our money. A mutual fund is typically actively managed, where you give your money to the fund manager and that manager is taking your funds and choosing which stock or which investment would be best for your return, actively choosing the investments for you. An exchange-traded fund is typically passively managed. And in that case, they're just going to change their composition to make sure they follow some sort of index. So there's differences here in how these things trade.

Like I said, we want to focus on tradability and then what the typical timeframe is, or the trading strategy is, for the different investments. Mutual funds are some of the easiest to understand, as far as tradability, because they only trade once a day and they only trade at one price. So if you want to buy into a mutual fund, you buy in at that price for that day. Doesn't change. Everybody gets the same price. And that's called its net asset value. That's if you look at all of the money that's contained in the fund, all the investments that is

contained in the fund and consider the fees for running the fund, there's that net value. So net asset value, that's what mutual funds trade at. That being said, because mutual funds are typically managed by someone that's making investment decisions on the different investments inside the fund, it's typically a longer-term hold for you. You are putting your money in to invest in the objective of that fund. You'll let the fund manager handle the tactical trading or the intraday trading or making those buying and selling decisions of the individual stocks for you. So typically a longer-term, often a buy-and-hold.

Stocks and ETFs are different, because ETFs are typically passive and just following an index. You're making a timing decision on that index. It might be a long-term timing decision. It might be a very short-term timing decision. But ETFs, as well as stocks, trade intraday. Whenever the stock market is open you can trade stocks and you can trade ETFs. The price then fluctuates throughout the day. Now, those two assets, the stocks and ETFs, are greatly influenced by the supply and demand of the market. A lot of people start buying the stock, the price is going to go up, in the middle of the day. Same thing with the ETF. Right? And the reverse. A lot of people start selling the stocks or selling the ETFs, we'll see the prices go down. So that leads us to say that stocks and ETFs give us intraday or market risk, because they are so influenced by the supply-and-demand market of the stock market. So trading strategy

timeframe -- any timeframe. These could be long-term buy-and-holds. These could be very, very short -- we call them scalps, where you're in and out within just a few minutes of a day-trade. Typically, exchange-traded funds will trade, in their market price, close to their net asset value, because of how they're structured. But there are absolutely times that the market price could push an exchange-traded fund at a premium or a higher market price than its net asset value, or a discount, at a market price that is lower than its net asset value. There's an extra dynamic on exchange-traded funds, that we would need to consider.

So we have three ways that we can get our equity exposure or set up a trading plan. We have mutual funds, stocks, and ETFs. Now, the world is very big, thousands of stocks that trade, hundreds, if not thousands, of ETFs, and thousands of mutual funds -- that you can invest in. So the first part of having a plan and deciding how to invest or which company's better, which ETF fits what your objective is with your returns, is better, falls into two major forms of analysis. On one side, we have the idea of figuring out what the worth is or the value of a company, called its valuation. Right? And this is very diverse. There's many factors that make a company more or less desirable than its peer. On the other side of the token, we have just investing and using criteria

based off of the actual trading price of the stock or the ETF. The timing is based really off of the price.

So let's deep-dive these for a few minutes here. Let's go into the idea of fundamental analysis first so fundamental analysis is, truly, figuring out some way to measure the value of the company and then, relatively, be able to pick said company over one of its peers because of the valuations. The beginning and end of fundamental analysis could be as simple as looking at quarterly reports and looking at the financial statements, taking a look at the balance sheet, taking a look at the cash flow, being able to run some sort of ratio based off of maybe assets-to-liabilities, maybe short-term assets to total assets, maybe things you're probably a lot more familiar with like the price-to-earnings, the P/E ratio, the earnings-per-share growth rate -- right? -- overall liabilities or just debt. But like I said, there's many factors that make a company more or less desirable. Imagine -- or think about the idea of measuring the worth of the management team -- the CEO. Is it someone that, you know, runs to Twitter and does a lot of social media? Is it someone that is quiet and reserved? Right? Does the price of the security have a great tie to the ebb and flow of whether the management team is being vocal or not about the company? Right? So quality of the manager. And there's many different ways to measure that quality. Some things that you might not

consider, especially if you're just looking at the financial statements, is the idea of labor relations. Is this a union-based company? Is there the possibility of strike? Is there a natural worker base that's able to fill the job and fulfill the need of the company? Is that at risk? Labor relations. Inventory control. You know, we're feeling that all now, given this day and age, through the pandemic, the idea that maybe there is going to be a surplus of inventory. Maybe there's not. How does the company manage their inventory? And lastly, you know, the overall return on equity and assets. How smart is the company with their money? How smart are they with their investments, and either investing in their future or investing in some sort of side business, etc.? How smart are they with their return on their equity?

