5 THINGS YOU NEED TO KNOW ABOUT SHARES

PERPETUAL
04/03/2020

We frequently hear women admitting that they want to buy shares, but don't know enough about them to invest. This is reflected in the fact that only 31% of Australian women invest in shares, compared to 44% of Australian men [1]. In this article, we aim to close the educational gap and empower more women to make an informed decision about investing in shares.

1. **Shares represent a stake in a company**
   Shares, also known as equities or stocks, are units of ownership in a company. When you buy a share, you become a part owner or 'shareholder' of the company. This means you often have the right to vote on members of the board of directors and other important matters facing the company. If the company distributes profits to its shareholders – called dividends – you will likely receive a proportionate share.

   Companies issue shares to the public for many reasons, one of the main ones being to raise money to fund their business growth. A share is a way to trade a stake in that business with other people.

   Generally, the more profitable a business is, the higher the value (or higher the cost) of that share. Of course, you can't expect the company to pay out all its profits in a form of a dividend as this may come at the risk of future profitability and a lower share price.

   A marketplace for shares
   The 'sharemarket' is literally a marketplace where buyers and sellers come together to work out a price by bidding for it, much like a fruit or cattle market. There are no tangible or physical goods exchanged in the sharemarket. This means people can come together from all walks of life, from all locations and varying levels of investment experience to trade in an electronic sharemarket.

2. **Not all shares are created equal**
Shares come with certain rights including the voting rights to which investors are entitled. The level of corporate control depends on whether the share is ordinary or preferred and on the size of your shareholding.

    - **Ordinary:** Ordinary shares represent most shares held by investors. When you own an ordinary share of a company, you usually have one vote per share that entitles you to participate in the election of the board of directors.
    - **Preference:** Despite their name, preference shares have fewer rights than ordinary shares, except in one important area – dividends. Companies that issue preference shares usually aim to pay consistent dividends and preference shareholders have first call (dibs) on dividends. If a company is liquidated, preference shareholders have prior claim to assets over ordinary shareholders. This feature allows the company to raise capital from venture capitalists before it goes public because most venture capital deals are structured as preference shares.
    In addition to shares being classified as either ordinary or preference, you may have heard of terms like 'bluechip' or 'growth' to describe certain shares. The appendix provides an overview of the different types of shares available.

3. **There are two key benefits of investing in shares: capital gains and income**
Generally, there are two reasons why people buy shares. The most common reason is to buy shares at one price, and then sell them at a higher price. This is called capital gains. Historically, shares have provided some of the strongest after-tax investment returns over the long term.

    The second most common reason is to earn income in the form of dividends from your shareholding (this is generally a share in the company's profits). Dividends are usually paid out twice a year. Unlike term deposits, dividends from shares can have inflation built into earnings where companies are able to pass cost increases onto customers.

    Other benefits of investing in shares**:**

    - **Many are highly liquid** which means they can be converted into cash quickly and with minimal impact to the price received. Unlike other investments such as residential property, transfer of ownership and the movement is relatively easy.
    - **Many have tax advantages** of investing in shares through the 'dividend imputation system' which allows investors who have been paid a dividend to take a personal tax credit (franking credit) since the company has already paid tax on the dividend.
    - **Your liability is limited** is to the amount invested in the company. If the company is sued and loses, creditors can't come after your personal assets.

4. **Shares often come with higher risks – and return potential when compared to other investments such as term deposits or bonds**
Shares are often on the higher end of the risk and return spectrum when compared to cash, bonds and residential property. A share price will generally rise when people value the shares in that company (demand is high) and/or offer increasingly higher prices to buy shares in that company.

    Note: there is no guarantee that shares will rise in price while you own them. The main risk of owning shares in a company is that the company doesn't perform well, the share price falls and your share value drops or if the company folds, you could lose all your money.

