**CAPITAL MARKETS**

Capital markets are financial markets that deal/trade in financial products or long term loans.

Or

They are markets for long term financial assets like stocks.

Or

Capital markets are meeting places where those who require additional capital seek out other who wish to invest their investible funds.

Capital markets deal in new stocks and bonds.

**THE KEY PARTICIPANTS IN CAPITAL MARKETS/ MAJOR PLAYERS IN THE CAPITAL MARKETS INDUSTRY**

Different people, groups of people or companies play different roles in the stock exchange markets. Some of these individuals or players include the following:

**Capital market Authority (CMA).** This is a government body responsible for the regulation, development and promotion of the capital markets industry in Uganda.

**Uganda Securities Exchange**. This is the market in Uganda where shares and stocks are bought and sold.

**Shareholders.** These are individuals or companies that purchase shares in a company or business and hence own a part of that company with an expectation of returns afterwards.

**Custodians.** These are individuals in charge of holding or keeping the securities including cash on behalf of owners or investors.

**Fund managers**. These are persons or companies licensed by the authority to undertake on behalf of the client the management of a portfolio of funds.

**The registrar**. This is in charge of keeping records in respect to stocks and shares of a floated company. A floated company is one which goes public by issuing its shares to the general public.

**Investment advisors.** These are licensed individuals who engage in the business of advising their clients about securities on issues of whether it is advisable to invest, purchase or sell securities.

**Role of investment advisors**

* Advising their client about securities on issues of whether it is advisable to invest, purchase or sell securities.
* Carrying out analysis of information concerning securities.
* Making reports concerning securities
* Making investments under a contract or an agreement with investors.

**Brokers/Dealers.** These are licensed financial professionals authorized to buy and sell shares on behalf of clients. They try to buy at cheapest price possible and then sell to someone else at a higher price. They receive a commission for their services.

The role of brokers is, executing trade deals on behalf of their clients, matching buyers and sellers of financial products and providing professional advice to their clients or selection and management of investment.

**Jobbers**. These are licensed financial professionals authorized to buy and sell shares on their own account at the stock exchange. A trader in shares is much the same manner as a wholesaler deals in merchandise. However, a jobber does not intend to hold shares for investment purposes. His/her intention is to buy them when they are cheap and sell them as soon as prices rise, but not to hold them and earn dividends against them.

Their reward is jobber’s return being the difference between the buying price and

the selling price of the shares.

**Jobbers are further classified into:**

**Bulls.** These are jobbers who buy shares when they are cheap expecting to sell them at a high price in the near future.

**Bears.** These are jobbers who sell shares at a high price and wait to buy back cheaply when the

price falls in the near future.

**Stags**. These are jobbers who deal in new issues (stag) and they buy shares in the hope that prices will soon rise and sell them at a profit within a short period of time.

**SECURITIES/PRODUCTS TRADED ON THE STOCK EXCHANGE/PRODUCTS AVAILABLE IN THE CAPITAL MARKETS INDUSTRY**

These include collective investment schemes, bonds, shares(stock) and debentures

**BONDS**

A bond is a long-term debt instrument that is used to borrow a stated amount of money for a fixed period of time and a stated rate of interest.

**Or**

It is a contract made between the lender and the borrower that is return for financing the borrower will pay an interest and the face value of the bond when it matures.

**Note:**

When one buys a bond, it means lending money to a government or corporation.

**TYPES OF BONDS**

* Government bonds
* Corporate bonds

**GOVERNMENT BONDS/SECURITIES**

These are long-term debt instruments issued by the government to borrow a stated amount of money from the public for a fixed period of time and a stated rate of interest.

**Types of government bonds**

* **Treasury bills.** A treasury bill is a short-term instrument issued by the government regularly to borrow money from the public with a maturity period of one year or less.
* **Treasury notes.** A treasury note is a long-term debt instrument issued by the government with a maturity period of two to ten years.
* **Treasury bonds.** A treasury bond is a long-term debt instrument issued by the government with a maturity period of ten to thirty years.

