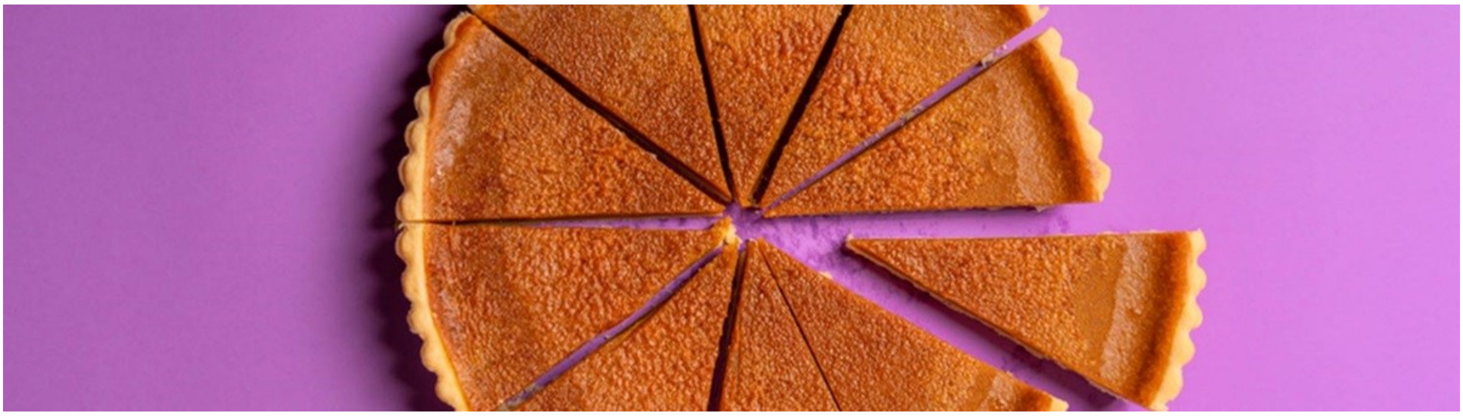
WHAT ARE SHARES?



PERPETUAL
04/03/2020

What are shares?

A share (or a stock) represents part ownership in a business. Generally, the more profitable a business is, the higher the perceived value (or higher the cost) of that share. A share is a way to trade an ownership stake in that business with other people. The 'sharemarket' is literally a marketplace where buyers and sellers come together to work out a price by bidding for it, much like a flower 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.

Why should I buy shares?

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. 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.

A share price will generally rise when people value the shares in that company (i.e. demand is high) and/or offer increasingly higher prices to buy shares in that company. Please note, although this sounds great and simple, there is no guarantee shares will rise in price while you own them. The main risk in playing in the sharemarket is owning shares in a company that fails, which often means their share price drops or becomes worthless. Investing in the sharemarket is not a guarantee of wealth and like any other investment, they carry a degree of risk and this must be something you assess with every different investment you make.

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 it completely)
- what are my long-term and short-term lifestyle and financial goals?
- where should I invest my money? (i.e. 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 larger sums of money, we advise getting in contact with an

[adviser]

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

Why do shares exist?

When a company first issues shares for sale, this is most often called a float or initial public offering (IPO). One of the main reasons why a company may 'float' on the sharemarket is to raise money and/or give existing owners an exit for their early investment in the company. After the 'float', shares for that company will be available to buy (and sell) on the sharemarket.

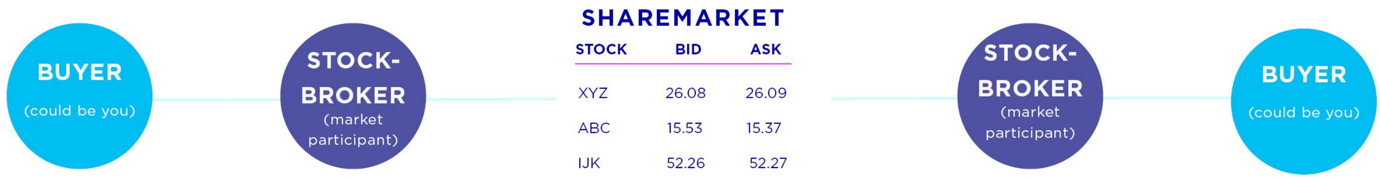
A summary:

1. Company A decides to float
2. Company A issues a prospectus with details of the company
3. Investors (this could be you) reviews the prospectus to determine if it's a suitable investment for them
4. If suitable, investors (again, this could be you) purchase shares and are thus part owners in Company A
5. Company A can use the invested funds to expand and grow and pay dividends.

