What are Shares?

Shares, as the name says, are shares in a limited company. Each shareholder is a partial-owner of the company in which they have bought shares and investors can buy and sell their shares on the stock exchanges. Companies issue shares on incorporation, (also called equities) and later perhaps when they are building up a business. The original shareholders might still own them, or they may have sold them to someone else through the stock market. If the company makes a profit, the shareholders normally have some of it passed to them in the form of dividends. The amount paid in dividends varies year by year, depending on how profitable the company has been and how much money the directors and the company management want to keep in reserve for future expansion.

What is a Stock Exchange?

A stock exchange, share market or bourse is an organization which provides "trading" facilities for stock brokers and traders, to trade shares of the listed companies and other financial instruments such as Term Finance Certificates (To raise finance) and Derivatives (To increase the depth of trading). Stock exchanges also provide facilities for the issue (listing), redemption (delisting) of securities and other capital events including the payment of income and dividends (in case of Profits for the company). Karachi Stock Exchange (KSE) is a modern market where trading takes place with electronic trading system called Karachi Automated Trading System (KATS), which gives the Exchange advantages of speed and minimum cost of transactions. Trades on an exchange are by members only.

Why do Companies go Public?

The primary purpose for companies to be publicly listed at the exchange is to cost-effectively raise capital (Through IPO). It reduces the company's reliance on the traditional financiers such as financial institutions and individuals. Listing allows business expansion without increasing borrowings or draining the company's cash reserves. History of listed companies indicate that companies that convert to public ownership are more likely to become successful than control companies that remain private. Companies that go public are also more likely to become acquirers than control companies. IPO companies grow faster than control companies after going public. However, as a rule of thumb, both public and private companies must disclose financial information to regulators.

IPO explained.

The initial offering of stocks and bonds to investors is by definition done in the primary market (IPO) and subsequent trading is done in the secondary market (Stock Market). Initial Public Offering (IPO) is the initial sale by a company of shares or its stock to the public in the financial market.

Price Determination of IPO

Book Building is the process of price discovery and pricing a new share issue. The process by which an underwriter attempts to determine, at what price to offer an IPO based on demand from institutional investors for its efficient price discovery based on actual supply and demand by informed investors.

Market and its working

What are the measures of market performance?

There are four indicators of market performance:

a. Market Capitalization
b. Value Turnover
c. Traded Volume
d. Composite Index

What influences Market movements?

However theoretical we get, the general sentiments of the investor indicates the direction of the market movement. However, the overall market sentiment is derived by a number of factors – economic, political, fiscal etc.

How do economic indicators affect the market?

Interest rates, foreign exchange, inflation, growth rates - these are some other economic indicators, which affect the performance of the Stock Market. Favorable growth and inflation rates, as well as stabilized interest rates and foreign exchange, are good news for the stock market. They usually give a boost to the market performance as these indicate sound economic status. Soaring interest rates, on the other hand, usually push investors from the stock market to some interest-bearing investments, as they offer better returns than stock investing.

What are Stock Market Indices? How do they work?

The KSE index:

The Karachi Stock Exchange KSE-100 Index is the bench mark for our market, it comprises of the top companies from each of the 34 sectors on the KSE, in terms of market capitalization. The rest of the companies are picked on market capitalization ranking, without any consideration for the sector to make a sample of 100 common stocks with base value of 1,000 in late 1991. There are two other indices; KSE-30 Index, which is based on free float capitalization of top 30 companies and KSE all shares Index which is based on full market capitalization of all listed companies at the Exchange.

An index, a composite figure, becomes a benchmark index when you choose it as the standard against which to measure your own portfolio's performance over time. Many investors like to keep track of how companies are performing in general. When a company's share price moves up or down, it shows, whether it is perceived to be lucrative by the investors.

Movements in share prices are measured by various indices. These provide a benchmark against which you can compare the performance of your shareholdings.

The most quoted index is the KSE-100. It comprises of the 100 largest companies on the Stock Exchange and is updated minute by minute during trading hours. The index reflecting all the companies on the Stock Exchange is the KSE-All Share Index and the KSE-30 Index comprises of top 30 companies.

Various investment companies have made their own indices to keep track of the performance of their portfolios. There are three major types of indices calculated to help private investors track the performance of their investment portfolios:

1. The Income Portfolio represents the performance of a portfolio designed to provide a regular flow of income.
2. The Growth Portfolio is for the investor seeking capital growth in his or her portfolio.
3. The Balanced Portfolio represents a balanced portfolio providing both capital and income.

The indices are made up of three broad types of asset: Pakistani equities, foreign equities, bonds and PIBs

Investor Guide

Why Should I invest in Shares?

