Course 1: What is a share?

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Topic 1: What is a share?

A share is simply part ownership of a business.

A company can raise money to finance its business by 'going public'. Going public means being listed on a stock exchange and issuing shares to investors. By paying for the shares, each investor buys part ownership of the company's business and becomes a shareholder in the company.

The money that a company raises in this way is called equity capital. Unlike debt capital which is borrowed money, equity capital does not need to be repaid as it represents continuous ownership of the company. In return for investing in the company, shareholders can receive dividends and other benefits.

Shares that have been issued to investors by a listed company can be sold to other investors on the sharemarket. In this way, shareholders can realise capital gains if the share price has risen - in other words, make a profit by selling their shares for more than they paid for them.

Shareholder rights and benefits

As a shareholder, you often need to make decisions about taking up various rights and benefits offered by the companies you have invested in. In each case, you should keep your investment goals and strategy in mind and decide whether to consult an adviser.

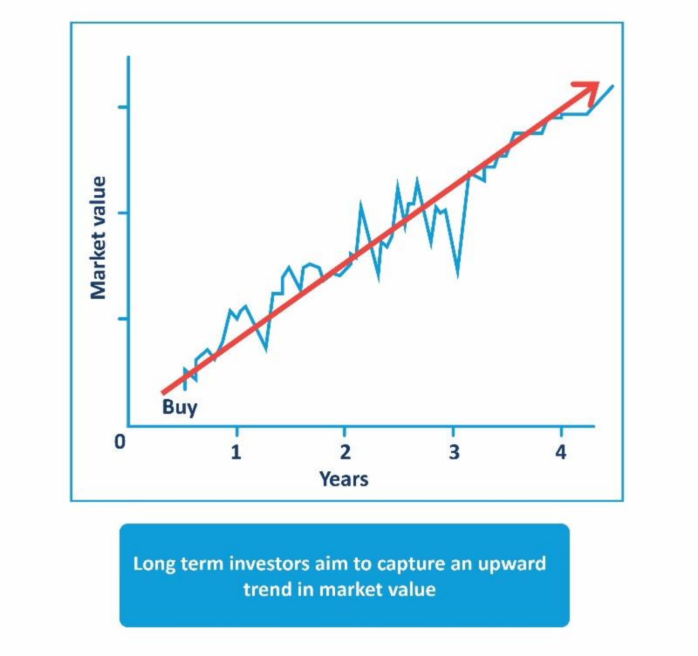
Shareholder rights and benefits can include the following:

- Participating in annual general meetings
- Receiving reports and information
- Dividends and dividend reinvestment plans
- Further issues of shares
- Share buy-backs, and
- Other corporate actions.

By becoming a shareholder you agree to share in the risks associated with that company's performance.

All shareholders should be aware that the value of a share can fall to zero.

Many people who decide they need shares as part of their investment portfolio often hesitate when it comes to actually buying the shares; usually because they're not sure if it is the best time to buy or they feel they still have a lot to learn about the sharemarket.



The best time to buy shares is not about timing the market but rather about time in the market. No one, not even the famous sharemarket guru and one of the world's richest people, Warren Buffet, knows whether a particular share or the market as a whole will rise or fall in the near future. What he does know is that it will rise AND fall, and that short-term volatility does not matter as long as it rises over the medium to long term.

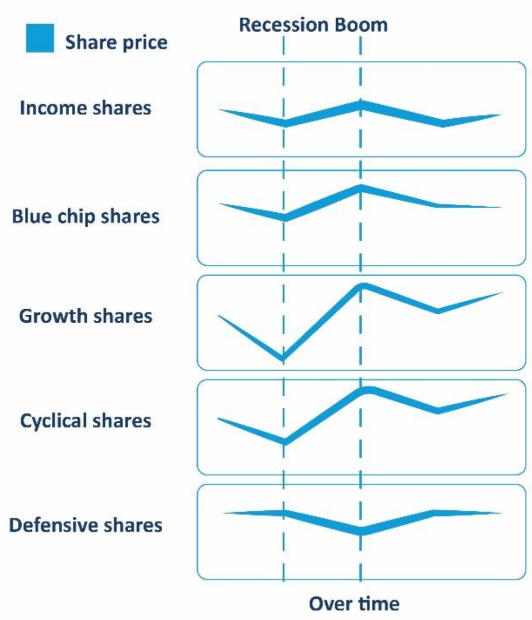
You can learn about the sharemarket by observing it and keeping an eye on how your shares perform under different market conditions.

