Learn the basics >

INVESTING IN SHARES.

BELL POTTER

Bell Potter Securities is a leading Australian stockbroking, investment and financial advisory firm that provides a comprehensive offering of financial services to a diversified client base that includes individuals, institutions and corporations.

Founded in 1970 by Colin Bell, Bell Potter has grown to a total staff of 600 and operates across thirteen offices in Australia and has offices in London and Hong Kong.

Bell Potter is a part of the Bell Financial Group of companies (ASX:BFG).

TABLE OF CONTENTS

INTRODUCTION

For a beginner investing in the share market, starting up can be an overwhelming task.

However with a well-planned strategy, investing in the share market can be one of the best platforms to achieve your long-term financial objectives and grow your wealth.

Wealth begins with knowledge. This guide aims to provide you with a basic understanding of the share market and answer some questions that are likely to cross your mind, in order to give you the ability to participate more confidently and actively in the share market and help you achieve your long-term financial goals.

SO, WHAT ARE SHARES?

Put simply, a share is a unit of ownership in a company.

When you buy a share, you're entitled to a small fraction of the assets and earnings of that company. Assets include everything the company owns (buildings, equipment, trademarks), and earnings are all of the money the company brings in from selling its products and services.

If the company performs well, you can benefit from share price growth and/or income paid as dividends. Equally, if the company performs poorly, your shares could decrease in value and/or the company may pay no dividends.

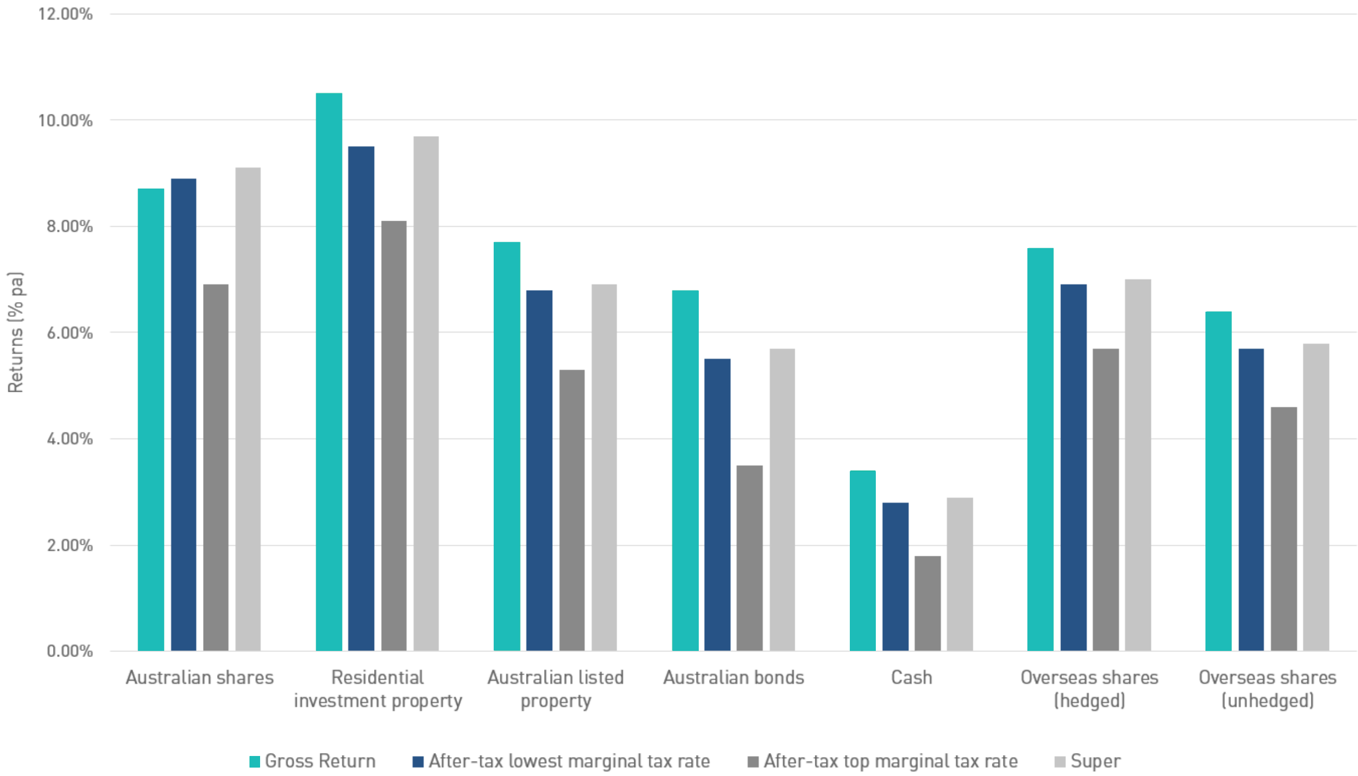
Shares are also sometimes known as equities, securities or stocks.

