NYSE

A Guide to the NYSE Marketplace

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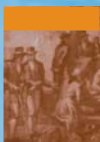

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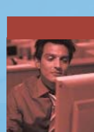

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CHAPTER ONE

THE NYSE: AT THE HEART OF GLOBAL FINANCIAL MARKETS

The financial markets are an important part of our daily lives. Making sure we are financially secure is a vital part of how our economy grows. And investing in securities is often a significant component of an investor's portfolio.

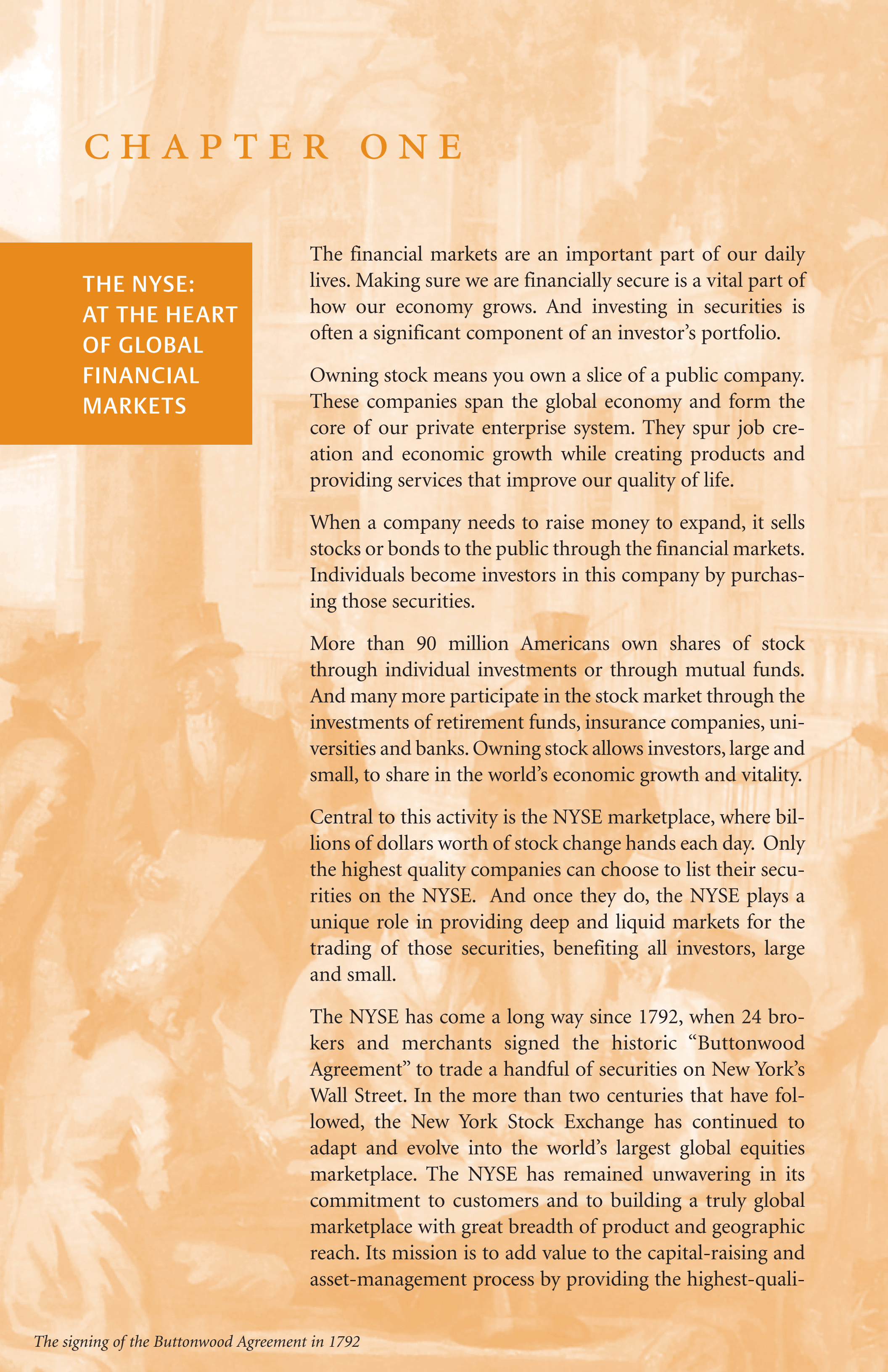
Owning stock means you own a slice of a public company. These companies span the global economy and form the core of our private enterprise system. They spur job creation and economic growth while creating products and providing services that improve our quality of life.

When a company needs to raise money to expand, it sells stocks or bonds to the public through the financial markets. Individuals become investors in this company by purchasing those securities.

More than 90 million Americans own shares of stock through individual investments or through mutual funds. And many more participate in the stock market through the investments of retirement funds, insurance companies, universities and banks. Owning stock allows investors, large and small, to share in the world's economic growth and vitality.

Central to this activity is the NYSE marketplace, where billions of dollars worth of stock change hands each day. Only the highest quality companies can choose to list their securities on the NYSE. And once they do, the NYSE plays a unique role in providing deep and liquid markets for the trading of those securities, benefiting all investors, large and small.

The NYSE has come a long way since 1792, when 24 brokers and merchants signed the historic "Buttonwood Agreement" to trade a handful of securities on New York's Wall Street. In the more than two centuries that have followed, the New York Stock Exchange has continued to adapt and evolve into the world's largest global equities marketplace. The NYSE has remained unwavering in its commitment to customers and to building a truly global marketplace with great breadth of product and geographic reach. Its mission is to add value to the capital-raising and asset-management process by providing the highest-quali-



The signing of the Buttonwood Agreement in 1792 ty and most cost-effective marketplace for the trading of financial instruments, to promote confidence in and understanding of that process, and to serve as a forum for discussion of relevant national and international policy issues.

The NYSE is one of two U.S. securities exchanges the NYSE Group Inc. operates:

- **The NYSE** is the world's largest and most liquid cash equities exchange. The NYSE provides a reliable, orderly, liquid and efficient marketplace where investors buy and sell listed companies' common stock and other securities. On June 30, 2006, the NYSE's more than 2,600 listed operating companies—some 450 of which are from outside the U.S.—represent a total global market capitalization of over $22.6 trillion. In the second-quarter 2006, on an average trading day, almost 1.8 billion shares, valued at over $68.5 billion, were traded on the NYSE.