How to decide what to buy

When it comes to deciding what shares to buy, the most important thing to consider is your investment goals, in particular, the performance goals you set for the share investments portion of your portfolio.

For example, you might be aiming to achieve an average after-tax dividend yield of 4% p.a. and capital growth of 8% p.a. over the next 10 years. In that case, you could buy some shares that provide reliable, tax-effective dividends and the expectation of solid year-on-year growth.

Alongside long term investing, there are share trading opportunities that offer the chance to grow your investment capital more quickly. Active or daily trading carries with it certain risks that need to be considered carefully. With this in mind, looking at the range of categories that shares fall into can be a useful place to start.



Income shares - Pay larger dividends, compared to other types of shares, that can be used to generate income without selling the shares, but the share price generally does not rise very quickly.

Blue chip shares - Issued by companies with long histories of growth and stability. Blue chip shares usually pay regular dividends and generally maintain a fairly steady price trend.

Growth shares - Issued by entrepreneurial companies experiencing a faster rate of growth than their general industries. These shares normally pay little or no dividends because the company needs most or all of its earnings to finance expansion.

Cyclical shares - Issued by companies that are affected by general economic trends. The share prices tend to fall during periods of economic recession and rise during economic booms. For example, mining, heavy machinery, and home building companies.

Defensive shares - The opposite of cyclical shares. Companies producing staples such as food, beverages, pharmaceuticals and insurance issue defensive shares. They typically maintain their value during economic downturns.

You can learn more about share selection in, 'How to buy and sell shares' and 'Market indices and market sectors'.

Topic 2: What is the sharemarket?

ASX is a multi-asset class, vertically integrated exchange group, and one of the world's top-10 listed exchange groups measured by market capitalisation.

ASX's activities span primary and secondary market services, central counterparty risk transfer, and securities settlement for both the equities and fixed income markets. It functions as a market operator, clearing house and payments system facilitator. It oversees compliance with its operating rules, promotes standards of corporate governance among Australia's listed companies and helps to educate retail investors.

The majority of industrialised countries have a sharemarket. You may have heard of sharemarkets like the London Stock Exchange, New York Stock Exchange, or the Tokyo Stock Exchange. These organisations each perform essentially the same role, providing capital raising services and trading facilities.

The main functions of the sharemarket

The sharemarket may be thought of in terms of its two separate market functions:

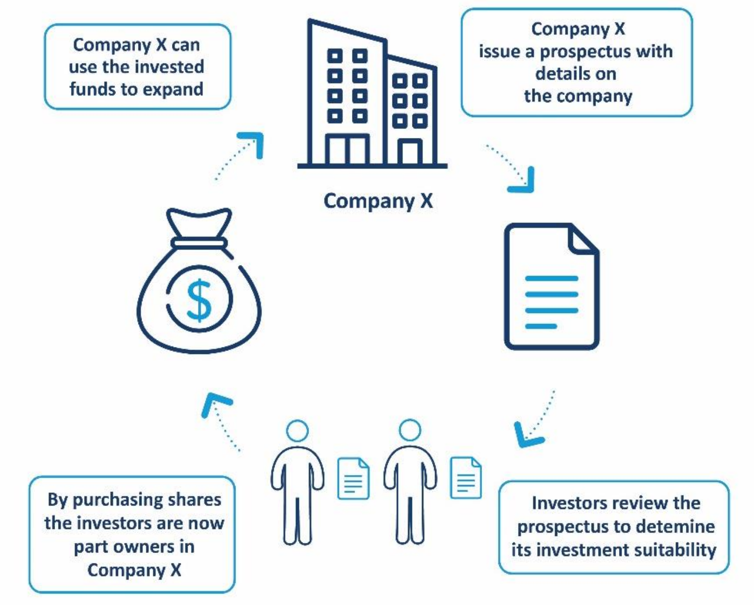
- Operating the primary market, where companies raise money by issuing shares to investors
- Operating the secondary market, where investors buy and sell those shares at prices determined by market forces.

