

Course 6: Record keeping

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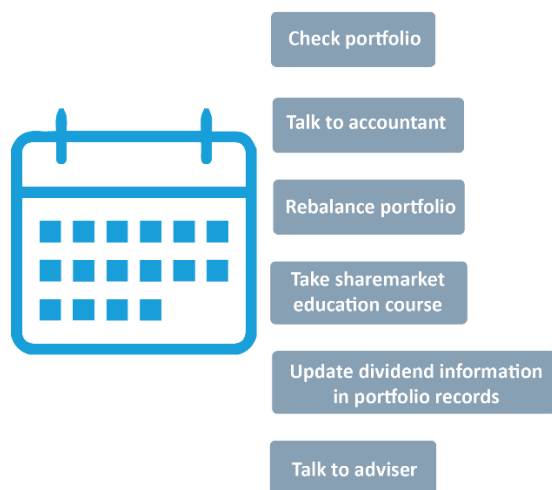
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Topic 1: Keeping records of your shares

Many investors put considerable time and effort into the initial planning of their portfolio and choosing the shares they buy. Yet for some reason, many don't put the same time and effort into monitoring and managing the performance of their portfolio once it has been established.



Regular review of your portfolio is vital to establish whether your investment goals are being met. Many investors have a complacent attitude to investing. As a result, they lack the market information necessary to make informed investment decisions, are forced to behave reactively and may end up losing out. However by tracking your portfolio, you will give yourself the chance to plan ahead and take advantage of opportunities such as buying more shares in a particular company that, by your reckoning, is trading at a discount.

As the sharemarket is continually changing, it requires regular attention, yet there are no hard and fast rules as to how often a portfolio should be monitored. The performance of volatile shares may need to be checked several times a day, while more stable large capitalisation companies can be reviewed at longer intervals.

To track your portfolio effectively, you need to know where to locate useful information and be able to understand how it affects the shares you own.

You may be liable to pay tax on any money you make from shares in the form of income or capital gain. The Australian Tax Office will need details of both income and capital gains (or losses) that you make to calculate the tax you may owe. However, by maintaining simple, accurate and complete records you will be able to ensure that you pay the appropriate tax without incurring large accounting fees.

Record keeping

Your stockbroker or financial adviser may be able to take the work out of record keeping for you. If you do not wish to maintain records yourself, ask your stockbroking firm how it can assist. However, if you do want to do it yourself, the 2 main types of records required to keep track of sharemarket investments are:

- Records relating to income for income tax purposes, including dividend, dividend reinvestment or interest payment advice slips all of which generally are issued by company share registries to the holder's registered address; and
- Records relating to purchase and sale prices for capital gains tax purposes, including contract notes, copies of applications made for initial public offerings, dividend reinvestment and bonus share plan advice slips.

INVESTMENT RECORD										
Name of company: Joe's BBQs Ltd										
Type of investment: Ordinary shares										
Name(s) securities are registered to: Mary Smith										
Transaction date	Number of securities purchased	Dividend reinvestment plan shares	Bonus shares, share splits, rights issues	Number of securities sold	Balance held	Total cost	Sale price per security	Gross sale value	Sale exp-enses	Net sale value
10/01/2009	1,000				1,000	5,100.00		0.00		0.00
07/06/2009		30			1,030			0.00		0.00
01/08/2009				530	530		5.30	2,809.00	50.00	2,800.00
07/12/2009		7			537			0.00		0.00
					537			0.00		0.00
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Generally records are required to be kept for 5 years. However, the events that mark the beginning or the end of the retention period vary according to the relevant provisions of the particular law.

Computer software packages and ledger sheets are available to assist you with your record keeping. If you prefer to keep paper - based as opposed to computer -based records, an investment ledger will provide you with an easy and convenient way to keep records of your share transactions. If you decide to use a computer system to keep records, the ATO may require you to prove these records are correct. Therefore you may need to keep hard copy receipts as well.

MONTHLY ASSETS STATEMENT			
Valuation date:		12/15/2009	
1	2	3	4
Investment name	No. of securities held	Market price of security	Estimated gross selling value
JBQ	537	\$5.35	\$2,872.95
BBK	1500	\$28.15	\$42,225.00
LRR	20200	\$0.43	\$8,686.00
			\$-
			\$-
			\$-
			\$-
			\$-
Potential gross realisable value of portfolio			\$53,783.95

Computerised information services

Investors can subscribe to online and offline computer services which allow access to a variety of information on companies, including share price data. Portfolio management and charting software is available to assist investors with keeping records. If you require information on the available computer services, visit the [Information Vendors Guide](#) section on the ASX website.