- **NYSE Arca**℠ operates the first open, all-electronic stock exchange in the United States and has a leading position in trading exchange-traded funds and exchange-listed securities. NYSE Arca is also an exchange for trading equity options. NYSE Arca's trading platform provides customers with fast electronic execution and open, direct and anonymous market access. Through NYSE Arca, customers can trade some 8,000 equity securities and more than 175,000 option products. On average, about 700 million shares, valued at more than $25 billion, are traded through NYSE Arca each day.

NYSE Group pursues listings from all over the world, and the two markets, with their different criteria for listings, allow the Group to attract a wide range of companies. To be considered for an NYSE listing, companies must meet strict financial and regulatory criteria. (Companies that today cannot meet the financial listing standards of the NYSE can choose to list with NYSE Arca and begin on a track toward an NYSE listing.) Companies list as initial public offerings (IPOs), as transfers from other markets or as non-U.S. companies cross-listing at exchanges worldwide.

Listed companies pay both initial listing fees and annual fees. In return, their stock is bought and sold on the NYSE or NYSE Arca, following rules set by the Securities and Exchange Commission (SEC), a U.S. federal government agency, and NYSE Regulation Inc.SM, the independent NYSE Group subsidiary that regulates the NYSE and NYSE Arca markets.

This publication focuses on the NYSE, the world's premier equities marketplace. In addition to having the highest overall listing standards of any securities marketplace in the world, the NYSE is among the world's most well-recognized brand names. For 214 years, the NYSE has facilitated national and global capital formation and symbolized the strength and vitality of the U.S. securities markets. Issuers that list with the NYSE benefit from association with this brand name while gaining access to the world's largest, most liquid market for the trading of their securities.

When companies first list on the NYSE, the company's top officials are often invited to ring The Opening BellSM on the NYSE Trading Floor. Ringing the Bell, which signals the start and close of the trading day, is part of the NYSE's rich heritage and signifies the opportunities the financial markets provide.

The trading day starts and ends with the ringing of the bell.

CHAPTER TWO

THE HYBRID MARKET

The NYSE has long been the leader in providing the best prices and lowest trading costs. Its unique market model allows it to accomplish this. The NYSE blends the best aspects of electronic trading and traditional, open-outcry, auction-market trading. Buyers and sellers meet directly in a fair, open and orderly market to compete for the best possible price through the interplay of supply and demand. At the NYSE, investors have the broadest choice of trade-execution preferences with the opportunity for price improvement. As the NYSE market continues to evolve, The NYSE Hybrid Market℠ initiative will build on these attributes by broadening customers' ability to trade quickly and anonymously.

To be able to trade securities on the Trading Floor, an Exchange-issued trading license is required. Only qualified and approved NYSE broker-dealer entities may acquire and hold trading licenses. Most of those holders are either floor brokers or specialists:

- **Floor Brokers**. Brokers represent public orders to buy or sell shares and work to get their customers the best price. Brokers participate both in person and electronically on the Trading Floor and have advanced tools to assist them in handling trades on behalf of their clients. Two main types of floor brokers work on the Trading Floor: house brokers and independent brokers. House brokers are employed by brokerage firms that hold accounts for public investors. These market professionals buy and sell securities as an agent for their customers. The majority of independent brokers are "direct access" brokers who deal with institutional investors at low commission rates.
- **Specialists**. Each stock listed on the NYSE is allocated to a specialist, a market professional who acts as the contact point between brokers with orders to buy shares and brokers with orders to sell shares.

A floor broker receives an order on her handheld computer.

Specialists act as auctioneers in the specific stocks they are designated to trade at a designated location, called a trading post. All buying and selling of a given stock occurs at that location. Specialists use enhanced technology to bring buyers and sellers together, improve prices, and serve as a point of accountability for the smooth functioning of the market. The Hybrid Market automates much of what specialists do, helping them become much more efficient.

Marketplace Technology

The NYSE's highly sophisticated and robust trading platform includes a broad range of technology tools that help specialists and floor brokers provide value to customers. The NYSE employs advanced communications and computing technologies to deliver fast, efficient, reliable and cost-effective trade executions.

The Exchange has the capacity to trade up to 10 billion shares per day. (The record for shares traded in one day was 3.1 billion on June 24, 2005.) To keep up with the tremendous growth in trading volumes, the NYSE constantly upgrades its technology, which includes developing new electronic workstations for specialists with flat-screen monitors, an order management system for brokers, wireless handheld terminals, a cellular telephone network on the Trading Floor and much more.

At the NYSE, 100% of orders are electronically delivered directly to trading posts, booths, or handheld computers on the Floor in the following ways:

- **SuperDOT®** (Designated Order Turnaround System): More than 95% of orders to buy or sell stock reach the specialist's workstation directly at the trading post through this electronic order-routing system. After the order has been executed in the Hybrid market, a report of execution is returned directly to the member firm office over the same electronic circuit that brought the order to the Trading Floor. SuperDOT® handles most of the smaller orders. It is the larger orders that are represented personally by floor brokers via the Broker Booth Support System (BBSS®), NYSE e-Broker℠ and other systems.

How a Stock is Bought and Sold

1 Tom Smith of Sarasota, Florida decides to invest in the stock market.

1a Diane Whitford of Hartford, Connecticut decides to sell 300 shares of XYZ Corp. (XYZ) stock to help pay for a new car.

2 Tom has been thinking of investing in the XYZ Corp. He calls his broker, who is a member of the New York Stock Exchange, to get a quote on XYZ; that is, to find out the highest bid to buy and the lowest offer to sell.

2a Diane checks nyse.com to find out what price XYZ is trading at by typing in the company's ticker symbol, XYZ.

3 Tom's broker and Diane find out the current quote and price for XYZ from an electronic data system that continually updates information directly from the Floor of the NYSE.

4 Taking into account what he already knows about XYZ — and after a discussion with his broker — Tom instructs his broker to purchase 300 shares of XYZ at the current market price.