BENEFITS OF SHARES

So, why would you invest in shares?
The answer is very simple: To build wealth over the long term.

Over the past 20 years, Australian shares and Australian residential investment property continue to be the top two asset classes with Australian shares returning 8.7% p.a. and Australian residential property returning 10.5% p.a. (based on gross returns).

FIGURE 1
ASSET CLASS INVESTMENT RETURNS FOR THE 20 YEARS TO 2015



Source: Russell Investments / ASX Long Term Investing Report May 2016.

Note: All returns are net of costs. Past performance is not a reliable indicator of future performance.

Some key benefits of shares include:

CAPITAL GROWTH	-	Capital growth is the increase in value of an asset or investment over time.
	-	It is measured on the basis of the current value of the asset, in relation to the amount originally invested in it.
	-	People invest in shares because the share price might rise.
	-	For example, if you purchased a share in Company X for $1.50 and one year later the share is trading at $2.00, this means every one share you hold in Company X is now worth $0.50 more than your initial investment.
DIVIDEND INCOME	-	A dividend is a payment by a company to its shareholders, usually as a share of profits.
	-	Some companies pay dividends regularly, others pay occasionally or not at all. Some companies also allow you to reinvest dividends into new shares.
	-	It is worth noting that many dividends have franking credits attached to them which can enable investors to receive tax benefits where applicable.
POTENTIAL TAX BENEFITS*	-	ASX-listed shares are easy to buy and sell in comparison to unlisted shares, property and term deposits.
	-	When you sell a share for a higher price than the amount you paid for it, the excess amount is called a capital gain. This amount is taxable.
	-	If you have held those shares for 12 months or more the tax payable on your capital gain may be discounted by 50%. Simply put, this means you pay less tax on it.
	-	If you buy and then sell some shares that make a loss, the capital loss can be offset against any capital gains or carried forward (if you have not crystallised any profits in that tax period).
	-	Holding shares in a superannuation fund may provide additional tax benefits, including a maximum rate of tax of 15%. However, gaining access to superannuation is determined by an investor's age.
DIVERSIFICATION/ MINIMISE RISK	-	You can minimise risk through diversification by spreading your investment across different asset classes, industry sectors and companies.
	-	Diversification helps you to protect your portfolio against potential losses that arise from business and financial risk.
LIQUIDITY	-	Shares are considered highly liquid assets because they can be easily sold on the share market and converted to cash when compared to direct investments like property, which usually take a longer time to transfer ownership and attain funds from the sale.
	-	It is also important to note that some shares are more liquid than others, and there is no guarantee your shareholdings will be sold when and at the price you want.

