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INTRODUCTION

Today more and more people in other countries are realizing the absolutely vital importance of sound investment in their long-term future. Whatever your stage of life, you will have hopes and plans for your future. Your goals may be long term and include financial well being for you and your family.

Alternatively, there may be immediate goals such as saving for a home deposit, setting up your own business or planning for your child's education. It is never too late to establish a regular savings plan and develop an investment portfolio

The POMSoX Guide to Investment is an Education and Awareness Section aimed and intended to equip interested potential investors with the basic knowledge on investing in shares as an investment.

The Stock Exchange in its endeavors to promote awareness had embarked on this exercise to inform first time investors in PNG and overseas to consider investing in shares as a long-term investment.

The program is not intended to influence people into thinking that investment in the Stock Market is the most suitable for all. Investments in one form or another have their unique potential risks as well as benefits.

This guide provides a better understanding of shares and other investment opportunities available to you. It is tailored to assist get started in buying and selling shares. It contains much valuable information for potential investors on the investment of their savings in companies listed on the Stock Exchange.

It is intended to unravel any of the mysteries that may exist about the Stock Exchange and provides easy step by step instructions to buying and selling shares.

<u>CHAPTER 1:</u>

<u>THE STOCK EXCHANGE & STOCK MARKET</u>

I. Stock Exchange History & Origins

The history of Stock Exchanges dates back over some centuries to the thirteen century. In 1262 when the Government of Venice, unable to repay the temporary forced loans still outstanding, converted them into a permanent National Debt in the form of bonds. These bonds could be traded on the market place.

The idea gradually spread and in 1693 William III established the English National Debt. The merchant brokers of the Royal Exchange would often act as intermediaries or agents in matching buyers and sellers of these bonds.

The brokers would meet to conduct their business in a coffeehouse called Jonathan's and in 1773 they decided that the place should be known as the Stock Exchange.

Some of the romance associated with the Stock Exchange originates from these times. Because of the type of companies whose shares were traded, such as the East India Company, Bank of England, South Sea Company and The Africa Company there rose a strong sense of "new" adventures and romantic voyages to the new-found lands. *The brokers mainly bought or sold on their own behalf, or on behalf of very wealthy people, thus the fallacy was born that the stock market is only for the rich.*

It is interesting to note that even today many people look on the stock market as a place where mystery abounds and where only the wealthy can enter. **This is not so.** Clearly, the origin of stock broking is not found in "modern" times, but first came into being when the public became interested in investing in government stocks and in shares in joint stock companies

II. History of Stock Exchange in Papua New Guinea

The idea of establishing a Stock Exchange in Papua New Guinea dates back more than three decades. It is interesting to note that the idea was mooted immediately after PNG gained independence in 1975. Even when the economy of the country was considered small, it did not lessen the drive to establish a market forum.

Since then, numerous studies and investigations were undertaken and countless number of papers presented by economic commentators, government advisors and organizations, all exploring the viability of a Stock Exchange in the Papua New Guinea economy.

In 1980s, The Government established the PNG Holdings Corporation, a business arm of the Government that was tasked to oversee the privatization of State Owned Enterprise. Under the same corporation, a company was also established as PNG Stock Exchange. It was envisaged that State Enterprises sold were to be listed on the Stock Exchange.

The implementation and mechanics surrounding this proposal was flawed with a varying degree of uncertainty and lack of appropriate legislation to empower the establishment of capital markets in PNG.

It was not until 1994, when the then Government established a Stock Exchange Steering Committee to oversee a project on the development of a Stock Exchange in PNG. This committee comprised of key players in the industry from the Bank of PNG, The Department of Finance, The Registrar of Companies and McIntosh Securities.

The Government's commitment was further enhanced by approving funding through the Bank of Papua New Guinea to fund the establishment phase of the Stock Exchange. In 1996, significant progress had been attained with major foundational work completed. This included among other things, the drafting and approval of the New Companies Act and the Securities Act. These two pieces of legislation were vital in setting the legal framework for a Securities Market to be established and thereby allowing for the development of capital markets in PNG.

In 1997, the Companies Act 1997 and Securities Act 1997 were passed by Parliament, paving the way for a securities market to be established.

Since the beginning of 1998, significant progress had been attained in advancing the early commencement of the Stock Exchange. The corporate vehicle for the Stock Exchange, POMSoX was incorporated as a private company on the 26th January 1998. POMSoX is closely aligned to the Australian Stock Exchange (ASX). The ASX has licensed to POMSoX its Business and Listing Rules. POMSoX procedures are a mirror image of the ASX notwithstanding changes by the ASX since then.

POMSoX formally opened its office on the 28th of April 1999, and subsequently launched its Trading System called the **Port Moresby Stock Exchange Electronic Trading System (PETS).** On the 4th June 1999, the Securities Commission of PNG formally approved POMSoX as a Stock Exchange. The approval enabled POMSoX to commence live trading operations.

The major aim of POMSoX is to provide a medium for the mobilization and raising of national and international capital for the long-term benefit of the citizens of

Papua New Guinea and international investors. POMSoX is important to ordinary people because they can buy a small number of shares in a company and they can be part of the launching of new companies in PNG and overseas.

It is an investment option that people can use their savings productively rather than holding them in a savings account. It means that new companies that need money to start a new business can get people to buy shares in these businesses. Most of all, it gets more money flowing within an economy and creates growth and wealth.

III. Definition, Role & Functions and Objectives

(a) What is a Stock Exchange?

The Port Moresby Stock Exchange (POMSoX) like other stock exchanges around the world has been developed to meet two basic and complementary needs;

1. *A company's need for funds*

   When a company needs money or funds to expand, it has two choices, either it goes to a commercial bank and secure a loan and repay the amount borrowed over a given time. Or it can issue shares to the public through a registered prospectus thereby giving the public the opportunity to purchase shares and own a piece of the company thus raising funds for the company to use for establishment, expansion and growth.

2. *An Individual or company's desire to invest savings efficiently*.

   The Stock Exchange offers investors the opportunity to invest in publicly listed companies by allowing individuals and companies to buy shares in companies listed on the stock exchange.

Generally POMSoX provides a link between companies requiring funds and members of the public with savings to invest, while at the same time providing a market place for the trading of these shares.

The Exchange operates for the convenience of investors and is open during fixed hours each business day from 10 am - 4 pm during which business people, known as stock brokers (who are members of the Exchange) may make transactions either on behalf of their clients or as principals. The Exchange itself does not determine the buying and selling prices of shares; prices are determined entirely by supply and demand, as at any auction house. The Exchange does act to promote fair trading by collecting and supplying statistics and other information concerning the specific matters with which it deals, by publishing price quotations and by setting rules and standards for trading. It is a self - regulatory organization.

