Topic 1: Buying and selling shares

Buying and selling shares

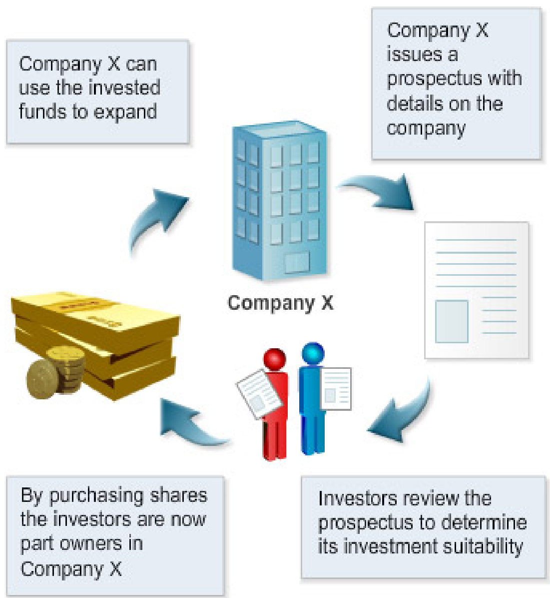
You might recall from our first course "What is a share?" we introduced the concepts of the primary and secondary market. The sharemarket can be thought of in terms of its two main functions: The primary market where owners of companies raise money by floating their company and selling shares to investors. Following this Initial Public Offering, the shares are then able to be traded on the sharemarket (the secondary market).

So as an investor there are two distinct points at which you can purchase shares:

- From the company itself in the very first instance of the shares being offered in the float.
- Following the float, shares are bought from other investors via the sharemarket. Shares can only be sold on the secondary market.

Watch the short clip opposite: "The language of the sharemarket" to learn more about the trading process and some of the terms commonly used.

Buying shares in a float or Initial Public Offering



The word float is used when a company seeks to raise money by offering its shares to the public for the first time. The company must first submit details of its business and the proposed share issue to the Australian Securities and Investment Commission (ASIC) in a document called a prospectus.

Once the prospectus is lodged with ASIC, it is then available to potential investors for consideration. If you wish to buy shares in a float, you must first review the prospectus, fill in the attached application form, specifying the number of shares you want to buy, and send it with your payment to the company or lodge it with your adviser.

Lodging and/or registering a prospectus with ASIC and listing on the ASX does not guarantee the company will be successful once share trading begins.

Among other things, a prospectus is required to contain all the information that investors and their professional advisers would reasonably require to make an informed assessment.

When assessing a prospectus it may be useful to answer the following questions:

- *Who* - who is involved? (stockbrokers, underwriters, management, board, others)
- *What* - what is on offer? (growth, income-yielding, tax-effective or speculative shares)
- *When* - when does the issue take place? (bull/bear market)
- *Why* - why are they raising funds? (expansion, retire debt, sell down, takeover)
- *How* - how to participate in the issue? (public pool, firm share, entitlement, demutualisation)

If there is a great deal of investor interest in a new float, you may be allocated fewer shares than the number you applied for or none at all. With some floats, the initial share price (issue price) is not set until just prior to the first day of trading. You should obtain independent advice from a licensed professional adviser prior to making any final decision.

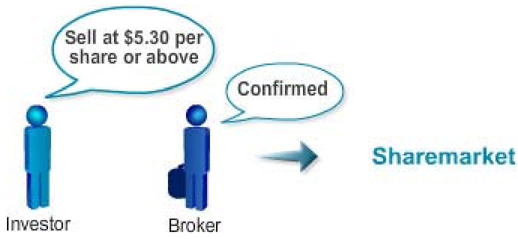
Following the float the shares are now listed on the sharemarket. From this point on shares can only be bought and sold on market through a stockbroker.

Buying and selling shares through a stockbroker

Placing an order at market

Establishing a relationship with a broker is easy. Each broker will have a slightly different process, but most require you to establish a client account. They may also need bank account details for the lodgement or receipt of trading proceeds.