THE SHARE MARKET

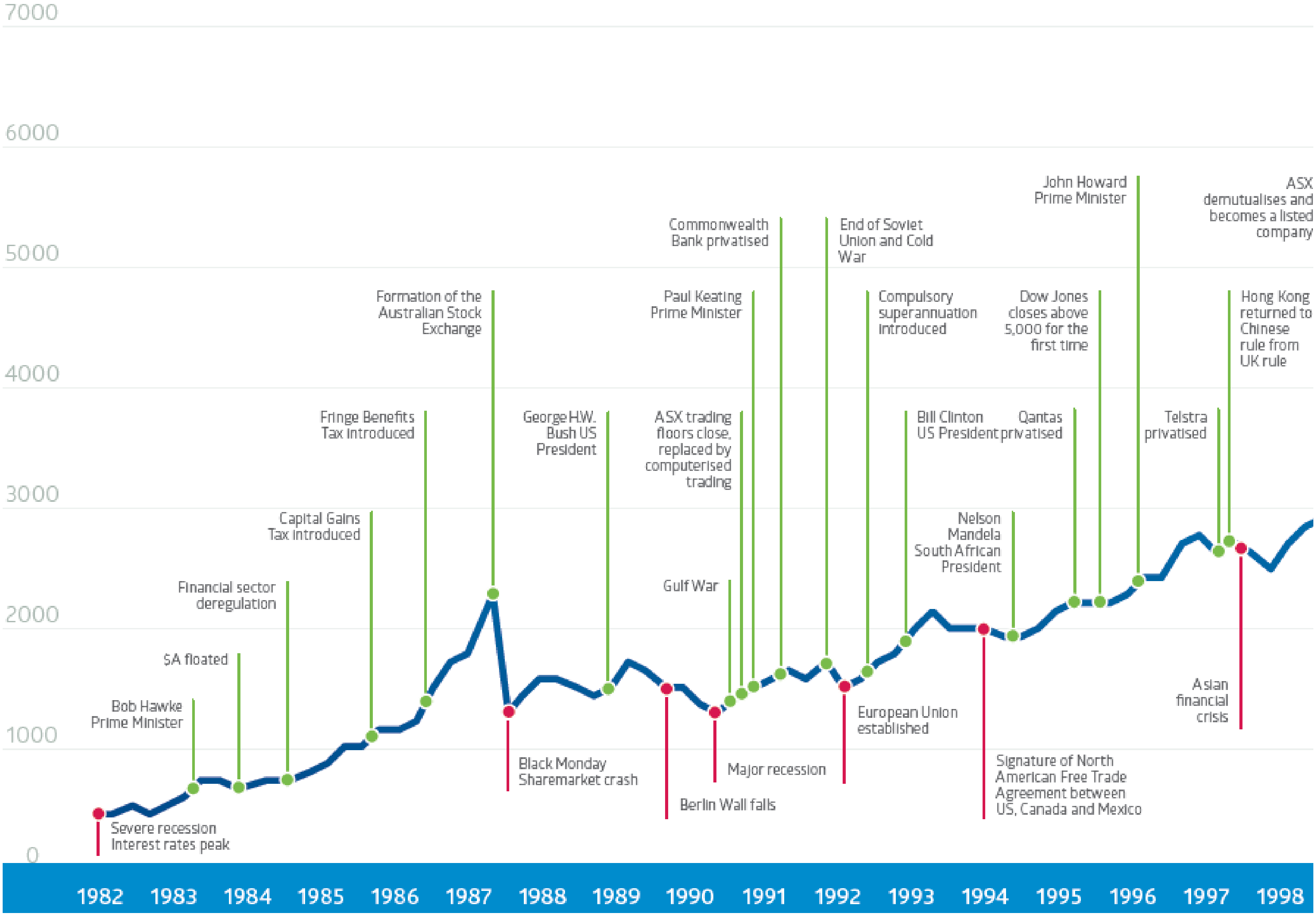
WHAT IS THE SHARE MARKET?

When you buy shares, there is someone on the other side who is selling those shares (and vice versa). The share market provides the means for the two parties to organise how many shares they want to trade and the price. Some examples of share markets include the Australian Stock Exchange (ASX), NASDAQ and the London Stock Exchange.

WHAT IS THE 'ALL ORDINARIES'?

The All Ordinaries is the Australian benchmark index that tracks how the Australian share market as a whole is performing. It comprises approximately 500 of the largest companies on the ASX. Other country equivalents are the S&P 500 (US), the Nikkei (Japan), the FTSE (UK) and the Hang Seng (Hong Kong).