Treasury bills, treasury notes and treasury bonds are marketable securities that the government sells through the central bank (Bank of Uganda) in order to control inflation and also raise money needed to finance the government activities. When one buys any of these securities, then he/she has lent to the government.

Government securities are sold by public auction and can be bought for more or less than the face value depending on demand. They can also be sold on the open market and their price can fluctuate further. The interest on government securities is paid every six months and does not change throughout the term of the product. However, unlike a regular savings account, one cannot receive interest on his bonds until they mature.

**CORPORATE BONDS**

These are long-term debt instruments issued by public companies to borrow a stated amount of money from the public for a fixed period of time and a stated rate of interest.

Corporate bonds are risky compared to the government bonds since a company may go bankrupt and default on the bond. Therefore, the higher the risk on the bond, the higher the return the corporation must promise.

**The process of investing in bonds**

* Downloading the securities central depository account opening from the bank of Uganda website.
* Filling a securities central depository account opening form and submitting it to the financial market department of bank of Uganda.
* Obtaining the securities central depository account and starting to invest.
* Filling the option form and submitting it to the primary dealer before the option date for investments above shs. 10,000,000.
* Contacting the local bank in case the investment is less than shs. 10,000,000.
* Visiting and contacting the secondary market for bonds through primary dealers.

**REASONS FOR INVESTING IN BONDS**

***(Why is it important to invest in bonds?)***

* To save for the future. Investing in bonds helps one to save money that can be used to meet future consumption or investment needs like paying children’s school fees, setting up a business etc.
* To preserve and increase capital. This is through interest and principal received at maturity date of the bond.
* Investing in treasury bills is affordable and simple. This is because one does not need a lot of money to invest as he/she can begin with shs. 100,000 which is currently the minimum amount accepted.
* Fixed income securities provide investors with a wide range of choices in which to make investment.
* Treasury bills are safe to invest because they provide an investor with a sure way of receiving returns.
* Treasury bills earn investors more interest than they could earn in most savings accounts.

**ADVANTAGES OF INVESTING IN BONDS**

* Investing in bonds helps one to save money that can be used to meet future consumption or investment needs like paying children’s school fees, setting up a business etc.
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* Treasury bills earn investors more interest than they could earn in most savings accounts.
* Bonds are predictable since the interest to be received is known.
* Bonds are steadier than equity investments (shares) whose prices fluctuate from time to time.

**Disadvantages of investing in bonds**

* Purchasing bonds involves a long and complicated process which is readily understood by only literates.
* Bonds lose value and become worthless when companies or local government authorities become bankrupt.
* Long term bonds tie up the investors’ money in bonds especially when the interest rate goes up.
* Bonds do not offer the possibility of high long-term returns like shares.
* Companies default on bonds issued thereby making the investor to make losses.
* Bonds are affected by price fluctuations that at times lead to losses to investors.

**FACTORS CONSIDERED WHEN INVESTING IN BONDS**

**1.Maturity of the bond.** Treasury bills have a shorter maturity period compared to treasury notes and treasury bonds. Bond maturity refers to the specific future date on which the investor’s or lender’s principal will be repaid.

**2.Principal payments and average life**. Some individuals may choose to invest in short-term bonds with a short maturity period because of their safety and stability but with minimum returns while investors seeking higher returns invest in long term bonds like treasury notes and treasury bonds. However, such bonds are vulnerable to fluctuations in interest rates and other market risks.

**3.Interest rate.** Usually, bonds pay interest that may be fixed, floating or payable at maturity. However, most debt securities carry an interest that stays fixed until maturity. This percentage is always expressed as a percentage of the bond face value.

**Note:**

Face value refers to the stated value of an investment at maturity.

**4.Yield**. Yield refers to the return actually earned on the bond based on the price paid and the interest payment received. There are basically two types of yields that is, current yield and yield to maturity/yield to call.

**Current yield**. This refers to the annual return on the amount paid for the bond.

**Yield to maturity**. This refers to the total return one will receive by holding the bond until it matures or is called.

**5.Call provisions**. Before buying a bond, one should always first find out whether there is a call provision that requires the borrower/issuer to repay the investors principal at a specified date before maturity. Usually, bonds with redemption provisions have a higher annual return to compensation for the risk that the bonds might be called early.