4a Diane logs into her online brokerage account, which is linked to a brokerage firm that is a member of the New York Stock Exchange, and places an order to sell her 300 shares at the current market price.

5 Both orders are sent electronically to the NYSE Trading Floor either via the SuperDOT® System to the specialist's workstation.

6 The customer can either use the auction market with the specialist or, to obtain an electronic execution, use NYSE Direct+.

7 At the specialist workstation both orders are represented as auction market orders in order to have the opportunity for price improvement. The specialist who handles XYZ makes sure the transactions are executed fairly and in an orderly manner.

8 After the transaction is executed, the specialist's workstation sends notice to the firms originating the orders and to the consolidated tape so that a written record is made of every transaction.

9 The transaction is reported by computer and appears on the consolidated tape displays across the country and around the world.

10 The transaction is processed electronically, crediting Tom's brokerage firm and debiting the account of Diane's brokerage firm. Tom's broker calls him and tells him at what price he bought 300 shares of XYZ. In a couple of days, Tom receives a written confirmation in the mail. Diane receives confirmation from her brokerage firm electronically on her computer within seconds. These confirmations describe the trade, its terms and conditions, and the exact amount to be paid or received.

11 Tom settles his account within three business days after the transaction by submitting payment to his brokerage firm for the 300 shares of XYZ, plus any applicable commissions.

11a Diane's trade is also settled in three business days. Her account will be credited with the proceeds of the sale of stock, minus any applicable commissions.

- **BBSS®**: This highly sophisticated computer system is used to receive orders on the Trading Floor. The system is connected to the specialist's post and the broker's handheld computer.
- **NYSE e-Broker®**: This wireless, handheld tool enables floor brokers to submit and manage quotes and orders, track executions and speed the flow of information between customers and the point of sale.
- **NYSE Direct+®**: This high-speed electronic connection between NYSE member firms and the Exchange enables immediate electronic execution of customer orders.

Key Terms

Auction Market: Floor brokers and specialists interacting with quotes and orders on the floor of the New York Stock Exchange.

Bid: The highest price anyone wants to pay for a security at a given time.

Broker: An agent who handles the public's orders to buy and sell securities, commodities, or other property. For this service, a commission is charged.

Broker Booth Support System® (BBSS®): A state-of the-art order-management system designed exclusively for NYSE members, which enables member firms to quickly and efficiently process and manage their orders and selectively route orders via **SuperDOT®** directly to either the trading post, the broker's handheld computer, or the booths on the NYSE Trading Floor.

Commission: The broker's basic fee for purchasing or selling securities or commodities as an agent.

Floor Brokers: The largest single membership group of the NYSE, consisting of house brokers and independent brokers.

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House Broker: An agent, employed by a brokerage house, who executes the public's order for the purchase or sale of securities or commodities.

Hybrid Market: The NYSE Hybrid Market^{sm} is the NYSE's new market model curently being phased in, integrating into one venue the best aspects of both the auction market and automated trading while providing customers with the broadest choice of executing trades.

Independent Broker: Member on the Floor of the NYSE who executes orders for more than one brokerage house. Many independent brokers are "direct access" brokers who deal with the institutional public.

Initial Public Offering (IPO): A corporation's first offering of stock to the public.

Liquidity: (1) How easily one's assets can be converted back into cash; (2) The ability of the market in a particular security to absorb a reasonable amount of buying or selling at reasonable price changes. Liquidity is one of the most important characteristics of a good market.

Listed Companies: Companies whose shares of stock trade on a securities market.

NYSE Hybrid Market^{SM}: The NYSE Hybrid Market is the NYSE's new market model, integrating into one venue the best aspects of both the auction market and automated trading while providing customers with the broadest choice of trade execution preferences.

Offer: The lowest price anyone will take to sell a security at a given time.

Specialist: A member of the NYSE who is responsible for maintaining a fair and orderly market in the stocks they are allocated. At all times, specialists must put their customers' interests above their own.

Stock: A "share" represents partial ownership in a company. Investors who purchase stock have voting rights at the company's annual stockholders' meeting.

SuperDOT®: The electronic order-routing system through which NYSE member firms transmit market and limit orders directly to the trading post where the security is traded or to the member firm's booth. After the order has been completed a report of execution is returned directly to the member firm office over the same electronic circuit that brought the order to the Trading Floor.

Trading Floor: The 52,000 square feet in five rooms at the New York Stock Exchange where stocks and other products are bought and sold.

Trading Posts: The 20 horseshoe-shaped counters staffed by specialists and clerks on the Trading Floor of the NYSE where stocks are bought and sold. Each trading post is responsible for over 100 stocks.

A specialist and brokers at a post on the Trading Floor

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CHAPTER THREE

SAFEGUARDING THE SYSTEM: NYSE REGULATION

A comprehensive network of safeguards, from individual broker-dealers all the way up to the U.S. government, serves to protect investors, the health of the financial system and the integrity of the capital-formation process. The federal government is at the top of the regulatory pyramid: The SEC, which the U.S. Congress established in 1934, monitors the securities industry and enforces penalties against those that violate the industry's regulations. This federal agency oversees every securities firm participating in the financial markets as well as the U.S. markets themselves. Congress adopts laws governing the securities industry and is responsible for ensuring that the SEC functions effectively.

The NYSE is a self-regulatory organization, as are various other U.S. stock exchanges. As such, the NYSE, through its independent, not-for-profit subsidiary NYSE Regulation Inc., regulates member organizations through the enforcement of marketplace rules and federal securities laws. More than 300 of the largest securities firms in America are NYSE member organizations. These firms service 98 million customer accounts, or 84 percent of the total public customer accounts handled by broker-dealers, with total assets of $4 trillion. They operate from 20,000 branch offices around the world and employ 195,000 registered personnel.

These NYSE member organizations must meet rigorous regulatory standards. Firms are obliged to monitor their own compliance with applicable rules and regulations for possible violations. Each year, NYSE Regulation examines every member organization that does business with the public to determine whether these requirements are met. NYSE Regulation also works with other government and law-enforcement agencies, including the SEC and U.S. Attorney's office, and belongs to a group of domestic and non-U.S. markets and agencies that share regulatory and financial information.