(b) Roles & Functions

The fundamental purpose of the Port Moresby Stock Exchange is to provide an internationally competitive "market" for the fair trading of Papua New Guinean and international financial securities which are quoted on the Exchange's official trading list.

The "market" provides the means by which investors and the users of capital can be brought together for their mutual benefit. These securities can be bought and sold on the market at competitive prices, which reflect current levels of supply and demand.

(c) Objectives

The objectives of the stock exchange are;

- to establish a just and equitable principles in securities transaction on POMSoX
- to fix and prescribe from time to time uniform rules and regulations governing the operation and practice of POMSoX
- to maintain, develop and preserve the market for the promotion of dealings in securities
- to promote and protect the interests of members and investors.

The objectives of the exchange are executed through its self –regulatory nature.

IV. Market Regulations

The Stock Exchange must at all times maintain the integrity of the market. The continued success of it depends on its ability to maintain a high level of integrity. POMSoX promotes market integrity in a number of ways including

- the development and implementation of its Business Rules and Listing Rules designed to ensure orderly and fair markets
- supervision of those markets
- the active pursuits of technological improvements to meet market requirements and demands
- close working relationships with other regulators, notably the PNG Securities Commission.

(a) Listing Rules

In the investment world, you frequently hear reference to 'listed companies' and it is important to realize the implications of this expression. To become a listed company, an organization must be of sufficient size to enable a public market to be maintained in its securities and must comply with the POMSoX Listing Rules. Only public companies are permitted to be listed on the Stock Exchange.

Any company wishing to must also agree to comply with the Listing Rules in publishing and lodging various kinds of reports and to conduct its affairs in accordance with the standards set down in the Listing Rules.

Many of the Stock Exchange Rules are more stringent than the requirements of the Companies Act 1997. Most companies are willing to accept them, not only because the Stock Exchange requests that they do so but also because they recognize the benefits of maintaining an informed market for their shareholders.

When POMSoX agrees to list a company it is by no means a guarantee that the company itself will be successful; but because there is a market place provided for the public to buy and sell shares, this means the company has agreed to comply with existing standards.

The POMSoX Listing Rules is a set of Rules that listed companies agreed to abide by in carrying out its operations. Failure to comply with the set rules will inevitably lead to the Stock Exchange conducting investigations into the operations of the company.

(b) Business Rules

The Port Moresby Stock Exchange also have a set of rules, which intending Member Organizations agree to abide by in the conduct of their business. The Business Rules are a set of rules that dictates and regulate the actions for Stockbrokers and or Member Organizations of the Stock Exchange.

The Business Rules provide that to become a member of the Stock Exchange (i.e. stockbroker) an individual is required to be of good character and high business integrity, have high prescribed educational qualification and have extensive experience in the securities industry. Having fulfilled these strict pre-requisites, the Stock Exchange can consider an individual or organization to be admitted as an Affiliate and or Member Organization.

(V) Market Structures

The market is the central place where continuous auction process where matching the buying and selling of shares are undertaken. It is a very important market since its existence enables listed companies to raise funds directly through the issue of shares to the public. The market place provided by the Stock Exchange enables shareholders to buy and sell shares at the prevailing market price.

(a) The Primary Market.

Companies raise its initial capital through the Primary Market. This is done by the company issuing a prospectus to the public through an underwriting arrangement. The company then allots shares to the public who have subscribed for them. *For Example, a company may wish to raise K5 million and therefore when it is first "floated" on the Stock Exchange it may issue 10 million shares each with a par value of 50 toea to raise the K5 million.*

Individuals who subscribe to the initial issue can then remain as shareholders of that company or sell the shares to someone else on the secondary market.

(b) The Secondary Market

This is the actual market place provided by the Stock Exchange where stockbrokers (i.e. Members of the Stock Exchange) can buy and sell shares or securities in listed companies on behalf of investors or as principals. The secondary market is conducted as an auction system where sellers are continuously matched with the buyers so that the transactions may be effected.

A primary market cannot operate efficiently unless there is an efficiently operating secondary market. This is because people are less willing to subscribe funds to a venture unless they can sell out at an appropriate time. In this respect, the liquidity of a market is fundamental.

In a free enterprise system, funds are directed to those areas which investors consider represent the most profitable opportunity and these judgments are reflected in the level of activity in the secondary market where transactions in existing securities are effected.
By enabling investors to switch from one company to another and from one form of investment to another, the secondary market (POMSoX) provides a continuous test of company efficiency and profitability.

The value of the share is determined by what the buyer and seller of that particular security is prepared to accept by way of price. These decisions are influenced by certain factors, which have different degrees of impact on particular buyers and sellers. *E.g. government policy, supply and demand, industry factors, overseas factors and conditions relating to individual companies and the supply and demand of securities.*

Shares are not the only securities traded on the market. The term "security" refers to the type of investment offered by a company and may be in one of the following forms.

- **Shares** – ordinary shares make the shareholders part owners of the company and is the most commonly traded security
- **Debentures** – these are in effect loans made to the company for a fix period of time. In return the debenture holder receives a fixed rate of return
- **Bonds** – these represents a loan to a Government for a fixed term at a fixed rate of interest
- **Options** – these give the right to the holder to convert the security to an ordinary share at a fixed price on or before a fixed date. The conversion dates are stipulated in the terms of the options.

Ordinary shares and debt securities are currently traded on the POMSoX Market. The other instruments of security are traded on other Stock Exchanges around the Globe. However, POMSoX may trade other securities in future.

(c) Share Market Liquidity

The efficient operations of the stock market will draw even more buyers and sellers into the market and so add liquidity to the market. Liquidity in a market means that participants can buy and sell securities readily at low cost without unduly disturbing the market price and is a measure of the relative ease at which investors can convert their securities to cash and vice versa.

In a broader sense a liquid stock market is a fully informed, competitive market where risk is spread widely, capital is efficiently allocated and wide range of investors are accommodated.

CHAPTER 2:

THE STOCKBROKER

I. Definition, Role and Functions

(a) What is a stockbroker?

Put simply, a stockbroker is a middleman that assist investors buy and sell shares on their behalf. Stockbrokers are independent financial advisors, providing advice to their clients on all forms of investments including investments in shares and a range of other products that they offer to their clients.

By law not just anyone can call himself or herself a Stockbroker. There are very strict and prudential requirements set down by the Stock Exchange that individuals and companies must met in order to be granted permission to operate as a stockbroker. A Papua New Guinea Stockbroker is subject to the supervision of the Port Moresby Stock Exchange.

