thesharecentre:
simply easier

introduction to shares

Your guide to
getting started in shares

welcome to the world of shares

You may well have thought about becoming an investor in shares, but been put off by the apparent complexity of the stock market, by the risks involved, or simply because you don't know where to start.

It's no accident that at The Share Centre our motto is 'simply easier'. We aim to take the mystique and jargon out of investing, whilst making you fully aware of all the factors you should consider before taking the plunge.

With any type of investment there are risks as well as rewards. This guide will give you the basic information you need about share ownership, so you can make an informed decision. You'll find many other useful resources on our website, and we are available on the phone if you have questions you'd like answered in person.

What is a share?

Most businesses start out as private companies. In other words they are owned by the people who set them up, by families, or by a group of backers. And many businesses stay in private hands, sometimes for generations or even centuries.

Often companies will be looking to raise significant amounts of capital in order to expand, or the owners may want to realise some of the value they have built up in the business. At that point they have the option of floating on the stock market.

Put very simply, in a flotation, outside investors are given the opportunity to buy a share of the business. Shares are also known as equities, and the two terms are often used interchangeably.

When a company floats on the stock market the shares will be sold at a certain price, which represents the value placed on the business. So if 10 million shares are issued in United Conglomerates at a price of £2 per share, then the business is valued at £20 million.

Who can buy shares?

There are two broad categories of shareholder – institutional investors and private investors.

Institutional investors are companies whose purpose is to invest in other companies. They include pension companies, who invest the money built up in employees' pension schemes, and fund managers, who run investment schemes such as unit trusts or investment trusts. It's quite likely that you are already investing indirectly in the stock market, through one of these institutions.

Institutional investors own by far the biggest proportion of shares that are in the market. By selling or buying a stake in a company they can dramatically influence its share price, and they will often also express their opinion on how the business is being run.

Private investors are individual shareholders. There are a great many of them (around 12 million at the latest estimate), but they don't make up a large percentage of the value of the market. The government privatisations of the 80s and 90s created many new shareholders, as have schemes where employees can buy shares in the company they work for, often using tax-efficient schemes set up for that very purpose. Some people own shares that they have inherited from a relation.

New share flotations are generally only available to institutional investors in the first instance. Once the share issue is complete, then private investors have the opportunity to trade the shares on the market.

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A little history

The London Stock Exchange is the main UK market for shares, with over 3,000 companies listed on it. Its origins date back to 1698, when individuals started trading shares at Jonathan's coffee house in Change Alley in the City of London. By 1773 a more formal club had been created, and the members moved into their own building in Sweeting's Alley. Soon after that the name was changed to 'The Stock Exchange'.

In 1801 the modern Stock Exchange was born. Over the years it grew, and formal rule books were adopted, until in 1973 the then 11 British and Irish regional exchanges amalgamated with the London Exchange.

Probably the biggest change to the way the Stock Exchange worked came in 1986 with the deregulation of the market known as 'Big Bang'. Up until then the roles of market traders (stockjobbers) and investors' agents (stockbrokers) had been kept strictly separate.

After 'Big Bang' member firms were allowed to be both market traders and brokers. The cosy, club-like world of small brokers was shaken up by big banking companies (often American) who embarked on acquisition sprees.

At the same time trading moved away from the floor of the Exchange to be conducted by telephone and computer.

For private investors these changes paved the way for today's telephone and internet trading services, and the increased competition brought lower dealing charges.

In 2000 the Stock Exchange became a publicly-listed company, with its shares traded on its own market. This meant, of course, that it is susceptible to approaches from other businesses (such as exchanges elsewhere in the world) that may want to merge with it or take it over.

One thing is for sure: the pace of change and innovation will not slow down any time soon.

What rights does share ownership give me?

Share ownership means exactly what the name suggests: you own a share of that business. This gives you, theoretically at least, a say in how the business is managed. And it certainly gives you an entitlement to share the business's profits and success.

In reality, someone who owns a small fraction of the business is unlikely to be listened to very keenly by the company's management. Whereas a pension fund with a 20% stake can expect the firm's undivided attention.

The main opportunity for small shareholders to express their views is at the Annual General Meeting. Individuals giving forthright opinions from the floor of the meeting about, for example, the level of Directors' remuneration may cause the Board a few minutes' discomfort, but probably won't make a difference in the long term. Though occasionally a small shareholders' revolt can attract sufficient support to influence company policy.

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What are the benefits?

As we mentioned earlier, as an owner of the business you are entitled to share in both the profits and the growth of the business. There are two main ways this happens.

Dividends

When a company makes a profit, the management will decide what proportion of that profit should be retained in the business, and how much should be distributed to the shareholders – that's you.

Dividends are generally paid six-monthly, however some pay quarterly. The level of dividend in relation to the share price is known as the yield. So if a company's shares are trading at 100p, and the dividend for the year is 3p, then the yield is 3%.

