February 2005

The equities market: How to control your financial responsibilities

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The historical events of the United States' stock market over the past two decades show dramatic change in individual investor accessibility to the financial markets. A major paradigm shift occurred in the financial markets of the mid-1980's when a wealth of investment information and systems became available. Greater accessibility occurred in the market place for the individual investor, which allowed the public to become less dependant on the services of an investment broker.

Background:

The financial markets were first established in the United States in the 1790's. Traders and merchants would gather at the street corners in New York on Wall Street to buy and sell equities and loans. Eventually, more orders were desired in the financial sector, and the business was taken inside which is now known as the New York Stock Exchange (NYSE). After the market crash of 1929, the Securities and Exchange Commission (SEC) was created to monitor the ethical obligations of the NYSE in 1934.

The SEC sought for a new self-regulatory body to monitor the over-the-counter market (OTC) due to the size, in which the SEC felt the OTC was too amorphous for a single regulatory agency to control. The NASD was then created in 1937 from legislation passed by congress known as the Maloney Act, to monitor the over-the counter market, otherwise known today as the National Association of Securities Dealers (NASDAQ).

Change for the benefit of investors:

Until the late 1980's, the general public needed to use an investment broker to purchase securities. A commission was charged for the broker's service, typically in direct correlation with the amount of securities bought or sold.

The United States stock market crashed in 1987, which is also known as Black Monday. Investors had problems reaching their brokers to liquidate their positions as the value of their investments rapidly decreased. In the midst of chaos, brokers were overwhelmed with phone calls, and they could not service their clients in a timely matter. Shortly thereafter, the NASD implemented the Small Order Turnaround System (SOES) to assist the individual investor needs in buying and selling equities without a broker in lots of 500 shares or fewer. Since the late 1980’s, Electronic Communication Networks (ECN’s) have been implemented, allowing the general public to buy or sell as many shares desired at minimal cost without directly using a broker. Currently there are more than 25 million individual investors purchasing securities for themselves online, and the numbers are rising.

The lack of broker interaction with the public in crisis situations can occur again, just as Black Monday in the late 80’s. Unless the market is completely shut down, acts of terrorism can cause a landslide of selling at astronomical rates. Do you want to spend the time locating your broker, or taking care of matters yourself at exponential speeds?

Educate yourself on the intricacies of buying and selling your own equities for safety’s sake; the systems are there, but are you?