**Unit 4: Real Assets 1: Equities**

[**https://quizlet.com/gb/868716178/unit-4-real-assets-1-equities-flash-cards/?i=24ef59&x=1jqt**](https://quizlet.com/gb/868716178/unit-4-real-assets-1-equities-flash-cards/?i=24ef59&x=1jqt)

**What is the timeline for equities investments?**

Medium – Long term horizon

Minimum 5 years

**What do equities constitute?**

Part or Full ownership of a company.

**3 Types of equities?**

Listed

Quoted

Private

**Quoted Companies**

Price is ‘quoted’ on different market – AIM

Often start-ups – don’t meet full listing criteria

**Private Companies**

Neither listed or quoted

Hard to assess value.

**Duel return**

Real asset > income & capital

**Primary Market v Secondary Market for Shares**

Primary: When initially floats

Secondary: Subsequent trading

**AIM Market**

Growth

Start- Ups

**Main Market Standard**

Core European standards

**Main Market High Growth**

Mid-sized

High growth UK/EU firms

**Main Market Premium**

Higher standards corporate governance

**4 Markets on LSE**

Main Market Standard

Main Market High Growth

Main Market Premium

AIM

**4 Markets: Listing Requirements**

Criteria varies.

e.g. Main Standard- 10% free float.

**IPO**

Sell New Shares Or Existing shares to new investors.

Raises capital.

**Direct Listing (Introduction)**

Joins market without raising capital.

If already have sufficient capital/ shareholder base.

**SPACs – Meaning**

Special Purpose Acquisition Companies

‘Blank Cheque companies’.

**SPACs – Purpose**

Acquire/ Merge with private company at some point.

Lists on exchange then has 2 years to acquire company.

**SPACs – Pros**

Less hoops to jump through.

2-3 months instead of 2-3 years

Don’t have to do ‘investor roadshows’.

**What factors can influence share prices?**

Wider economic outlook

Profit/ Dividends forecasts

MGMT

Takeover rumours

**Share Prices: Fiscal/ Monetary Policy**

Tax on dividends/ CGT/ corporation tax – Price Rise/Fall

Interest rates > Profits and Growth

**Share Prices: Investor Sentiment**

‘Heard mentality’

Behavioural finance

**Sectors with ‘reliable’ dividends**

Energy

Utilities

Telecoms

**Geographical differences in dividends**

Traditional in UK

Less so in Asia – re-invest for growth

**Share Prices: Takeover rumours**

Often increases share price

Buyer often pays a premium > investors can sell shares for a profit.

**Stockbroker Commission on Equities**

Charge for BOTH buyers and sellers

Flat fee (smaller transactions) or % charge.

**When is Stamp Duty/ SDRT paid?**

Purchase only.

**What is the rate of SD/SDRT?**

0.5% of PP

**SDRT Meaning**

Stamp Duty Reserve Tax

**SD Vs SDRT?**

SD: Paper transfers – smaller firms

SDRT: Electronic transfers - CREST system

**SD and SDRT: Minimum Thresholds**

SD: Min £1000. Whole PP not amount above £1000.

SDRT: No Minimum

**SD and SDRT: Rounding**

SD: Rounded Up to nearest £5

SDRT: Nearest penny.

**SD and SDRT: When is tax due?**

SD: 30 days of transaction

SDRT: Immediately via Crest.

**SD and SDRT for AIM**

None.

**Panel on Takeover & Mergers Levy**

£1 per trade on trades over £10k.

Maintain Takeover and Merger Regulatory body.

**Main Risks with Shares**

Capital

Liquidity

Currency

**Insolvency**

Can continue trading as long as able to cover essential costs and creditors aren’t demanding money back.

**3 Ways to Diversify Shareholdings**

Quantity: 15+

Sectors

Geography

**Share Liquidity**

Large Blue Chip – Highly liquid.

Smaller companies less so

Private companies: Highly illiquid.

**Currency risk with shares: how does this arise?**

Buying shares listed overseas.

UK listed shares making profits overseas.

**Dividend Tax: How is it paid?**

Dividends paid gross

Then pay marginal rate above DA.

**Dividend Allowance – DA**

£1000 for all taxpayers.

**Scrip Dividend**

Firm issues new shares instead of dividend.

No SD or commission.

**Scrip Dividend: Taxation**

Taxed as if had received equivalent cash dividend.

**CGT on Shares: How is it paid?**

10% / 20% on gain above Annual Exempt Amount.

Rate depends on tax-code.

**What is the CGT Rate?**

Basic Rate Taxpayer: 10%

Higher/Additional Taxpayer: 20%

**Bed & Breakfasting**

Sell asset on last day of financial year and buy back in the morning.

Banned in 1998. Now have to wait 30 days to buy back.

**CGT for Scrip Dividends**

Could be liable when sold.

Base price = Market value on first day of dealing.

**IHT for Normal Shares**

Included in estate.

Exception for unlisted companies.

**IHT for unlisted companies (AIM)**

If owned for at least 2 years, get 100% ‘business relief’.

Effectivity no IHT.

**Tax on Shares on ISA**

No IT or CGT within wrapper.