In addition to regulating member organizations through the enforcement of marketplace rules and federal securities laws, NYSE Regulation also ensures that companies listed on the NYSE meet their financial and corporate governance listing standards. NYSE Regulation, which has more than 700

employees, includes the divisions of Listed Company Compliance, Member Firm Regulation, Market Surveillance, Enforcement, and Dispute Resolution/Arbitration:

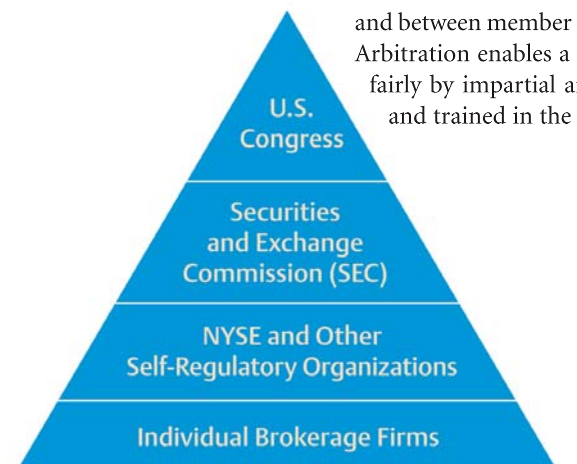
- **Listed Company Compliance**. The NYSE requires listed companies to meet original listing criteria and thereafter maintain continued compliance with these standards. This division, which monitors and enforces compliance with these standards, is split into two parts: 1) the financial compliance group, which reviews a company's reported financial results both at the time of listing and thereafter to ensure that it meets original listing and continued-listing requirements; and 2) the corporate compliance group, which ensures that listed companies adhere to the highest standards of accountability and transparency, including governance requirements for configuration of corporate boards, director independence and financial competence of audit committee members.

- **Member Firm Regulation**. This division conducts examinations of the more than 380 member organizations of the NYSE (representing 90% of the total public customer accounts handled by broker-dealers in the United States) for financial, operations and sales-practice compliance. In addition, the division interprets and develops NYSE rules, develops and administers various industry qualifications and examinations, and administers the NYSE's continuing education programs for registered persons in the securities industry.

- **Market Surveillance**. This division is responsible for, among other things, monitoring equity insider trading activities on the facilities of the NYSE. Such monitoring of trading activities involves both real-time and post-trade review. The Market Surveillance division reviews transactions to determine whether auction-market rules and principles are being complied with and fairly maintained, and whether such transactions involve abusive or manipulative trading practices. The Market Surveillance division uses sophisticated computer technology to detect unusual trading patterns, and the staff of the Market Surveillance division also maintains a presence on the trading floor of the NYSE. Market Surveillance makes referrals to the NYSE Enforcement division and the SEC Division of Enforcement, as appropriate.

- **Enforcement**. This division investigates and prosecutes violations of NYSE rules and U.S. federal securities laws and regulations. Enforcement cases include customer-related sales practice violations, breaches of financial and operational requirements, books and records deficiencies, reporting and supervisory violations, misconduct on the trading floor, insider trading, market manipulation and other abusive trading practices. Sources of cases for the Enforcement division include examination findings referred by the Member Firm Regulation division, surveillance reviews referred by the Market Surveillance division, arbitration referrals from the Dispute Resolution/Arbitration division, reviews of customer complaints by the Enforcement division, settlements and reporting by member organizations, referrals from the SEC and complaints by members of the investing public and securities professionals.

- **Dispute Resolution/Arbitration**. This division provides a neutral forum for the resolution of securities industries disputes in more than 46 cities throughout the United States. For more than 125 years, the NYSE has made available an arbitration forum to resolve disputes between investors and member organizations/brokers and between member organizations and their employees. Arbitration enables a dispute to be resolved quickly and fairly by impartial arbitrators, who are knowledgeable and trained in the art of resolving controversy.



THE REGULATORY PYRAMID

The Securities Investor Protection Corporation

What happens if your cash and securities are on deposit with a brokerage firm that encounters financial difficulties and goes out of business? Could you lose your entire investment? In 1970 Congress established the Securities Investor Protection Corporation (SIPC) as a private customer protection program to protect investors' money. In the event that a brokerage company fails, SIPC will cover losses up to $500,000 per customer. This amount includes a maximum of $100,000 for cash. Although infrequently used, SIPC is another example of the protective measures designed to instill investor confidence in today's stock markets.

Key Terms

Arbitration: A low-cost alternative to the court system in settling disputes over securities transactions.

Regulatory Pyramid: A network of safeguards that surrounds the securities industry from individual brokerages all the way up to the U.S. Congress.

Securities and Exchange Commission (SEC): A watchdog agency created by the U.S. Congress to monitor the securities industry and enforce punishments of those who violate the industry's regulations.

Securities Investor Protection Corporation (SIPC): A safeguard for investors' capital created by Congress to ensure that cash and securities on deposit with a brokerage company are insured up to $500,000 per customer, in the event that the brokerage company goes out of business.

Self-Regulation: The way in which the securities industry monitors itself to create a fair and orderly trading environment.

Stock Watch: The NYSE's state-of-the-art computer surveillance unit, which monitors the market in NYSE listed stocks for aberrant price and volume activity, which may indicate illegal transactions.

CHAPTER FOUR

WHAT DRIVES STOCK PRICES

There's truth to the old Wall Street adage that says a stock is worth what somebody is willing to pay for it. In essence, that's because the price of a stock is determined by buyers and sellers. As they weigh information about the company, the economy and their own investment goals, investors decide whether they are willing to pay more or less for a stock.

Simply put, the price of an individual stock is determined by supply and demand. The supply of stock is based on the number of shares a company has issued. The demand is created by people who want to buy those shares from investors who already own them. The more that people desire to own a stock, the more they are willing to pay for it.

But the supply of shares of any stock is limited. Investors only can buy shares of stock that are already owned by someone else. So if one person wants to buy, somebody else has to sell, and vice versa. If a lot of people want to buy at the current price and not a lot of people want to sell, the price goes up until more people are willing to sell. When the price gets so high that buyers no longer want the stock, the price starts to drop.

