thesharecentre:
simply easier

getting started

Your guide to
taking your first steps
in the stock market

first things first

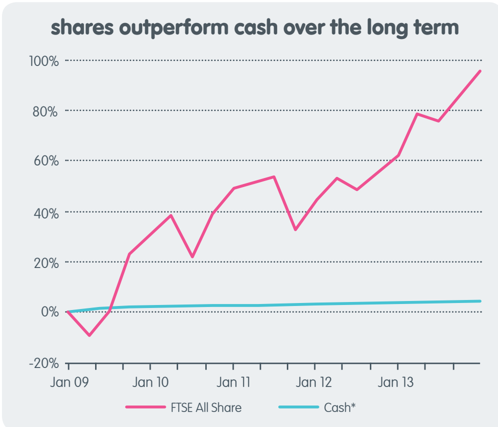
Welcome to our guide for new investors. We understand that if you've never done it before, investing in the stock market might seem daunting, so we're here to share our knowledge, insights and expertise to make it simply easier for you.

We'll give you a straightforward introduction to how it all works and an overview of the steps you'll want to take to start investing with confidence. When you're ready, head over to share.com where you'll find a wealth of practical investment tools, advice and information to help you make informed decisions and buy investments as easy as buying groceries.

Let's start off by outlining the benefits of investing and take a look at any concerns you may have regarding risk. We'll also talk a bit about how the stock market works.

Why invest in the stock market?

When investing your money, it has the potential to grow quicker than if you leave it in a savings account. Historically, this has certainly proved to be the case over the medium to long term, which is why most people's pension funds are invested in the stock market. Investing gives you a great opportunity to achieve your financial goals and build wealth.



Saving versus investing

We all know what saving is, but how does investing differ?

Saving

Putting money aside in a savings account is a convenient way to save for short term goals such as a holiday or rainy day money since it is relatively risk-free and you may get a stated rate of interest. However, if you leave cash in a savings account for a long period of time, you'll effectively end up losing money. Why? Because interest received on cash savings is relatively low and it's unlikely to keep pace with inflation (the rising cost of living).

Investing

On the other hand, investing gives you the potential to grow your money faster than inflation and savings accounts, albeit with higher risk. It's true that the value of investments can fall as well as rise, but if you're in it for the long term, your investments will have longer to recover if you suffer losses or the market takes a temporary dip.

So while saving takes care of the short term, investing can help you plan for the future by making your money work harder. It makes sense to have a mix of the two.

A calculated risk

As so often in life, when you invest in the stock market it's a question of striking a balance between risk and return. Driving a car can be risky, but for most of us, the benefit of being able to get from 'a' to 'b' so conveniently makes it worthwhile. It's the same with investing, but the beauty is you can choose the level of risk you are comfortable with. We'll help you with that on p8. In general, the more risk you are prepared to take, the higher your potential returns (or losses!).

Of course there's always a chance that you could lose some or all of your money if everything goes pear-shaped, especially if you choose high risk investments. However, if you follow good practice, there's no reason why you can't profit from the stock market like millions of others do every day.

About the stock market

So how does the stock market create opportunities for investors? Well, in order to grow and develop, companies need to invest money back into their own businesses. The world's stock markets provide them with an opportunity to raise money by selling parts of their businesses as shares. Just like a slice of cake, a 'share' is exactly that. If you buy one, you own a small share of that company and become a shareholder. Every day in the UK, hundreds of thousands of deals take place, trading several billion pounds worth of shares.

London Stock Exchange

Started in 1698, the London Stock Exchange is the main UK market, enabling investors to easily buy and sell shares in circa 3000 companies. Open from 08.00 to 16.30 Monday to Friday (excluding Bank Holidays), it supervises trading, facilitates transactions and provides information such as share prices and company announcements. There are a few other smaller trading platforms, the biggest of which is AIM (Alternative Investment Market) which enables smaller companies to trade their shares.

FTSE 100

Founded by the Financial Times and the London Stock Exchange, the FTSE indices (pronounced 'footsie') provide us with an indication of how different segments of the market are performing. The most commonly used is the FTSE 100 which tracks the performance of the 100 most highly capitalised (largest) companies, representing approximately 81% of the UK equity (shares) market. It started in 1984 at a base level of 1000 and fluctuates on a daily basis You'll often hear it mentioned in the news as an indicator of how UK businesses are faring.