FIGURE 2
AUSTRALIAN SHARE PRICE MOVEMENTS 1982-2014



Source: ASX

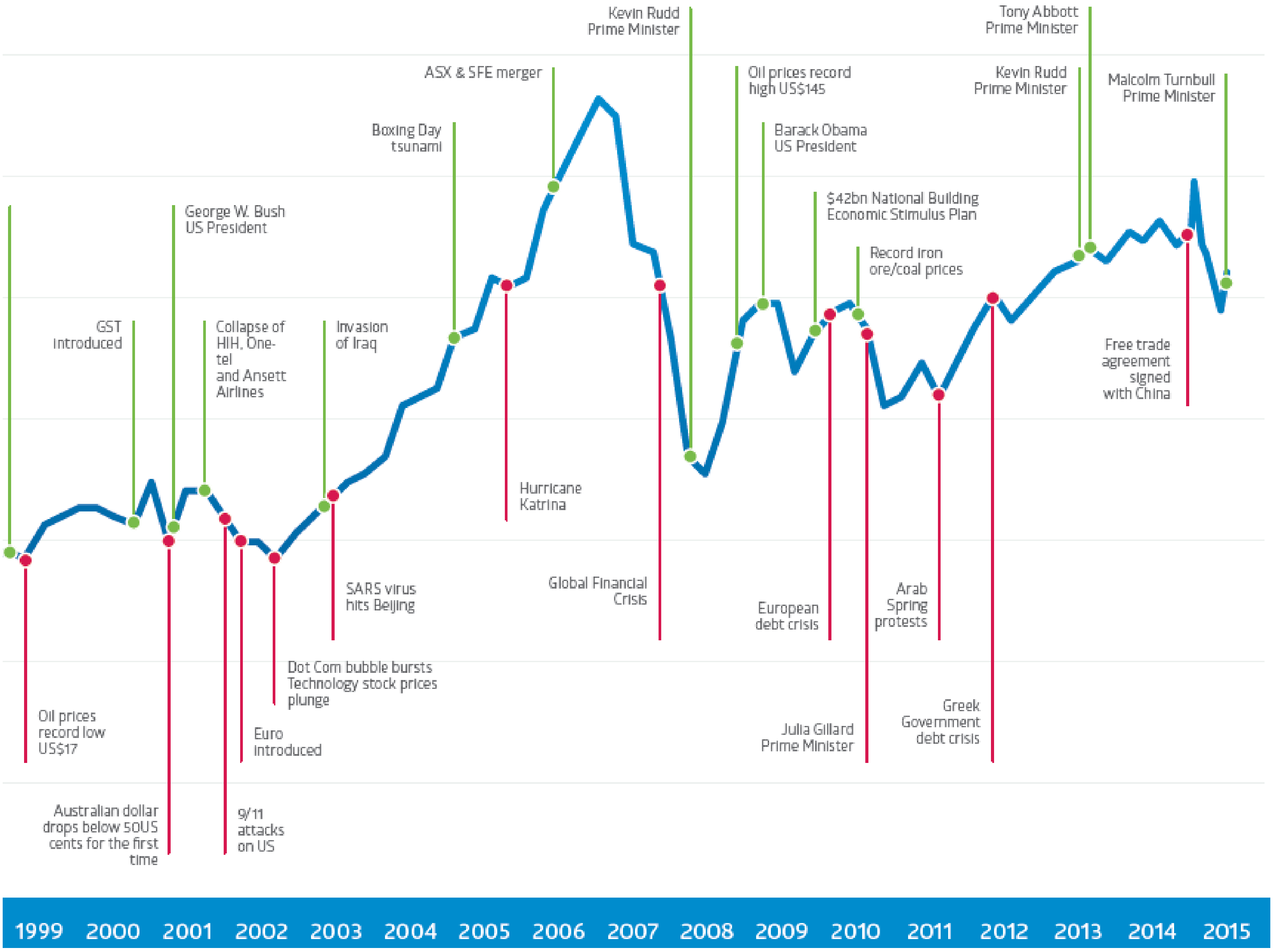
WHY DO SHARE PRICES GO UP AND DOWN?

The share market is a marketplace like any other – the forces of supply and demand determine the price of shares. The more people who want to get hold of a particular share, the higher its price will go. The more people who want to get rid of a share, the lower it will go. The share price you see in the business pages of the newspaper is the last price traded on the previous business day.

WHO ARE SHAREHOLDERS?

You are a "shareholder" if your name is entered on a company's share register as being the holder of one or more shares in the company. Your rights as a shareholder are set out in the Corporations Act 2001 and in the company's constitution.