Indexes

When you hear on the news that stock prices or the market was up, reporters are generally referring to an index. A stock index is a specific group of stocks, and whether its value is up or down reflects the combined price movements of the stocks in the index. The stock market reports its moves through a variety of indexes, because no single index can tell investors everything they need to know. Widely cited indexes include the Dow Jones Industrial Average, which tracks the stock prices of 30 key "blue chip"[1] companies; the S&P 500, which tracks the stock prices of 500 large U.S. companies; and the NYSE Composite Index,® which tracks the prices of all the common stocks listed on the New York Stock Exchange.

A Company's Financial Health

Supply and demand explains why individual stock prices fluctuate. But how do investors decide whether it is a good idea to buy or sell a particular stock at a given price? First, they need to consider the financial health of the company whose stock they are considering buying or selling. If it looks like a company is going to lose money — perhaps the company just announced poor earnings — then its stock has less value. Investors will pay more for a company with a history of earning strong profits and consistently paying healthy dividends.

[1]See definition on page 23.

While a company's past performance is important, even more important are its future prospects. A company that has not been making money might turn around, perhaps under new management, after increasing its efficiency, or by developing an innovative new product. Likewise, just because a company has made money in the past does not mean it will continue to do so. Perhaps the company's successful CEO is retiring, the company is defending a big lawsuit, workers are threatening to strike or competition has heightened. Announcements along these lines could mean the company's future is uncertain or negative. A report that an individual or a company is trying to buy another business usually increases that business' stock prices. That's because the purchaser has to buy a majority of the stock to gain control of the company. To do so, the suitor must persuade stockholders to sell their stock by offering an attractive price for their shares.

Industry Information

Another important factor in gauging the prospects of a company is the health of its entire industry. A company's stock price may go up or down depending on whether investors think its industry is growing or contracting. For example, a company may be doing well financially, but if its industry is declining, investors might question the company's ability to keep growing. In that case, the company's stock price might fall.

Some industries are considered cyclical, meaning they expand and contract in cycles. For example, home building declines when interest rates rise. Consumer electronics typically do best at the end of the year, when many people buy these products as holiday gifts.

Economic Trends

In addition to events surrounding a specific industry or company, investors may carefully watch various economic indicators — general trends that signal changes in the economy. Signs that the economy is healthy—and perhaps that most companies are making money—include a rising Gross Domestic Product (GDP), low inflation, low interest rates, low unemployment rates, and a U.S. budget surplus (or a decreasing deficit), which means that the federal government is taking in more money than it is spending. When interest rates rise, for example, individuals, businesses and the government must pay more to borrow money. That means a business may put off plans to take a loan for a new project, thus needing fewer workers and buying less materials and services from other businesses. For individual consumers, their car or house payment could go up and interest rates on their credit cards rise, making it more expensive to buy on credit.

Another measure of economic health is the Consumer Price Index (CPI) — a measure of "the cost of living:" how much it costs to purchase the goods and services that an average household buys, such as food, clothing and fuel. When the cost of living rises, people spend more of their income on necessities and have less to spend on luxury items or investments, which is more bad news for the economy. When economic indicators point to a healthy and growing economy, companies are making money, the future looks good, and people have more money to invest. When this happens, stock prices on the whole generally rise, which is called a bull market.

In contrast, when the economy is shrinking, businesses are not making as much money, people are losing jobs and therefore have less money left over after buying necessities, stock prices on the whole generally fall. This is known as a bear market.

World and National Events

National or world events can affect stock prices. When investors think a news event will be good for the economy, such as a federal tax cut, stock prices will likely go up. If news, such as massive layoffs, will mean an economic slowdown or uncertainty, stock prices generally drop. This effect can last for an hour, a day, several weeks or longer.

Key Terms

Dow Jones Industrial Average (DJIA): An index of 30 "blue chip" U.S. stocks used to measure the performance of the U.S. financial markets. Introduced on May 26, 1896 by Charles H. Dow, it is the oldest stock price measure in continuous use and has become the most widely recognized market indicator in the world.

NYSE Composite Index®: This index closely reflects the broader market, as it represents 77% of the total market capitalization of all publicly traded companies in the United States. Furthermore, it encompasses 61% of the total market capitalization of all publicly traded companies around the world.

Standard & Poor's 500 (S&P 500): An index of 500 stocks that represents the price trend movements of the major common stock of U.S. public companies.

Stock Index: A basket of stocks used to track the market. Typically, this is used for long-term evaluation. The performance of a group of stocks is averaged, and over time, that average serves as an indicator of the market's general movement.

CHAPTER FIVE

DECIDING HOW TO INVEST

As an individual, several paths are available for choosing and making your investments. You can do your own research — using the newspaper, annual reports, prospectuses, books, financial websites, and other media — then make your own decisions about what funds or stocks to purchase. You can then use a **discount brokerage** house or an online brokerage to place trades. These services handle your order for a smaller commission but might not offer advice.

In some cases you can purchase stock directly from the company without using a broker. A company's website or investor-relations department will let you know whether the company offers a **direct purchase plan**. Usually you can buy shares all at once or invest a certain amount every month, quarter or year. Some companies offer dividend reinvestment plans, called DRIPs, which allow you to automatically use your dividend to purchase additional company shares.

If you are too busy or feel you do not have enough understanding to comb through information about a company and decide how to invest on your own, numerous websites and publications offer research and opinions about the stock market. **Full-service brokerages** employ licensed stockbrokers who help you choose your investments and handle the orders. You pay them a commission for every trade that you make.

Then there are professional **financial advisors** who will, for a fee, help you personally decide where and how to invest. **Financial planners** can help you determine not only how to invest, but also what your insurance needs are, how to save for retirement, what your family budget should look like, and how to make other decisions that affect your financial security. These planners may charge a commission on each investment they handle for you, or they may charge you an annual fee that is a percentage of your total assets under their management, or a combination of the two. Fee-only financial planners do not charge commissions but rather charge by the hour or as a percentage of assets under management.