Making money

It's why you're interested in the stock market after all! Let's talk about the two main ways of profiting from investing:

Capital Growth

Most investments' prices fluctuate due to supply and demand which is driven by performance, market conditions and the economy. For example, if you buy shares in a company which subsequently performs well, its share price is likely to rise due to more investors becoming interested. Your shares should then be worth more should you choose to sell them.

Income

Depending on what type of investment you choose, income can come from a variety of sources. For example, when companies make profits, many retain a portion to reinvest in their businesses and pay out the remainder to shareholders as dividends. These payments are usually quarterly or six-monthly.

What's your financial situation?

Take an honest look in the mirror. It's best to make sure that your overall financial situation is healthy before you start investing.

What can you afford to invest? You don't need lots of money to get going and it's better to start with a small amount than not at all. However, since there is risk involved...

Before investing:

- Set aside some rainy day money for any emergencies and short term spending needs.
- Pay off short term debts which have a high rate of interest.
- Consider protecting yourself and your family with life and income cover.

And when you start:

- Don't invest money which is critical to maintaining your day to day life.
- Don't invest more than you can afford to lose.

What are your investment goals and timescales?

If you don't know where you want to go, you'll find it tricky getting there! It makes sense to have some investment goals and an idea of how long you've got to achieve them. Don't worry if they're a little vague; it's good to have some flexibility.

There are many reasons why people invest. Here are a few examples:

- Build wealth for financial freedom
- Pay for your child's university fees
- Provide an income in retirement
- Speculate on the markets

Your life stage is an important consideration since the amount of time you have to achieve your goals will help determine your investment strategy.

How much risk are you comfortable with?

As we discussed on p4, investing involves a degree of risk, however you can take as much or as little as you choose. Bear in mind that your approach should be influenced by your financial situation as well as your mental attitude. Consider what type of investor you are:

Cautious

I'm only prepared to take a relatively modest amount of risk and am happy with the potential for profits which counteract inflation.

Intermediate

I'm comfortable with a moderate amount of risk which could give me profits over and above inflation, accepting there may be ups and downs along the way.

Adventurous

I'm happy to risk my money significantly in order to pursue high profits and am aware that the value of my investments might fluctuate considerably.

Just remember that if you are investing for the long term, you can afford to take more risk because, even if you suffer losses or the market takes a temporary dip, your investments have longer to recover. By investing a regular amount each month, you can smooth out any dips in the market since you'll be buying more when investment prices drop.

If you're unsure, there's nothing wrong with purchasing relatively low risk investments and then adding more risk to your portfolio as you grow in confidence and experience.

What will your strategy be?

Your goals, timescales and attitude to risk should all have a significant influence on your investment strategy.

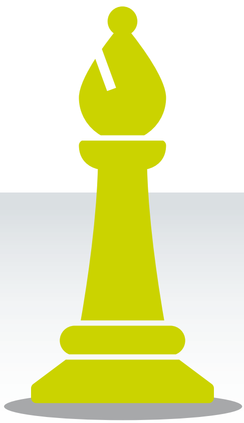
For example, if you've got 18 years to build up a university fund for your child, it's likely you'll want to adopt a 'growth' strategy, picking investments which have the potential to significantly increase in value over the long term.

In contrast, if you're about to retire and want to supplement your pension with your investments, a cautious 'income' strategy where you pick less volatile, income-generating investments might suit you better. Of course your situation may not be as clear cut as that. Some investors choose a 'balanced' strategy, potentially benefitting from both growth and income.

Hands on or off?

Do you want to actively manage your investments on a regular basis or be more hands off? On p11 we'll start to look at the differing investment types you can choose from.

If you have the time and inclination to really get stuck in and decide that shares are the investment type for you, you might consider a 'value' approach whereby you hunt for bargain shares which are currently overlooked by the market. Or maybe you'll be a growth chaser, spotting rising stars whose share prices are rising rapidly.



Other considerations

Some people like to follow an ethical or socially responsible investment strategy, considering companies' environmental and human rights policies and avoiding arms and tobacco companies for example.

There's also nothing wrong with investing in companies which are familiar to you. Maybe you'll draw confidence from investing in that supermarket chain which you've shopped at all your life, because you are familiar with them.

Practice investing for free!