Conditional order

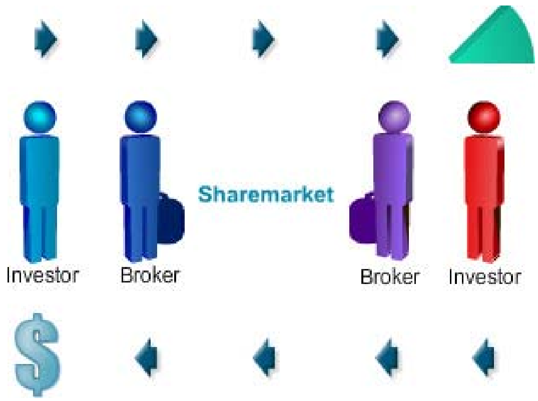


When you place an order to buy or sell shares, you have a choice of two ways to tell your broker what price you will accept. You can place your order 'at market', meaning you will accept a price at or about the market price of the shares at the time you are placing your order.

Alternatively, you can place your order 'at limit', and inform your broker of the highest price you are prepared to pay or the lowest price at which you will sell. Orders where you set a 'trigger' point are known as conditional orders.

Determining entry and exit prices for shares is important. Investors are very capable of buying shares, however many fail to consider when to sell. Setting a target price to sell is an often overlooked skill.

When placing an order with your adviser, make sure you are fully informed and that your order is confirmed. Ask the current market price and write it down. Then tell your broker the details of your order (i.e. the amount of shares to be bought or sold and the price at limit or at market). They should then repeat the order back to you.



Internet based stockbroking websites provide confirmation screens for you to double check your order before it is processed.

Following a transaction on the share market you will be sent a contract note (also called a confirmation). This outlines the details of your trade, including the number of shares and the amount paid or received for them.

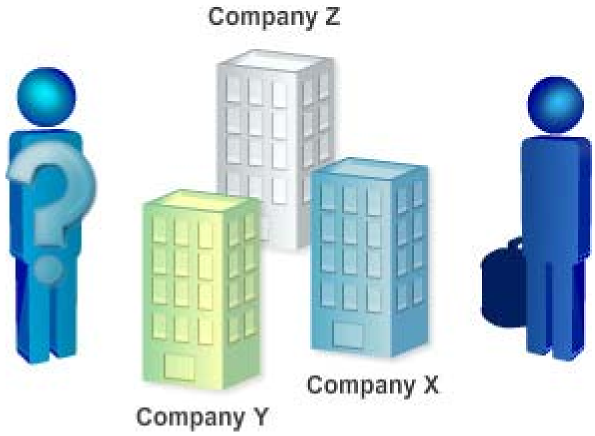
When you buy shares in companies listed on ASX, you are buying them from investors who currently own them. You are not buying them from your stockbroker, or from the company itself.

We will expand on the role of the stockbroker and the details of the trading process in the next topics.

Topic 2: All about stockbrokers

Why you need a stockbroker

ASX provides a secure and regulated trading environment where only licensed ASX market participants have direct access to the market for trading shares. Licensed ASX market participants typically act in the capacity of a broker, executing purchase and sale transactions on behalf of investors in return for a service fee (brokerage). Brokers must comply with the ASX Market Rules and the Corporations Act.

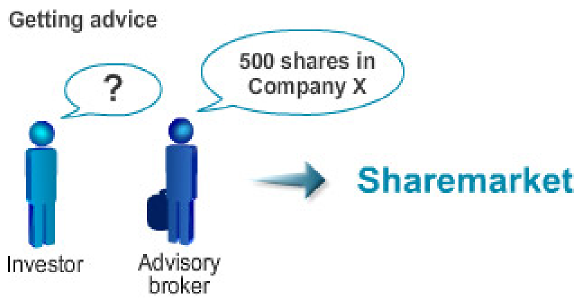


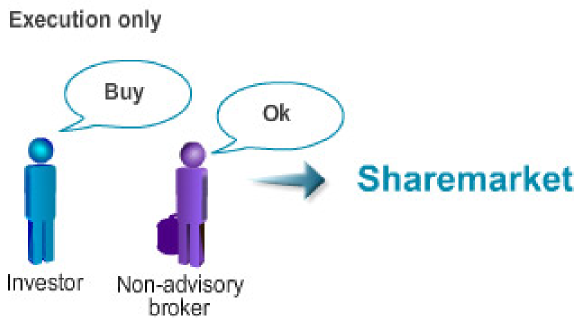
You can choose whether to make your own decisions regarding what and when to buy and sell, or take advice from a professional, or both.