ASIC provides some useful information to consumers considering the use of investment software.

Generally, there are two types of programs:

1. Programs that help you manage your shares - these are generally not trading programs

2. Programs that tell you when and what to buy and sell - these are trading programs. Note these types of programs typically have ongoing data feed costs.



There are four simple steps you may wish to consider before making any purchase:

1. Work out your investment needs and whether you need a computer trading program
2. Learn the basics of the sharemarket before deciding to buy
3. If you still want a trading program, find out what the program does before purchase
4. Shop around for good value and reputable providers. Be careful of those who claim guaranteed profits and high returns in short periods.

It is always worth discussing your reporting and data needs with your broker as many can provide substantial value - add services to traditional stockbroking.

Topic 2: Reading the financial press

In this section we discuss how to read the financial newspapers and look at other areas of the media that can provide you with information on sharemarket investment.

The financial press in Australia is a very important and influential source of information in many sectors of the community. Investors rely on it for information about how their shares are performing, stockbrokers read it to see what else is happening in the sharemarket, politicians read it to see how their policies are affecting the market (and in turn, the economy) and business people in general read it to see how their companies are perceived and how other companies are performing. It is a quick and relatively cheap way for investors to discover what the professionals in the finance industry are thinking and doing each day, and to keep an eye on their investments.



Most newspapers have a range of financial stories in their general news section. However, the majority of stories relating to listed companies will appear in a special finance section of the paper, usually titled 'Business', 'Finance' or 'Money'.

Always remember the financial press is a source of both facts and opinions. Facts are derived from official announcements made by companies, governments, other organisations and ASX, as well as from the publication's own researchers. Opinions are usually expressed in special columns by regular writers, cartoons and feature stories by guest writers or journalists. Guest writers may include politicians, stockbrokers, advisers or other prominent industry figures.

The newspapers and other publications you select to help keep you informed will depend on your budget and your particular interests and preferences. Are you seeking to achieve a local perspective or a national overview? Do you want brief or detailed information? The answers to these questions will help you to choose publications that are most appropriate for you.

The Australian Financial Review (AFR), a publication of John Fairfax Publications Pty Limited, is popular in the financial sector and a good source of information for all investors.

The Australian, a publication of News Corporation Limited, although not a specialist finance newspaper, is also a good source of information. Closer to home, you may find your local major metropolitan newspaper of particular interest as it could provide more information on companies in your state than national newspapers may provide.

There is also a wealth of specialist finance magazines. Again these are aimed at a range of different markets so spend time to read through a variety of them to find the one that is suitable for you.

Can I base my investment decisions on sharemarket tables? It is preferable not to.

The sharemarket tables in the newspaper contain a lot of useful information, however, it is important to note that they only contain historical figures. For example, Company X might be showing a dividend yield of 20 percent. But a chat with your stockbroker may reveal that although last year's dividend was 20 cents, the shares are now trading at \$1.00 and brokers are forecasting this year's dividend will be 3 cents - providing a yield of only 3 percent. Your stockbroker may be able to provide you with very useful forecasts for the future performance of individual companies.

Company name	Last sale price	+/-	Quote		52 Week		Dividend		PE Ratio	
			Buyer	Seller	High	Low	Rate	Yield%		
AMP Ltd	6.54	+3	6.53	6.54	6.97	3.52	30.00p	4.59	22.1	
Ansell Ltd	10.57	-3	10.56	10.61	12	Price range for the week		5	11.8	
Argo	Offer: The price at which someone is prepared to sell shares				6.91	4.52	27.00f	4.08	-	
ASX Ltd	Bid: The price at which someone is prepared to buy shares				37.90	23.52	164.90f	4.80	18.8	
BHP Billiton Ltd	40.95	+35	40.95	41.00	42.57	Price-earnings ratio: Shows the number of times the price covers the earnings per share				
Billabong Intl.	10.60	-5	10.60	10.64	12.19					
Coca-Cola Amn	11.29	-4	11.26	1.33	11.50	8.02	40.50f	3.59	20.6	
Cor Bar	Dividend rate: The dividend shown as cents per share. This figure may be followed by 'f' which means fully franked or 'p' which means it has been partly franked				5	52.19	56.24	24.03	228.00f	Dividend yield: The dividend shown as a percentage of the last sale price for the shares
David Jones Ltd	5.33	+6	5.32	5.34	5.96	2.02	28.00f	2.25	10.9	
Harvey Norman									2.62	20.8

Annual reports

There are numerous facts you should know about a company before you invest in it. What does the company do? Who are the directors and what is their business experience? How is the company currently performing? What are its prospects?