Getting started in the stock market can seem like a big step, which is why our free practice account gives you the chance to get a taste for it without risking a penny. You'll get £15,000 of 'fantasy money' to invest in whatever you like and get a feel for how everything works. Our practice accounts aren't limited to a trial period, so you can play the markets for as long as you like. To register, just go to www.share.com/practice.

The sooner you start investing, the more money you could make in the long term.

Investment types explained

We've talked mostly about shares until now, however there's a variety of investment types for you to consider:

Gilts & Bonds

Gilts represent a loan from you to the (UK) Government and provide an income with a fixed rate of interest. Corporate bonds are similar, but are issued by companies and institutions. Although both are relatively low risk compared to shares, corporate bonds pay higher interest rates to compensate for the fact that companies are regarded as less secure than the Government.

Funds

With funds (OEICs and Unit Trusts), your money is pooled with others and invested by a Fund Manager for you. It's an easy way to diversify and spread risk whilst benefitting from your Fund Manager's experience. Check out our Platinum 120 range of funds and our sister company Sharefunds' three ready-made packages at www.share.com/funds.

Shares

By investing in shares, you'll directly own part of a company. Also known as stocks or equities, your returns are based on the performance of the individual company, as well as market conditions.

Exchange Traded Funds & Commodities

Listed and traded on a stock exchange similar to shares, ETFs and ETCs track the performance of indices, sectors or commodities. No matter if you want to track FTSE 100, the pharmaceuticals sector or gold, they can be a flexible and cost-effective way to invest.

With regards to risk, bear in mind that it's possible to buy both high and low risk funds, shares and ETFs depending on your preference. For example, shares in large, well-established FTSE 100 companies should be less risky than shares in smaller companies.

There are also many other higher risk investment types available, but they may not be suitable for new investors.

Ideas and research

As we all know, money doesn't grow on trees, so it's worth getting your hands dirty to make sure you pick the right investments for you.

Where?

You can find investment tips in all kinds of magazines, newspapers and websites these days. Not all recommendations will prove to be good, but some will.

The trouble is, which ones?! You'll find plenty of expert advice and information at share.com and on our blog at blog.share.com.

What?

Do your homework by checking an investment's past performance and what experts are predicting for its future (remembering that past performance is not necessarily an indicator of future performance). Research a company's financial situation at share.com and get to know the sector it operates in, or read our investment analysts' views. If you are unsure, consider investing in a fund so that you're not dependent on the fortunes of just one company.

When?

If you can invest in a trend ahead of the market, you could be on to a winner, but it's easier said than done. By drip-feeding money into investments regularly, you needn't worry about the timing of purchases. If you have any specialist knowledge of a company or sector, use it. For example, if you've noticed that your favourite shop is much busier than it was last year, then you might be on to something. Or could it be a closing down sale?! Do some digging around.

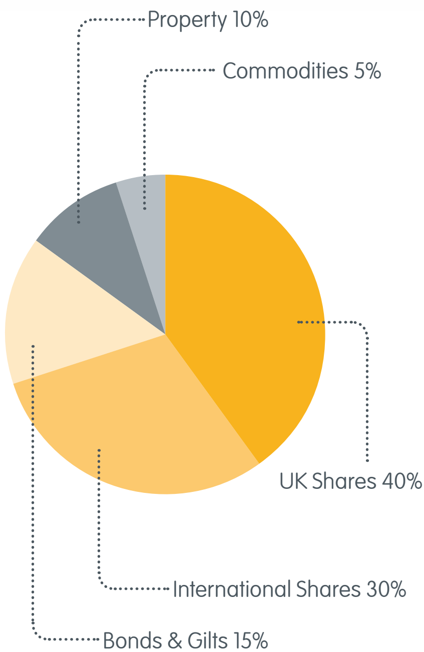
Don't put all your eggs in one basket

When choosing your investments, it's important to get the right mix so that you're not over-reliant on the performance of any one investment type, sector, country etc.

The pie chart (right) gives an example of how an intermediate investor looking for growth and income over the long term might diversify their portfolio by purchasing investments with varying levels of risk. It's not an exact science and will depend on your own personal goals, timescales and preferences.

If you only have a small amount to invest, dealing costs could have a significant impact on your returns. A single fund could easily and cost-effectively achieve the above mix. Why not consider our sister company Sharefunds' three ready-made packages of funds at www.share.com/fof.