(b) Role of a Stockbroker

The areas of responsibility a stockbroker deals with are wide and varied in nature. One of the major functions that a stockbroker performs is advising clients on investments and ensuring that transaction of sales and purchases of shares are effected between buyer and seller. Stockbrokers have direct access to the market for trading shares. Shares listed on POMSoX can only be bought or sold through a stockbroker.

II. Services of a Stockbroker

There are a number of services provided by the stockbroker. Apart from providing general advise on investments. Stockbroker can also;

- Assist structure and manage portfolios for clients, advising on the direction to take in regard to securities held.
- Assist companies with capital raising and takeovers by providing corporate advice
- They may underwrite new share issues and loans by agreeing to purchase any unsold securities, thereby guaranteeing the funds to a company whether or not the issue is taken up fully by the public
- Provide advise on a wide range of other non- listed investments

III. Brokerage Fees

Stockbrokers do not usually charge for consultations and investment advice. A fee called Brokerage is only charged if you elect to buy or sell particular securities. Stockbrokers' advice is unbiased and independent, as they are not employees or agents of the company, which they recommend.

If you wish to invest in shares quoted on the Stock Exchange then it is necessary to use a Member Organization of the Exchange to act as your agent for the purchase and sale of securities. A stockbroker makes a commission, called the Brokerage for this service.

Brokerage rates on stock market transactions are negotiable, but often involve a minimum transaction size or a minimum fee. Once over these thresholds, brokerage is generally a percentage of the transaction value.

Each stock broking firm will have a set scale of brokerage, which is applied when buying or selling securities on behalf of clients.

Contact a Member Organizations (stockbrokers) of POMSoX for full details of brokerage fee charges. BSP Capital at broker.bspcapital@bsp.com.pg or Kina Securities at kina@kina.com.pg

CHAPTER 3:

THE FIRST STEPS TO BECOMING AN INVESTOR

I. Determine Investment Options

Everyone is a potential investor. By understanding the basic concepts of investment and how the Stock Exchange system functions, you will be on your way to making informed investment decisions. The aim of investing is to make a profit, or a rate of return. Inflation is reducing the purchasing power of your savings every day. To fight inflation you must invest your surplus funds wisely.

(a) Selecting your aims.

The first thing you should do before committing any surplus funds is to work out your investment aims. An investment decision, like any other purchases, should be based on rational and logical reasoning. Therefore you must clarify your personal objectives.

Ask yourself the following questions:

- Do I want to invest?
- What rate of return do I require?
- What do I want to achieve from the investment? Over what period?
- What risks am I prepared to take? How much can I afford to lose?
- How much money do I wish to invest?

Remember that money used for investment should preferably be surplus savings or income and *NOT* that which is needed for everyday living.

Investment is a personal matter. Types of investment and risk vary, just as individual needs vary. It is important that you and your broker work together to decide upon a mix of investments which will achieve your financial goals.

As an Investor you may have one or a combination of the following goals

- **Investing for Security**
  The stock market offers a wide spectrum of investment opportunities, including investment for people who do not wish to take a great risk to the extent that an investor can have maximum security.

- **Investing for Income**
  Investors who want income from their investment are interested in securities which give one or combination of the following
  - A high dividend yield, made on a regular basis
  - A relatively high rate and regular payment of interest.

- **Investing for Capital Gain**
  To achieve this objective the investor is looking at companies which are likely to experience growth in the medium to long term. This is not the million to one chance of making a fortune, but a rational assessment of selecting a share likely to experience an increase in price constantly.

  Generally, the investor seeking gain is prepared to take more risk and is capable of keeping a watchful eye on the market.

No form of investment, listed on the Stock Exchange or non listed offers you all that you want in income, growth and security. You have to compromise to some degree. Some investors are interested in income while others require capital gains.

Most people require a combination of both. Differences in investment policy are only a matter of emphasis on income and security and others on capital gain.

A properly balanced portfolio should attempt to combine income, security and capital gains so that you can take advantage of the investment alternatives which suits your needs

II. Evaluate Alternatives

1. Evaluating your alternative is the most important step in investing. Each investment must be evaluated in the context of your personal position. Each investment has some common characteristics, which must be considered very carefully. These include – Return, Risk , Accessibility Maturity, Costs, Minimum Investment, Time

- **Return** – What is the expected return? Some investments promise a fixed return (such as fixed interest investments) while other make no promises (such as shares). The return can be as either dividends and/or capital gains, which have different tax implications.

  As an incentive to encourage more people to buy shares, there are No Capital Gain Tax, No Stamp Duty and No Goods & Services Tax charges for share transactions on POMSoX.

- **Risk** – Risk is the chance that the return from an investment will be significantly different from what you expected. There is an element of risk in every type of investment on or off the Stock Exchange and it can show in various ways. There is a risk that you may not get the earnings you expect. There is a risk that you may lose some or all of your capital. There is risk that changes in your money may not be compensated for in your investment. You may incur any or all of these risks.

  It should be emphasized that the stock market provides a broad spectrum of investment risk, which caters for various needs of investors. It is therefore up to the investor to determine the degree of risk he or she is prepared to accept.

- **Accessibility** – How quickly can you sell an investment? If you sell it quickly will you receive full value. Both this questions relate to access and liquidity. Deposits with a bank in call accounts are highly liquid and can be readily withdrawn. Conversely, real property liquidity and value depends on available buyers in the market at the time the property has to be sold.

  Shares are liquid because there is an organized market place. Stamps, coins and antiques furniture are not liquid because to sell them you have to search for a collector prepared to pay the item's value. If you have to sell quickly to a dealer you may not receive the true market value.

- **Maturity** – Some investments have a limited life. Some others such as ordinary shares continue indefinitely or until the company is wound up or is taken over.

- **Minimum Investments** – Many investment alternatives require minimum investment amounts. Some even have maximum limits. This may restrict your access to some investments. Investments in shares do not have a minimum amount however; it is wise to confirm this with your stockbroker.

- **Costs** – A trap for investors can be extra costs, which are sometimes hidden. Always talk to your preferred Stockbroker about all possible cost involved in buying and selling shares.

- **Time** – Some investments require more of your time in managing them than others.

III. Decide on Investment Strategy

After evaluating the investment alternatives available select a mix of investments which meet your risk acceptance level and return needs. The primary rule of sensible investing is diversification. By investing in a number of alternatives you reduce your risk. There are many investment strategies. The following comments are designed to help you choose between the major alternatives.