The advantages of professional advice are often well worth any additional costs while you are getting started or if you do not have the time to do all your own research and follow the market. On the other hand, doing it yourself can be rewarding.

Your decision regarding whether you want advice and who to get it from may determine the type of broking service you choose.

In general broking services can be categorised as:





- **Advisory broking service** (also called full-service). Includes advice on buying and selling shares, investment recommendations and research. Typically also offer advice on other investments and tailored investment planning. Brokerage fees are generally higher for advisory broking services. However, some full-service firms also offer the ability for you to trade via the internet, usually for a lower brokerage fee.

- **Non-advisory broking service** (also called discount or execution-only). Offer no personalised investment advice or recommendations. Research is often sourced from outside providers. As a result, brokerage fees tend to be lower. Most non-advisory broking firms focus on providing internet trading facilities, although you can usually also place an order over the telephone.

Finding a broker

There are approximately 80 broking firms licensed to trade on ASX, many with branches throughout Australia. Most full-service firms employ a number of advisers to look after individual investors. If you need help in selecting a broking service, visit the Find a Broker section on the ASX website. This section of the site can help you decide which broker best suits you, provides contact details for brokers and gives you some suggestions on the sorts of questions you should ask your broker.

Please note that ASX cannot recommend a specific broker to you however we can provide you with broker contact details by phoning ASX Customer Service on 131 279.

Questions to ask your adviser/stockbroking firm

What type of services do you provide?

How do you charge for your services?

How might you review my investment portfolio and how regularly would you do that?

This is only relevant to ask an advisory broker. Depends on your objectives and how active you want to be. Expect a quarterly review. This could involve re-weighting your portfolio and reviewing the overall performance of your shares.

How will you inform me of any new sharemarket opportunities?

Expect email or mailed updates on opportunities, regular newsletters with research, and access to the firm's website.

Will I receive a newsletter or any other regular information?

Ask to see a sample.

Do you conduct client seminars?

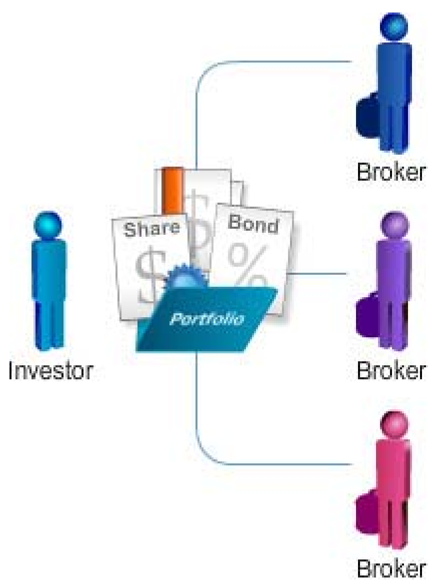
Are you or your firm associated with any of the companies whose products are recommended by you?

What research facilities does the firm make use of?

Changing brokers

Stockbroking is a competitive industry. As a customer of a stockbroking firm you are permitted to take your business to another firm if you are not satisfied with the service you receive.

There is no restriction on the number of stockbrokers you use to undertake your share trading activities. How you have your shares registered, either in CHESS or Issuer Sponsored, will affect how easy it is for you to alternate between the services of different brokers.



The next topic will outline what CHESS and being Issuer Sponsored means.

Topic 3: Trading, settling and CHESS

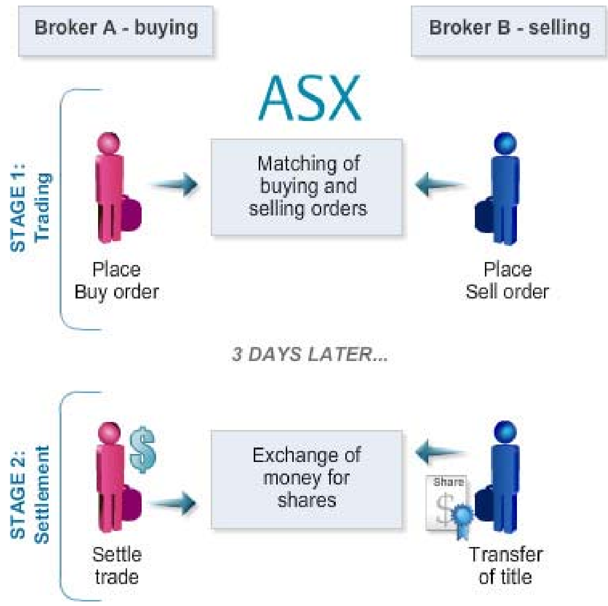
The trading process

To buy or sell shares traded on ASX, your order must be placed with a broker, typically over the telephone or online via the internet.