**Note:**

Issuer refers to the government, corporation, municipality or agency who issues a security to raise capital.

**6.Puts.** Before buying a bond, one should always first find out whether the bond has puts which allow the lender/investor the option of asking the borrower/issuer to repurchase the bonds at specified times before maturity. Normally investors exercise this option when they need cash for certain purposes or when interest rates have increased since the bonds were issued so that the investor can reinvest the proceeds at a higher interest rate.

**COLLECTIVE INVESTMENT SCHEME (CISs)**

**Collective investment schemes** are private financial arrangements that pool together resources of many small savers generating a large pool of funds which are then invested in a variety of assets like shares, bonds, real estate and treasury bills.

**Or**

They are private financial arrangements that provide a means for mobilizing of saving of small investors to enable them participate in capital markets.

**TYPES OF COLLECTIVE INVESTMENT SCHEMES**

**1. Unit trust schemes.** Thisis a type of scheme where one’s investment is represented by the units he holds in the scheme. It is an arrangement whereby investor’s funds are pooled together and used to invest in a portfolio of securities/assets that are divided into units. It is established by a trust deed which spells out the duties and obligations of a fund manager and trustee.

**Note:**

A trustee deed is an agreement between a fund manager and a trustee.

**Parties to a unit trustee**

**Manager.** This refers to the company that establishes the unit trust. The manager is licensed by the Capital Markets Authority as an Investment Advisor before establishment of the Unit Trust.

**Role of the manager**

* Establishing the unit trust
* Marketing the unit trust
* Appointment a fund manager to manage the investor’s funds.
* Providing liquidity to the unitholder who wish to sell their investment

**Trustee**. This refers to the company appointed by the manager to hold and invest funds of unitholders into a unit trust. A trustee is either a bank, an insurance company or a financial institution approved by the capital markets authority.

**Role of trustee**

* Overseeing the activities of the fund/unit trust
* Safeguarding the assets of the scheme
* Ensuring that the fund manager manages the fund according to the trust deed.
* Advising on the investment procedures through profitable investments.

**Benefits of investing in unit trusts**

* Minimises investment risk by diversifying investments.
* Gives investors an opportunity to liquidate investment by selling their units back to the manager
* Gives investors a chance to generate more benefits because of the expertise of professional staff.
* Gives investors a chance to access highly-priced markets because of the pooled resources which create a large fund.

**2. MUTUAL FUND**

This is a company licensed by the capital markets authority to hold and manage securities and other financial assets of the investors. The mutual fund accepts funds from investors and uses these funds to buy a portfolio of securities. In a mutual fund, one’s investment is represented by shares he holds.

**Parties to a mutual fund**

**Mutual fund company**. This is the company established to operate a mutual fund.

**Manager.** This is a company appointed by the mutual fund company to manage the mutual fund’s investment.

**Custodian.** This refers to the company appointed by the mutual fund company to hold all the securities owned by the fund and invest funds of unitholders into a unit trust. A custodian is either a bank, an insurance company or a financial institution approved by the capital markets authority.

**Procedure for investing in collective investment schemes**

(***Steps involved investing in collective investment schemes)***

* Containing the unit trust manager to obtain information on collective investment schemes.
* Filling an account opening form by the intending investor.
* Selecting the type of unit trust account. This is either short-term account or long-term account.
* Depositing the money on the account given.
* Sending a copy of the deposit slip to the unit trust manager.
* Becoming a unit trust accountholder.

**CONDITIONS NECESSARY FOR THE OPERATION OF COLLECTIVE INVESTMENT SCHEMES**

* **Conducive banking environment**. There should be a conducive banking environment where banks and insurance companies that act as capital investment schemes’ trustees are well developed.
* **Free markets.** There should be free markets to enable the managers to freely choose where to invest the pooled funds.
* **Strong saving culture**. There should be a strong saving culture in society that encourages people to save and invest in the collective investment schemes.
* **Stable macroeconomic system**. There should be a stable macroeconomic system which protects people’s investment for example low rate of inflation that protects the value of money.
* **Conducive legal environment**. There should be a conducive legal environment that protects investors for instance the collective investment schemes Act that protects investors in Uganda.