Fundamental analysis is fantastic for those, different parts of the valuation of the company. But what it struggles with -- it's really helping us with the timing of our trades. If we were trading just based off of financial statements, that means we get an update once a quarter. And that one update is just one point of data. We'd most likely want more points of data to decide what the overall trend is of their financial statements. Doesn't really help us with the timing of the investment. And sometimes it might not help us with our sell decision either. Because are we only going to be investing based off of how the company compares to its peers? Well, maybe it's the best out of a dying

bunch. Maybe the entire group of peers are all going down but our company isn't going down as bad. Doesn't really help us with the sell decision. And because of that, we can't really quantify risk and reward, which is where we'll start focusing on here for the rest of the presentation. If we can't time the market and we don't know exactly what we would sell the security at, we really can't say how much risk we're going to take on the security, on the stock, on the ETF. Right? If we can't decide how much risk we're going to take, it's very hard to decide how much reward is appropriate. Doesn't help us quantify these things, because we're not using price, specifically, as the driver to our analysis. We're using the value. That being said, Jacob, the price of the security is all technical analysis, isn't it?

Jacob Ellis: That's exactly right. And that's the key difference. Whereas fundamental analysis is all about determining how good is the company... Is it a good company, in which I would like to invest? Technical analysis is all about a study of the past market data, looking at where the stock has traded in the past, what is the most recent trend, what are long-term trends showing up. Stock prices are determined by supply and demand, in our free market. People buying and people selling are what push the price up and down. As people shift on the supply or demand side of that equation, it can reverse a given trend. But moving trends and their reversals can be seen on charts. And

as a result, the technical analyst looks at chart patterns and sees which tend to repeat themselves. In general, when a technical analyst looks at a stock or an ETF or a mutual fund, what we're looking for is the direction, overall end of the market. There's a lot of bumps up and down throughout. But we're looking to identify the trend and also to give ourselves some guiderails of what and when we will know that that trend is over.

A technical analyst is going to assume that all public information is already factored into the price, the fair value of the company, the right price for the company is the price that it's trading at right now. A technical analyst is looking to remove emotional aspects of trading in the marketplace and assumes that emotional aspects of others are accounted for appropriately. That includes fear, grades -- we've got greed, people working in crowds, all of that already factored into the price. Instead of trying to determine that fair price, again, we're looking to identify the trend.

If we look at the chart over here on the right-hand side, we see at the beginning the price falling off but then rising, small little selloff and then rising again, approximately to the same point at which the chart began, then a big, steep selloff, down and down -- we've all felt that in recent times, haven't we? -- but then a short reprieve before an even deeper dive to the lowest of the

chart. During these different times, we can view that the stock moved in one direction, with small countertrends. We're trying to identify that larger trend, and to give ourselves rules of when we think that trend is over. From that low point, we see, as we look forward, a long and fairly clear uptrend, up and then down with a small slide. But when it fell down, it didn't fall as far as previous. And then it goes up and comes to an even higher high, then down lower but failing to get as far down as previous -- again, higher and higher, working its way up, at some points a little bit of consolidation, where it hesitates at a certain price, at other points jumping monumentally up, but overall a steady upward movement. Technical analysis is all about identifying that trend.

And the convenient thing is we can then also quantify the amount of risk we're looking to take. Because we can say the trend exists until it falls below the line it's been making, we can actually calculate how much percentage risk are we taking. What if it falls down to this level? Well, that's when our trend is over and that's when we're out of our trade. Likewise, on the upside, if the stock rises, well, we have a point at which we think perhaps the trend is overextended and maybe it's time for us to hop back out as it reaches the upper area. Technical analysis helps us to quantify the risk and the reward, so we can determine if a trade is worth our while, worth our time, worth our effort. But it's crucial we understand we're not trying to predict the future.

Trade decisions, instead, are reactions to what the chart already displays. We're trying to identify what is currently happening, not to predict the future. As you work through your understanding of technical analysis -- important that you bear this in mind.