Capital growth

The other reason people invest in shares is in the hope that they will go up in price. As a company grows and becomes more profitable, then its share price should rise. Though if it falls on hard times, of course, the price will fall.

As a rule of thumb, younger, growing businesses are likely to have lower profits, and re-invest what profits they do have back into the business to keep it growing. So they may pay little or no dividend, but the potential for the share price to rise as the business expands is considerable.

A bigger, more mature business, on the other hand, may have less scope for dramatic growth, but offer a steady, reliable stream of significant profits, which can be paid out in the form of handsome dividends. The potential for dramatic price rises may be less, but hopefully so will be the potential for sharp falls.

It's up to you to decide whether you are looking for a steady income from your investments, or if capital growth is your goal. If it's the latter, then you should always bear in mind that investing is a long-term business, and you should be prepared to tie up your money for a number of years. There are few things worse than deciding you need access to your capital for some other purpose, and finding that you will have to sell at a loss.

And what are the pitfalls?

It's important to understand the difference between saving and investing.

When you put your money in a deposit or savings account, you know you will be getting a certain level of return. What's more, your capital is safe – always assuming the company you save with does not go out of business, and even then deposits are guaranteed by the government up to a fairly generous limit. Putting money aside in a savings account is a sensible way to save for short-term goals like a holiday, or to cover you for a rainy day.

The drawback of saving is that your money is very unlikely to grow at a rate that will keep up with inflation. So although your balance is growing, in real terms it is shrinking.

As we have seen, share ownership offers potential both for income and for healthy capital growth. However, nothing is ever certain in business. The small companies that appear to offer the potential for rapid growth can also crash and burn, and as has been demonstrated over recent years even the most apparently strong and stable companies can fall dramatically in value, or even fail entirely.

If predicting the future fate of businesses was easy, then there would be a lot more people living a life of luxury on private islands somewhere exotic!

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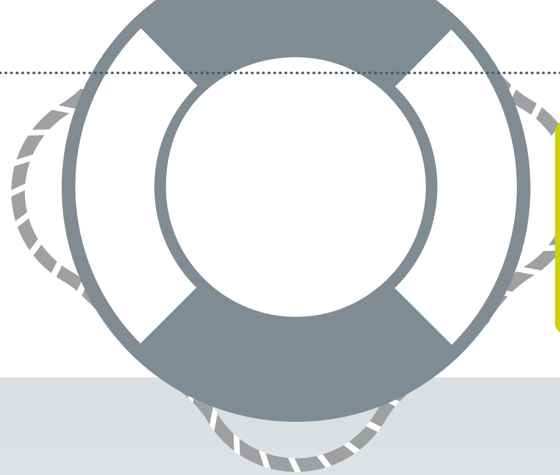

It may be something of a cliché to talk about not having all your eggs in one basket, but that's because it makes a lot of sense.

How can I protect myself against disaster?

There are a number of ways you can reduce the likelihood of serious losses.

The first and most obvious is to spread your investments across a broad range of companies and sectors. It may be something of a cliché to talk about not having all your eggs in one basket, but that's because it makes a lot of sense.

Certain sectors can become extremely fashionable, as happened with the dotcom boom of the late 1990s. But when it became apparent that the only skill many of these start-ups had was losing large amounts of money, they fell out of favour just as fast, and their share prices fell through the floor too.

Among the many wise sayings of Warren Buffett, "the Sage of Omaha" and one of the most successful investors of all time, is "Never invest in a business you cannot understand". That may sound obvious, but it's all too easy to get caught up in the hype surrounding the latest fad. Buffett was widely criticised for not investing in dotcom businesses, and apparently thereby missing out on big gains. But he couldn't see how most of these companies were going to make money, and subsequent events proved him right.

Trust your instincts

You may not be – or indeed want to be – a dedicated follower of stock market news, or reader of company reports. But the fortunes of companies are closely linked to what is going on out in the real world, so a lot of useful information can be gleaned simply by keeping your eyes open. Does one particular store on the high street seem to be doing particularly well? Are all your friends raving about the appeal of buying from a new website?

To quote Warren Buffett again: "Why not invest your assets in the companies you really like? As Mae West said, 'Too much of a good thing can be wonderful'".

Buying and selling shares

It's often assumed that to trade on the stockmarket you have to have lots of experience and loads of money. In fact you can start with quite a modest amount, and with the right support and advice you can build up your experience as you go. Another way to start is by joining an investment club, where you share the risk and learn from each other.

In practical terms it's never been easier to buy and sell shares. Especially with firms like The Share Centre that specialise in looking after private investors. We offer you the option of trading by telephone, over the internet or by post.

To purchase shares, you simply tell your broker how many shares you want to buy, or how much money you wish to invest. Your order could be 'at best' – the best price available now – or you can specify a price limit above which you don't want to buy.

The same applies when selling your shares: you can either sell 'at best', or set a minimum price you'd accept.

The market's trading hours are 08:00 to 16:30, Monday to Friday, excluding Bank Holidays.