Just remember that although they are professionals, their opinion is still just that — an educated opinion. If anyone could figure out reliably what is going to happen with a particular stock or the market in general, nobody would lose money. Keep in mind that for every stock transaction there are two sides: somebody who thinks it is time to buy and somebody who thinks it is time to sell.

Your Investment Financial Plan

Whether you seek the assistance of a professional or choose to go it alone, you need to determine your objectives and establish an investment plan. How people invest, however, differs greatly depending on their income, their goals, their age, their personalities and other factors.

To develop a plan, you need to assess your financial situation and goals: How much money do you need for routine expenses, such as food, housing, clothing, health care, transportation and entertainment? How much have you set aside for emergencies, such as accidents, illness and unemployment? And how much do you need to save for big items such as a house, college expenses and retirement?

Risk-Reward Relationship

Your ability to assume risk is crucial in determining your investment strategy. Do you want your investments to grow slowly but steadily over several decades? Or would you rather have the chance to earn more money right away but take more risk that you could also lose money? Most investors seek a balanced portfolio containing a combination of securities — a mix of equities and bonds and perhaps U.S. government securities. With investing, typically the less risk you take the less money you make, but the more certain your reward will be. For example, a savings account in a bank earns a low return but is safe. The money in almost every bank account is FDIC-insured by the federal government up to $100,000, so it won't disappear.

Money Market accounts and Certificates of Deposit, while not insured, are also relatively safe and usually earn more than a savings account, although still only a few percentage points per year. These types of low-risk, low-return investments are especially appropriate for short-term or medium-term investments, for when you are going to need the money anytime from this week to a year or two from now.

On the other end of the spectrum are high-risk investments, such as buying small, lesser-known company stocks or low-rated, high-yield bonds. These investments usually pay a more attractive return or yield than safer investments, such as blue-chip stocks and high-grade bonds. However, higher-risk ventures mean a greater likelihood of investment loss.

For longer-term investments, several years or more, the stock market as a whole has historically given the best rates of return. As with all investments, a higher amount of risk generally means a greater potential return.

Key Terms

Dividend Reinvestment Plan (DRIP): A program offered by companies that allows investors to buy their stock directly from the company, without using a brokerage firm. DRIP allows investors to use their dividends to purchase additional shares of stock in the company.

Financial consultants can help you develop an investment plan.

CHAPTER SIX

PUTTING YOUR MONEY TO WORK

Once you've established your investment plan you can determine which financial products are best suited for your goals. Besides stocks, a growing number of other types of securities trade on the New York Stock Exchange. The NYSE continues to fulfill its commitment to better serve investors by offering a broader range of products that meet the changing demands of today's marketplace.

Types of Stock

The two main categories of stocks are common stock and preferred stock. Preferred stockholders have priority over common stockholders in terms of dividend payout and in recouping their investment if the company fails or liquidates. However, preferred stockholders, unlike common stockholders, cannot vote for directors of the company. There are five basic categories of stock:

- **Income Stocks** pay unusually large dividends that can be used as a means of generating income without selling the stock, but the price of the stock generally does not rise very quickly.

- **Blue-Chip Stocks** are issued by very solid and reliable companies with long histories of consistent growth and stability. Blue-chip stocks usually pay small but regular dividends and maintain a fairly steady price throughout market ups and downs.

- **Growth Stocks** are issued by young, entrepreneurial companies that are experiencing a faster growth rate than their general industries. These stocks normally pay little or no dividend because the company needs all of its earnings to finance expansion. Since they are issued by companies with no proven track record, growth stocks are riskier than other types of stocks but also offer more appreciation potential.

- **Cyclical Stocks** are issued by companies that are affected by general economic trends. The prices of these stocks tend to go down during recessionary periods and increase during economic booms. Examples of cyclical stock companies include automobile, heavy machinery and home building.

- **Defensive Stocks** are the opposite of cyclical stocks. Defensive stocks — issued by companies producing staples such as food, beverages, drugs and insurance — typically maintain their value during recessionary periods.

Mutual Funds

The most common way for individuals to invest in the stock market is through mutual funds. Mutual funds pool money from all their investors and buy different stocks with it. The risk and reward from all of the stocks is shared by all of the investors. This is a way for investors to diversify their risk and own many stocks with not a lot of money.

There are all kinds of mutual funds, including index funds that track market segments, and more specialized funds that invest in a certain industry or use a certain strategy. Many people invest through their employer through 401(k) retirement accounts, which generally allow employees to choose from a list of funds.

Exchange Traded Funds

An Exchange Traded Fund (ETF) is an index fund representing a basket of stock that trades on an exchange throughout the day and are bought and sold like common stocks with continuous pricing (compared with mutual funds, which are bought and sold at the end of the trading day at their end-of-day net asset value [NAV]). Investors get the advantages of trading a diversified "basket" of stocks that reflects the performance of a market index, industry, sector, style or region—all in one security. They also offer diversified exposure and lower expense ratios than traditional mutual funds.

Fixed-Income Securities

Bonds are considered fixed-income securities. The term bond, debenture and note are often used interchangeably. All three represent debt obligations of the issuing entity. The majority of these instruments are issued in multiples of $1,000 face amounts at a specified coupon, or interest rate, with a set maturity date at which time the obligation must be repaid. Many debt issues may be redeemed, or called, by the issuer prior to the maturity date if specified in the issue's indenture.

The NYSE operates the largest centralized bond market of any U.S. securities exchange. It offers investors a broad selection of bonds: corporate (including convertibles), agency and government bonds. The majority of NYSE bond volume is in corporate debt issues. NYSE bonds trade through the Exchange's Automated Bond System® (ABS®), a screen-based system used by NYSE member firm subscribers. ABS reports real-time quotes and trades to market data vendors.

Structured Products

The NYSE also trades debt and equity structured corporate issues. These specialized products are categorized into four main classifications: capital securities, retail debt securities, mandatory convertible securities and equity-linked debt securities. The NYSE trades more than 550 structured products with a total market value greater than $120 billion.

Options

An option is a contract to buy or sell a specific financial product, which is called the option's underlying instrument or underlying interest. For equity options, the underlying instrument is a stock, ETF or similar product. The contract itself is very precise. It establishes a specific price, called the strike price, at which the contract may be exercised. And it has an expiration date. When an option expires, it no longer has value and no longer exists. Options are most frequently used to remove market risk in owning or trading in an individual security or market segment.