Now, you may find one of these methods to be calling out to you a little more, one than the other, fundament analysis or technical analysis. Either way is fine and both are widely accepted. But regardless of which of the two you tend to lean towards and which you intend to apply, Fidelity offers you a number of tools to find securities that match your criteria, like the Stock Screener that's featured here below. You can use the different valuation metrics, that come from fundamental analysis, that are listed there and also an entire section labeled Technicals, all about different technical analysis characteristics. But you can easily identify different trade opportunities, based upon what criteria you are looking for. And frankly, that's what we're really looking to do, isn't it, when we analyze. We know that there's a great breadth of potential investments in the world. We're going to use our analysis to narrow it down to a few or perhaps just one or two that we're looking to place a trade on at that time. Once we have done our analysis, it's all about placing the trade.

Brett Yoder: Absolutely. So as far as our process goes, this framework we're going to go through, we're going to decide whether we want some mutual funds, stocks, ETFs, we're going to analyze them, fundamental or technical. Now we need to learn some of the basics about actually placing a trade. So this next section here, we're going to talk about how to read a quote, understanding the various order types and then talk about the different, you know, benefits and things we should consider with trading in dollars or trading in shares.

So let's start first with this idea of how to read a quote. A quote simply is the current prices -- and there's more than one that we'll talk about here today -- but the current prices of your investment. So as we go to our slide here, let's just talk about these. Let's give the academic definition. And we'll go a little bit more in depth as far as what it means to us. We have the bid, the ask, the last, and then the net asset value. Now that net asset value, we already talked about. That is, if you looked at all the assets within a fund, whether it's a mutual fund or exchange-traded fund -- of a fund, the net asset value considers all value and takes out all expense and gives you the net price, the net value. This is the value that mutual funds trade at. This is a value we need to be very aware of in our ETFs, whether we're trading at a premium or trading at a discount based off the market pricing. Market pricing is the bid, ask, and last. You can even think of an outcry auction, at this point. You have people

bidding up prices. You have people with the assets, that are asking certain prices, almost like limits. Now, they're willing to sell, no limits, whatever the price is. They're willing to buy and they're going to bid up the price until no one else wants to buy at that higher price. And that's exactly what we have, as far as bids and asks. The bid -- highest price someone's willing to pay. I want to buy the asset and I'm willing to spend this amount. That is the bidding price. The ask, then, is the person with the asset, that is looking to sell. I want to sell at this price. And it is the lowest price, most advantageous price someone is willing to sell at. The bid and ask. That's a reflection of what the market is currently trading at. The last price is a little bit different, this is a historical tick, if you will. The transaction that just happened, it happened at this price. This is a great way to gauge the value of the asset that we're looking at but doesn't necessarily pertain to what's important with us when we go to place a trade.

So let's talk about that a little bit more in depth. The idea that we're wanting to buy, should I be looking at the last price? Think about your stocks and your ETFs, at this point, that are trading intraday in the free market. Should I be looking at the last price, place a trade? Maybe it's a consideration. Should I be looking at what other people are willing to buy it at, the bid? Again, maybe a consideration. Should I be looking at the offer price, to see if that's fair and

agreeable right now? Yeah, absolutely -- another consideration. There's not one way to choose which price to use as your gauge. But if I am looking to buy, I need to pay attention to the asking price. I might consider the bid and consider the last, to see if the asking price is fair. But the asking price is ultimately what someone will sell me the shares at, shares of the stock or shares of the ETF. Same thing if I was looking to sell what I already have. I would certainly consider what other people are willing to sell for. And I'd certainly consider the last price. But the person I'm selling to is whoever's wanting to buy it from me or the bidder. General rule of thumb. If I'm on something like a stock or ETF, that's trading during the market and has fluctuating prices, I need to be looking at the ask price if I am buying and I need to be looking at the bid price if I am selling. Talk a little bit about orders in a moment but that's going to be our guiding principle.

With that, here's just a quick slide that outlines exactly what we just talked about, buying at the ask, selling at the bid. Last price is also shown for our stock quotes. Exchange-traded funds, bought at the ask, sold at the bid. Here we hear the same. Then they do have a net asset value. But it's not what you're trading out. Pointing out the fact that we should be aware of that net asset value, to see if we are paying a premium and, if so, how much or, if we are getting a discount and, if so, why. Why behind both of those. So that

being said, ETFs and stocks, historically, have always been traded in whole-share amounts. If we wanted to by a specific stock, we had to have at least enough money in our account to buy one share. We could buy one share if we wanted -- right? -- but we would have to have enough money to cover one share. That's not necessarily the case anymore, is it, Jake?