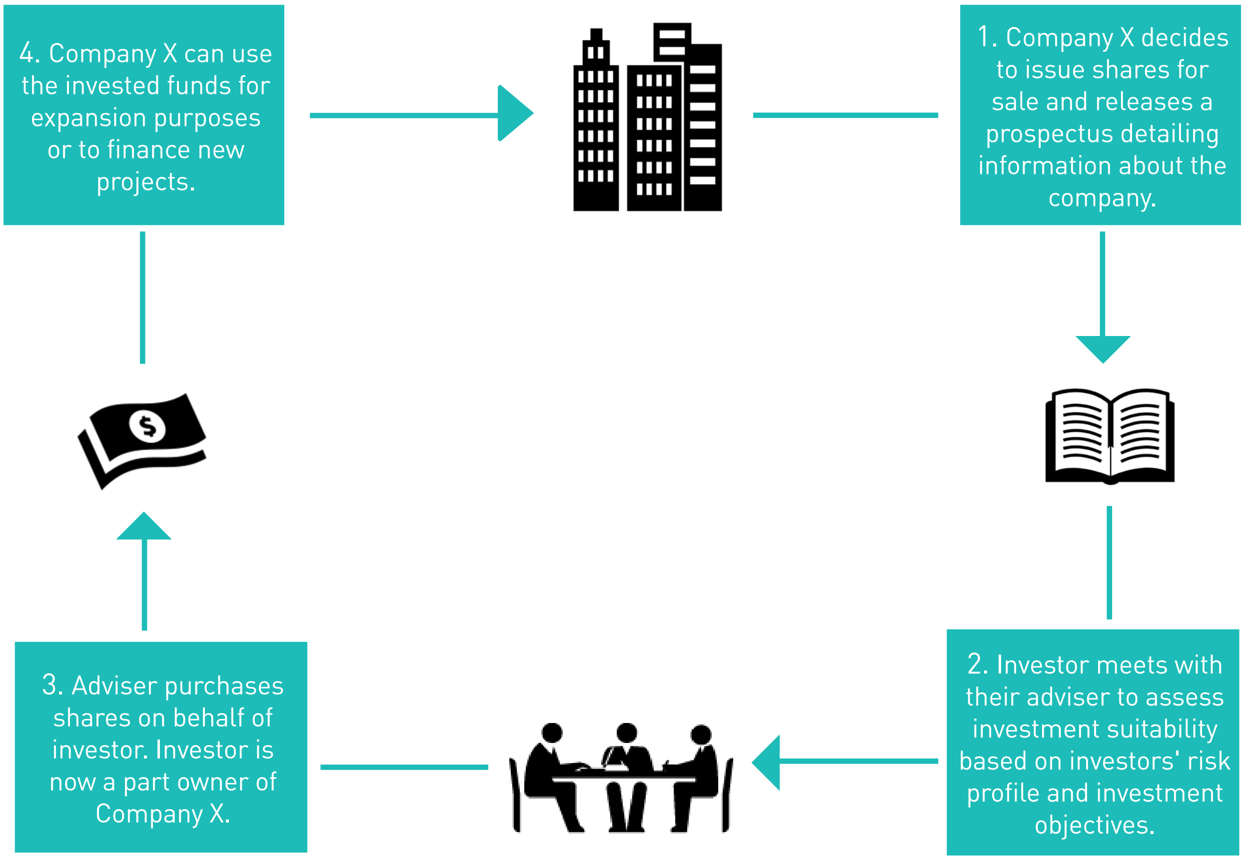
While the day-to-day management of the company is the responsibility of the company's board of directors, the shareholders may exert a significant indirect influence by exercising the rights and powers available to them.



BUYING AND SELLING SHARES

The most common way to buy and sell shares is on the share market using a stockbroker or online broking service.

FIGURE 3
HOW INVESTORS PURCHASE SHARES IN A NEW COMPANY LISTING ON THE SHARE MARKET



USING A STOCKBROKER

Investors choose whether they would like to use an online broker or a full service broker.

Online broker

An online broker performs the task of buying and selling shares on your behalf upon your instruction.

Full service broker

A full service broker provides investment advice and helps you decide which shares to buy and sell based on your investment objectives and risk profile.

PAYMENT

When you buy and sell shares on the share market, you pay 'brokerage' for each trade. This is the stockbroker's fee for executing your trade.

Based on your account, investment options, portfolio reports, and level of advice, you may be charged additional fees.

SETTLEMENT

To "settle" your shares is industry jargon for saying "to pay for".

The current rule for ASX settlement is T+2. That means, two business days after you make a purchase (or sale) the trade is settled. On this day you will be required to pay for (if buying) or will receive the money (if selling) from your transaction.

SHAREHOLDING FORMAT

When you buy a share you are able to sell it instantly as most shares are now held electronically. Instead of certificates, you are allocated a number which corresponds to your specific shareholding. There are two numbers you can choose to be allocated.

Security Holder Reference Number (SRN) - Is a 10 digit number preceded by the letter "i". This means your share is "held" by the share registry and this number is specific to your exact shareholding in that specific company. If you only use SRN's, you will have a different SRN for every company you hold shares in.

Holder Identification Number (HIN) - Is a number that is preceded with the letter "X". This means your shares are held with your stockbroker. You still have complete ownership and access to your holding. Using a HIN is easier than using SRN's, especially if you only use one stockbroker, as you can hold as many shares as you like on one HIN, making administration of your portfolio much easier.

PAPERWORK

When a trade takes place you will receive an order confirmation, also known as a trade confirmation. Trade confirmations will have the details of the transaction, including the specific shares being bought/sold and the amount you need to pay/receive. It is important that you carefully check these details.

FULL SERVICE STOCKBROKING

There are a number of reasons why first time investors should choose full service investment advice.