Options come in two varieties: calls and puts. You can buy or sell either type. If you buy a call, you have the right to buy the underlying instrument at the price on or before the expiration date. If you buy a put, you have the right to sell the underlying instrument on or before expiration. In either case, as the option holder, you also have the right to sell the option to another buyer during its term or let it expire worthless. Options can be bought and sold on NYSE Arca.

Key Terms

Blue Chip: A company known nationally for the quality of its products or services, its reliability, and its ability to operate profitably in good and bad economic times.

Bond: Basically, an I.O.U. or promissory note of a corporation or municipality, usually issued in multiples of $1,000 or $5,000. A bond is evidence of a debt on which the issuing company usually promises to pay the bondholder a specified amount of interest for a specified length of time, and to repay the loan on the expiration date. A bondholder is a creditor of the corporation, not a part owner, as is the shareholder.

Certificate of Deposit (CD): An agreement with a bank that you will leave your money on deposit for a specified period of time in return for a specific amount of interest.

Common Stock: One of two types of stock an investor may purchase in a company. Most stock is common stock. Investors who purchase it have voting rights at the company's annual stockholders' meeting. Common stockholders are not guaranteed dividends, but they may receive dividends during the company's prosperous periods. If a company fails or liquidates, common stockholders are paid after bondholders and preferred stockholders.

Exchange-Traded Fund (ETF): An index fund representing a basket of stocks that trades on the Exchange throughout the day, with intra-day pricing. Investors get the advantages of trading a diversified "basket" of stocks that reflects the performance of a market index, industry, sector, style or region — all in one security.

Money Market Account: An account in which your money is reinvested in short-term securities by the bank or investment firm managing the account.

Options: Options are derivative securities that give the holder the right to buy (call) or sell (puts and calls) a specified amount of the underlying security at a specific "strike price" and within a specified time frame.

Preferred Stock: A class of stock with a claim on the company's earnings before payment may be made on common stock and usually entitled to priority over common stockholders if the company fails or liquidates. Preferred stockholders also are entitled to dividends at a specified rate when declared by the company's board of directors and before payment of a dividend on the common stock. Preferred stock normally does not include voting rights.

CHAPTER SEVEN

DOING THE RESEARCH

Savvy investors keep track of what's happening in the financial world. The Internet, newspapers, magazines, business periodicals, television and radio news broadcasts provide easy access to information about the global economy and the markets. Additional information about a specific company can be found online and in a company's annual report and other important financial statements they are required to file with the SEC, such as quarterly reports and insider transactions. When considering an initial public offering of a stock, a prospectus is an important document to review.

Finding Information on the Internet

One way to get a stock quote during the day is to look it up on the Internet. Financial websites such as nyse.com allow you to enter a stock symbol and get information about the issuer, including its current price (20 minutes delayed) and past performance. If you don't know a company's ticker symbol, the websites enable you to look it up. At these websites, you can also keep track of news stories, see performance graphs, and get other data and information about a company.

Many such websites also offer links to the corporate homepages or investor-relations pages of the issuer's corporate website, where you will find even more information, such as investor fact sheets, management backgrounders, descriptions of any direct investment programs and SEC filings, including annual reports.

Reading Annual Reports: What the Numbers Mean

Public companies are required to file an annual report with the SEC. The annual report is an important document to help you evaluate a company's financial health. The report contains detailed information about the company's financial condition and management policies, and can be helpful to investors deciding whether to buy or sell a stock and how to vote at the annual shareholders' meeting. Annual reports are available on the SEC's website *www.sec.gov.*

Most annual reports include:

- **The Balance Sheet**. This summary of a company's assets and liabilities offers a snapshot of the company's financial health at a specific point in time. Data from the end of the current year is compared to the same data from the previous year, so investors can see the changes and attempt to figure out how a company is performing. The second section lists liabilities, or debts. The company might list as liabilities its accounts payable (money it owes for supplies and other services), unpaid wages, outstanding loans, taxes, and dividends it will pay to shareholders. A third section lists stockholders' equity, which is also called the net worth of a company. It is the value of all the shareholder investment in the company: the value of the company's preferred and common stock, the money made from selling stock, and the profits that have been reinvested. The assets side of the ledger must equal liabilities plus the shareholder's equity.

- **Statement of Income and Retained Earnings**. If the balance sheet is a snapshot of the company's finances at a single moment, the income statement is more like a movie. It links together several balance sheets and shows the company's financial performance over the period of a month, a quarter or even several years. The income statement tallies all income, subtracts expenses, and shows how much money is left to reinvest in the company. It compares that number over time. You want to see that a company is taking in more money than it is spending and is investing in growth.

- **Statement of Changes in Financial Position**. This statement deals with working capital — money used on daily operations of the company. The statement, which may compare several years, shows how much working capital was available, and how it was spent.

- **Accountant's Report**. Every annual report includes a report from an independent accountant. The accountant's report usually says that the annual report is a truthful reflection of the company's finances and that it was compiled in compliance with normal auditing standards and accounting practices. The accountant will note if the annual report fails to meet one of these standards.

Reading Stock Tables

The traditional way to check basic stock information is by using the long columns of small print in a newspaper's business section. They might seem confusing at first glance, but these stock tables break down what is happening at each company listed on the stock exchanges and include stocks, bonds, money market funds and mutual funds. Once you adjust your eyes to the fine print, reading the stock tables is really quite simple.

On the next page is a sample stock table for a fictitious company called Future Comm. We break down each column and describe what it means. You can find the same information in online stock listings. In addition to the standard abbreviations, stock tables in print and online often include other symbols indicating a variety of factors, such as stock splits, dividend changes, first day of trading, new 52-week highs and lows, warrants and other relevant data.