    Other risks of investing include:

    - Industry risks - Disappointing profits and dividends, management changes and a reassessment of the outlook for the company or industry.
    - Country risks - International shares are influenced by global economic trends and country factors such as the local political environment and laws. These investments also carry currency risk for Australian investors.
    - Gearing (when companies take out a loan, it's the ratio of debt and equity) risks - The value of geared companies may be affected by increased borrowing costs or a change in interest rates.
    Like any investment, investing in shares carries risk and we suggest this is something you need to first assess the risk with a financial adviser or accountant.

5. **You can invest in shares through a financial adviser or an online broker**
Generally, the buying and selling of shares requires the service of either a financial planner or you can invest direct through an online broker or platform. You cannot usually call up a company to ask if you can buy a share in their company. We explore the difference below:

- **Financial adviser –** can trade on your behalf as well as provide qualified personal advice. They will generally take the time to get to know your financial and life goals (weighing up factors such as lifestyle, risk tolerance, income, assets and debts) to help you develop a long-term financial plan and recommend shares and/or funds that best suit you. In addition to investment services, they can often also assist with estate planning, tax advice, retirement planning and budgeting – called 'full service'.
- **Online brokers / platform providers –** typically don't take the time to get to know you or offer personal advice. They just take your orders and you manage your own investments.

Cost of investing in shares

Regardless of whether you invest directly in shares through a platform, or in managed funds through a financial adviser, whenever you buy and sell shares in a market, you pay brokerage for each trade; this is a transaction fee for executing your desired trade. Buy/sell spread fees and other fees may also apply.

If you engage a financial adviser they will need to provide additional information on fees and costs. Their Financial Service Guide (FSG) and advice document must contain information about all fees, services, as well as your rights as a client.

Final thoughts

Did you know that most assets owned by young Australian women are in cash and often sit almost idle in a savings account? Statistically, women are less likely to invest and if they do, they do it later than men which means females are reaping the benefits of compounding later in life.

Investing in shares is a big decision. You need to ask yourself:

- What is my time frame for investment?
- What return do I want to achieve?
- What level of risk am I prepared to take?
- Do I want income from dividends or capital growth in the value of my shares?

Investing early may help you achieve financial independence and assist you in reaching your financial and life goals for example, such as saving for a comfortable retirement.

To learn more about why you should invest your savings, read this article.

1. https://www.abc.net.au/news/2019-05-24/why-are-fewer-women-investing-in-shares/11139454

Appendix

Type of share	Description
Cyclical	• Issued by companies affected by ups and downs in the overall economy • These shares typically relate to companies that sell discretionary items that consumers can afford to buy more of in a booming economy and will cut back on during a recession • The share prices tend to fall during periods of economic recession and rise during economic booms • Shares in mining, heavy machinery, communications, financial, health care, technology, transportation and home building companies are often regarded as cyclical
Defensive	• Utilities and consumer staples tend to be stable and not affected by cyclical market movements, since demand for their products and services continues regardless of the economy

	• Companies producing staples such as food, beverages, pharmaceuticals and insurance are often regarded as defensive shares • For investors, defensive sectors provide a balance to portfolios and offer protection in a falling market
Blue chip	• Issued by companies with long histories of growth and stability • Blue chip shares usually pay regular dividends and generally maintain a fairly steady price trend
Income	• Have historically paid larger dividends, compared to other types of shares • This type of share can be used to generate income without selling the shares, but you need to take into account the cost of the share relative to its typical dividend
Growth	• Issued by entrepreneurial companies experiencing a faster rate of growth than their general industries • These shares may pay little or no dividends if the company needs most or all of its earnings to finance expansion

Why do share prices change?

Preparing to invest

When you've made the decision to invest you should ask yourself:

- what amount of money am I comfortable investing? (which *may* mean losing completely)
- what are my long-term and short-term lifestyle and financial goals?
- where should I invest my money? (ie sharemarket, bonds, property)

Qualified financial advisers exist to help you figure out answers to these questions, work out how realistic they are, as well as also investing your money for you. You will pay a fee for them to do so. For large sums of money, we advise getting in contact with an adviser.

To some extent you can also invest yourself (hoorah!), even if you're self-directed investor you most likely will need to engage a stockbroker, read on to learn why.