(a) Do you want to invest Directly or Indirectly

Buying units in an investment trust is an indirect way of buying shares. It has the advantage of achieving diversification easily and of benefiting from the management expertise of the Trust Manager

(b) Do you want to be Geared or UnGeared

If funds are borrowed, the investment is referred to as being geared. By borrowing funds to invest, you increase considerably the risk associated with the investment. However, the amount of funds available for the investment also increases the profit potential

CHAPTER 4:

BUYING AND SELLING SHARES

I. Shares and Types of Shares

(a) What is a Share?

A share is a basic unit of ownership in a company. If you are a shareholder in a company then you are one of its owners. A share represents part-ownership in a company. Shareholders of a company provide funds (capital) for the company to function. These funds are divided into units called shares. When you buy shares, you hold an interest in the company proportionate to the number of shares you own, for example, the dividends (potion of profits paid to shareholders) you receive depends on the number of shares owned.

Shares in public companies are traded on the Stock Exchange. The main categories are Industrial shares and Mining and Oil shares.

(i) **Industrial Shares** – cover a variety of industries such as manufacturing, finance, pharmaceutical and retailing. Leading companies are usually priced at a level, which yields a moderate dividend return – particularly those companies perceived to have growth potential.

(ii) **Mining and Oil Shares –** operate in the same way as industrial shares but some are considered to have greater risk due to the uncertainty of exploration, production and the fluctuation of commodity and oil prices.

Certain companies are considered as *'blue chip'* investments because of their size and reputation for operating profitably. Whilst at the other end of the spectrum are the speculative shares which usually combine the possibility of high returns with high risk.

Uppermost in the minds of the majority of investors is the prospect that companies will enjoy sound growth, thereby increasing the value of the shares held. The value of shares is determined by the performance of the individual company and by the conditions in the industry in which it operates. Influences such as movements in the economic indicators can cause demand for shares to vary with corresponding variations in price.

Because the stock market has many competing buyers and sellers the price of each share reflects its market value. Small investors can participate alongside large institutions in buying and selling shares.

(b) Types of Shares

There are different types of shares, which vary in benefits such as dividend payments and voting rights at meetings. If a company winds up they rank differently to the entitlements of each shareholder.

(i) Ordinary Shares

This is the most common type of shares offered by companies. It entitles the holder to receive benefits of a dividend distribution. It also gives the holder one voting right per share at the Annual General Meetings and also participation in the company's growth. As a holder of ordinary shares, the investor can increase their wealth through capital growth and profits. Ordinary Shares rank last in priority if the company is wound up.

(ii) Preference Shares

Preference shares usually have fixed dividend rate. Preference shareholders' dividends must be paid before dividends can be paid to ordinary shareholders. In the event that a company is wound up, preference shares rank before ordinary shares in any distribution of assets. Shareholders do not have any voting rights

- ***Ordinary Preference Shares***
  These are shares, which rank before ordinary shares in dividend payment

- **Cumulative Preference Shares**
  If a company does not pay a dividend in one year, the liability for the omitted dividend accumulates to be paid in subsequent years. The dividend is cumulative when not paid.

- **Participating Preference Shares**
  In this case shareholders have a certain rights to profit. After normal preference shareholders receive their dividends, participating preference shareholders may receive an additional payment.

Note: *Some of these preference shares are redeemable. This means that the company can redeem the shares by paying the full face value of the shares to the holder*

(iii) Redeemable Preference Shares

Holders of Redeemable Preference shares provide funds to a company whilst at the same time it requires the company to repay the capital either at some specified date or at a time that the company chooses

(iv) Contributing Shares

These are partly paid shares, which require certain future payments. Shareholders are obliged to pay calls, when due, unless the company is a No Liability company, (e.g. Mosaic Oil N.L) in which case shareholders may opt to forfeit the shares instead of paying the call

(v) Bonus Issue

This is a free issue of new shares to a company's shareholders. It is usually made to reflect improved value of the company's assets. Like a rights issue, it is made on a ration basis. (e.g. 1 for 2 – one new share for every two already held).

(vi) Options

These are options to take up new shares in a company prior to a future date at a fixed price known as the exercise price. There is no obligation on the holder to exercise the option but if it is not exercised by the expiry date the option lapses and is worthless. Options are usually issued at a low premium and offer investment leverage opportunity.

(vii) Convertible Notes

Are unsecured financial instruments that entitle the holder to either retain the notes as debt until maturity or convert them to equity at predetermined times. Convertible notes while unconverted provide a security ranking ahead of preference shares as the most common form of convertible debt.

Share Trading on POMSoX

The POMSoX market currently provides only for the trading of equity and debt securities. Investors should once again define their aims before investing in shares. Since a new investor is unlikely to know the above facts, your stockbroker's advice can prove invaluable. Useful discussion with your stockbroker is recommended.

II. Procedures in Buying and Selling Shares

When you do business with a stockbroker, you normally instruct him to act as your agent. You are not buying shares or anything from him. You are the stockbroker's client, not his customer. Under normal circumstances he does not sell you anything from his stock, as does your food store grocer.

He acts on your behalf, going to the stock market, the public marketplace to buy for you the securities you wish to own. On occasions, however, the stockbroker can act as the principal, in which case the Business Rules of the Stock Exchange specify the broker's responsibilities in this transaction.

(a) Buying Shares

Once you have chosen a stockbroker to act on your behalf you may place an order with the stockbroker at market or with a limit.

At market – indicates that the transaction will be effected by the broker at the market price prevailing at that time. The order is received by your stockbroker's trader and executed by the trader.

At Limit – indicates that the order will only be transacted within the price limit, which the investor has stipulated.

Any order, whether placed by phone or in person, should be stated clearly so that there is not room for misunderstanding. It is a good idea to ask the broker to repeat your order back to you so that you can be sure that his interpretation is the same as yours.

Steps in Buying Shares

Place your order (instructions) with the Stockbroker. Once again, any order should be stated clearly. If you are a new client, the Stockbroker may ask you to lodge in advance sufficient funds to cover your initial transaction.

Your order may either be placed *"at market"* or *"at limit"*. Your order is then placed on the market in search of a seller via an electronic trading system know as the Port Moresby Stock Exchange Electronic Trading System (PETS) which is controlled by the Port Moresby Stock Exchange.

Once the order is placed and transacted on the market, where the buying and selling orders are matched automatically, your broker will send you a contract note setting out the relevant particulars of the transaction account.

This contract note (Appendix 1) will request that you pay your stockbroker, if this has not already occurred. The contract note will show the cost of the shares purchased and separate charges of brokerage. Share transactions on POMSoX do not attract Stamp Duty, GST and Capital Gains Tax. Contract notes will require settlement on the third business day following the transaction.