The financial statements included in annual reports are a valuable source of the information you will require to answer these questions. Analysts in stockbroking firms, merchant banks, investment companies and financial institutions rely on them to make major investment recommendations for their organisations.

The contents of most annual reports can be divided into 3 general areas:

1. Background and highlights,
2. Review of operations, divisional activities and human resources:
3. Financial Statements



Corporate governance

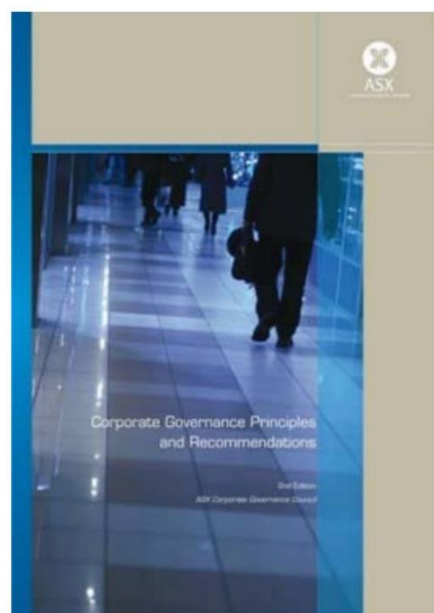
ASX requires companies to disclose their main corporate governance practices as this assists them to be properly understood.

Corporate governance regulates the actions of directors in public companies. The directors are accountable to the shareholders for their actions.

Directors must make their best endeavours to ensure that the company is properly managed.

A public company details its corporate governance practices in the annual report. Issues covered include:

- The appropriate mix of executive and non-executive directors
- The independence of non-executive directors
- The overview of the preparation of financial statements, internal controls and the independence of the company's auditors
- The review of senior executives' salaries
- The method of nomination of individuals to the board of directors, and
- The resources made available to directors to carry out their duties.




Topic 3: Share types

Types of shares

Depending on their capital requirements, many companies issue different types of shares in addition to ordinary shares. Each type of share and separate classes within each type may have different rights attached.

Your stockbroker can help you to understand the advantages and disadvantages of various types of shares before you invest in them.

	Dividend payment	Company wind up	Voting rights
 Ordinary shares	Yes	Last paid	Yes




The main features of the most common types of shares traded on ASX are listed below.

Ordinary shares:

- Represent the bulk of a company's basic ownership money or equity capital and are the most common type of share traded on ASX
- Shareholders benefit from any distributions of dividends and can vote at company meetings. The more ordinary shares they own, the greater their control over the company
- Rank last behind other types of shares if the company is wound up

Preference shares:

- Are entitled to a preferred dividend paid before the ordinary dividend is announced. The dividend is often paid at a fixed rate
- Have priority over ordinary shareholders for repayment of capital if the company is wound up





	Dividend payment	Company wind up	Voting rights
 Ordinary shares	Yes	Last paid	Yes
 Preference shares	Yes Fixed / floating rate paid ahead of ordinary shares	Paid ahead of ordinary shareholders	In some cases
 Trust units	No Full profit paid	Variable	Yes More shares, more votes

Trust units:

- In the form of property trusts and equity trusts
- From an investor's point of view, units in listed trusts are similar to ordinary shares except that a full distribution of profit is made to unit holders instead of a dividend

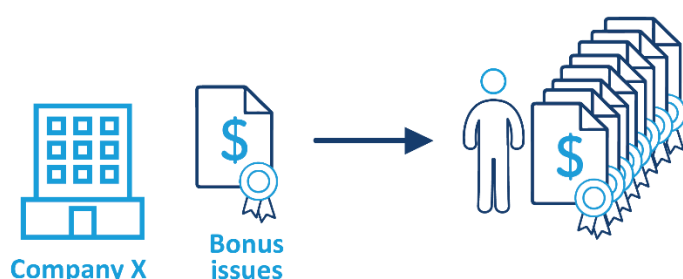
Contributing (partly paid) shares

- Shares issued without requiring full payment up -front. At a specified future date(s) shareholders are legally obliged to pay the scheduled call, unless the issuing company is a no liability company in which case shares can be forfeited instead.
- Usually identified by a five letter code (the company code plus a two letter suffix, generally CA -CZ (except CP)).
- Have equal voting rights as ordinary shares and dividends are usually paid on a pro -rata basis.
- Retail customers are required to sign a client agreement with their broker before first trading in these securities to acknowledge they understand the risks involved.

