

Online Share Dealing Guide

Online share dealing or online share trading is the buying and selling of shares via the internet. You will require a computer and an internet connection.

A broadband connection is preferable to relying on a dial-up modem, because it is a lot faster. Most online stockbrokers Internet Explorer 6 / 7 and Netscape Navigator 6.2. Some firms also support Firefox. support modern popular browsers: Virtually all online stockbroking services will operate on a variety of the Microsoft operating systems: Windows 98, Windows 2000, Windows XP and Vista. A smaller number of brokers offer services that will run happily on Apples Mac OSX.

You will have your own unique username and password and many broking sites will also require, as a further security measure, that you enter a dealing password every time you place a trade. The dealing sites also have built in time-outs; should there be no activity during your online session for 20-30 minutes you would be automatically logged off.

Execution-only is the type of service that all online share dealing stockbrokers offer. Execution-only describes the service offered by stockbrokers where you make the buying and selling decisions on your own. If you have an online account with them, for an additional fee, some broking firms will also offer advice when you want it.

Cost and taxation

All UK share purchases online (but not sales) are subject to stamp duty reserve tax, which is a tax on share transactions in UK incorporated companies, levied at 0.5% of the purchase price of shares. In addition to stamp duty, purchases over a certain size (£10,000) also face the PTM levy, a flat rate charge of £1, which is collected by the Panel of Take-overs and Mergers, which oversees take-overs and mergers within the UK.

There is no immediate tax or levy payable on the sale of your shares although, assuming your shares have risen in value, you may face a potential capital gains tax bill. In general, execution-only online share dealing is a great deal cheaper than traditional telephone-based trading. How much cheaper your online dealing will be depends. It depends, first, on what kind of share dealer you think you are going to be; second, on what kind of service you

want to use to trade on; and finally on what kind of shares or other financial instruments you want to invest in.

The more frequently you trade, the less you are likely to pay for the cost of each trade. Many online brokerages offer reduced fees for active traders. Unless you are an experienced investor and you know exactly what you are doing, you would be best advised not to try to deal enough times just to qualify for a cheaper trading fee.



How to trade

Provided that you understand the risks involved in online dealing and want to set up a trading account, you have a choice to make between the brokers and their services. It is fairly standard to be required to deposit funds into a trading account. These cash funds will earn interest at a stipulated rate while you are deciding what shares to buy.

It is broadly commonplace to be offered a share quote with a time-out countdown. That is to say, when you decide to buy a share, you will be shown a real time live price but you will have a limited window of opportunity within which to make your purchase at that price. The same holds true when you come to sell your shares, you will be quoted a price and will have a short period of time in which to decide whether to accept the price or decide not to sell. Once you make a sale, the proceeds will be transferred into your trading account.

Some brokers offer you the opportunity to invest in more than just main market UK shares but may charge higher fees. You need to decide what kind of investments you are likely to make as this will have some bearing on which broker is right for you. Your decision may also be affected by the other services that your chosen brokerage may offer; for example, some may offer the option of advice-based trading over the phone for a fee on a case-by-case basis while others offer no such support.

In addition to shares on one or more stock exchanges, various options contracts and financial derivatives are available for the more experienced investor. Some brokers also offer contracts for difference (CFDs) while others offer spread betting. You should steer clear of financial spread betting unless you have received comprehensive training in the risks involved.

You may access the same trading screens as the professionals via Direct Market Access (DMA), also known as Level II access. You'll be able to see the numbers of buyers and sellers and at what price they're willing to trade. You may also take part in the pre-market and post-market auctions where the highest or lowest price often occurs. Of course, you'll have to pay extra for DMA - around £25-£40 per month on top of dealing charges is not unusual. Paying for DMA may make sense if you're a regular trader who is sufficiently experienced in share trading to make best use of this kind of service.

Overseas shares

In recent years it has become a great deal easier and cheaper to invest directly in overseas shares. If you are dealing in US shares you must fill in a W-8 form which identifies you to the US Internal Revenue Service as a non-US resident and, therefore, exempt from paying US taxes.

Dealing via a UK-based brokerage as a private investor you are covered by the Financial Services Compensation Scheme, which is operated under the auspices of the Financial Services Authority. Dealing with a brokerage in the USA changes the regulatory framework. There, they are answerable to the Securities and Exchange Commission.

Investing abroad is not for beginners, most brokers will want to you to deposit larger sums before you start investing (there are exceptions) and you should bear in mind the potential currency risk. You earn your hard-earned money in pounds sterling. To invest in, say, US shares you need to change it into US dollars. This leaves you open to the danger that any appreciation in the value of your investment could be more than wiped out by an adverse movement in the sterling/dollar exchange rate!