Some key advantages of full service advice include:

PERSONAL ADVICE	Advisers can help you with a tailored plan for investing in the share market to suit your individual needs by taking into account your investment profile, goals, risk tolerance and what shares and sectors you are interested in.
EXPOSURE TO DIFFERENT TYPES OF INVESTMENTS	Experienced and qualified advisers can find opportunities overlooked by online brokers and advice based on algorithms.
HELPS KEEP YOU ON TRACK	An adviser helps you stay on track with your financial plans and goals as your circumstances change.
ACCESS TO MARKET RESEARCH	Advisers have access to high quality research such as company review reports, sector analysis reports and regular market and economic commentary. This puts advisers in a better position to seek out investment opportunities and add value to your portfolio.
PRICE & DEPTH DETAIL	Advisers can also give you specific price and depth detail as they have the market depth in front of them (the list of buyers and sellers currently in the market) and can therefore assist in achieving the optimum price to buy or sell your shares at.
CIRCUMSTANCES CHECK-UP	You need to remember that your circumstances will change. Marriage, divorce, buying a house, a new child, children's education, redundancy, retirement and getting an inheritance all have an effect on your lifestyle. These events can also require changes to your investment strategies and goals. An adviser can help you make the necessary adjustment as your circumstances change.
ADMINISTRATION	Your adviser can assist with portfolio administrative tasks such as: - Deceased estates - Off market transfers - In-specie contributions to super funds - Change of trustee, banking details, contact details, and - International stock transfers.

GETTING READY

Successful investing starts with an asset allocation suitable for its objective and time frame. Investors should establish an asset allocation using reasonable expectations for risk and returns, and diversify investments to help limit exposure to unnecessary risk.

CREATING APPROPRIATE INVESTMENT GOALS

Investors should create measurable and attainable investment goals before they start investing.
An adviser can help you answer these fundamental questions:

1. **What are your goals for short, medium and the long term?**

   Short term – 1 to 3 years, for example saving a deposit for an investment property or an overseas holiday.

   Medium term – 3 to 7 years, such as saving for your children's education.

   Long term – 7 years or more, including saving for retirement.

2. **What is your financial situation?**

   Your age, your current assets and liabilities, your family circumstances and dependents, and any special needs will determine the way you invest and your reasons for investing.

   These factors will also play a part in how much risk you are willing to take.

3. **What is your level of risk tolerance?**

   To help you choose the right type of investment you first must understand how much risk you are prepared to accept (your risk profile) and how long you are prepared to invest to achieve your goals (time horizon). This will help you determine the type of assets you might invest in.

   For example, if your investment horizon is 1 or 2 years, it may be best to invest in assets such as fixed interest securities or cash as your return is more stable.

   As an investor, it is important to focus on the long term perspective because a greater time horizon tends to override the short term market fluctuations.

GETTING READY (CONT.)

UNDERSTANDING THE RELATIONSHIP BETWEEN RISK AND RETURN

The link between risk and return is one the most fundamental rules of investing.

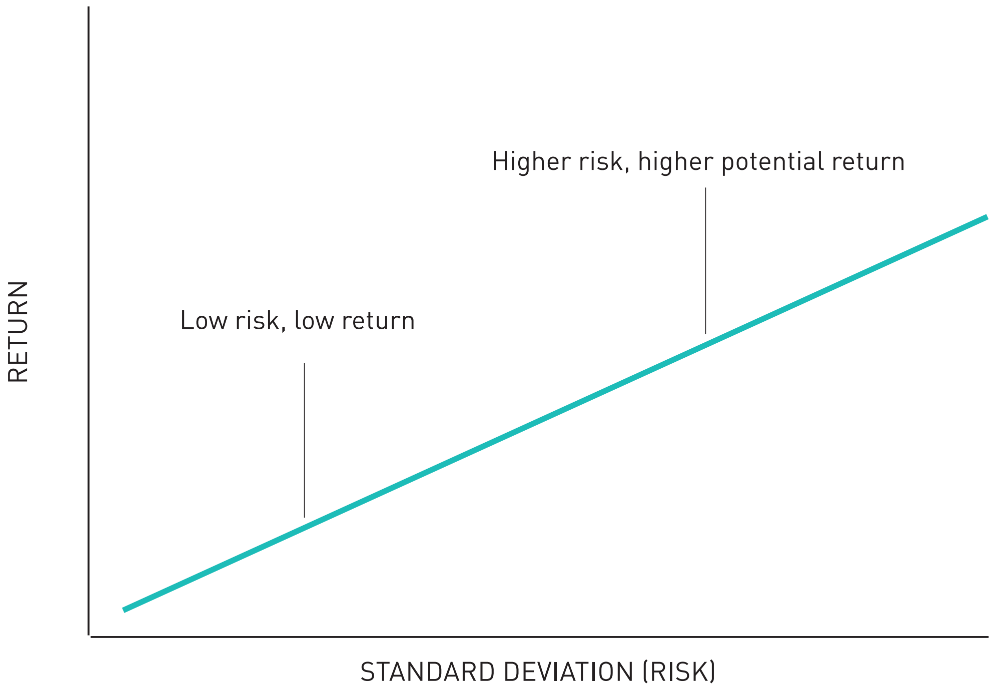
It is important to identify the level of risk you are comfortable with prior to investing. Failing to accept some degree of risk can limit your investment's potential growth and return.