Immediately after the settlement is effected, transfer forms are then sent to the company's share registry to register your particulars as the new shareholder in the company of which you purchased shares. As a buyer, you will receive a share certificate directly from the company's share registry office.

Note: That some companies no longer issue share certificates (uncertificated issuer sponsored sub register). For these companies, you only receive a holding statement telling you how many shares are held in your name.

Steps in Selling Shares

Firstly you place your instructions with your stockbroker. Once again you can elect to sell *"at market"* or *"at limit"* which is at the specific price. For new clients, your stockbroker may require some formal confirmation that you own the shares prior to the order being placed on the market.

Once the sale has been executed, a contract note will be sent out to you advising the proceeds of the sale from which brokerage has been deducted. Unless special arrangements have been made the broker cannot pay a seller for shares sold until he receives a valid share certificate or holding statement.

The contract note requests you to send the share certificate for the shares sold to the Stockbroker by the third business day following the sale. A cheque in settlement of the sale should be available for collection, postage or deposited into a nominated bank account shortly thereafter.

If you are selling only part of your shareholding in a company, e.g. 500 of a total of 1000 shares you own; you must still send the broker your certificate/statement for 1000 shares.

The stockbroker will send it to the company share registry, which reduces the holding in the current certificate, issuing one certificate for 500 shares in your name, and another 500 in the name of the buyer.

III. STEPS INVOLVED IN THE OPERATIONS OF THE SHAREMARKET

(Please refer to diagram below)

STEP ONE (1)

- The seller delivers share certificate or holding statement to verify ownership
- The buyer provides proceeds (funds) to the stockbroker to purchase shares

STEP TWO (2)

- The selling and buying brokers places the orders on the market via the PETS. Once the orders are matched, a trade occurs.

STEP THREE (3)

- Once the orders are matched, the Selling broker delivers the certificate/statement to the Buying broker, while the buying broker delivers the funds to the Selling broker.
- This process takes place three business days after the transaction is effected on the market. This is referred to as the settlement date.

STEP FOUR (4)

- The buying and selling brokers deliver settlement documents and transfer forms to the Stock Exchange for confirmation and verification. This forms outline the details of the buying investor and selling investor

- After confirmation, the Stock Exchange's settlement and clearing department then forwards the forms to the concern company's registry for registration of the buyer as a new shareholder and cessation of the seller. Please note that if the seller only sells a portion of his holdings, then the registry only removes the amount that has being sold and transfers it to the name of the buyer.

STEP FIVE (5)

- The seller receives his proceeds (funds) from the sale of his shares minus brokerage fees. This normally occurs on the third business day after the transaction date. The funds can be collected, posted or deposited in seller's desired bank account.
- The buyer receives his share certificate or holding statement from the registry. This normally occurs after a week or two.

Clearing and Settlement Process

The clearing and settlement process is highlighted below. Settlement of market transactions are on a T + 3 basis. That means that all transactions are settled after three working days, whereby the sale proceeds are received by sellers and buyers are allotted the shares purchased after three business days.

Buyer / Seller provide instructions to brokers

↓

Stockbrokers input orders into POMSoX Trading System

↓

Matching of buy and sell orders on the POMSoX Trading System

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Buyers and Sellers receive contract notes and confirmation of transactions

↓

After 3 days, sellers receive sale proceeds and buyers receive shares

↓

Transfer docs sent to Registry for update of share register

↓

Buyers and Sellers receive Holding Statements

IV. Benefits & Risks

In any investment, there are always benefits and risks. People make different investments depending on their needs and requirements.

(a) Benefits

- **Capital Growth**

  Careful trading in shares can earn you growth on top of your initial investment. When the share price of the company you invested in increases so will the value of your capital. If you bought shares at a lower price and sell at a higher price, you will make a profit. You can continue this process to make more from your investments.

  Finally for successful companies the general price levels of shares have risen over the years and it is this long-term gain that makes shares particularly attractive to investors. Despite well-published Sharemarket dips and slow periods, shares have historically proven to be outstanding longer term investments

- **Dividends**

  A dividend is a part of the company's net profit that is paid to shareholders as a cash reward for investing in the company. When the company declares its profits, it may pay a portion to the shareholders and it is usually expressed as a percentage of the par value or as toeas per share.

- **Shareholder**

  When you invest in a company's shares, you become a shareholder of that company. It entitles you to have a say in how the company operates. The shareholders are given that opportunity when the company holds its Annual General Meeting. One share entitles the holder to one vote in the case of an ordinary shareholder.

(b) Risks

- **Price Fluctuation**

  Shares not only go up but also go down, when the share price falls, the value of your shares will decrease. When this happens, and you sell your shares, you will most likely make a loss on your investments. However, history has shown that every time share prices fall they rally and regain their value, sometimes surpassing the previous price.

- **Companies may wind up.**

  At times a company may face difficulties and eventually wind up their operations. When this situation arises, which is rather rare, you as a shareholder may lose all your money. It must be noted that, before a company lists on a stock exchange it must meet very stringent requirements and tests in order to be listed. This process is carried out to make sure that investors are protected.

IV. Understanding and Reading Share Prices

Share price reports published in the newspapers vary in style and format. The table below illustrates an example of the form of newspaper layout

Prices quoted here do not reflect the current market price.

STOCK	BID	OFFER	LAST SALE
Bank South Pacific (BSP)	3.20	3.21	3.20
Credit Corporation (CCP)	4.00	5.60	4.00
City Pharmacy Ltd. (CPL)	1.95	2.60	2.85
Cue Energy Resources (CUE)	0.00	0.25	0.21
Highlands Pacific Ltd. (HIG)	1.40	1.50	1.35
InterOil Corporation (IOC)	75.00	80.00	86.00
Lihir Gold Ltd. (LHG)	3.01	4.60	4.35
Mosaic Oil N.L. (MOS)	0.35	0.50	0.50
New Britain Palm Oil (NBO)	5.45	5.60	5.50
Oil Search Ltd. (OSH)	7.50	8.00	8.00
Ramu Sugar Ltd.(RMU	2.45	2.50	2.47
Steamships (SST)	5.00	6.00	5.00

- **Stock Column**
  Displays the stock code of the company. All companies are given a three-letter code. The code represents the company name
- **Bid Column**
  Displays the highest price that an investor is willing to buy the shares. There are other buyers bidding to buy shares, however their bid prices will not appear because their bids are lower
- **Offer Column**
  Displays the lowest price an investor is offering to sell their shares. There are other sellers also offering to sell shares, however their offer prices will not appear because their offers are higher
- **Last Column**
  Displays the last price sell and buy orders were matched resulting in a trade. Last prices change regularly, depending on frequency of trades. It shows the current market value of shares in a company. Please note that the trade could have taken place on the same day, the day before or the week before.