Jacob Ellis: It certainly is not. And here comes the advent of dollar-based investing. As Brett said, historically both stocks and ETFs have traded in whole-share quantities, meaning that, if one share happened to be worth $250, well, you could invest no less than $250 at a time -- and in increments of $250. You can't invest exactly $400. You can't invest exactly $75. You could do 250. You could do 500. You could do 750. And on and on. Dollar-based investing, instead, sets the stage for something that mutual funds have permitted for a long time. Mutual funds have allowed you to invest a specific dollar amount. If I have $100 to invest right now, even if the shares are worth 250, well, they just chop it up appropriately and give you the fraction of a share, the fractional share, to which your order corresponds. This allows us a number of benefits, that we'll talk through.

The first and most interesting, perhaps, especially for a beginning investor, is the ability to invest in stocks that have prices that were otherwise too high to

attain. For example, here on the right-hand side we have Amazon listed, Amazon.com. If you can see in the small print, the price at this time -- the last trade was at $1,739. Well, that's a hefty sum, especially for a beginning investor. Even if you're an investor with substantial capital, maybe 1,700 into Amazon is too much for that one individual company. Or maybe you just would plain prefer to put a round dollar amount, like 1,500 or 2,000, instead of these odd amounts the stocks are trading at currently. Well, regardless, we are able to choose how we would like to buy. We can choose either dollar-based investing or shares. Following down this order ticket on the right-hand side, we have the action selected Buy, we have the quantity type as Dollars selected, and then quantity of $100. And it gives us an estimate of how many shares we'd end up with, not 1 share, because we can't afford 1 share, but instead ending up with 0.057 shares, a fractional share -- would be our ownership in Amazon. And as Amazon rises and falls in price, we still get the same benefits of owning the company, with a smaller potential investment. It also allows us the ability to be more precise in our investments. If we have a few dollars laying around in our account, earning some interest as cash, but we'd really prefer those to be invested in the stock market, we can now do so very easily.

Now a couple interesting aspects that Fidelity offers in this dollar-based investing... First and foremost, we want you to know this is available through our mobile app. That's going to be through Android or the iOS various devices, iPhones and the like. We offer real-time trading. So you will know at what price you'll be trading. And you're able to do this with both market and limit orders, which we will be talking about here in just a moment. Able to trade these fractional orders on 9,000-plus eligible securities. It's going to include pretty well any security listed on the New York Stock Exchange or the NASDAQ. That's the bulk of all stocks you may come across -- but certainly not all. You also get to benefit from the zero-commission rate that Fidelity has been offering for some time. No account minimums, no wait lists, zero commissions for online-placed trades -- of course, these qualify for.

Looking in, we also are aware that there are specific benefits to owning a piece of your favorite companies and ETFs, first and foremost, the ability to choose the companies that you want to be invested on, not based upon their share price but rather on the analysis that you have done, be it fundamental or technical. You're also able to better diversify across your portfolio. And we talked about this just a moment ago. Diversification is the idea that we can avoid putting all of our eggs in one basket. We're able to specifically target a percentage, for example. Suppose you have a $100,000 portfolio and you

would like to invest 10 percent of it into a specific stock sector, for example, into financials. Well, you could then specifically aim to invest $10,000, 10 percent of our 100,000 portfolio. And we can invest exactly that amount, without having to finick around with specific share prices to get those amounts. It does, as a result, simplify that trading process. We can simply specify the amount of money we'd like to invest and move right along with our trading. We encourage you to take a look at this, if you have not yet, again, available through Fidelity's mobile applications, for both Android and for iOS devices.

Taking a look forward, here is where we're going to dive into the different types of orders, to both market and limit. And, Brett, perhaps you can shed light on these topics for us.

Brett Yoder: Yeah, absolutely. Keep in mind that we truly are a broker for you, between your investments, your money and the stock market. Right? You give us your directions as what you want to do with your funds. And that's what an order is. You are ordering stock or ordering ETFs, etc. You're ordering an investment. So to order an investment, you have to give us a lot of information. You have to tell us what you want to do, what action you're trying to take, what quantity you're looking for, but then, most importantly, how you

want us to get it for you. You get discretion here. You get to tell us, "Hey, you know, I'm okay with whatever the current value is." You get to tell us, "No, I only want to spend a certain amount of money," or "I'm looking to get at least a certain amount of money for my investment." Those are our two most basic orders that you can place and the two that we'll present to you today, the market order, truly meaning, whatever the market price is for the stock or ETF, that's what you're willing to buy and sell at, whatever the next available price is... You'll hear that referred to a lot.