	Dividend payment	Company wind up	Voting rights
 Ordinary shares	Yes	Last paid	Yes
 Preference shares	Yes Fixed / floating rate paid ahead of ordinary shares	Paid ahead of ordinary shareholders	In some cases
 Trust units	No Full profit paid	Variable	Yes More shares, more votes
 Contributing shares	Yes Pro-rata basis	Last paid	Yes

Rights and bonus issues

Companies can make special issues of rights or bonus shares to shareholders. As a shareholder, it is important for you to understand what each issue entails and the important dates involved. If you have any doubt about such issues you should contact your client adviser/stockbroker.



Bonus issues

Bonus issues are shares issued free of charge to shareholders. The size of the issue reflects the improved value of the company's assets.

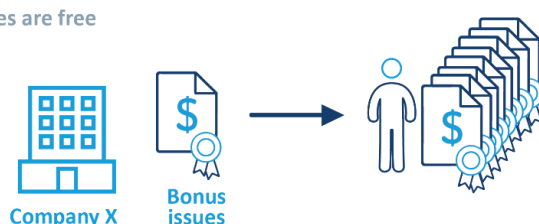
Bonus issues are made on a predetermined pro -rata basis, for example, one for ten.

This means you will receive one new share for every ten you currently own. For example if a company in which you hold 1,000 shares announces a 1-for-10 bonus issue, you are entitled to 100 more shares at no cost, which would bring your total holding to 1,100 shares.

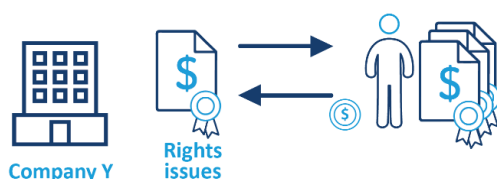
Once a bonus is issued, the price of the shares is likely to drop as the value of the company's assets is now spread over a larger number of shares. Bonus shares dilute the market price of the shares in direct proportion to the increase in the total number of shares on issue.

This price adjustment occurs on the ex - bonus (XB) date. An investor who buys the existing shares on or after the XB date is not entitled to the bonus shares - they belong to the previous owner of the shares.

Bonus issues are free



Rights issues below-market price



Rights issues

A rights issue entitles existing shareholders to take up additional shares in the company at a below-market price and without having to pay brokerage. Rights issues enable the company to raise additional funds from shareholders, perhaps for expansion or to repay debt. For example, Company Y may have a rights issue to raise \$300 million to fund its takeover of Company X.

The process for a rights issue is similar to a float, in so far as a prospectus is prepared and an underwriter is often appointed. Shares are offered on a predetermined pro-rata basis, for example, 1 for 4. This means that for every four shares you own, you can purchase one additional share at the discounted price.

A rights issue may be renounceable or non-renounceable. Renounceable means shareholders are entitled to sell their rights to other investors on the sharemarket if they do not wish to take up the additional shares themselves. Non-renounceable means only existing shareholders can participate and you must either take up the shares or forfeit the rights.

Share buy-backs

A company can buy back some of its existing shares. It can do this by entering the market and buying them in the same manner as any investor. It can also directly approach shareholders and offer to buy back your shares.

Companies undertake a buy back for a variety of reasons including; reducing the number of shares on issue, distributing excess funds back to shareholders or buy out very small holdings to reduce administrative costs.

Be careful if you receive any letters offering to buy your shares. Contact the company's share registry to check the offer is genuine.

Summary

- Keeping records of your share investments allows you to monitor their performance, and meet your ATO record keeping obligations.
- You can keep track of the sharemarket by reading the business section of the newspaper, through information vendors and your broker.
- Keeping track of your shareholdings helps to keep you informed of any capital raising activity your companies may undertake such as bonus or rights issues.
- If you are unsure about a share type e.g. ordinary, partly paid, etc, it is very important to get advice from your broker about what the implications for that share type might be.