CHAPTER 5:

INFORMATION AVAILABLE FOR STOCKMARKET INVESTORS

Where does the investor find information about conditions affecting the selection of an investment alternative? Information which is available to the public falls under four categories: Company Information; Information from the Media; Information from Stockbrokers and Stock Exchange Information

I. Company Information

(a) Prospectus

A prospectus is a document or notice, which offers shares or debentures in a company to the public for subscription or purchase. The aim of the prospectus is to disclose all relevant information about the investment being offered. Three broad types of prospectuses are issued by public companies.

(i) Invitations for fixed interest investments, either through debentures or notes
(ii) Issue or placements of ordinary shares, mostly to enable established companies to become listed on the Stock Exchange
(iii) Issues of shares by entirely new companies not yet established.

When reading any prospectus it may be of benefit to note the following points;

- Read the information summary page first as this is intended to provide investors with a general idea of the key aspects of the investment being offered. Remember that this is not a substitute for reading the whole prospectus.
- Find out how the money would be used and assess the security of the venture.
- Assess the competence of the Management by looking at the qualifications and experience of Directors and other Executives
- Ascertain the level of gearing (extent of reliance on borrowings) permitted and proposed. As a rule of thumb, the higher the level of gearing the greater the risk.
- For shares and debentures prospectus, evaluate the financial position and past performance of the issuing company (the investigating Accountants Report would be useful for this purpose)

(b) Company Reports

Each year, by law, public companies are required to report to their owners, the shareholders

Annual Reports

This is the investors' guide to the company's performance. In the annual report the Directors set out first what the company has earned during the year, and how those earnings have been distributed (the profit the loss account) and second, the statement of what the company owns, what it owes and what it is worth (Balance Sheet). From this a check can be made that the assets are sound, that the company owns more than it owes and what its net earnings are.

Dividends are paid from earnings. However, a company's profit needs to provide more than dividends. Continued development and expansion calls for increases in capital and wise management sets aside a suitable proportion of its earnings for this purpose. A dividend just barely covered by the company's profit may be a warning sign.

Preliminary Final Report

Published by Directors before the issue of the Balance Sheet

Six months Interim reports

A useful half yearly report on the company's performance.

Company Announcements

Announcements given by the company regarding events in its business operations and events that may affect or is price sensitive.

(II) Information from the Media

Reports in daily newspapers (Post Courier, The National) and specialist publications such as Personal Investment Magazine, Business Review Weekly etc provide information pertaining to various companies' performance and activities.

It is suggested that investors keep a very close watch on their respective companies, in which they hold shares. Keeping a general awareness level on political and economic development is recommended as this tends to affect companies operations.

(III) Information from Stockbrokers

Many Stock brokering organizations make available research information forecasting market movements and recommending various listed securities to their clients. Stockbrokers provide investment advice that is free of charge and investors should always consult with them before making investment decisions.

(IV) Stock Exchange Information

The Stock Exchange provides information to the public from time to time regarding listing of new companies, listing of other securities and a range of investments brochures for the investing public.

Stock Prices Publication

The Stock Exchange also publishes on a daily basis; the stock prices of listed companies. These reports are published in the local dailies and the company website at www.pomsox.com.pg and then go to the share price section.

Education Publications

Educational publications are a priority for POMSoX, as it is a newly developing market, the need to educate potential investors to consider investing in companies listed on the Exchange is regarded highly as this will assist greatly in developing a more liquid market. The Stock Exchange will in its endeavor seek to produce brochures to create awareness and educate investors.

Investment Seminars.

The Stock Exchange also carries out investment seminars to assist and educate first time investors about investing in shares as an investment option. These programs are carried out every year in a number of provincial centres and for interested individuals and organizations. In time as investors become more educated, different range of courses and seminar programs will be designed to cater for the more sophisticated or advanced investor

CHAPTER 6:

STOCKMARKET STATISTICS

(I) Comparison of Investments in Shares as against other Investment

Shares: **The Number One Investment** (Quoted from ASX – Investment in Shares)

A study was undertaken some years back in Australia to determine which investment had the highest return. Towers Perrin; an independent asset consultant performed the research. They found that shares outperformed all other investments over the 10 years to December 31, 1998, after tax and other expenses were accounted for.

Shares remain the number one investment regardless of which tax bracket the individual investor falls into.

The Australian Stock Exchange asked Towers Perrin to track the performance of various investments over 10 years to provide an accurate guide to those who invest for the medium and longer term. This time scale also allows a reasonable degree of comparison between investment sectors – Australian equities, residential property, domestic fixed interest and domestic cash.

The chart (below) shows that once expenses, capital gains and income taxes are allowed for, ordinary shares outperformed all other investment sectors over the study period. Real returns, which take into account inflation, were particularly strong for shares and fixed interest investments.

According to the study, compared with an average annual inflation rate of 2.9 per cent over the 10-year period, shares yielded an after tax return (at the lowest marginal tax rate of 10.8 per cent per annum topping fixed interest (10.2 per cent), property (6.1 per cent and cash (6.0 per cent).

Although share values have risen over the long term, this has been punctuated with periods of short-term volatility, where prices can go up and down very quickly. For this reason, it is usually important to adopt a medium to long term share investment view of five years or more. This can assist in realizing capital growth and minimizing the impact of short-term volatility

Generally, history demonstrates that shares, as a long –term investment, have the potential to provide better returns than any other major investment. **However, it must be noted that past performance is not a guarantee of future returns.**

(II) Why prices raise and fall

Shares prices fluctuate. Generally speaking there are the short-term movements up and down and longer-term trends

Prices change because the market for listed securities is open to all. When there are more buyers than sellers, prices tend upwards because the buyers in competing with each other to obtain what is offering, outbid each other.

When there are more sellers than buyers, prices tend to fall. An important function of the Stock Exchange is always to ensure that the market is as fully informed as practicable. The Exchange can query a company if its market price fluctuates strongly for no apparent reason.

You should beware of the investment, which has no fluctuation at all. That usually means that it has a restricted market – restrictions that may work against the investor as much as for him.

Most people initially think that the Stock Exchange sets the prices of shares traded on the market. This view is absolutely not true; market forces of supply and demand determine the prices of shares. *For Example – If the supply of betelnut is less, than betelnut sellers will increase the price because the demand is high. On the other hand, if the supply of betelnut were plentiful, the price would fall.*

The performance of companies also plays a vital part in how investors view the companies and this in turn has an impact on the share prices. A number of other facts also determine share prices. E.g. government policy, industry factors, overseas factors and conditions relating to individuals companies and the supply and demand of securities.