What does a share look like?

In the days before 'Big Bang' and the advent of the internet, shares nearly always came in the form of a paper share certificate. Some of these were works of art in their own right, and can change hands today for large sums – often far in excess of the worth of the sometimes questionable companies they represented!

Nowadays paper certificates are a rarity. If you own the shares directly the details will probably be held by the company registrar; you can register to check on your holding online.

If you invest through a stockbroker such as The Share Centre, then your shares will be held by them in a nominee account on your behalf. It used to be that nominee shareholders had fewer privileges than direct shareholders, but following lobbying by The Share Centre those discrepancies have now largely disappeared.

Not having a paper certificate removes the worry of it being lost or stolen, and also means you don't have to physically send in the certificate when you come to sell the shares.

When should I sell?

There's an old adage that "No one ever went bust taking a profit". It's almost impossible to time things so you sell out exactly at the top of the market, so you shouldn't lose sleep trying. One option is to set a target price at which you'd be prepared to sell – with a Share Centre trading account you can set a sale limit, and the shares are sold automatically when this price is reached.

You can also set a stop-loss limit, which automatically sells the shares at the next available price, when the price falls to a certain point – say 80% of the purchase price – to limit your losses.

A clever twist on this that is not offered by all brokers is called a tracking stop-loss. This sets a margin relative to the share price. If the price falls back from the peak by more than the margin then it triggers a sale. This means you should sell reasonably close to the peak price unless the price totally plummets.

Another strategy is top-slicing. This involves selling sufficient shares to recoup your initial investment, whilst leaving the gains invested with the hope that the share price will continue to rise.

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How much does it cost?

There are three broad categories of costs when it comes to buying and selling shares.

Taxes and levies

All UK share purchases are taxed with 0.5% stamp duty.

There is another less onerous charge: a levy of £1 on each transaction over £10,000, to fund the Panel on Takeovers and Mergers.

Dealing commission

Investors pay stockbrokers a commission for carrying out their sale or purchase. This can either be a percentage of the value of the shares being bought and sold, or a flat fee per deal.

Stockbrokers are required to publish their tariff in a way that doesn't require a degree in economics to work out. Some, like The Share Centre, offer you a choice.

Some tariffs charge you less the more you deal. Do make sure that you're likely to always meet the dealing threshold for a particular tariff, otherwise it could prove an unnecessarily expensive option.

Overall, you'll want to get value for money, but not find that a bargain basement price means bargain basement levels of service!

Account fees

It's only reasonable that there should be costs associated with having an account-based dealing facility. Often it's a quarterly subscription that provides for ongoing account administration, sometimes with extra facilities thrown in. With other accounts there are no direct fees, but the costs are effectively bundled in with the dealing commission.

The key thing is to understand what you'll be paying, and what you'll be getting for it. Ask other investors about the brokers they use, check out the regular surveys in the specialist investor magazines and – most importantly – talk to the brokers direct. Do they speak your language, and do you feel at home with them? After all, you're likely to be entrusting a considerable amount of your hard-earned money to them, so you want to be sure you'll get along.

A fund of ideas

If you don't feel comfortable about choosing individual shares yourself, then a fund can be an excellent alternative. By investing in a fund you will be spreading your investment – and your risk – across a number of shares, as well as drawing on the stock-picking expertise of specialist fund managers.

There are also funds that track a particular index, ensuring that your returns will broadly match whatever the market is doing.

You can find out more in our **Investing in Funds** guide.

Try our Practice Account for free

Still not feeling confident, not sure investing is for you, or simply want to test out some strategies? Then open a Practice Account. There's no trial period so there's no pressure; you can use the Practice Account for as long as you want, or need, to.

It's the easy, risk-free way to try the stockmarket and improve your investment skills. You'll get £15,000 of fantasy money to play the markets with, so you can:

- learn about investing and apply that knowledge to your Practice Account
- pick investments using our Advice team's Buy List and see how they perform
- track your investments over time to see if they perform how you expect
- try investing in different sectors to broaden your investment horizons
- experiment using stop-loss and tracking stop-loss limits

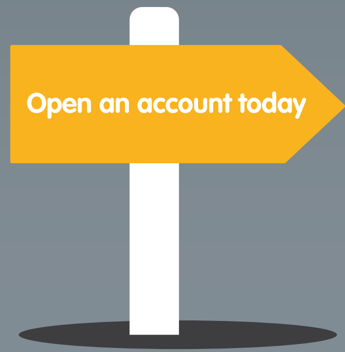
Next Steps

For further information on all of our accounts, features and charges, see the New to Investing section at www.share.com/guides.

We have a range of guides to help you get to grips with the world of investments too. Alternatively, you can speak to one of our customer service team who will be happy to answer any questions you have.

Please remember

Investing in the stock market is not for everyone. The value of investments and the income from them can fall as well as rise, and you may not get back your original investment. Tax advantages depend on your individual circumstances and the benefits of ISAs could change in the future.



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