This is the order that lets me know, as far as the bid or the ask... If I'm placing a buy order, that asking price, I have to be on board with that. That has to be a price that I'm totally comfortable with and I'm willing to spend that asking price on my buy. So I'm buying XYZ stock. Its asking price is this. That price is fine to me. I want that order now. That's a market order. You tell us to go out and buy that stock at that price. On the other side of it, you're looking to sell shares. You're okay with the bidding price. Whatever someone is willing to spend on it, you think that's an agreeable price. That is a market order. You give me the market price. These orders are typically instantaneous, very, very fast -- "generally prompt," as we have written here. That being said, because you're willing to pay, you're willing to receive whatever the current price is at that time, these orders are only good for the day. *Day* refers to the current

day’s session. And we’ll talk about that and its importance, on the next slide. But keep in mind, market orders, they’re the fast ones. They’re the immediate one. So we’ll go out and get the shares for you or sell your shares for you -- right? -- promptly.

So that being said, we don’t have a lot discretion over price. If you want discretion over price, that’s the limit order. This is where you tell us, “Okay, mister broker, go out to the marketplace. I’m willing to buy shares of XYZ but I only want to spend this amount,” “I have shares, mister broker, and I want you to sell those shares to the marketplace. But make sure I get this amount.” This is where we start to consider a lot of the different pricing. What are other people willing to buy for? Are you willing to buy for a little bit more than them but not the whole full price of the asking price? You have a position in your account, a stock in your account and you want to get a certain price for it and you don’t care if it happens today or if it happens in half a year. But if the price ever does trade up to your high price, then you want to sell. And there’s a lot of different ways that we’ll use a limit order. But it truly is limiting the purchase price or the sales price of the order to buy or sell stock. That’s what it does. And because that price is greatly up to you, that price might not be attainable, either today, next week, in a month, etc. Our good-till-canceled orders truly are good until 180 calendar days. At that point, we’ll try to send you a

reminder that you have this limit order out there and maybe you'd like to renew it. But the particular order will cancel after 180 days. Another thing, too, is a limit order might not be filled completely. If I was looking to sell 500 shares at my high price but someone was only willing to buy 200 shares at that price, I would certainly sell 200 at the price and I would take that buyer -- right? -- give to him but then I'd still have 300 shares outstanding. Our order will remain open for those 300 shares, at our limit price. So because of that, at the bottom here, again, execution is not guaranteed -- at all. We have market orders, generally prompt. We have limit orders, where we can't guarantee that there's going to be a buyer wiling to pay your sell price. We can't guarantee that there's going to be a seller willing to sell to you at your bidding price.

So let's take a step forward. Those are our two different ways that you'll order investments from us. On our trade ticket and on our quote box, show you a live example here of both of those. And with that, we can see the quote box here, on the left side of the screen, as well as the trade ticket, on the right side of the screen. We'll start with the quote, on the left, first. So we have three major pieces of information. We have the last price, we have the bidding price, and we have the asking price. The last price is the biggest. That's that big 275.43 that we see. And it was the last transaction that was done. It was

done at the 275. We then have the B price or the bidding price, of 276 even. That's what someone is willing to buy the shares for. We also have the A, the asking price, of 276.35. That is what someone is willing to sell for. This also talks about the overall marketplace and the slippage that you can have between the bid and the ask. Imagine if you were paid market prices on this immediately. You would buy at 276.35. You would turn around and sell at 276 even. That is a loss to you, a capital loss, of 35 cents a share. Keep that in mind as you're trading. You want to pay attention to the bid and the ask, the market price. Is the 35 cents fair, considering the last price, 275.43? Etc. So we need to be aware of those three prices.

Again, depending on our order... That's the right side of the ticket. This is our order ticket. We can make some choices here. Symbol is straightforward. It's the symbol of what you're actually trying to trade, whether it's the stock or ETF. Action is whether you are buying or whether you are selling. Quantity, in this ticket, absolutely means the amount of shares you're wanting to trade. But we know, if we were using the app, our mobile app, we can actually just designate how much money we wanted to trade. The Order Type is what we just referred to. This is the market or limit order. If we had a market order, we wouldn't have a couple of these other fields. There wouldn't be a limit price, because you're willing to trade at market price. Time in force wouldn't have a

drop-down. It would simply be for the day. In this order ticket, the example, we have a limit order. Therefore, we need your limit price, 277.20. And then you get to select your time in force. Now, you can just have a day time in force. But in this case we're saying, "We want to buy 100 shares at 277.20, good until canceled," so either today or tomorrow or the next trading day, up to 180 calendar days out from current.