(III) Investment Tips and Traps in Sharemarket Investment

Beware of rumors, hints and tips of the "inside information". In modern business practice, company directors usually ensure that the Stock Exchange is informed immediately when any decision is made that may affect the market.

The modern stock market is not a gambling device. There are short-term speculative deals, which are sometimes successful, sometimes not. These are most often found in the Oil and Mining sector of the market. E.g. speculating on the outcome of an oil well. While potentially very rewarding, this investment also involves a higher risk.

The inexperienced investor is usually well advised to err on the side of caution, while the more experienced investor can normally be more enterprising.

Remember too, the warning about always consulting your stockbroker before committing yourself in any way.

<u>Additional points to note</u>

- Preference shareholders and investors may lose considerable purchasing power upon redemption because of the effects of the inflation on the principal sum invested

- A low current share price may produce a high yield, which can be misleading. It is important to remember that low market price can actually be the result of poor earnings performance and the yield is based on the previous dividend payments

- If you buy a share on the strength of its yield history you must be reasonably confident that at least the same dividend is likely to be paid in future

- Investors seeking income should select companies, which have regular earnings and good dividend records. A typical portfolio for an income seeking investor would probably include a mixture of bonds, debentures, high quality (blue chip) shares and preference shares.

Remember:

- Keep records of your investment transaction and tax deductible cost.
- Keep securities in a safe place as many are negotiable
- Monitor the performance of your investments and keep informed
- Re-evaluate your portfolio periodically

Investors should once again define their aims before investing in shares. The following are some points, which may be considered when selecting growth stocks

- Select some potential areas of further growth and discuss specific stocks with your stockbroker. This can be done by following media reports on particular industries of interest.
- A key to success is selecting a growth stock which will outperform the index
- Some other important criteria you should consider when selecting specific growth stocks are;

    i. sound management
    ii. series of good profit results
    iii. adequate production base
    iv. debt structure
    v. general financial soundness
    vi. Investment in research.

Since the new investor is unlikely to know these facts for a broad range of companies, your stockbroker's advice can prove invaluable. Useful discussion may include company history, current market trends and explanation on how falling prices offer you an opportunity, as well as rising prices.

Signs to Heed

There is always an element of risk in every form of investment. It may be very small or it may be very great but it is always there. The aim of wise investors is not to escape risk but to understand and measure it and to make sure that the reward compensates you for the risk accepted.

The scale of the reward offered may itself be a danger sign. When you are offered a much greater than average return, it is almost always a sign that you are undertaking a much greater risk than average risk. Market observers will tell you that the most successful investors seldom take great risks and are content with a moderate reward.

CHAPTER 7:

FREQUENTLY ASKED QUESTIONS

(Q) How do I buy and sell Shares?

(A) All stocks listed on the POMSoX Market can only be bought and sold through a broker. The Stockbroker acts on your behalf to buy and sell shares, for which a fee is charged.

(Q) What is the minimum amount to buy shares?

(A) Really, there is no minimum amount one could use to buy shares.
The prices of shares vary for different companies listed on the market. The minimum will depend on the type and cost of shares an investor is willing to buy. Consult your stockbroker, who will assist you in this area.

(Q) How do I find and monitor a share price for a company?

(A) Shares prices of companies listed on the market can be found in the local newspapers in the business column or on the POMSoX Website at www.pomsox.com.pg. Up to the minutes prices can be obtained from the brokers or the Exchange.

(Q) How can I follow the performance of Listed Companies?

(A) Companies listed on the Exchange are required under the Listing Rules to provide timely announcements about their activities in order to ensure that a fully informed market is maintained. This information is sent to all investors via mass media.

(Q) After buying shares, what do I do with them or when can I sell them

(A) Once you purchase shares, you can sell them anytime you wish. Normally, investors buy shares at a lower price and sell when the prices are good or at a higher price than the price at which these shares were bought. People also sell their shares when they need extra funds for other needs. It depends on the investor's preference for income, capital gain or security.

(Q) How many stockbrokers are there in PNG and who are they?

(A) Currently we have only two licensed Stockbrokers, and they are BSP Capital and Kina Securities.

(Q) How often can I receive dividends

(A) Dividends are paid out to shareholders of a company after the company declares its profit for a financial year. Dividends are distributed evenly among all ordinary shareholders. Dividends are usually paid once a year. However, it must be noted that not all listed companies pay dividends. Before an investor buys shares in a listed company, he or she must check to confirm if the company does pay dividends and the frequency of these payments.

(Q) What is a Float

(A) The word float is used when a company seeks to raise capital by offering its shares to the public for the first time. The company must first submit details of its business and proposed share issue to the Securities Commission in a form of a prospectus. Once the prospectus is lodged and is registered and approved by the Securities Commission. It can then be forwarded to potential investors for consideration.

If you wish to invest in the company, you must first review the prospectus, fill in the attached application form specifying the number of shares you want to buy and send it with your payment to the company or lodge it with your broker or agent.

(Q) Can I buy and sell shares on my own instead of using the Stockbroker.

(A) No, only people who are licensed to act as a Stockbroker have access to the use of the POMSoX market. There was stringent rules that must be complied with in order to be granted a license by the Securities Commission and of course to be a member of POMSoX

(Q) What is a Share Registry?

(A) All companies listed on the Stock Exchange must maintain a share registry. A Share Registry is an organization that registered details of buyers of shares in a company and issues new certificates or holding statements to the buyers and removes the previous holders of shares in the company when these investors sell off their sell. All information from listed companies is distributed by the registry on behalf of the company to shareholders.

GLOSSARY OF TERMS

Assets – Everything that a person or a company owns. Cash, investments, property and anything that has a value and can be claimed in the event that a person or company becomes bankrupt.

Arbitrage – Buying and selling the same or equivalent securities at the same time in different markets to take advantage of a price difference.

Bear – A person who expects prices to fall and sells securities hoping that he will make a profit by subsequently repurchasing at a lower price. If his judgement is wrong and the prices rise, he makes a loss instead of a profit.

Bear Market – A falling market or when prices of most the stocks listed on the market are falling.

Bid – The price at which someone is prepared to but shares. Also known as "buying price"

Blue Chip Stocks – Shares that are usually high priced, of a company known for its ability to make profits in good times or in bad times.

Bond – Document recording a loan made to a government or semi government body for a fixed rate of interest. The government guarantees repayment of the loan and interest.

Bonus Issue – the issue of bonus or free shares to existing shareholders, usually in a predetermined ratio e.g. one bonus share for every three shares held.

