

THE PRIMER

HOW TO BUY AN INDIVIDUAL STOCK



Maybe you're not fluent in Wall Street-speak and you can't name any members of the S & P 500. No matter: You can still expand your portfolio by buying individual stocks. (Experts suggest spreading up to 5 percent of your assets between several companies.) However, it can be challenging for an inexperienced investor to assess which business is worth her hard-earned dollars. Follow this step-by-step guide to making that decision easier.

STEP 1

Ask yourself which industries you would like to invest in (such as energy or cosmetics). To learn more about them, set up Google Alerts (google.com/alerts) for each. Over the next month, read as many articles as you can. Next, create a list of several companies that are getting positive attention for their products or services, says Jeff Reeves, the editor of InvestorPlace.com, a financial-investment news website.

STEP 2

Go to google.com/finance and find the forward price-to-earnings (P/E) ratio for each company. This number is calculated by dividing the stock's price by the predicted earnings per share for the fiscal year. (For example, if a stock is selling for \$96 a share and its earnings per share are expected to be \$8, then the forward P/E would be 12.) Typically, you want to invest in a company with a P/E of around 15. The higher the number, the more costly it is in relation to its earnings. But if most of the company's competitors are trading at the same level, then it's OK to buy the stock, because some sectors, like technology, tend to have higher P/E's overall.

STEP 3

You've probably narrowed down your list. Now check out each company's annual report (often available on its website), which discloses the firm's financial well-being. Find out (A) whether the company's net income increases each year and

(B) whether the company pays a dividend—a payment made by the company to a shareholder. "It's a bonus if they do, since it's essentially free money that you can reinvest or accept in the form of a check," says Jayne Ferrante, a certified financial planner in Fresno, California. If you find a stock that meets those two criteria, move forward.

STEP 4

Now you're ready to purchase shares. You can often buy directly from the company, but often there's a drawback: Sometimes your transaction will not be processed immediately, so the price could increase before the sale is finalized. The better option is to make instantaneous purchases online through an investing firm, such as Scottrade (Scottrade.com), which charges just \$7 a trade.

—Eric Butterman

SNEAKY FEE

undeliverable-mail fee

THE COST: \$5 to \$15.

WHY YOU'RE BEING CHARGED:

"To guard against identity theft and money laundering, banks are legally required to have your current address," says Nessa Feddis, a vice president and senior counsel to the American Bankers Association. Most financial institutions use the U.S. Postal Service's address-change service, which alerts them when an address isn't up-to-date. To cover this expense and to generate revenue, some banks penalize account holders who don't update their contact information. Even if you've set up forwarding with the post office, your bank will be informed that your old address is no longer valid—meaning you could be hit with a monthly charge until you notify the bank of your new residence. That's why "telling every bank, including your mortgage lender and credit-card issuers, that you've relocated needs to be at the top of your moving to-do list," says Greg McBride, a senior financial analyst at Bankrate.com, a finance site.

—Kate Rockwood