The primary market

When a company seeks to raise equity capital by offering new shares to the public, the process is referred to as a float or initial public offering (IPO). This process occurs on the primary market.

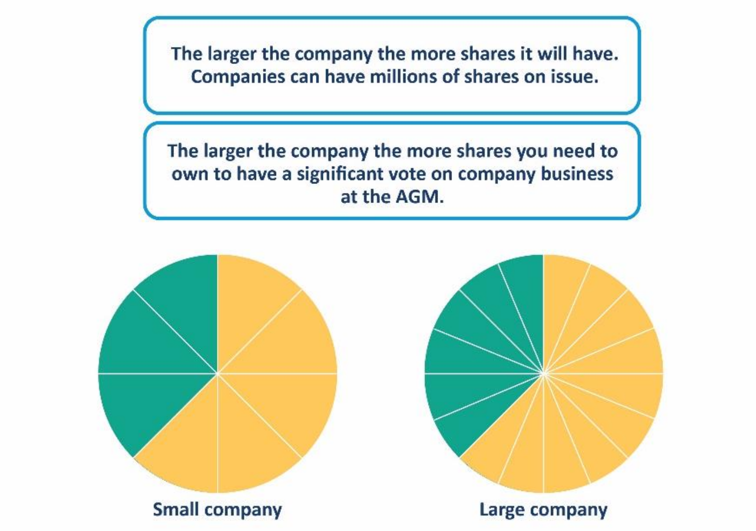
The key steps in the listing process are:

1. The company issues a prospectus which outlines the nature of the company and its financial details
2. Potential investors review the prospectus to determine if it is a suitable investment
3. If it is appropriate then investors purchase shares in the company
4. The company can then use that money for the continued growth of the business.



How many shares can a company have?

When a company lists on the sharemarket it issues a certain number of shares. This number will vary between companies and will depend on the original size of the company and how much money it wishes to raise. Australia's largest listed companies have over 5 billion shares on issue, while some of the smallest have only a few million.

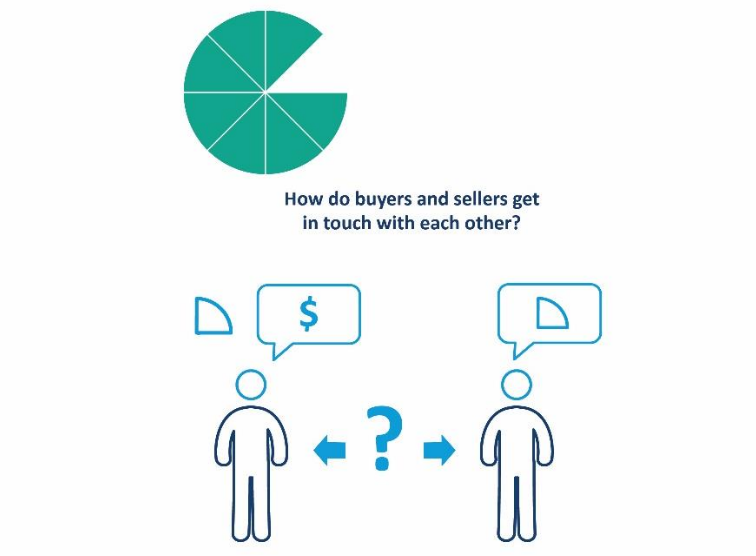


As a shareholder, the larger the slice of the ownership pie you own, the greater control you have over the direction of the company.

Companies do have the flexibility to issue more shares after the float or buy back their shares depending on their funding needs.