Books Closing Date – The date on which a company closes its books to determine those shareholders registered for a dividend, new issue etc.

Boom Market – A market in which buying demand greatly exceeds selling pressure. This inevitably leads to price rises.

Broker – refer to stockbroker

Brokerage – Fees charged by the broker for acting on your behalf in buying and selling shares.

Bull – A person who buys securities in the expectation that prices will rise and so give him an opportunity to resell at a profit.

Bull Market – A rising market, where share prices of most stocks are rising.

Capital Gain – Profit from the sale of capital assets such as shares. Investors often buy securities for the sake of expected increase in value rather than for dividend prospects

Capitalization – In stock market terms, the value of a company that is share price multiplied by the number of shares on issue.

Contract Note – Document sent to a buyer or seller confirming that transaction and showing details as to price, brokerage and any other charges involved.

Contributing Shares – Shares that are not fully paid. Usually refers to No Liability Companies.

Convertible Notes – A Loan made to a company at a fixed rate of interest with a right to be either redeemed for cash of converted into ordinary shares at a predetermined date or within a certain period.

Cum – Meaning 'with 'e.g. "cum dividends" means that the shares are being traded with the current dividends i.e. the buyer receives the dividend declared.

Cum-Dividends – Shares quoted "cum-dividends" entitle the buyer to the dividends then current.

Cum Rights – Shares quoted "cum-right" entitle the buyer to participate in a new issue of shares then current.

Debentures – A loan made to a company for a fixed period of time at a fixed rate of interest. The loan is secured by a charge over the company's assets.

Deferred (dd) – Shares quoted "dd" are the result of a reconstruction of the company's share capital where shareholder have surrendered old scrip to the company but the company has yet to issue new scrip. Shareholders who wish to sell must do so on a "dd" basis so buyers know that they cannot yet expect delivery of scrip.

Delisted – Removed shares or securities that were once quoted on the Stock Exchange.

Discount – The amount by which a security is quoted below its face value. The opposite is premium.

Dividend – Distribution of part of a company's net profit to shareholders as a reward for investing in the company. This is usually expressed as a percentage of the par value or as toea per share.

Earnings Per Share (EPS) – Company's net profit divided by the total number of shares in the company. Usually expressed as toeas per share.

Equity – Ownership, usually through ordinary shares.

Ex – Means 'without' e.g. "ex dividend" indicated that the shares are being traded without the current dividends so the seller retains the dividends declared. Shares traded without the current bonus, rights, or entitlement issues are also quoted "ex"

Ex – Date – The date on which shares change from being quoted "cum" to "ex". It is usually the fifth business day prior to the books closing date.

Ex – Dividend – Securities are quoted "Ex-Dividend" five business days before the company's books close to determine shareholders entitled to the dividends.

Float – The initial raising of capital by public subscriptions to securities.

Growth Stock – Stock with good prospects for future expansion, so promising capital gain. Immediate income prospect may be modest.

Inside Information – Confidential information available to a small number of people.

Institution – In the investment context, this refers to those bodies with large pool of funds for investment, e.g. NASFUND, POSF, COMRADE TRUSTEE SERVICES etc…………

Interim Dividends – A dividend paid during the year and not at the end. Most profitable companies pay dividends every half-year.
Joint Venture – An agreement for two or more parties to jointly explore, finance or direct a particular development. The holdings in this venture may not necessarily be equal.

Leverage – Refers to the process of increasing funds available for investment through borrowing.

Liabilities – items owed by a person or company to another party

Limit (AT) – Instruction given to a broker to buy or sell shares at a certain price or better

Limited Liability (LTD) – The liability of the shareholder in this type of company is limited to the extent of any unpaid capital on his shares.

Listed Stock – Securities, which are approved for admission to trading on the Stock Exchange.

Liquidator - A person appointed to take charge of a company when it is wound up.

Margin – Money put up by a client for the purchase of a stock under a forward contract.

Market Price – The prevailing price to buy and sell a security on the open market

Offer – the price at which someone is prepared to sell shares. Also known as selling price.

Official List – Names of securities listed and quoted on the Stock Exchange.

Operator – Employee of a brokering company who operates on the trading floor and effects orders placed with his firm.

Order – Instructions by clients to buy or sell securities.

Par – Nominal or stated value given to shares by the articles of a company. It often has no relation to the asset value or worth of shares.

PETS – Port Moresby Stock Exchange Electronic Trading System

Placement – An allotment of shares, debentures, etc made directly from the company to investors, rather than through the medium of a cash issue.

Portfolio – Investor's holding of securities of various types. The wise investment is to build up a balanced portfolio according to personal requirements. Your broker will help you plan this.

Premium – the amount by which a security is quoted or issued above its par value. The opposite is discount.

Proxy – Written authorization given by a shareholder to another person to vote on his behalf at a company meeting.

Prospectus – Documents issued by a company setting out the terms of its public issue or debt raising. Subject to the rules of the Stock Exchange, Securities Commission.

Rally – Short spirited price rise

Reconstruction – A company may adjust its capital issues by reconstructing its shares into units of greater face value. The opposite is share split.

Right – A privilege granted to shareholders to buy new shares in the same company, usually below the prevailing market price. A right can be exercised or sold. They are usually issued on a predetermined ratio, for example, one right to every four shares held.

Scrip – A document with an identifying number that states that person is the registered holder of a number of securities. The most common for of scrip is a share certificate.

Securities – refers to the type of investment offered by a company or authority e.g. shares.

Share – An equity or part ownership of a company.

Share Price Index – Index, which measures the level of share prices at any given time.

Speculator – One who purchases shares in anticipation of selling them shortly thereafter at a profit.

Split – A Company may adjust its shares into units of lesser face value. Such splits of say K1.00 into 50toea shares help small investors and tend to make company shareholding more widespread.

Stockbroker – A Stock Exchange Member who buys and sells stocks shares and securities for clients.

Takeover – When companies or individuals wish to obtain control or to buy out an existing company the bidder will circularize the shareholders bidding a certain price per share.

Trusts – Investments which involve pooling investors money and have experts invest that money for the individuals. Trusts almost always concentrate on one area of investment. The three most common are Equity, Property and Cash Management.

Underwriter – One who arranges a new issue of securities and agrees to purchase any unsold securities thereby guaranteeing full subscriptions.

Winding up – The cessation of business through a court order, or by a special resolution by creditors or shareholders. Assets must be realized to provide for the liabilities and expenses of the business.

Yield – Effective return to investors from a particular security, expressed as a percentage of the current market price. So shares of K2 nominal value may give a 10% dividend but if the market is K4 then the dividend yield is 5%

END