

## **TRADING OVER THE COUNTER**

### **Using The Over The Counter Stock Exchange**

*Preferred Stock Investing* points out that CDx3 Investors can often purchase CDx3 Preferred Stocks at very attractive prices by purchasing them close to their IPO Date on what is referred to as the “over the counter” (OTC) stock exchange. The purpose of this CDx3 Special Report is to provide CDx3 Investors with additional information regarding this stock market and how to take advantage of it.

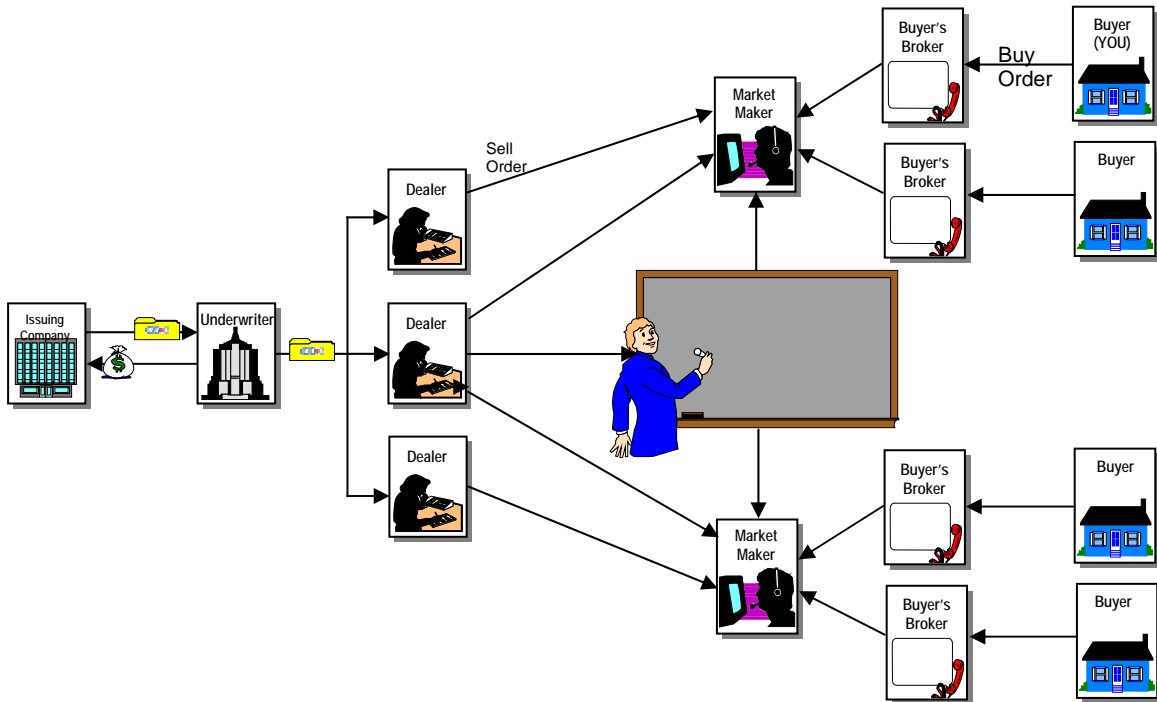
Note that this CDx3 Special Report discusses the OTC as it is used to buy CDx3 Preferred Stocks. Selling CDx3 Preferred Stocks is an activity that takes place many months, or even a couple of years, after a CDx3 Preferred Stock is originally purchased. Consequently, selling a CDx3 Preferred Stock is a transaction that does not occur on the OTC but, rather, on the major stock exchange.

While none of the information presented in this CDx3 Special Report changes anything that you, as a CDx3 Investor, do or any of the content or conclusions of *Preferred Stock Investing*, it will help you understand how the OTC stock market works. You do not have to know any of the information presented here in order to buy CDx3 Preferred Stocks on the OTC, but some CDx3 Investors may find this additional information of interest.

CDx3 Preferred Stocks generally trade on the OTC within two or three days of their IPO Date. Then, usually about three weeks after that, they will transfer over to the major stock exchange once the issuing company’s application to be listed has been approved. CDx3 Investors can trade CDx3 Preferred Stock in the early going on the OTC, or they can wait until the issue is transferred to its destination exchange (usually the New York Stock Exchange).

The up side to buying your CDx3 Preferred Stocks on the OTC is that, as I’ve mentioned, the prices are generally better. The down side to buying CDx3 Preferred Stocks on the OTC is that doing so often requires you to make a phone call to your online broker when you place your buy order. This is not the case if you wait until the CDx3 Preferred Stock is trading on its major exchange (but then the price is usually higher).

As you know, one of the three objectives of the CDx3 Income Engine is to minimize work. Once you’ve placed a buy order on the OTC two or three times,



Looking at this diagram, you can see the pivotal role that the market makers play, bringing buyers and sellers together to make the trade happen. The manual nature of the OTC, however, limits the visibility of some key information. Specifically, buyers have no visibility to the Bid and Ask values when determining the price they are willing to pay for the CDx3 Preferred Stock.

In the next section, I will discuss how you can limit these inconveniences while trading OTC.

### ***Entering An OTC Buy Order***

Even though the OTC information available to you online for a particular CDx3 Preferred Stock is limited, you can get updated information by making a single phone call to your broker. And, if you enter your trade in the manner that I am now going to teach you, you should have little trouble getting the price you want when purchasing a CDx3 Preferred Stock on the over the counter market.

After years of purchasing CDx3 Preferred Stocks OTC, my average purchase price runs around \$24.90. I have purchased as low as \$24.30 for CDx3 Preferred Stocks that, a couple of weeks later, were selling on the NYSE for \$25.50 and higher. Is it worth the phone call to your broker? It certainly is to me, but you'll have to decide for yourself.

You need to know the most recent Bid and Ask value of the CDx3 Preferred Stock that you are considering before you can make an offer (enter your Buy order).

Remember, a stock market is an auction. You are one of a group of bidders all telling the sellers of the world what you are willing to pay for a share of the CDx3 Preferred Stock that they are considering selling to you.

When looking at a CDx3 Preferred Stock that is trading OTC, the highest Bid value that you can see online is generally out of date. Without knowing what the current high bid is, it is very difficult for you to formulate your own bid price without bidding (paying) more than you have to.

The Ask value that you can see online for a CDx3 Preferred Stock that is trading OTC is the lowest price that any seller in the world is willing to accept for their shares. But, because of the manual nature of the OTC, the value you see online (if any) is generally out of date. Without knowing the most recent Ask value, you can easily pay more than you have to. The last thing you want to do is tell the sellers of the world that you are willing to pay a higher price for the CDx3 Preferred Stock than they have already said they are willing to accept.

You need to know the current Bid and Ask values prior to formulating your Bid price – the price you are about to tell the sellers of the world that you will pay them for a share of the CDx3 Preferred Stock that they hold.

To obtain the most recent Bid and Ask values, call your broker and tell them that you are entering a buy order for an OTC stock. Then ask them **two** questions:

1. Can you please provide me with the most current Bid and Ask values for this OTC preferred stock (and give them the temporary OTC trading symbol for your CDx3 Preferred Stock); and
2. Can you please confirm that the market maker that your system has assigned to this OTC preferred stock is, in fact, trading this preferred stock.