How to Read a Stock Table

52-weeks							Vol		
Hi	Lo	Stock	(Sym)	Div	Yld	PE	100s	Close	Net Chg
132.94	80.06	Fut Comm	(FTC)	.56	.6	21	100927	96.47	-0.12

- **52-weeks Hi/Lo:** The highest and lowest prices paid for Future Comm stock during the past year. The numbers used to be expressed in fractions but now all prices have been converted to decimals so they can be read as dollars and cents. In this case, the stock's price has been between $80.06 and $132.94 per share over the past year. Knowing the past year's high and low can help an investor evaluate a stock's current price.
- **Stock:** The name of the company.
- **Sym:** The stock's trading symbol. To avoid confusion and simplify the order process, every stock that is traded on a securities market is assigned a symbol. Some newspapers do not provide the stock's trading symbol but instead provide an abbreviation of the company's name. Many financial websites let you type in a company's name and quickly find out its symbol.
- **Div:** Short for dividend. For each share of stock owned, a Future Comm shareholder should receive 56 cents from the company's annual profits. Payment is usually made on a quarterly basis. Not all companies pay dividends all the time. The company's board of directors decides whether a dividend will be paid and its amount. When companies are just starting out they usually do not pay a dividend because if they are making a profit they are reinvesting it back into the company to accelerate growth.
- **Yld:** The yield, or the rate of return, on a stockholder's investment. It is figured by dividing the annual dividend by the current price of the stock. Future Comm stockholders earn 0.6% of today's stock price from dividends.
- **PE:** Short for price/earnings ratio. The price of a share of stock divided by the company's earnings per share for the last year.
- **Vol 100s:** The total amount of stock traded during the previous day. On that day, 10,092,700 shares of Future Comm stock changed hands. The number does not include "odd lots," which are sales of less than 100 shares.
- **Close:** The last price paid for this stock at the end of the previous day was $96.47.
- **Net Chg:** The last price on the previous day, $96.47, was 12 cents less than the last price on the preceding day.

CHAPTER EIGHT

THE NYSE MOVING FORWARD

Building on its proud heritage, the NYSE is poised for growth and opportunity in a rapidly changing and ever-competitive environment. Its spirit of innovation and sense of promise and purpose will enable it to constantly adapt and evolve.

In the decades to come, the NYSE will remain a marketplace of growth, efficiency and performance while setting the standard for fairness, quality and reliability. It will leverage the power of innovation to better compete and grow while serving customers and all market participants. And it will take seriously its privileged responsibility owed to America's 90 million investors, the capital-raising and asset-management process, and the economic well-being of our nation and the world.

NYSE street event for Johnson & Johnson and Merck & Co Inc.

Educating the Public

Part of that responsibility is to educate the investing public. The NYSE has a long-standing commitment to investor education. Many individual investors, students and educators across the U.S. and around the globe have learned about the stock market and investing through programs the NYSE sponsors and develops, such as those described below, which are offered free of charge. In addition, it plays active roles in organizations such as the Securities Industry Association, the Foundation for Teaching Economics (FTE), Junior Achievement, National Association of Investors Corporation (NAIC), and the American Association of Individual Investors.

The Teachers' Workshop Program is designed for economics, business and social studies teachers who include the stock market in their classroom curricula. Each summer the NYSE conducts five five-day programs that include speakers from the NYSE staff and constituents, lecture-discussion sessions, support materials, hands-on activities and field trips. Teacher workshops supplement each day's activities and provide an opportunity to share experiences and develop new curriculum approaches. Teachers also have an onsite visit to the Trading Floor, where they meet with market professionals in action. A two-day graduate program is also conducted for teachers who would like a refresher on marketplace issues and events.

Educational Seminars: College and graduate student groups studying business, finance or economics can participate in lecture discussion sessions that include time for Q&A and a visit to a gallery where they can watch the activity on the Trading Floor. This program includes meetings with specialists and floor brokers, as well as NYSE executives from various divisions.

A Day on the Trading Floor: This program allows academicians and journalists who specialize in business, finance and economics to spend a full day at the NYSE and experience the Trading Floor firsthand. These sessions, which are tailored to the needs of attendees, include interaction with specialists and brokers on the Trading Floor, a visit to the Exchange's state-of-the-art market surveillance unit, and meetings with NYSE executives from various divisions.

For more information on these and other NYSE educational initiatives, please contact the NYSE's Educational Services Department at *education@nyse.com*.

For additional educational resources, visit *www.nyse.com/education*.

About NYSE Group, Inc.

NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The NYSE is the world's largest and most liquid cash equities exchange. The NYSE provides a reliable, orderly, liquid and efficient marketplace where investors buy and sell listed companies' common stock and other securities. On June 30, 2006, our listed operating companies represent a total global market capitalization of over $ 22.6 trillion. In the second quarter 2006, on an average trading day, almost 1.8 billion shares, valued at over $68.5 billion, were traded on the NYSE.

NYSE Arca operates the first open, all-electronic stock exchange in the United States and has a leading position in trading exchange-traded funds and exchange-listed securities. NYSE Arca is also an exchange for trading equity options. NYSE Arca's trading platform provides customers with fast electronic execution and open, direct and anonymous market access.

NYSE Regulation, an independent not-for-profit subsidiary, regulates member organizations through the enforcement of marketplace rules and federal securities laws. NYSE Regulation also ensures that companies listed on the NYSE and NYSE Arca meet their financial and corporate governance listing standards.

For more information on NYSE Group, go to: www.nyse.com. Information contained on our website does not constitute a part of the prospectus relating to the proposed offering.

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this article may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on NYSE Group's current expectations and involve risks and uncertainties that could cause NYSE Group's actual results to differ materially from those set forth in the statements. There can be no assurance that such expectations will prove to be correct. Actual results may differ materially from those expressed or implied in the forward-looking statements. Factors that could cause NYSE Group's results to differ materially from current expectations include, but are not limited to: NYSE Group's ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk and U.S. and global competition, and other factors detailed in NYSE Group's Annual Report on Form 10-K and other periodic reports filed with the U.S. Securities and Exchange Commission. In addition, these statements are based on a number of assumptions that are subject to change. Accordingly, actual results may be materially higher or lower than those projected. The inclusion of such projections herein should not be regarded as a representation by NYSE Group that the projections will prove to be correct. We undertake no obligation to release any revisions to any forward-looking statements.

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STOCK EXCHANGE

Edition II, June 2006