**IHT on Shares in ISA**

Added to estate but APS applies.

**What Shares can’t be placed within an ISA?**

Unlisted shares/ AIM

**Bed & ISA**

Sell shares at end of tax year.

Buy back in next tax year and put in ISA.

**Bed & ISA: Cons**

Commission on sale/ buy back.

SD/SDRT on purchase.

**Preference Shares: Rights**

Fixed Dividend Rate

No voting rights.

Paid ahead of ordinary shareholders – even after liquidation.

**Order of payment when firm insolvent**

1. Secured corporate bonds ( Fixed then Floating)
2. Unsecured corporate bonds
3. Preference shareholder
4. Ordinary shareholder

**Are dividends guaranteed on Preference Shares?**

No.

**Cumulative and Non-Cumulative Preference Shares**

Cumulative: If dividend isn’t paid that year, must be carried forward to following year and paid ahead of normal shareholders.

**Participating Preference Shares**

Maybe an additional performance based payment.

**Redeemable Preference Shares**

Set time limit – can be bought back by the company.

Very similar to bond in practice.

**Convertible Preference Shares**

Can convert to ordinary shares on a set date.

**Ordinary Shares: Rights**

Variable Dividend

Can vote at AGM

Paid behind preference shareholders

**Non-Voting Ordinary Shares**

Can’t vote at AGM

Often issued to employees so as part of pay package.

**Deferred Ordinary Shares**

Dividend not paid until firm hits certain share price.

**Alphabet Ordinary Shares**

Different tiers paid differently.

**What do Equity Ratios tell investors?**

Whether to buy/sell.

Compare trends

Performance against peers.

**What do Equity Ratios Calculate?**

Amount of profits that COULD be allocated to ordinary shareholders?

What they could have won.

**Who do Equity Ratios apply to?**

Ordinary shares!!

**Dividends Formula Ordinary Shareholders**

Profits

Minus Liabilities

Minus Bonds/ Preferences Shares.

Minus Retained Profits

**Earnings**

Profits - Liabilities, Bonds & Preferences Shares.

**Earnings Per Share**

Earnings / Number of Ordinary Shares in Issue.

**What does Earnings Per Share tell us?**

Rising/Falling Profitability.

**Dividend Per Share**

Total Dividend / Ordinary Shares in Issue.

**What does Dividend Per Share tell us?**

How profitable company is?

What proportion paying out as dividend or re-investing?

**Dividend Yield**

Dividend Per Share/ Share Price x 100

**Dividend Yield purpose**

Allows income inventors to compare yields across firms/ assets classes

**Dividend Cover**

Total Earnings / Total Dividend

Or

Earnings per share / Dividend per share

**What Does Dividend Cover tell us?**

How comfortable firm is paying dividend.

If > 1: Dividend all from current earnings.

If < 1 : Dividend partly from used reserves.

**Price to Earnings Ratio – P/E**

Price per share / earnings per share

**What does P/E Ratio tell us?**

Value of share in eyes of investors.

High P/E: Growth Stock / Overvalued

Low P/E: Good value.

**P/E Ratio if no earnings.**

Can’t be produced.

The fact has a consistent P/E ratio is a good sign.

**Net Asset Value – NAV Formula**

Net assets attributable to ordinary shareholder/ Number of ordinary shares.

**What does NAV tell us?**

How much capital left over between ordinary shareholders.

If company stopped trading and paid off all liabilities.

**Weighted Index – What does this mean?**

Bigger companies are larger part of index.

Top 10 firms = 45% of index.

e.g. Shell is approx 8%. Smaller firms much less.

**FTSE 100**

100 largest firms by Market Cap.

**How often are FTSE components reviewed?**

Quarterly.

**How can FTSE 100 quarterly review impact share price?**

Prices may fall if fall out of top 100 due to many passive funds that track FTSE 100.

**FTSE 250**

Next largest 250 firms- 101 to 350th.

**FTSE 350**

FTSE 100 + 250

**FTSE 100 V FTSE 250 – Economic Health of UK**

FTSE 250 better indicator of health of UK economy as most profits on FTSE 100 are from overseas.

**FTSE Small Cap**

Listed on main market but not bigger enough for FTSE 350.

**FTSE All Share**

FTSE 350 + FTSE Small Cap

600+ Firms.

**FTSE Fledging**

Listed on main market but not bigger enough for Small Cap.

Reviewed annually.

**FTSE 4 Good**

Ethical Firms

Positive & Negative Screening

**Dow Jones Industrial Average**

30 largest firms on NYSE and Nasdaq.

Gives an idea of US economy.

**S&P 500 Criteria**

Not exact list of 500 biggest firms

Must have profit over last 4 quarters including most recent.

**Nasdaq**

2000 + stocks

Approx 50% technology.

**Nikkei 225 – is it weighted?**

No – average of top 225 stocks.

**Topix**

Weighted index.

Largest firms on Tokyo Stock Exchange.

**Hang Seng**

Weighted

50 largest firms on Hong Kong SE

**Dax 30**

30 largest German firms.

2nd version for re-invested dividends.

**Dow Jones Euro Stoxx and Euro Stoxx 50**

50 largest firms in Europe.