Your order will typically go into a market called the Central Limit Order Book (CLOB). In this market, buy and sell orders are matched by price in the order that they entered into the system.

If you would like to practice share trading it is possible to 'paper trade' before moving onto the real thing. The easiest way to paper trade is set up a watchlist. Available on the ASX website, watchlists allow you store in one place all the shares you are interested in. Standard features include the cost price, the current price, change (profit or loss), charts and announcements.

Each year ASX runs the ASX Sharemarket Game. Game players are able to trade and create a hypothetical share portfolio. You can test strategies and compare your performance against others. Check the ASX website for Game dates.



ASX settlement & the role of CHESS

When you buy or sell shares in a listed company, you must exchange the title or legal ownership of those shares for money. This exchange is called settlement.

For financial products traded on ASX, settlement happens on a computer system called CHESS, which stands for the Clearing House Electronic Subregister System.

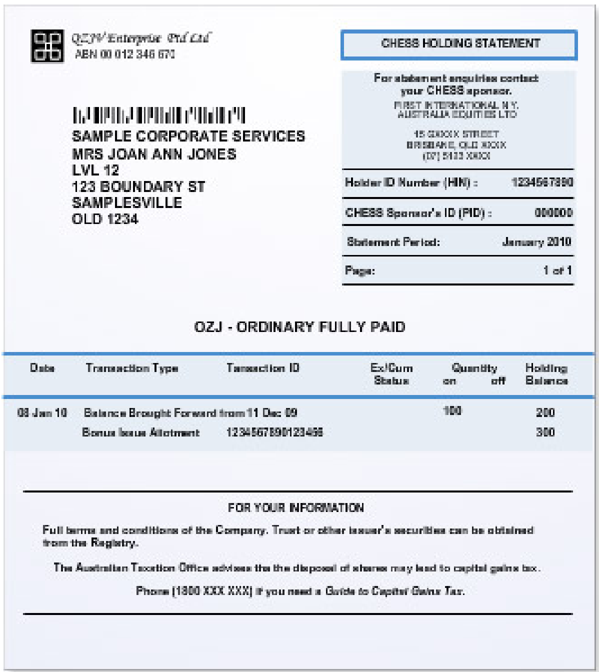
CHESS is operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX. ASX Settlement Pty Limited authorises participants such as brokers, custodians, institutional investors, and settlement agents to access CHESS and settle trades made by themselves or on behalf of their clients.

Because the entire trading process is computerised, paper share certificates are no longer used.

Usually, three business days after a buyer and seller agree to a trade (T+3 - Trade day plus 3 days), CHESS effects the settlement of that trade. It does this by transferring the title or legal ownership of the shares while simultaneously facilitating the transfer of money for those shares between participants via their respective banks. This type of settlement is called Delivery versus Payment (DvP). It is irrevocable. In addition to performing settlement, CHESS electronically registers the title (ownership) of shares on its subregister. This registration is secure and is an efficient means for holders to register title of their shares if they intend to trade them. In summary, CHESS performs two major functions for the ASX:

1. It facilitates the settlement and clearing of trades in shares; and

2. It provides an electronic subregister for shares in ASX listed companies.



OZJW Enterprise Pty Ltd
ABN 00 012 345 670

CHESS HOLDING STATEMENT

For statement enquiries contact your CHESS sponsor.
FIRST INTERNATIONAL N.Y. AUSTRALIA EQUITIES LTD
15 XXXXX STREET
BRISBANE, QLD XXXX
(07) 5123 XXXX

SAMPLE CORPORATE SERVICES
MRS JOAN ANN JONES
LVL 12
123 BOUNDARY ST
SAMPLESVILLE
OLD 1234

Holder ID Number (HIN) :	1234567890
CHESS Sponsor's ID (PID) :	000000
Statement Period:	January 2010
Page:	1 of 1

OZJ - ORDINARY FULLY PAID

Date	Transaction Type	Transaction ID	Ex/Cum Status	Quantity on	Quantity off	Holding Balance
08 Jan 10	Balance Brought Forward from 11 Dec 09			100		200
	Bonus Issue Allotment	1234567890123456				300

FOR YOUR INFORMATION

Full terms and conditions of the Company. Trust or other issuer's securities can be obtained from the Registry.