**ADVANTAGES OF INVESTING IN COLLECTIVE INVESTMENT SCHEMES**

* They encourage diversification of risks by investing in a number of different securities that helps to reduce the risk of investing.
* There is easy liquidity. Collective investment schemes give investors an opportunity of liquidating investments easily by selling their units back to the unit trust manager.
* There are lower transaction costs. Investors meet lower costs than if they were to buy and sell individual securities directly.
* There is professional management. Collective investment schemes managed by professionals who are experienced in investing money and who have the skills and resources to research many different investment opportunities.
* They are affordable since one does not need a lot of money to invest for example, one can begin with shs. 100,000 for the initial purchase.
* They are flexible. An investor is able to change his investment according to his personal needs or market conditions as there are many investment opportunities.
* There is assured investor protection through collective investment schemes Act and regulations.
* There is easy monitoring performance as offer prices and the net asset value per share of open-end funds are published in the press and on various internet websites in relation to other markets.

**DISADVANTAGES OF COLLECTIVE INVESTMENT SCHEMES**

* They lead to loss of control as one is not directly involved in deciding how your money is invested.
* There are many fees charges in terms of paying for the services offered by the fund managers.
* There are many long legal procedures involved hence consuming investors’ time.
* There is opportunity cost because putting money in collective investment schemes, one foregoes direct investment in the stock exchange.
* There are lower returns in the collective investment schemes as there are shares among many small savers than single direct investment.
* The success of collective investment schemes depends on the organizational ability of the manager or trustee.

**SHARES**

A share is a unit of ownership in a company.

Or

It is a unit of capital of a company contributed by an individual or institution.

When one buys a share in a particular company, he/she becomes a shareholder of that company. Therefore, a share can be defined as a unit of capital of a company.

**TYPES OF SHARES**

There are two types of shares that is:

**ORDINARY/EQUITY SHARES**. These are shares owned by the shareholders with no fixed rate of dividend from the company’s annual profits.

**Characteristics of ordinary shares**

* They have no fixed rate of dividend that is, the amount of profit allocated to them depends upon what remains after all the creditors and other shareholders with a prior claim have been paid.
* There is no special security for such investment other than the soundness of the company.
* When the company is winding up, the ordinary shareholders are repaid money after other shareholders and creditors.
* In good years, the ordinary shareholders may receive higher rates of dividends than the other shareholders but in bad years, there may be no returns at all.

**PREFERENCE/PREFERRED SHARES.** These are shares owned by shareholders with a fixed rate of dividend from the company’s annual profits.

**Characteristics of preference shares**

* They earn a fixed rate of dividend say 5% or 10% preference shares.
* The dividend is paid after the creditors but before the ordinary shareholders get anything.
* Capital repayment is also after the creditors but before the ordinary shareholders.
* The preference shareholders stand a proportionately lesser risk than the ordinary shareholders but also earn a lower rate of return.

**Types of preference shares**

**Cumulative preference shares.** These shares are entitled to a fixed rate of dividend until they are paid.

**Non-cumulative preference shares**. These are shares entitled to a fixed rate of dividend, but for only years for which a dividend is declared.

**Redeemable preference shares**. These shares are which can be bought back (redeemed) by the

company after a stated period of time.

**Irredeemable preference shares**. These are shares that cannot be redeemed/bought back by the company.

**Benefits of shareholders in a capital market/advantages of investing in shares**

* There is share of dividends. When a company makes profits, the board of directors usually gives a percentage of the profits to its shareholders in form of dividends.
* It leads to capital gains. This is when shares are sold at a price higher than the price at which they were bought.
* Shares lead to capital growth. If the company is growing, the value of its shares will also grow hence increased capital.
* Shares act as a collateral security for the owner when one is applying for a loan in any financial institution.
* Shares are easier to transfer. This means that investors are assured of converting their holding in the business into cash at any time they wish.
* The shareholders have voting rights. This is because shares give the shareholders the right to attend and vote for important company policies.
* Investing in shares enables the investor to save for the future.