So we've talked about quoting, we've talked about order types, we've talked about the idea of having a reason to get into or maintain a position within our investment. Now we've got to talk about risk, easily the most important part of the equation.

Jacob Ellis: That's definitely true. And I share that opinion. This is one of the most crucial ideas, that of managing risk. Or in other words, what's the criteria that you're going to use for an exit? We need to be firm in maintaining trading discipline. We're going to want to choose appropriate position sizing and, in the end, determine exit points specified beforehand. We'll take a look at each one of these principles.

Risk management number one is saying that we need to, first and foremost, before considering profits, to consider the risks that we are taking on the

trade. What if the trade goes wrong? I thought it was going up but it's going down. Am I willing to support the risk that I am taking? How big of a risk am I taking? How far will I write it downwards? If I buy this stock and it moves the wrong direction, when will I admit that I'm wrong? How much will I have lost? And is that a loss that is acceptable to me? And then, if we are willing to take the risk, then we consider the profit. That's no different than the other things that we do in our lives -- isn't it? First we evaluate the risks, then we think about the profit. Maybe we think that skydiving could be fun but we're not willing to take the risk. Or if we are willing to take the risk, then we think about how enjoyable it may or may not be. But first we evaluate the risk that we're taking. Now, when a trade goes against you, the focus needs to shift. We need to evaluate the trade based on the current conditions, not what we initially predicted. When we placed our trade to buy, we did so because we thought the stock would rise. We did that based on the analysis we did. We did it based off of our fundamental analysis. We did it based off of our technical analysis. Whatever it is that gave us the idea that said, "I'm going to buy at this price," well, we were wrong. And now the stock has moved, downwards. We have lost. We need to evaluate the trade in the current conditions. Is it still a good buy? And it's only a good buy if we believe that, from here, that it's likely to move upwards. If we think it's more likely it continues downwards, based on the *current* conditions, then we certainly

need to exit our trade. The same is true when a trade works in our favor. Suppose we buy a stock and it moves up. Wonderful! We're making money. As it rises, as it rises, as it rises, sometimes we get into the habit of just holding on, because it has been a winner. We should only hold trades that we expect to begin to grow, from today forward. The choice to hold a trade is all about what we expect for the future, based on the current conditions. And that's why this trading discipline is all about reducing that emotional attachment, whether it's because the stock has fallen, fallen, fallen and we've got these big losses, that we can't stomach to take, or the stock has risen, risen, risen, so now we're under the impression this stock is the best and I want to keep it forever. Neither of those are rational decisions. We don't want to think about our trades in terms of "Have I made or have I lost money on?" Instead, we went to look at our outlook, what we expect to have happen for the stock and let that determine whether or not we maintain positions in our account, just as much as whether or not we add positions. We're typically very good about doing this at the onset of a trade but usually very poor at doing it at the end of a trade. Think about whether we expect the stock to rise or fall, from today forward, not about what it has done so far.

As we think through that, there's a few other ideas that we can use to manage our risk. One of these is diversification, that was mentioned in brief a moment

ago. We can diversify our account amongst different market capitalizations, different stock sectors, geography, and even style. I'll give just a brief example of geography and geographic diversification. Suppose we were to buy only stocks based in Florida, all of our money in stocks in Florida. That might be fine. Because maybe we live in Florida and we're familiar with the environment there at the current moment. The downside is that, if, for example, a hurricane came through Florida, shuttering all businesses, we are disproportionately harmed compared to the market as a whole. Because we have so much risk in Florida, all of our focus has been there. Instead, if we diversify our portfolio and have some in Florida, some in New York, some in California, some throughout the Midwest, and even others overseas, well, if a hurricane comes through and shutters Florida alone, now we're only marginally hurt. We're able to diversify our risk.

Likewise, when we think through any of the other versions of diversification, what we're looking to do is to spread out our risk, so that can avoid any of the avoidable risk. Now, there are some risks we won't avoid. For example, the coronavirus closing stores nationwide, across the US and worldwide, even, is a systematic risk, a market risk, that can't be avoided. If you want the potential return of the market going upwards, you have to stomach some risk. And we

have experienced that for these last few months. We can diversify away many risks. And that is our goal, to limit as much as can be limited.