The Australian Taxation Office advises the the disposal of shares may lead to capital gains tax.

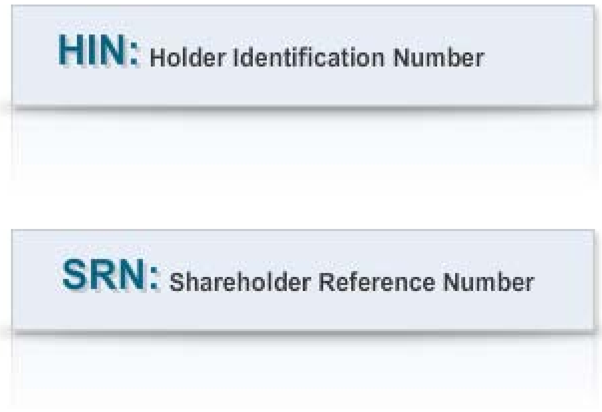
Phone (1800 XXX XXX) if you need a *Guide to Capital Gains Tax*.

The CHESS Holding Statement provides all the information you need to keep track of your shareholdings in CHESS. To make it easy to interpret, the statement includes explanations of the information presented. Investors who are CHESS sponsored will receive a copy of the statement each month in which there is a change in their CHESS account balance.

How are shareholdings registered electronically?

Investors can choose to have their holdings registered in one of two ways:

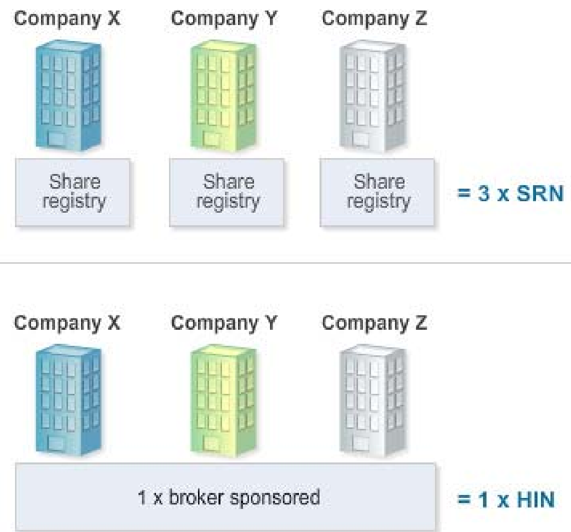
1. On an Issuer Sponsored Subregister; or
2. On the CHESS Subregister.



The two types of subregister provide alternative forms of registration for shareholders and the shares they own. Every ASX listed company manages its own Issuer Sponsored Subregister for the registration of shares in their company. This form of registration is also referred to as being Issuer Sponsored. Shares registered in this way are tracked with a Shareholder Reference Number - SRN.

Alternatively, shares in any listed company can be registered in the CHESS Subregister. This form of registration is held within the CHESS system and allows brokers to manage their sponsored client's shareholdings. This form of registration is also referred as being Broker Sponsored. Shares registered in this way are tracked with a Holder Identification Number - HIN.

To illustrate the difference between the two subregisters, consider an investor with shares in three companies, X, Y and Z. If the investor chooses to hold shares on the Issuer Subregister, X shares will be held on Company X's Issuer Sponsored Subregister, Y shares will be held on Company Y's Issuer Sponsored Subregister and Z shares will be held on Company Z's Issuer Sponsored Subregister. Three share holdings will require three separate SRNs.