**Disadvantages of investing in shares/challenges of being a shareholder**

* Afall company’s profits leads to a fall in the dividends paid to the shareholders.
* There is restriction on transfer of shares in case of private limited companies.
* Shares are faced with fluctuations in prices which makes the returns on investment unreliable.
* A fall in the share prices leads to a fall in the value of shares.
* Loss of control over investment as the business is managed by hired directors.
* Shares become worthless when the company collapses or becomes insolvent.

Shareholders are paid last after all creditors when the company goes into liquidation (wind

**DEBENTURES/LONG-TERM LOANS**

Debentures are loan certificates representing a certain sum of money lent by the public to the company.

Or

It is a document that evidences that a company has borrowed a specified sum of money from the person named on its face and undertakes to pay a fixed rate of interest for the loan.

**TYPES OF DEBENTURES**

**Naked debentures.** These are debentures which are not secured that is, no property is pledged against them. So in case of the bankruptcy of winding up, these debenture holders will just be regarded as ordinary creditors of the company.

**Mortgaged debentures.** These are debentures which are secured that is, some property is pledged against them.

**Redeemable debentures**. These are debentures bought back by the company that is, the money borrowed against them is refunded by the company after a specified minimum period and before a specified maximum period.

**Irredeemable debentures**. These are debentures that are never refunded. The money borrowed against them remains outstanding till the company is liquidated.

**ROLE OF CAPITAL MARKETS IN BUSINESS**

* Provision of long-term finance (capital) to business through sale of shares.
* Provision of an avenue/market where to sell and buy of shares by investors.
* Provision of individuals with a chance to own business through shareholding in enterprises.
* Promoting the ease of convertibility of assets for example, from near cash to a cash/money form.
* Promotion of the inflow of foreign capital from foreign investors who may wish to invest their money in the country.
* Generation of income to the investors through capital gains and dividends payments hence improved standards of living.
* Diversification of investors’ investment risk by enabling them to invest in various products available on the capital market.
* Mobilizing domestic savings for investment in joint stock companies.
* Regulating the price of financial assets for companies listed on the listed on the stock exchange market.
* Promotion of full disclosure and sticking to better accounting and management practices of companies.

**Benefits of capital markets to individuals**

* Provide an alternative investment and savings option through the purchase of shares and bonds.
* They provide an avenue/market where to sell and buy of shares by investors.
* Provide individuals with a chance to own business through shareholding in enterprises.
* Promoting the ease of convertibility of assets for example, from near cash to a cash/money form.
* They are a source of income through capital gains and dividends payments.
* Individuals are given the opportunity to diversify their investment risk by investing in various products available on the capital market.
* They create more employment opportunities through increased savings and investment.
* They encourage full disclosure and sticking to better accounting and management practices of companies.

**REASONS FOR THE UNDERDEVELOPMENT OF CAPITAL MARKETS IN UGANDA**

***(Challenges/problems facing the capital markets industry in Uganda)***

* Undeveloped financial institutions to lend funds for buying financial products.
* Undeveloped capital and money markets to transact the sale and buying of products.
* Low savings or low incomes of the population that make investment in financial products difficult.
* Inflation that affects the value of shares
* Limited knowledge by the public about the existence and benefits of trading in financial assets.
* Low levels of commercialization of the economy resulting into low savings for investment.
* Low performance of private enterprises resulting into low profit levels for investment.
* Poor attitude towards joint ownership of enterprises making it difficult by the public to invest in an already existing business.
* Challenge of fear of risks by players e.g. fluctuations in the value of share capital since the value of shares fluctuates very often.
* Limited information by the public about the role of capital markets.
* Unfriendly government policies such as unfair taxes that lead to low profit levels.
* The challenge of high levels of target players who aim at maximizing profits early.
* Uncertainty to income in form of dividends since a business may or may not make profits or declare profits.
* Unstable economic climate in Uganda that scare away investors who would invest in capital markets products.