Another way to limit our risk is to use proper position sizing. There's a number of ways for us to do this. And Brett will walk us through here, in just a moment. But in the end, we need to be able to define our exit strategy before we enter our trade -- that's right, before you enter the trade. That might be based on a specific percentage drop in the stock price or maybe as soon as the stock violates a specific technical level, goes above or below a certain point. We want to be consistent in our process for analyzing entry, just as much as we are for exit points. And that consistency is important, because then we're generating a repeatable process, a process through which we can evaluate whether or not what we have been doing works. If we're inconsistent, it's hard to identify the flaws and weaknesses that may present themselves in our trading plan. Following a consistent plan allows us to improve and improve over time and to limit any emotional aspects. Let's learn a little more about position sizing here, as we come into the closing of the session.

Brett Yoder: Thank you, so much, Jacob. Let's do it. Position sizing is so important because of two main ideas. One, if I'm trading too big, if I'm... Say I'm going all in on my portfolio, taking all my assets and throwing them into a trade. That

would be fantastic, if the trade went up. I've grown my assets. Great trade. But it's at the risk that, if I'm wrong and the trade goes against me... The market is not predictable. We're never trying to predict the future, with technical analysis for identifying trend, giving ourselves articulated reasons of what that trend means. And then, when that trend and new information that we're getting, the new prices, don't follow into that criteria, then we're out. We've decided that would be our exit strategy. If all of my assets were in that one stock and that amount of difference as the price falls and proves to us it's not in the trend anymore -- that could be devastating to us, as far as how we can invest into the next trade. The perception here, the idea is I've always -- have to be able to invest in the next trade, I'm always thinking forward. This trade is going to run its course. After it's done, I need my next trade.

So things to consider. If you can't sleep at night, which it literally says here -- if you cannot sleep at night, your position's too big. Your risk, the risk you're taking in the market, is not in congruence with the risk that you can stomach. We have to understand that about ourselves. Okay? There's also the emotional effect. There's the "I don't really care. It's such a small position. It doesn't have a big effect to my portfolio." And that could lead us astray from trading our criteria. So there's a balance here that you have to decide.

Unfortunately, it's subjective. You have to find that out for yourself, how much risk you can take and your overall position size.

The way to think of it, as far as the calculation is concerned, two different perspectives. On the more conservative side of things, consider your total position size as a percentage of your portfolio. "If I have this amount of money in this one stock, that actually represents 2 percent," 3 percent, 5 percent, 10 percent, whatever you determine, "total value of my portfolio." And if that stock just stopped trading and went away, then my portfolio would go down that respective percentage. How can -- or what's the game plan to get my account value back up and find the next trades? How many bad trades can I have in a row, before I no longer can trade? And with that as the frame. You always want to be able to trade. Keep that in mind. So the more conservative is total position size. The other way to think of it is saying, "Well, I'm not going to ride something down to zero. Let's be more realistic. I am only going to give away X amount per share," $2 per share, 5 percent per share, whatever it happens to be. Once you have that risk determined on your trade, you can then calculate trade risk. How much am I going to lose? Okay? If I'm going to lose X amount of money, X amount of money is 1 percent, 2 percent, 3 percent of my total investable assets. The thought process is the same. How many trades can go against me until I can't trade anymore? Right? If it's too

big, you won't be to sleep. If you don't care if it goes up or down or what happens, your investment, it's too small.

But that part about articulating how much you're wanting to lose or the idea of trade risk, we have an order type that you can use to make sure that that part of your plan is already on the books and, if the price does go down, then we're going to go ahead and get out, that we're going to stop our loss. Stop orders are two-part orders. It lets us know, as your broker, at what price is that too far down? At what price has the order or your trade gone against you to a point where you want to get out? At what price is *your* trade risk? Based off of that price happening, so the trade going against you by a certain amount, you can then automatically place a market sell order or a limit sell order. Market order, go back to a few slides ago. That's the market price, whatever the next price is. My stop price happened, so just get me out at the market price. Make sure I'm out of the trade. I don't want it anymore. The limit order. Make sure I am out of the trade. I want to get at least this much for my shares.

What are the risks on both sides? On the stop-loss order, your risk is, whatever the market price is... Sometimes, albeit it might be a little bit more rare than common, the market price could be significantly different than your stop price. Imagine the price gap. Right? Your stock closes at $10 a share, you have a

stop price at $9 a share, and it opens up the next day, with trading, at $8 a share. Eight is worse than 9. You are stopped out. With a stop-loss order, you get market price. Therefore, you get $8 a share. With a limit order, you could say, "No, get me out at 9. I'm wrong. But I want to get at least $8.50 a share." So now you guarantee the 8.50, because that's your limiting price, but you lose the guarantee of execution, meaning it could go from 8 to 7 to 6 to 5. And you take on the market risk, as it goes down. So position sizing, whether it's the full position, whether it's the trade risk and how it relates back to your total portfolio, and then using a mechanical order to take advantage of that, the stop order, be able to stop our loss.

