GETTING STARTED IN SHARES – WHAT YOU MUST KNOW BEFORE YOU START

WHAT ARE SHARES?

A share is simply part ownership of a company. Shares represent holder's claim on the assets and profits accumulated by the company. Buying more shares of a company increases one's ownership stake in in the company. Companies raise money to finance operations and expansion plans by listing on a securities market (exchange) and issuing shares to the public who in turn become investors in listed companies. When buying company shares means that you have become part of a group of owners (shareholders) of a company and therefore has a claim on everything the company owns.

TYPES OF SHARES

a) Ordinary Shares

These are the most commonly issued type of shares, essentially carrying voting rights but no special rights beyond that. Therefore ordinary shareholders will usually have the right to vote at a general meeting of the company. They have the potential to give the highest financial returns, but also carry the highest risk in that ordinary shareholders are paid last when the company winds up.

b) Preference Shares

In most markets, these are slightly less preferred type of shares. They carry a special right that gives the holders priority over holders of other types of shares during the distribution of annual dividend to shareholders. Preference shares typically carry no voting rights.

c) Redeemable Shares

These are shares issued with the shareholder agreeing that the company can buy them back either after a certain time period or on a given future date, that is be redeemed. Redeemable shares can vary according to which party, either the company or the shareholder, has the option to exercise the company buyback provision.

WHY INVESTORS INVEST IN SHARES?

Investors buy shares for various reasons. Here are some of them:

a) Capital appreciation, which occurs when a shares rises in price

b) Dividend payments, which come when the company distributes some of its earnings to shareholders

c) Ability to vote at annual general meetings and influence the running of a company

WHY DO COMPANIES ISSUE SHARES?

a) Companies issue shares to get money for various things, which may include:

b) Introducing new products

c) Expanding into new markets

d) Improving business infrastructure or building new ones

What are the benefits and risks of shares?

Shares offer investors the greatest growth potential in the form of capital appreciation over medium to long term. Investors willing to keep their monies invested in shares for a long time are generally rewarded with strong, positive returns. But shares are subject to bi-directional price movement. Therefore investing in shares does not offer any guarantee whatsoever that the company shares will grow and do well, so there is possibility of losing money in shares too.

If a company is in financial difficulties and files for administration or winds up, ordinary shareholders are the last in order to be paid from the proceeds of the sold assets. The company's creditors will be paid first, then holders of preference shares and lastly the ordinary shareholders. But, even when a company is in financial doldrums albeit not in danger of failing, its share prices may swing up or down. If you as an investor have to sell shares on a day when the price is below the price you paid for the shares, you will lose money on the transaction.

Share price movements in the market can be discomforting to some investors. A share's price can be affected by internal factors in the company, such as a defective product, or by events the company beyond the control of the company, such as changes in weather or market events. The risks inherent for holding shares can be offset in part by investing in a number of different shares or investing in other kinds of assets that are not shares, such as bonds.

THE CONCEPT OF DIVERSIFICATION

One of the most famous phrases used in relation to successful investing is '*don't put all your eggs in one basket'* usually warning investors not to invest their monies in a single or same class of financial securities or assets. The Lesotho domestic financial markets have, for a long time, been dominated by Government of Lesotho's Treasuries (both the T - bills and the T-Bonds) with the glaring absence of other assets from the corporate sector.

The introduction of such investment assets in the market from corporate sector, provide an opportunity for investors to diversify their portfolios (that is the ability to invest in different classes of the assets. Consider, for example, an investment that consists of a single type of investment asset, say bonds for instance, issued by a single company. If that company's performance plummets, your portfolio will bear the full brunt of the decline. By splitting your investment between different classes of assets (e.g. shares, bonds, cash etc.) from two or more different issuers (companies and governments), you can reduce the potential risk to your portfolio. Markets in shares and property for instance, move in cycles. Some investors fall into the trap of putting all their money into one asset class, usually at its peak, and then watch as the value of another asset class increases without them. It is better to diversify, spreading your risk, and enjoy the upswings in markets.

The money that a company raises by issuing shares is called equity capital and does not have to be paid back like debt capital which is borrowed money. Equity capital symbolises perpetual ownership of the company. In return for investing in shares, shareholders receive income in the form of dividends and other benefits. Important is that shares that have been issued to investors by a listed company can be sold to other investors on the securities market. In this way, shareholders can realise capital gains if the share value or price has increased – in other words, make profit by selling their shares for more than what they paid for them.

FIRST-TIME SHARE INVESTORS

You may now have learned what shares are and are eager to get started so that you, too, can make those fabulous returns that may be provided by these assets, but slow down and take a moment to reflect on some simple questions. The time spent now to consider the following will save you money on the road ahead.

- What are my goals?
- How much money should I invest?
- When should I invest?
- How should I invest?
- What are the tax implications?

WHAT ARE MY GOALS?

First of all the question of what one needs to achieve has to be objectively addressed. You need to articulate those goals for yourself and set out strategies to achieve them. Financial freedom means a lot of different things to different people. Other people may want to go on early retirement, be able to pay tuition fees for self and children, travel around the world for leisure or afford mortgage for that dream house. It is truly a matter of age and a stage in life that's important. Taking a moment to reflect on those goals will inform your decision on how much money you will need to achieve them. Then consider how hard your initial investment will have to work in order to accumulate the money you need to achieve your goals.

HOW MUCH MONEY SHOULD I INVEST?

You can invest small amounts of money in shares quite effectively because the cost of doing so is low compared to many other investments. However, one should not invest in shares by taking chance or when having a bit of extra cash. First think about your goals and level of risk you are prepared to take. Then you can allocate the appropriate amount of money to shares as part of "eggs in your investment basket".

WHEN SHOULD I INVEST?

Once an optimal mixture of investment assets has been determined, it is then time to invest. Find and contact a broker you want to work with, for advice and way forward in placing your orders. Then, fill out the paperwork, deposit some money and open an account.

After deciding what to buy, don't do it all at a go, but buy in incremental amounts. This will allow you some degree of observation on the direction the market is taking and ensure that you avoid putting all your money just before a market slumps. Losing lots of money quickly would kill your enthusiasm in the market. Plan to take time, several months if possible, to invest all of your money to minimize any potential risk. Finally, read up and catch up on the news for your investments and seek professional advice if in doubt.

HOW SHOULD I INVEST?

This can be done in two ways;

a) **Direct Investing:** This when the investor acquires shares of individual listed company in his or her own name with the assistance of a broker and it becomes the responsibility of the individual investor to maintain his or her own portfolio. Direct investing gives the investor choice and control over costs because you are not paying anyone to manage your investments.

b) **Indirect investment:** This commonly takes place when the investor buys into the managed share investment funds. Managed funds, also known as mutual funds are collective investment schemes that pool funds of many individual investors together with the purpose of investing them. They are actively managed baskets of securities, designed to beat the market with the assistance of a specialist fund manager. Mutual funds come in different types and sizes. Some funds invest in just one type of investment such as shares while others are diversified investing across a range of asset classes including shares, bonds, property securities, cash etc.

WHAT ARE THE TAX IMPLICATIONS?

To optimise their after- tax returns, investors should have at least a basic understanding of the tax treatment of different types investments. Investors are liable for income tax on any income they receive from their investments in the form of dividends or interests. Investors are also liable for Capital Gains Tax on any net capital gains realised by selling their investments. Please note that resident and non-resident individuals may be subject to different tax rules.