**ROLE/FUNCTIONS/RESPONSIBILITIES OF THE CAPITAL MARKETS AUTHORITY**

* Overseeing the activities of the Uganda Securities Exchange
* Regulating, promoting and developing the capital markets industry in Uganda.
* Approving prospectuses and other offering documents under which securities are offered to the public.
* Developing all aspects of the capital markets with particular emphasis on the removal of barriers to and the creation of incentives for long term investments in productive enterprises.
* Creating, maintaining and regulating a system in which the market participants are self-regulatory to the maximum practicable extent.
* Co-operating with and providing information to assist any foreign regulatory authority in the performance of its duties.
* Implementing regional and international standards and practice in securities markets.
* Protecting the interests of investors through developing rules and regulations that govern the capital markets industry.
* Licensing brokers/dealers, jobbers, investment advisors and fund managers.
* Operating the investor compensation fund.
* Approving and regulating the operations of collective investment schemes.
* Approving stock exchanges and the securities central depository (SCD) accounts.
* Creating a market in which securities can be issued and traded in an orderly, fair and efficient manner.
* Advising to the government on rules and regulations governing the operations of the capital markets.
* Providing market for those require additional capital and others who wish to invest their money.

**TOOLS/INSTRUMENTS USED IN SECURING LONG TERM FINANCE**

Capital markets are designed to provide long term funds to businesses, the government and other institutions.

**TYPES OF LONG TERM BUSINESS FUNDS**

**Leasing.** This is where a company can lease out its assets so as to get money out of it for several years. Likewise, company can access and use assets by paying for them in small installments spread over a long time and taking full possession on completion of payments.

**Mortgages.** These are long-term debt instruments used by companies to get loans for long periods by mortgaging their assets with any mortgage broker or financial institution. Properties like land and buildings may be used for this purpose. It is an important service of long-term capital for commercial understandings, insurance companies, pension funds and finance companies are the main mortgages.

**Bonds**. These are instruments sold by the government to raise funds in building schools, roads and provide essential services to the public.

**Shares**. It is a unit of capital of a limited company.

**Debentures/long-term loans.** Debentures are loan certificates representing a certain sum of money lent by the public to the company.Or

It is a document that evidences that a company has borrowed a specified sum of money from the person named on its face and undertakes to pay a fixed rate of interest for the loan.

**THE STOCK EXCHANGE/SECURITIES MARKET**

**Securities market/stock exchange** is a market where already issued shares and stocks are bought and sold.

Or

It is the market in which existing stocks and bonds are exchanged.

Or

It is the actual market where trade in capital markets products/securities takes place.

**Stocks** are fixed interest loans comprising of government bonds, public bodies’ loans and public companies’ debenture stocks etc.

The Uganda Securities Exchange is licensed and regulated by the Capital Markets Authority. It was formed in May 1997 upon receiving its license from the Capital Markets Authority.

Although financial instruments bought from stock markets are meant to be long term finances, they are not necessarily long term investment by individual members of the public who have acquired them.

**ROLE/FUNCTIONS OF STOCK EXCHANGE MARKET/SECURITIES EXCHANGE**

* Providing ready market to those who want to buy and sell shares.
* Setting prices for securities that is, shares of different companies listed on the stock exchange.
* Directing a large part of savings by members of the public to invest in joint stock companies which help in the mobilization of domestic savings.
* Providing investors with an opportunity to sell shares when they find a more attractive security to buy.
* Raising of capital for business expansion through selling shares to the investing public.
* Creating investment opportunities for small investors to own shares of the same companies as large investors.
* Promoting corporate governance through imposing rules for public corporations that tend to improve on their management standards and efficiency in order to satisfy the demands of shareholders.
* Facilitating redistribution of wealth by enabling both casual and professional stock to share in the wealth of profitable businesses.
* Acting as a measure of a country’s economic progress that is, stock indices are taken as indicators of economic progress.
* Providing the opportunity for small investors to own shares of the same companies as large investors.
* Facilitating growth of the related financial institutions like insurance companies and other financial institutions that encourage and support savings.
* Providing an avenue for divestiture of state owned enterprises like Uganda Clays Limited, New Vision Publication Ltd etc.
* Publishing useful information in statistical and summary form about various companies for guidance of both investors and the relevant companies.
* Facilitating company growth through takeover bid and merger arrangement through the stock market.
* Enabling government to raise capital for development projects by selling securities knowns as bonds.
* Enabling companies to get long term finances through selling shares than getting loans with high interest rate.
* Providing employment to those who work in it like brokers and jobbers.

