

# The Stock Market for Beginners



JOHANNESBURG STOCK EXCHANGE  
Equity Market

## What is a share?

- If you own a share, you own a portion of a company. In the same way you can see your ownership of a company as a slice of pie, cut out of a bigger pie.
- Someone who owns one or more shares is called a **shareholder**.
- Shareholders may receive cash flows (**dividends**) if a company's board of directors declare that the company has performed well and has enough profit to distribute to its shareholders.
- A share in the company gives you the **right to vote** on decisions affecting the company.
- You can also call a share, '**equity**' or '**stock**'.



# What is the share price?

- The share price is the price at which a particular share can be bought or sold. The share price is determined by the supply and demand for a particular company's shares.

## Factors affecting the share price

- When you have **more buyers than sellers** for a particular company's shares, share prices usually **rise** because these shares are in demand.
- When you have **more sellers than buyers** for a particular company's shares, share prices usually **fall** because there are more of these shares available.
- If a company is very **profitable**, a share in that company will **more valuable** because more people think that it is a good investment.
- Factors such as **economic** and **political events** also influence share prices.



## How do I know which company to invest in?

- Do research on the stock market through regular reading of financial literature, attending investment courses and seeking a qualified expert's (like a stockbroker) advice.
- Assess the company's financial wellbeing by looking at their financial statements and reading analyst reports on the company.
  - This will enable you to make educated decisions on which companies to invest in.



## How do I know which company to invest in?

- Determine how much **risk** you want to take on, how much **return (profit)** you expect and which investment products meet your **needs**. Consult a stockbroker if you need additional advice.
- Try to be committed to this **investment objective**. Always remember that you should invest for the long run, e.g. have a 5 year investment objective.
- Determine how long you are prepared to **wait for a return** on this investment and be patient. If a share does not perform you may need to review your strategy.
- Invest with money that you do not need in the short run and can afford to lose, i.e. your disposable income after all your day to day needs have been taken care of.
- Although investing allows you to make a good profit you should also be aware of the **risk of losing money** in the short run.



## Are there different types of shares and investment products?

- There are various types of shares and investment products to suit different individual needs, for example conservative or “safe” shares versus riskier shares.
- A list of basic share investment products is included below:
  - [Ordinary shares](#)
  - [B-Ordinary shares](#)
  - [N-Ordinary shares](#)
  - [Preference shares](#)
  - [Exchange Traded Funds](#)



## What is RISK?

- Risk is the possibility of **losing part** or all of your initial investment or the **likelihood** of making a **profit that is less** than what you **anticipated**.
- Different securities or products have different levels of risk.
- Securities that are regarded as **lower risk** securities include:
  - **Cash** in a bank or money market account that earns interest;
  - **Government bonds** (an interest-paying debt instrument issued by the government with a redemption date of one year or more after its issuance);
  - **ETFs** (even though similar to shares).
- **Higher risk** securities include:
  - Shares, warrants, derivatives and corporate bonds



## Is there a risk involved when investing in shares?

- Investing on the stock market is **riskier** than some other investments. The reason for this is that share prices **rise and fall** all the time as economic and market forces change.
- However, the **higher risk** involved also means that you have an opportunity to make a **greater profit**. Usually, higher risk means a higher return (profit).
- It is important to realize that share trading normally does not make you rich overnight, but that it should be treated as a long term investment.



## Can I minimize the risk of my investment?

- You can minimize your investment risk by **diversifying** your investment.
- To ‘**diversify**’ means to invest in a **variety** of different investments. To protect your investment you should avoid putting all your ‘eggs’ in one ‘basket’. When one company’s share price doesn’t perform well, you can still benefit when your other company’s share price does well.
- Consider choosing your investments from a variety of sectors, companies and investment products.
- To help you with this decision consider regularly reading financial literature, attending investment courses and seeking a qualified expert’s advice.



## Is it difficult to manage my investment portfolio?

- Certain investment products require little or no management. However, always be sure to **be aware** of how your investments are performing.
- Stockbrokers also offer different types of **services** to help you manage your investments:
  - **Discretionary** – all investment decisions are made by the stockbroker without checking with you, but is made inline with an agreed objective.
  - **Non-discretionary** – all investment decisions are made by you, after the stockbroker has given the necessary advice.



## Is it difficult to manage my investment portfolio?

- **Inexperienced** investors and even **seasoned** investors can look at a **single investment product** that offers you exposure to a wide variety or ‘basket’ of shares, bonds and even gold. This product is known as an [Exchange Traded Fund \(ETF\)](#).
- ETFs are fairly easy to do research on (as opposed to researching numerous companies), offer **lower costs** and are able to **spread your risk** across a variety of shares, bonds and gold.
- However, Exchange Traded Funds do not offer you direct voting rights, as is the case of with ordinary shares. You still however gain the benefit of receiving **dividends** in some instances.



## Do I need a lot of money to start investing?

- You **don't need** a lot of money to start investing on the stock market as there are many investment products available to **suit everyone's pocket**.
- Some products, like Exchange Traded Funds (ETFs), offer investment plans where a monthly debit order (minimum of R300) or once-off lump sum (minimum of R1000) investment can be made.
- Stockbrokers don't always require a **minimum investment** amount. With online share trading now widely available, you are able to invest any amount on the stock market via the internet.
- However, be aware that stockbrokers do charge fees and that it makes sense to invest an amount where the costs that you pay aren't bigger than the amount you're investing.
- For a list of stockbrokers that deal with individual investors, [click here](#).



## How do I gain access to the stock market?

- To buy or sell shares on the Johannesburg Stock Exchange (JSE) you need to open a brokerage account with a [stockbroker](#).
- To find out how to open a brokerage account, [click here](#).
- Buying and selling ETFs does not require a brokerage account. You can contact the ETF provider directly to invest in these investment products. However, owning a brokerage account allows you to invest in all kinds of investment products, not only ETFs.



## Some things to consider

- Invest an amount that makes sense in comparison to the amount of brokerage fees that you'll be paying.
- Plan your investment objective, exercise self-discipline (commit to your long term investment strategy) and remember to monitor your investment performance.
- Steer away from borrowing money to invest, especially if you are not sure whether the profit you will be making on the investment will be able to repay your interest on the loan and your loan over time.
- Exercise patience and do not become emotionally attached to your investments. Some days your investment will make money and other days it will lose money.
- Ensure that you try to diversify your portfolio.



# Here's to successful investing!