If you are more risk averse, ideally you would prefer to invest your money in low risk assets such as cash and fixed income securities. This means the value of your money is unlikely to fall because low risk assets are less prone to market fluctuations.

Alternatively, if you are less risk averse then ideally you would invest your money in a range of asset classes including a number of growth assets, such as shares and property. Whilst the value of your money is likely to fluctuate in the short term, you increase your potential to earn a higher return on your portfolio in the long run.

All investments have a degree of risk attached to them, however you can construct a portfolio that reduces the risk for a given level of return through diversification.

FIGURE 4
THE RELATIONSHIP BETWEEN RISK AND RETURN



ASSET ALLOCATION

Asset allocation is the building block towards a well-diversified investment portfolio. Asset allocation involves dividing a portfolio among different asset classes, such as shares, real estate, bonds, commodities and cash.

The mix of assets depends on your investment goals, time horizon and risk tolerance.

There are five main asset classes, which can be combined in your total portfolio to achieve your desired level of risk and stand the best chance of meeting your investment goals:

CASH	Cash investments such as savings accounts and term deposits are considered the least risky but tend to produce lower returns.
BONDS	A bond is essentially a unit of debt issued by a government or company. If you hold bonds you receive a coupon (interest payment) and there is a maturity date (when your capital is returned).
REAL ESTATE	An investment in residential or commercial property, with the aim of generating returns through rental income and increasing property value.
SHARES	Shares are generally viewed as a moderately risky asset class, as returns depend upon a range of factors including share market performance, individual company fundamentals as well as domestic and global economic indicators.
COMMODITIES & FOREIGN EXCHANGE	Investing in currencies and precious metals such as gold and silicon, raw materials such as copper and steel, or agricultural commodities. Commodities and currencies are high risk and can be extremely volatile.

Once your overall asset allocation is decided, a stockbroker can help you manage the 'shares' part of your overall portfolio.

GETTING READY (CONT.)

DIVERSIFICATION

Diversifying your share market exposure will spread the risk associated with sudden falls in any particular market, stock, sector or individual investment.

Diversification aims to protect your share portfolio against large losses resulting from the under-performance of any one sector/stock in your portfolio. It can also help you achieve more consistent investment returns over time.

A diversified share portfolio of high quality companies — fundamentally strong businesses that are run by experienced management teams — can provide excellent opportunities to generate growth and income over time.

The charts below are examples of asset allocation and a diversified share portfolio.

FIGURE 5
ASSET ALLOCATION OF YOUR OVERALL PORTFOLIO

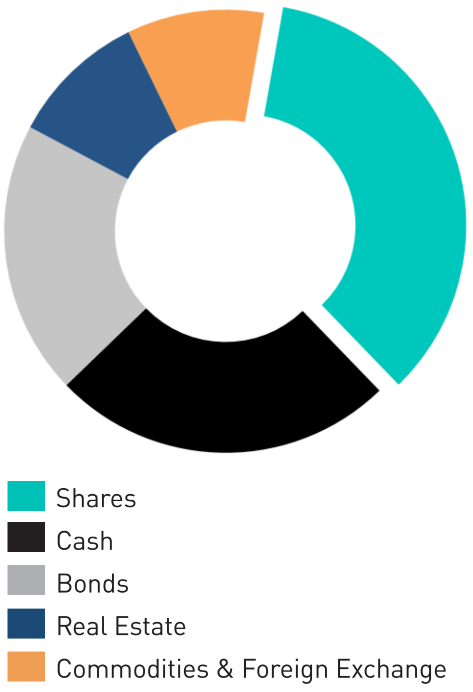
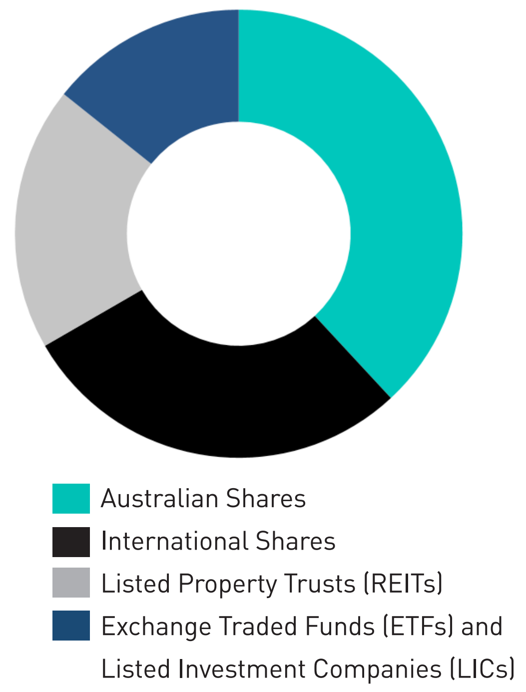


FIGURE 6
DIVERSIFICATION OF 'SHARES' PART OF YOUR PORTFOLIO



START INVESTING NOW

Bell Potter can help you start investing in the share market.