**CHALLENGES FACED BY THE UGANDA SECURITIES EXCHANGE**

***(Factors limiting the performance of the Uganda Securities Exchange)***

* High degree of illiteracy and ignorance resulting into limited knowledge by the public about the role of the Uganda Securities Exchange.
* Low level of incomes earned by the people hence they cannot invest by buying shares traded on the stock exchange.
* Limited qualified stock exchange specialists like stock brokers and stock jobbers.
* Existence of a large informal sector that is regulated and monitored.
* Operations of stock exchange markets are limited to urban centres leaving out the rural population.
* Dominance of foreign and privately owned companies which do not offer their shares to the public.
* Most companies operate on a small scale hence they cannot be quoted on the stock exchanged since they have small profits.
* High rates of inflation which discourages investment in securities as it affects the value of shares.
* Low interest rate on securities yet there are high rates of inflation in the country which discourages investment in securities.
* Limited trust among people to invest in financial securities due to corrupt fund managers.
* Limited number of listed companies hence low investor choice.
* The procedure of becoming an investor in financial products is complicated and not readily understood.
* Limited government support by way of developing the financial infrastructure and inadequate funding from the government.
* Weak industrial sector as many people are employed in the agricultural sector.
* Political insecurity in some parts of the country which limits the expansion of the industrial sector due to fear of loss of life and property.

**SECURITIES/PRODUCTS TRADED ON THE STOCK EXCHANGE**

**Shares.** These are units of capital issued by a public limited company to the public in order to raise share capital.

**Stock**. This is a bond issued by a government local authority (local government) in order to raise money from the public.

**Bonds.** These are loan securities issued by the government to the public carrying a fixed rate of interest.

**Debentures**. These are loan securities issued by a public limited company to the public carrying a fixed rate of interest.

**Treasury** **bills**. These are short term securities issued by the central bank to raise money for the government.

**PROCESS OF BUYING AND SELLING SHARES**

**Steps involved in the process of selling shares of a public limited company**

* Finding out how much shares are selling in the stock market through a broker or dealer.
* Placing an advertisement usually in newspapers or stock exchange journal which specifies where the shares may be got.
* Receiving application forms from interested people wishing to invest in shares
* Going through applications received by the directors to approve or reject them and sending allotment letters to successful applicants asking for allotment money.
* Receiving allotment money from successful applicants and issuing of share certificates.
* Asking shareholders to pay the balance of the share value in two or three calls when the company needs more money.
* Cancelling/forfeiting shares of shareholders who fail to pay.
* Re-allocating the cancelled/forfeited shares by the company.

**HOW SHARES ARE BOUGHT AND SOLD**

Shares can be bought either during the offer period or from existing shareholders. New issues of shares take the form of initial public offering (IPO) in the primary market while the purchase from the existing shareholders takes place in a secondary market.

**Initial public offering (IPO).** This is where shares are sold in the primary market.

**Primary market.** This is where a company offers its shares to members of the public for the first time.

**Secondary market**. This is where the purchase of shares is from already existing shareholders.

**PROCESS OF BUYING/INVESTING IN SHARES**

**Steps involved in the purchase of shares in the primary market (initial public offering)**

* Approaching a stock broker/dealer to express desire to buy shares of a given listed company.
* Opening of a trust account with the help of a licensed broker to keep the investor’s money.
* Depositing any amount of money into the trust account.
* Posting the purchase order by a licensed broker on the trading system during trading hours
* Receiving of the shares paid for on the investor’s securities central depository account through the licensed broker.
* Receiving the money deposited on the bank account if there is any refund.