The sharemarket thus becomes the vehicle where the two parties (the company and the investor/s ie again, could be you) come together to organise how many shares they want to trade and the price in which they do so.

Okay, so why do I need a stockbroker?

An important thing to know is that generally, the buying and selling of shares requires the service of a stockbroker (this may be via an online platform like CommSec or it could be a representative of a full-service broker). You cannot usually call up a company to ask if you can buy a 'share' in their company.



There are two main types of stockbrokers

1. **Full-service brokers**
   These brokers (or financial advisers) will trade on your behalf as well as give qualified advice. They generally will take the time to get to know you personally and financially, they will weigh up factors such as lifestyle, risk tolerance, income, assets and debts, they will generally help you develop a long-term financial plan. Not only will these advisers help you with your investment needs, they can also assist with estate planning, tax advice, retirement planning and budgeting, hence the term 'full service'.
2. **Online/discount brokers**
   Online or discount brokers will not take the time to get to know you, nor will they offer advice and are basically just order takers. The cost of these brokers is usually determined on a per-transaction basis and you can typically open an account over the internet with little or no money. Once you have an account with an online broker, you usually just log on to the platform/website and into the account you've set up. You will then be able to buy and sell stocks instantly. Remember that since these types of 'brokers' provide no investment advice or help, you are own your own to manage your investments.

What costs are involved

If you engage with a financial adviser (or full-service broker) they will provide you with their Financial Service Guide (FSG) which must contain information about their fees, services, as well as your rights as a client.

Whether or not you engage full service or online, when you buy and sell shares in a market, you pay brokerage for each trade, this is the stockbroker's fee for executing your desired trade. You will need proof of identity and tax file number (TFN) to get started. Again, the exact cost is determined per-trade.

When you buy or sell shares, each individual transaction will incur a brokerage fee in addition to the price of the shares themselves. This means the less you invest, the more the fees will be as a percentage of your total investment.

> e.g. if brokerage costs you $19.75 and you buy $650 worth of shares, brokerage will represent 3.04% of your total investment.

And if brokerage costs you $19.75 (the same amount) and you buy $1,000 worth of shares, brokerage will represent 0.40% of your investment.

If you initially invest a smaller amount of money, the company you invest in may have to perform far above the 'average rate of return' for you to make enough money to even cover your costs (in this case, your brokerage fees). On the other hand, it is important to note participating in the sharemarket is risky, and the more money you invest the more risk you are taking.

How much money do I need to start investing?

Most brokers require the first trade to be at least $500, which is often referred to as the 'minimum marketable parcel of shares'. While technically, there is no minimum order-limit on the purchase of publicly traded company's stock, it's advised you buy a block of stock with a minimum value of $500 to $1,000 because no matter what online or offline service or broker you use to purchase shares, there generally will always be brokerage fees and/or commissions on the trade.

Okay, I'm ready to buy shares, what's next

First, let's look at what the sharemarket looks like.

It can be daunting logging into a broker's website for the first time. The table below is an example of what you may typically see on broker's website. The below refers to the "market depth" of a share i.e. the number of buy orders and sell orders people have placed into the market.

This column shows how many shares (at the price in the 'Bid' column) people are looking to buy	These two columns show you what people are willing to buy the shares for (the 'Bid') and what others are willing to sell for (the 'Ask' column)		This column shows how many shares (at the price in the 'Ask' column) people are looking to sell
Quantity	Bid (the buyers)	Ask (the sellers)	Quantity
750	$1.24	$1.26	700
3,000	$1.24	$1.26	3,000
20	$1.22	$1.27	400

To start you will need to ask:

- the price you are willing to pay
- how many shares are available to buy at that price
- the type of order

Once you're ready to buy shares and have engaged the broker of your choice (i.e. financial adviser or a trading platform like CommSec) you will place an order. Generally, when you place an order you will be emailed an order confirmation. If the trade is confirmed or executed you will receive a contract note. This confirmation will show the details of the trade (or 'order'), including the amount you need to pay (if you're buying) or receive (if you're selling) upon settlement in trade plus two day's time. Once you settle the trade you have become a shareholder of that company.