

STOCK EXCHANGE

A stock exchange is a market where already issued **shares** and **stock** are bought and sold. In a stock exchange, the already held shares are freely transferable between people. In other words, the shares are irredeemable in that the person holding a share cannot sell it back to the company unless he transfers it to another party (person).

Once a share has been sold to another person by the original shareholder, a document called a SHARE TRANSFER FORM must be drawn between the two parties, to confirm that the person named has become the new shareholder.

Agents of Stock Exchange

The business in shares at a stock exchange is carried out only by members who are legally registered by the Stock Exchange Council. Also, a company has to get permission from a stock exchange council before selling its shares in the market. The companies authorized to sell their shares in a stock exchange are called **QUOTED COMPANIES**. There are various agents dealing in various shares. These include;

1. Stock Jobbers

These are agents who buy shares on large scale on their own accounts. They buy shares when they are cheap and sell them as soon as price goes up.

No member of the public is allowed to sell his shares direct to the jobber, but through a stock broker. This avoids exploitation of the public by the jobber, since members of the public may not know the share price.

Types of Jobbers

(a) Bears.

These are jobbers who sell shares in the market when prices are high anticipating a future drop in their prices. They buy back these shares from the holders when their prices go down.

(b) Bulls.

These are jobbers who buy shares when they are cheap hoping to sell them when the price goes up and hence making a profit. The difference between the cost price and the selling price is called a **JOBBER'S PROFIT** or **JOBBER'S TURN**. However, the jobber may spend it badly and incurs a loss instead of profits.

(c) Stags.

These are jobbers who deal in new shares. New companies normally contact stags when they want to sell new **issues**.

2. Stock Brokers

These are dealers in a stock exchange who buy and sell shares on behalf of others

These are middlemen in a stock exchange who go between the sellers and buyers of shares. Through brokers the people are brought into contact with jobbers.

A stock broker gets a commission called **brokerage** for the services performed.

TERMS USED IN A STOCK EXCHANGE

Par value of share

This is the face value of a share. It is written on the share and the total value of these constitutes the share capital of the company. Par value of a share may also be called nominal value or surface value. It is the amount for which the shareholder is responsible in the event of a company's to meet its liabilities.

Market value of shares

This is the price at which a share is quoted at a stock exchange. If a company has a good stand and hence reputation its shares are likely to be sold at a higher value than its face value. The market value of shares is flexible and depends on the forces of demand and supply. Such companies make large profits and pay good dividends to the shareholders.

Go Public

This is a situation when a private company needs to expand its level of production converts to a public company so that it can sell shares in a stock exchange. By doing so, it is able to raise money from the public and hence increasing its capital base.

Issuing Houses

These are money (finance) organizations which deal in new shares and securities on behalf of public companies.

Dividends

This is a reward paid to share capital or shareholders. This depends on the number and value of shares held. Dividends are normally shared during the annual general meeting.

Guilt-edged securities

These are bonds issued by governments. These securities raise money for the government and are very safe in the following ways

- They carry fixed rate of interest
- Interest payments are periodic
- They are redeemable

Portfolio

This is a group of several securities handled by one investor. Some people invest in a number of companies hence aiming at high profits.

Blue chips

These are first class securities. They are shares or stocks of public companies with a high sound reputation e.g. those of Rockefeller International. Holders of Blue chips are normally assured of their repayments or dividends.

Stock

This is a name given to a block of shares. Once a company sells shares and gets the required capital, it is said to be with “stocks” and hence the name. **JOINT STOCK COMPANIES**

Quoted Companies

A quoted company is one whose shares are bought and sold on a stock exchange. Members of the stock exchange are allowed to deal in shares of only those companies that are approved by the stock exchange council. A company wishing to be approved by the stock exchange council for this purpose must make a formal application giving all the relevant details of its business and financial position. If approved, its name will be listed on the stock exchange list and the price of its shares quoted, hence the term quoted company. Only public limited companies can be quoted at the stock exchange because their shares are freely transferable.

Unquoted Companies

An unquoted company is one whose shares are not traded on a stock exchange. All private companies are unquoted, while some public companies may decide not to obtain a stock exchange quotation.

Obtaining a Quotation

This is the act by which a company applies to the Stock Exchange Council to allow its shares to be included in the Stock Exchange List

Why would a company like to be quoted?

A public limited company is likely to receive the following advantages if its shares are quoted on a stock exchange;

Its shareholders will find a ready market if they choose to dispose of their holdings. Similarly members of the public who wish to acquire shares in the company will be able to do so through the stock exchange.

A stock exchange council will approve only those joint stock companies that are, in its opinion, financially sound and reliable. The fact that a company is quoted therefore serves as a sort of a guarantee to a new investor who is not fully conversant with share dealings. It also stands a better chance of obtaining loans.

A quoted company is always aware of the market value of its shares, which serves as a guide of what opinion investors have about the company.

Quoted companies are required to submit their final accounts to the stock exchange council. From these accounts useful statistics are prepared by the council and made available to the quoted companies. This helps the quoted company to use the statistics to improve its self.

Institutional investor

This is an institution that makes a business of investing its funds in various securities, aiming to make profits both by earning dividends or interest and by selling its investments at a higher price at an opportune moment. Insurance companies and pension funds, with large sums to invest, are also described.

FUNCTIONS OF STOCK EXCHANGE

A stock exchange plays the following roles in general economic well-being of a country.

- (a) It provides a ready market for both those who want to buy and those who want to sell their shares. Very few people indeed would be attracted to investing their savings in shares if they were not assured of prompt conversion of their holdings into cash.
- (b) It sets a price for every security, whether or not it is actually bought or sold in a particular period. This is of great help to both the investors and the relevant company.
- (c) It helps to direct a large part of savings by members of the public to invest in joint stock companies, which play a very important role in the general development of the country.
- (d) It helps investors to sell their shares when they find a more attractive security to buy. This makes the “transferability” of shares really meaningful.
- (e) It publishes useful information; in a statistical and summary form, about the various companies for guidance of both investors and relevant companies.
- (f) Stock exchange index is often taken as a barometer of the country’s economic progress. The stock exchange index is prepared on the basis of prices and volume of the shares traded during each week.
- (g) It creates an avenue for indigenous people to attain a stake in privatized companies and thereby facilitating the privatization of Para statals.
- (h) It’s a source of government revenue.
- (i) It provides a platform for a new company to advertise its shares.
- (j) It offers employment opportunities to the general public e.g. brokers

NOTE

The stock exchange in Uganda is called the Uganda Securities Exchange (U.S.E).

Currently, there are 9 companies listed on the licensed brokers. These include;

- Uganda Clays Ltd.
- British American Tobacco
- Bank of Baroda
- Development Finance Company of Uganda (D.F.C.U)
- New Vision Printing and Publishing company
- Jubilee Holdings Ltd
- East African Breweries Ltd
- Stanbic Bank (U) Ltd
- Kenya Airways.

Financial securities issued by government, companies, local authorities etc. to raise long term capital for expansion or to pay off debtors e.g. bonds, treasury bills, shares and debentures etc.

Issuing houses

These are money (finance) organizations which deal in new shares and securities on behalf of public companies.

BOND

This is a loan security issued by government, nationalized corporation or a company that carries a fixed rate of interest. Company bonds are also called debentures.

UNDERWRITING

This is a situation where a company feels that it will not be able to sell all the shares it is offering to the public and it resorts to offering them to a commercial bank, or an insurance company or a share broker who under writes the issue. This means that the under writer undertakes to buy shares that may not be taken up by the public. He is paid a small commission, called underwriting commission for the guarantee.