**Steps involved in the purchase of shares in the secondary market (Uganda Securities Exchange)**

* Visiting the listed companies to invest in and studying their share prices.
* Obtaining a share application form from a licensed broker and filling it by the prospective investor.
* Filling a securities central depository account opening form by the prospective investor.
* Attaching a colour passport size photo of the investor on the securities central depository account opening form.
* Providing a photocopy of the national identity card or driving license or passport.
* Sending the original signed documentation and the passport size photos to the broker.
* Depositing funds on the brokerage account.
* Submitting a trade order through a licensed broker.
* Receiving of the shares paid for on the investor’s securities central depository account through the licensed broker.

**DIFFERENCES BETWEEN A SHARE AND A DEBENTURE**

* A share is a unit of capital while a debenture is a unit of a loan in a company.
* Shareholders earn dividends that are part of the company’s profits while debenture holders earn interest which is an expense that a company has to pay whether it has realized profits or not.
* Shares are usually irredeemable while debentures are usually redeemable.
* At the time of winding up, the debenture holders get only the face value and a specific interest even if the company’s assets fetch returns while shareholders in most cases enjoy much more than the face value of their shares.
* A shareholder is a member of the company while a debenture holder is a mere creditor to the company
* In case of decision making in the company, shareholders have voting rights while debenture holders do not have them.

**Features of capital markets in Uganda**

* Deal in long term financial assets
* Mainly deal in variety of financial assets
* Mainly charge low interest rates on loans
* Mainly urban based
* Mainly have few customers/mainly have limited participants.
* Mainly operate on a large scale

**MONEY MARKET/DISCOUNT MARKET**

A money market is one that deals in short term loans.

Or

This is a market for short term financial assets/securities like treasury bills.

**Discount market** is one that deals only in bills of exchange.

**Features of capital markets in Uganda**

* Deal in short term financial assets
* Mainly deal in limited variety of financial assets
* Mainly charge high interest rates on loans
* Mainly urban based
* Mainly have few customers/mainly have limited participants.
* Mainly operate on a small scale

**Dealers in money market/discount market**

* Businessmen borrowing from commercial banks by way of loans and overdrafts.
* Businessmen borrowing from discount houses or merchant banks against bills of exchange.
* The central bank by way of providing short term loans to discount houses and commercial banks, and at times borrowing short term loans from these banks.
* Discount houses borrowing money from commercial banks against bills of exchange or in loan form.

**Note:**

A discount house is a firm that buys and discounts bills of exchange.

**Distinction between capital market and money market**

* Money market is related to short term funds while capital market is related to long term funds
* Money market deals in securities such as treasury bills, commercial papers, deposits, collateral loans and bills of exchange while capital market deals in new stocks and bonds.
* Participants in money market are central bank, non- banking financial institutions while capital market participants are stock brokers, under writers and individual investors.
* Money market is regulated by central bank while capital market is regulated by capital market authority.

**Quoted companies/listed companies.** These are companies 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 must make a formal application giving all the relevant details of its business and financial position. If it is approved, its name will be listed on the stock exchange list and the price of its shares quoted, hence the term quoted company.

**Note:**

Only public companies can be quoted at the stock exchange because their shares are freely transferable.

**Obtaining a quotation**

This is the act by a public limited company of applying to the stock exchange council to allow its shares to be included in the stock exchange list.

**Examples of listed/quoted companies on the Uganda Securities Exchange**

* Uganda Clays Limited
* Bank of Baroda (U) Limited
* Dfcu Bank Limited
* UMEME
* Stanbic Bank (U) Limited
* New Vision Printing and Publishing Company Limited.

**Cross border companies.** These are companies whose shares are traded on more than one stock exchange in different countries.

Across the border, we have the following listed companies:

* East African breweries Limited
* Kenya Airways
* Jubilee Holdings Limited
* Safaricom Limited

**Advantages of quoted companies**

* Shareholders find ready market if they want to sell off their shareholding.
* Stand a better chance of obtaining loans because creditors view quoted companies more favourable.
* They are always aware of the market value of their shares which serves as a guide to the investors about the company.
* Serve as guarantees to new investors who are not fully conversant with share dealings.
* They are required to submit their final accounts to the stock exchange council and from these accounts useful statistics are prepared by the council and made available to the quoted companies.