If you're investing a more substantial sum of money, you might look at a broader spread of individual investments. Keep in mind that you have a choice of investment types, so if you wanted overseas exposure in your portfolio for example, you could buy shares directly in overseas companies, or buy a fund which covers the area.



Opening an account

Before you get started, you'll need to open an account to buy, monitor and sell your investments. Our Stocks & Shares ISAs and Share Accounts are similar to bank accounts, but they hold investments as well as cash.

To apply for an account, simply go to share.com and click 'open an account' or ring us on 08456 185 185 for an application pack. As soon as you've paid some money into your new account, you can start investing immediately!

Making a purchase

In contrast to houses, most stock market investments can be bought and sold quickly and easily. It's your choice whether to deal online, by phone, post or even in person at our office in Aylesbury. If you don't have a lump sum, you can invest regularly each month with our regular investment service which usually works out cheaper in terms of dealing commission.

If you are investing for the medium to long term, you don't need to worry too much about timing your purchases, especially if you are investing regularly on a monthly basis, however 'buy low and sell high' is a great (if obvious) principal to remember. Nobody can time the market perfectly, however if the price of your target investment is rising, you might want to get in quick to avoid paying a higher price than necessary!

What costs are involved?

The Share Centre is an execution-only stockbroker, which means that we'll simply buy and sell investments for you when you instruct us to. It's a very cost-effective way to invest, since you'll only have to pay dealing costs and account fees rather than expensive portfolio management charges. For more detail about costs, just go to share.com.

Ways to reduce costs:

- Invest monthly with our Regular Investment Service for cheaper dealing commission.
- Choose the dealing option which suits you best.
- Purchase one of our sister company Sharefunds' ready-made ISA packages, with no initial charge, dealing commission or account administration fees. Just visit www.share.com/isa.

Reduce risk with stop loss limits

A 'stop loss limit' is a very handy tool which enables you to limit your losses or safeguard profits if the price of your investment turns south. Your investment will be sold automatically if it's price reaches or drops below a level which you specify in advance.

Don't have sleepless nights trying to spot 'the next big thing'. Many investors purchase reputable investments and benefit from their success over the long term.

Stock market lingo

It won't take you long to get to grips with the stock market's unique language. In addition to what we've already covered in this guide, here are some more terms and phrases you might come across.

AIM
Alternative Investment Market - The London Stock Exchange's market for smaller companies.

Asset allocation
The process of dividing investments among different asset classes to spread risk.

Asset class
A type of investment, such as shares, funds or bonds.

Bid price
The price at which you would sell an investment.

Bid/Offer spread
The difference between bid and offer prices.

Blue chip shares
Shares in large, national companies with a record of success.

Bear market
A market with a prolonged period of declining share prices.

Bull market
A market where prices are increasing over time.

Capital growth
An increase in the market price of an investment.

Commodity
Raw materials such as base and precious metals, oil or agriculture products.

Dividends
Taxable, regular payments (from company profits) given to shareholders.

Equities
Another word for shares.

ETC
Exchange traded commodity. A fund which tracks a commodity.

ETF
Exchange traded Fund. A fund which tracks an index.

Flotation
The process of changing a private company into a public company by issuing shares for the public to buy for the first time.

FTSE100
Index made up from the largest 100 firms on the London Stock Exchange

Income
Money earned through investments (dividends, not capital growth).

Inflation
The upward price movement of goods and services in an economy.

Investment Trust
A fund with a fixed number of shares which is traded like a stock.

Liquidity
The ability of an investment to be sold quickly for cash.

OEIC
Open-Ended Investment Company - A fund with a variable number of shares.

Offer price
The price at which you would buy an investment.

Portfolio
A collection of investments, all owned by the same individual or organisation.

Retail stockbroker
A firm which offers brokerage services to individual investors.

Securities
Another word for shares / equities.

Unit Trust
A fund where investors money is pooled together and managed by a fund manager.

Yield
The amount paid back on a stock in the form of a dividend over the previous year or the effective rate of interest paid on a bond, both normally quoted as a percentage. Also, the distribution from a fund.

Investing checklist

- [ ] Review your finances
- [ ] Check how much you could afford to lose
- [ ] Think about your goals and timescales
- [ ] Decide your approach to risk
- [ ] Think about your strategy
- [ ] Research your investments
- [ ] Open an account at share.com
- [ ] Purchase your investments
- [ ] Review your investments on a regular basis

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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