Last idea here goes back to the very beginning of analysis we talked about, fundamental or technical analysis. Technical analysis helps us with timing. Stop orders are a way to fulfill a technical stop. As we see the price trend up or the price trend down, we can see very clearly on the chart at what price it is no longer trending up, at what price level the price has fallen down to the point where we're no longer bullish, if we're a long trader, if we're going to buy long and the price will go up. Based off of those price levels that we see, we can set our stop orders to take advantage of the technical criteria. So again, technical, going back to the fact that it helps us with timing. Price discounts on information. And the idea that we can use stop orders to protect ourselves,

we can have a well-rounded trade. And a well-rounded trade goes right back to the beginning. Why are we entering the trade? How much capital are willing to allocate? What's the criteria for entry? What's the criteria for exit? Jacob, why don't you give us a few key takeaways?

Jacob Ellis: Yeah. Thank you, so much, Brett, for walking us through those ideas. In the end, what we encourage you to do is to have a method defined beforehand for which investments to trade. Determine how much of your capital you're willing to invest in any one trade, not too little, not too much, appropriate position sizing. And consider how that trade will impact your overall allocation. In the end, what you need to do is have specific criteria for when to enter, as well as when to exit both the up- and to the downside. Win, lose, or draw, there will be an end to your trade. And make sure that you've decided those are acceptable levels, before you place the trade.

Now, we've gone through a lot of material today -- and brought us right up here towards the closing of the hour. We want to encourage you to take advantage of the additional learning resources that Fidelity brings to you. You can certainly visit us in our coaching sessions, you can head to fidelity.com/coaching, to find those. Or if you wanted to go to one of our four-

week classrooms, that would be by accessing the Fidelity Learning Center and then clicking on "Classes for Beginners." And we hope to see you there.

END OF AUDIO FILE

$0.00 commission applies to online U.S. equity trades and Exchange-Traded Funds (ETFs) in a Fidelity retail account only for Fidelity Brokerage Services LLC retail clients. Sell orders are subject to an activity assessment fee (from $0.01 to $0.03 per $1,000 of principal). Other exclusions and conditions may apply. See Fidelity.com/commissions for details. Employee equity compensation transactions and accounts managed by advisors or intermediaries through Fidelity Clearing & Custody Solutions® are subject to different commission schedules.

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, please read Characteristics and Risks of Standardized Options. Supporting documentation for any claims, if applicable, will be furnished upon request.

ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

Examples in this presentation do not include transaction costs (commissions, margin interest, fees) or tax implications, but they should be considered prior to entering into any transactions.

The information in this presentation, including examples using actual securities and price data, is strictly for illustrative and educational purposes only and should not to be construed as an endorsement or recommendation.

Technical analysis focuses on market action — specifically, volume and price. Technical analysis is only one approach to analyzing stocks. When considering which stocks to buy or sell, you should use the approach that you're most comfortable with. As with all your investments, you must make your own determination as to whether an investment in any particular security or securities is right for you based on your investment objectives, risk tolerance, and financial situation. Past performance is no guarantee of future results.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

Diversification and asset allocation do not ensure a profit or guarantee against loss.

The Fidelity Stock Screener is a research tool provided to help self-directed investors evaluate these types of securities. The criteria and inputs entered are at the sole discretion of the user, and all screens or strategies with preselected criteria (including expert ones) are solely for the convenience of the user. Expert Screeners are provided by independent companies not affiliated with Fidelity. Information supplied or obtained from these Screeners is for informational purposes only and should not be considered investment advice or guidance, an offer of or a solicitation of an offer to buy or sell securities, or a recommendation or endorsement by Fidelity of any security or investment strategy. Fidelity does not endorse or adopt any particular investment strategy or approach to screening or evaluating stocks, preferred securities, exchange-traded products, or closed-end funds. Fidelity makes no guarantees that information supplied is accurate, complete, or timely, and does not provide any warranties regarding results obtained from its use. Determine which securities are right for you based on your investment objectives, risk tolerance, financial situation, and other individual factors, and reevaluate them on a periodic basis.

Zero account minimums apply to retail brokerage accounts only. Account minimums may apply to certain account types (e.g., managed accounts).

Stop loss orders do not guarantee the execution price you will receive and have additional risks that may be compounded in periods of market volatility. Stop loss orders could be triggered by price swings and could result in an execution well below your trigger price.

933245.1.0