TradeZero

Online Trading

Understanding Online Trading Risks

TradeZero America Inc. would like to inform you of the potential risks of trading online and the inherent risks of trading in an extreme market environment.

When trading online, you should be aware that during periods of high internet traffic, you might experience delays in accessing account data due to system capacity limitations. Additionally, system response times may be adversely affected by increased market volatility conditions, quote delays, system performance; and other factors outside the control of TradeZero America Inc., which may include your computer system and internet service provider. You may also experience system outages or delays as a result of, among other things, power failures, programming failures or heavy trading volume. During periods of increased volatility, you might suffer market losses in the price and share volume of a particular stock when systems problems result in an inability to place buy or sell orders. The risk of financial loss in trading online can be substantial; therefore, you should consider whether such trading is suitable for you in light of your circumstances and financial resources.

In the event system capacity problems prevent our automated routing systems from sending your order(s) to designated market centers for execution, we encourage you to contact our Trading Desk for manual handling of your orders. We ask for your patience, during those times, because the Trading Desk will be experiencing heavy call volume. Please keep in mind that TradeZero America Inc. takes significant measures to improve system capacity and reliability; however, you should have an alternate means of trading your securities including a back-up account at another securities brokerage firm.

During extreme market conditions, you might experience delays in order executions because market making firms will temporarily discontinue normal automatic order execution standards and switch to a manual order process, and/or reduce their size guarantees on individual stocks.

You may also experience executions at prices significantly away from the market price quoted or displayed at the time an order was entered, less shares than desired, or losses. To potentially reduce your risk of receiving an execution away from the market, it is a good idea to use limit orders rather that market orders in a fast moving market.

What is online Internet trading?

Generally, online trading refers to buying and selling securities via the Internet or other electronic means such as wireless access, touch-tone telephones, and other new technologies. With online trading, in most cases customers access a brokerage firm's Web Site through their regular Internet Service Provider. Once there, customers may consult information provided on the Web Site and log into their accounts to place orders and monitor account activity.

Aren't online investing and day trading the same thing?

No. Online investing refers to the method of placing orders via the Internet to buy and sell securities as compared to the method of placing orders by speaking directly with a broker by telephone. Day trading refers to a trading strategy where an individual buys and sells the same security in a short period of time (often the same day) in an attempt to profit from small movements in the price of the security.

Can I actually open an account online?

Yes, you can open an account with many brokerage firms online; however, in most instances your account will not be active until the brokerage firm receives and processes a signed application from you. Note that some firms allow for the use of electronic signatures, while others will require a manually (hand written) signed document.

Is there still a brokerage firm involved or do I really bypass the broker completely?

All trades involve a brokerage firm even if a stockbroker is not used to help with the trade. Although customers may enter orders for trades via the Internet, customers do not have direct access to the securities markets and therefore must use a brokerage firm in order to execute their trades. Customers should also remember to do their homework where their investments are concerned.

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What kinds of securities can I buy online?

You can buy almost any type of stock, bond, or mutual fund online.

What's the difference between a market order and limit order? Is one better than the other?

With a market order the customer instructs his or her brokerage firm to buy or sell a stock at whatever the price is when the trade is executed, presumably as soon as possible. If the price of the stock is moving quickly and there is a delay in the transmission of the order, then the price at which the customer purchases or sells the stock may be very different than what the customer expected when the order was placed. With a limit order, the customer specifies the price at which he or she is willing to buy or sell. Limit orders can help protect customers from rapid price changes when markets are moving fast. However, there is the risk that the limit order will not e executed. Also note that limit orders usually cost a bit more than market orders.

Is my order executed immediately?

Orders entered electronically are usually executed quickly; however, there is no assurance that this will always occur. Investors should be aware that high trading volumes can cause delays in executions. Market volatility and delays in executions due to trading volume can result in trade executions at prices significantly different from the quoted price of the security at the time the order was entered. Also, different firms offer different levels of access and system sophistication. The speed of the Internet Service Provider used by an investor may also have an effect on order transmittal and execution. Timing in execution of orders may also be impacted by market volume, order queues at market centers, possible delays in order transmissions by brokers, and other systems issues.

What are the risks of online trading?

There is risk of loss associated with investing in securities regardless of the method used. New investors need to understand the principles of investing, their own risk tolerance, and their investment goals before venturing into the market. In addition, online investors may want to consider these other risks. High Internet traffic may affect online investors' ability to access their account or transmit their orders. Online investors should be skeptical of stock advice and tips provided in chat rooms or bulletin boards. Investors should do their own research before acting on these tips. Also, for some online investors, there is a temptation to "overtrade" by trading too frequently or impulsively without considering their investment goals or risk tolerance. Overtrading can affect investment performance, raise trading costs, and complicate your tax situation.