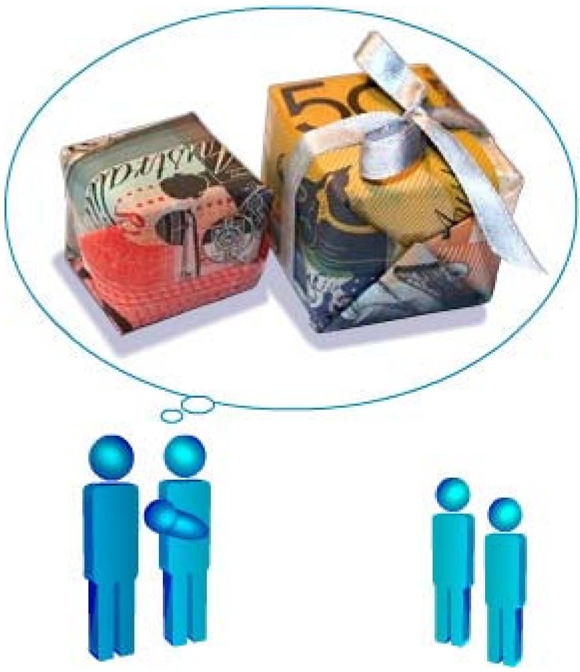
Alternatively, the investor who is Broker Sponsored can include X, Y and Z shares in a single registration held in CHESS under that investor's name. This has the advantage of simplifying the administration of a portfolio by consolidating all shareholdings into a single account. There may also be benefit for frequent share traders during the settlement process since their details will already be registered with CHESS.

Topic 4: Off-market transfer - gifting shares

Off-market transfers are usually private arrangements between family members or transfers from deceased estates.

Off-market transfers of shares between parties without using a stockbroking firm as the intermediary are executed through the use of an 'Australian Standard Transfer Form'. Off-market transfers of securities held on the CHESS sub-register occur electronically through CHESS. The 'Australian Standard Transfer Form' is not required for transfers through CHESS. For this type of transfer you will need to go through your stockbroker.

To obtain an 'Australian Standard Transfer Form' please contact the share registry of the company whose shares you wish to transfer. For advice on completing the form please consult your stockbroker or financial planner.



Off-market transfer forms are available from the company's share registry or from the Securities Registrars Association of Australia Incorporated website: www.sraa.com.au

Shares as gifts

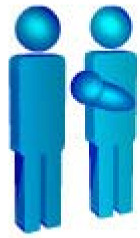
Shares provide the opportunity to give a gift that can grow in value over time. Giving shares as gifts is a popular and practical way to pass wealth from one generation to another.

Shares cannot be directly held in the name of a minor. The establishment of a trust account is the most common mechanism for gifting shares to persons under the age of 18 years. Setting up a trust account is a straightforward process and does not require a Trust Deed. The gifted share parcel is held by a senior party on behalf of the junior party as a sub account of a standard share account. A stockbroker can assist in setting up a trust account for the recipient of the share gift.

Share selection is important, as the gift needs to be relevant for a significant period of time. Companies come and go, sectors rise and fall.

A common theme of share gifts is getting broad market exposure.

Gaining exposure to sectors of the market via a single stock is possible with Listed Managed Investments, (LMI). Listed Managed Investments provide investors with an interest in a professionally managed portfolio of assets. LMIs can offer diversification that can reduce risk without sacrificing returns.



Another important consideration is the level of income the trust account may generate through dividends. In an effort to deter parents from avoiding their tax obligation by funnelling income through their children, the Australian Taxation Office has established certain penalty tax rates for minors. An accountant is an excellent source of information when it comes to assessing the taxation implications of any financial transaction.

Summary

- In the first instance shares can be bought from the issuing company in a float
- Following the float shares are bought and sold between investors on the sharemarket
- Shares bought and sold on the sharemarket can only be done so through the services of a stockbroker
- Buy and sell orders are queued on the ASX Trading System on a price-time priority basis
- Orders trade when there is a match between a buy order (bid) and a sell order (offer)
- The transfer of the title for shares and cash is called settlement
- Settlement occurs within three days following the trade date: T+3
- Shareholdings are registered electronically removing the need for paper share certificates
- Shares can be registered in one of two ways, via CHESS and tracked with a HIN - Holder Identification Number, or on the Issuer Sponsored Subregister and tracked with an SRN - Shareholder Reference Number.