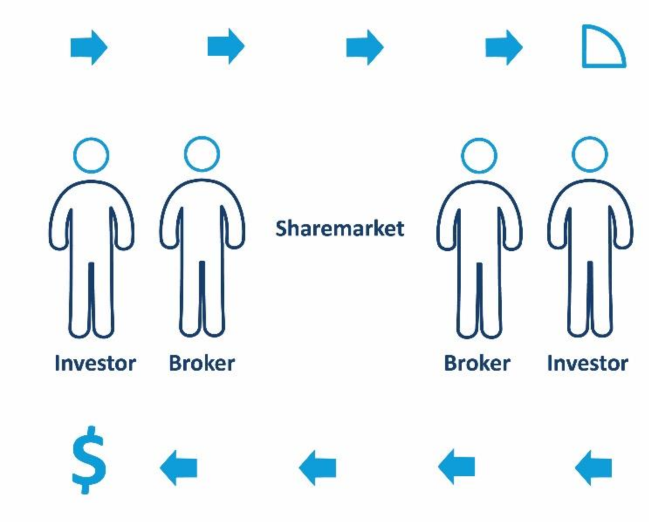
Finding a buyer for your shares

As an investor who participated in the float of Company X, you own shares in that company. In future you may wish to sell those shares. There may be other investors around the country who would like to buy your shares but did not participate in the Company X float. So how do buyers and sellers get in touch with each other?



The secondary market

The secondary market role of a sharemarket is to help buyers and sellers come together, determine a price and then exchange shares for payment. Shares can only be bought and sold on ASX through a stockbroker.



Share trading takes place during ASX trading hours with stockbrokers entering buy and sell orders on the market on behalf of investors. The courses; 'How to buy and sell shares' and the 'Trading simulation' provide more detail on the trading process.

Investors are always keen to learn about why share prices go up and down. Basically, the sharemarket is a market place like any other. The forces of supply and demand determine the price of shares. The more people want to get hold of a particular share, the higher its price will go. If people no longer want a share and few people are willing to buy it, people may have to offer it at a very low price in order to sell it.

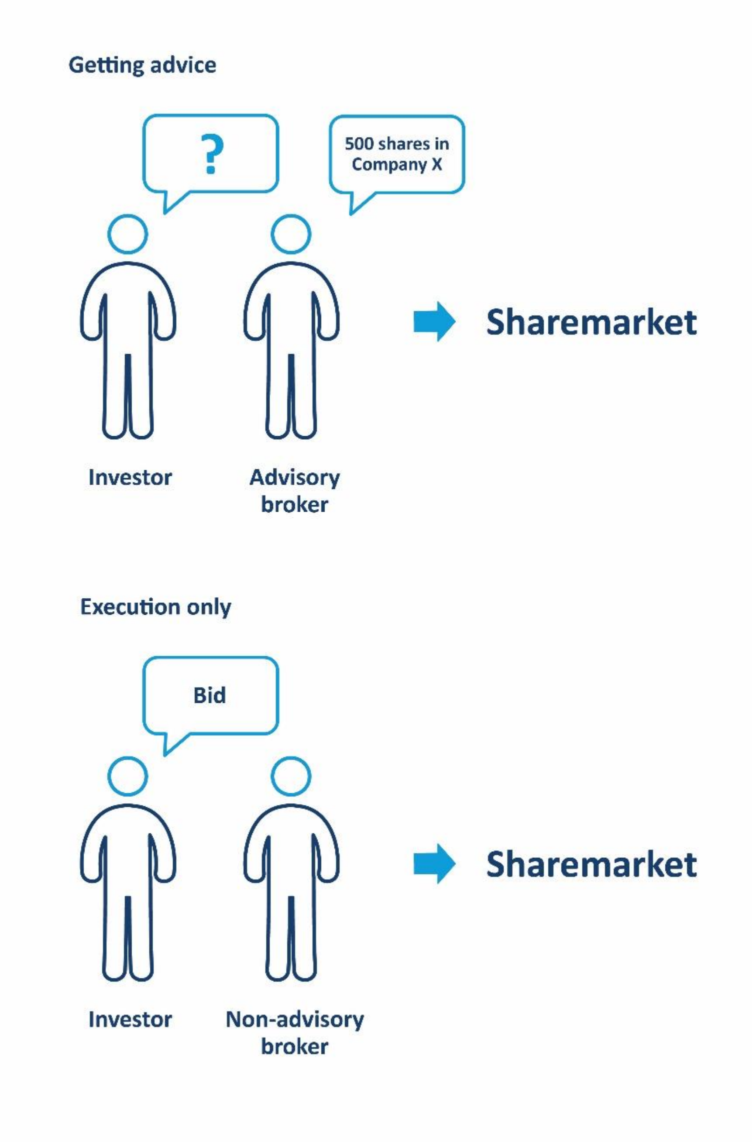
More information on why share prices go up and down is covered in the course 'Risks and benefits of shares'.