We are a leading Australian full service stockbroking firm with a strong track record of providing high quality, professional investment advice to private clients.

We deliver a service designed for those who seek tailored advice, personal attention and superior client service.

Our team of advisers build long term, trusting relationships with their clients centred on the delivery of quality advice and open communication. They learn about their client's financial situation and investment objectives before they invest, and offer advice on a range of investments including:

- Australian shares
- International shares
- Equity options, warrants and futures (from accredited derivatives specialists)
- Exchange Traded Funds (ETFs) & Listed Investment Companies (LICs), and
- Interest rate products.

Bell Potter clients will have a strong understanding of their portfolio composition through close communication with their adviser, tailored monthly reports (if subscribed for), high-quality research and access to a private client access portal with live, comprehensive portfolio and market information.

We encourage you to get in contact with one of our experienced advisers.

Call 1300 0 BELLS(23557) or visit our website www.bellpotter.com.au.

BEFORE YOU BEGIN INVESTING IN SHARES

Please keep in mind that there are a number of risks associated with investing in shares including:

- Share prices can be volatile and the value of your shares can fluctuate on a daily basis
- Any investment in shares carries a risk of loss of your investment in whole or part
- Share price performance and returns are influenced by market forces, the state of the economy, the sector in which the company operates and the management of the company itself, all of which can be unpredictable and more so during times of extreme market volatility
- There is no guarantee as to the future financial performance of any investment in shares
- There is no guarantee that a company will pay dividends to its shareholders
- The market for some shares may be illiquid meaning that you may not be able to sell your shares at the time and for the price which you would like
- If a company in which you own shares goes into liquidation, shareholders will be the last to be paid. As a result, shareholders may receive only a fraction of their original investment or nothing at all.

ASIC has published guidance that may be relevant to your consideration of an investment in the share market. This information can be found at www.moneysmart.gov.au/investing/shares.

BELL POTTER SECURITIES LIMITED

1300 0 BELLS (1300 0 23557)

WWW.BELLPOTTER.COM.AU

INFO@BELLPOTTER.COM.AU

ABN 25 006 390 772
AFSL NO. 243 480

ADELAIDE
LEVEL 12, 182 VICTORIA SQUARE
ADELAIDE SA 5000
TEL: 08 8224 2722

BRISBANE
LEVEL 28, 123 EAGLE STREET
BRISBANE QLD 4000
TEL: 07 3295 2600

CAIRNS
CNR McLEOD & SPENCE STREETS
2 McLEOD STREET
CAIRNS QLD 4870
TEL: 07 4047 4188

COOLUM
SUITE 4B COOLUM CHAMBERS
5 BIRTWILL STREET
COOLUM BEACH QLD 4573
TEL: 07 5354 2000

GEELONG
LEVEL 1, 122 YARRA STREET
GEELONG VIC 3220
TEL: 03 5227 7000

GOLD COAST
LEVEL 8, 50 CAVILL AVENUE
SURFERS PARADISE QLD 4217
TEL: 07 5554 4333

HOBART
LEVEL 9, NAB BUILDING
86 COLLINS STREET
HOBART TAS 7000
TEL: 03 6281 6200

MACKAY
CITY COURT, 78 VICTORIA STREET
MACKAY QLD 4740
TEL: 07 4957 6996

MELBOURNE
LEVEL 29, 101 COLLINS STREET
MELBOURNE VIC 3000
TEL: 03 9256 8700

MORNINGTON
SUITE 1, 330 MAIN STREET
MORNINGTON VIC 3931
TEL: 03 5970 0101

PERTH
LEVEL 37, EXCHANGE PLAZA
2 THE ESPLANADE
PERTH WA 6000
TEL: 08 9326 7666

SYDNEY
LEVEL 38, AURORA PLACE
88 PHILLIP STREET
TEL: 02 9255 7200

TOOWOOMBA
3 DUGGAN STREET
TOOWOOMBA QLD 4350
TEL: 07 4529 7777