Topic 3: Using a stockbroker to buy and sell shares

Using a stockbroker to buy and sell shares

As an investor you have two methods of buying shares in a company. The first is through a float, this is where shares in a company are offered to the public for the first time. Following the float all shares can only be bought and sold through a stockbroker. Stockbrokers act as your agent in the sharemarket. Shares cannot be bought and sold directly with ASX.

There are two main types of stockbroking firms, with the level of investment advice they offer being the key difference between them.



Advisory broking service (also called full service)

A full service broker may provide advice on buying and selling shares, investment recommendations and research. Typically they also offer advice on other investments and tailored investment planning.

Brokerage fees are generally higher for advisory broking services. Some full-service firms also offer the ability for you to trade via the internet, usually for a lower brokerage fee.

Non-advisory broker (discount)

Non-advisory brokers (who run their business either over the phone or via the internet) offer no recommendations or advice on your decisions. These brokers are generally based around an 'execution only' service, where they simply provide a transaction service in the market. As the name implies, discount brokers' fees tend to be lower than those of a full service broker.

If you need assistance in selecting a stockbroker you can visit the ASX website or call ASX Investor Support on 131 279. Investor Support has a broker referral service, where they will be able to give you the names and numbers of stockbrokers that most closely match your needs. Greater detail on stockbrokers is provided in the course: 'How to buy and sell shares'.

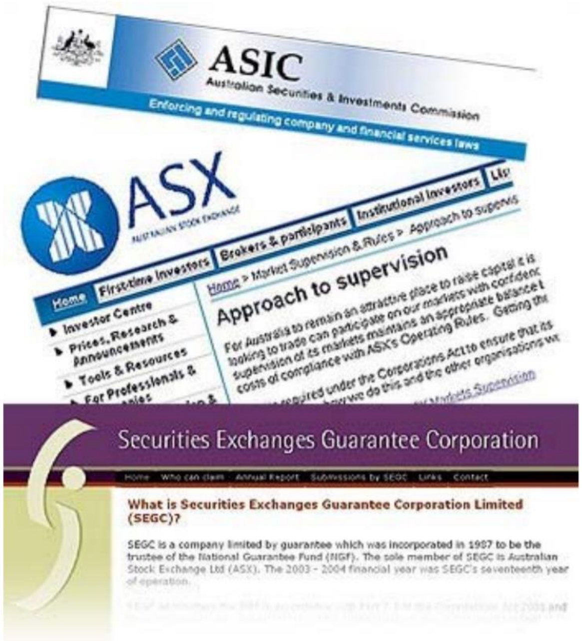
Investor protection

As a licensed market operator, ASX seeks to ensure that all users can transact with confidence in a market of integrity. A market able to attract capital, transfer risk and create the potential to generate wealth across the economy fairly, efficiently and at the lowest cost.

Underpinning ASX’s activities as a market operator is the quality of its monitoring and enforcement of compliance with its Operating Rules. The long-term sustainability of ASX as a market operator is inextricably linked to operating markets of maximum integrity.

Confidence in the integrity of ASX markets and its clearing and settlement facilities is reinforced by the regulatory oversight of the Australian Securities and Investments Commission (ASIC), which supervises real time trading activity across all markets, and the Reserve Bank of Australia (RBA), which has responsibility for financial stability.

Investor concerns can be reported to ASX. Please review our complaints handling procedures section on the website.



Summary

- A share is simply part ownership of a business
- Shares are issued by companies to raise money. Investors buy and sell shares to help meet their financial goals
- As a shareholder you may have certain rights and responsibilities, such as sharing in profit distributions, called dividends, and voting on the direction of the company
- By becoming a shareholder you are also accepting to share in the risks associated with that company's performance
- All shareholders should be aware that the value of a share can fall to zero
- When a company lists its shares on the market investors review the operations and prospects of the company via a prospectus
- Following the float, shares can be bought and sold between investors by using the services of a stockbroker.