Almost everyone worldwide has an interest in shares, whether they realize it or not. Millions of people around the world own shares directly. However, many millions more have an indirect stake in the stock market through pension schemes, life insurance policies, NIT units, and other mutual funds. All of these, invest in shares traded on the stock market.

Today, increasing number of people own shares around the world, while many more invest in pension schemes, have an insurance policy, National Saving Schemes (NSS) or another form of collective savings invested in shares traded in stock markets.

However, investing in shares is different from saving in a bank or National Saving Scheme. There is more risk - but there is the opportunity for better reward over the longer term. With deposit accounts, you earn interest on your capital. When you take your cash back, you get back exactly the same amount that you first deposited (plus the interest it has earned). With shares, you may receive dividends (reward for holding money) but when you sell those shares, you might get back more than you bought them for, which is your reward for taking a risk (capital gain).

Nevertheless, because shares can go up as well as down in value, it is important to understand that taking a risk means you might get back lesser than you had invested initially. You can minimize your risk by investing in different shares or a collective fund. There is, however, the possibility of greater rewards. Funds invested in equities in the long term (five or more years) have outperformed regular saving accounts.

You should remember that saving through the stock market should be seen as a long-term investment. Historically, money invested in shares over the long term (ten or more years) has almost always outperformed regular saving accounts.

Before investing in stocks and shares, you should understand your own financial position and what you hope to achieve with your investments. Your regular financial obligations should be protected and preparation should be made for unexpected expenses. Investment should be made out of the excess money saved and as a substitute to keeping the money vacant in a bank account.

Having done this, you are ready to consider investing the surplus in stocks and shares. The three main rationales for owning shares are summarized below:

a. Ownership in a Company - when an individual invests in the stock market, he automatically becomes a shareholder of that company. As a stockholder, he is entitled to the following benefits:
    1) Voting rights;
    2) Dividends to be declared by the corporation and
    3) Share of the remaining assets of the company if it is to be liquidated.

b. Liquidity of Funds - a stock market investor has easier access to funds. Compared to banks, which have a high minimum balance requirement for deposits and credit, as an individual, you can start an investment with very low capital, and can expect high yields for your initial investment. You can always cash in or out your funds anytime, during trading hours, through your broker.

c. Make Money - investors in the stock market make money through dividends and capital appreciation. When a listed company declares dividends, it increases the shareholders' investing power. An investor who buys into the company at a low market price and sells it at a higher price will gain capital appreciation.

What is the minimum amount of initial Investment?

Some brokers may require a minimum initial investment to open an account depending on their requirement or may charge or waive other fees depending on the amount you initially invest.

If you are just getting started with a small investment, look for an investment firm that would not penalize you based on the size of your investment.

The minimum amount of money needed to invest in the stock market depends on the minimum number of shares to be traded for the stock. The minimum shares will be determined by the prevailing market price of a particular stock, as each stock, the minimum number of shares to be traded is fixed, called the market-lot, which depends on the price range of the stock.

The market lot is calculated biannually by NCCPL, keeping the lot size to 500-shares for scrip which are priced less than Rs. 50 and lot size of 100-shares for scrip priced above Rs. 50

How can I buy and sell shares?

You can buy shares when a company first comes to market - that is at flotation or privatization; or you can buy them through the stock market once they are in circulation and being traded.

Companies which are about to issue shares often advertise in a daily newspaper. If you decide to buy these shares, you can seek more information from the company's website or you can fill up the application form at the affiliated bank or ask the company for a prospectus. Fill out the application form and submit it with your pay order, at the bank. There is nothing more to pay. Alternatively, you can go to a stockbroker who will buy them for you.

Most share dealings take place in what is called the secondary market. This is where existing shareholders sell and new investors buy.

Today, buying shares is easy. You can buy and sell shares by making contact with a stockbroker, bank or investment adviser, either in person or over the internet or telephone.

How can I decide which shares to buy?

1) A stockbroker carries out buying and selling on his propriety accounts and on behalf of his clients as individuals cannot deal for themselves in the market. A list of stockbrokers is available from the Stock
   Exchange on KSE website www.kse.com.pk. Stockbrokers offer a variety of services but if you know exactly what you want, simply call the broker for an 'execution only' service and ask them to buy the shares of your choice. KSE offers three market segments

   a. Cash market based on two day clearing and settlement (T+2).

   b. Continuous Funding system (CFS) MKII where cash market's net purchases can be carried over for another 22 working days.

   c. Deliverable Future Contracts allow investors to purchase or sale on a forward contract basis clearing and settlement of these contract takes place on last Friday of the months and new contract starts on the following Monday Cash settled Future Contract where contract is for 90 days, but investor has a choice to enter into any of the three contracts that are always open for end of the month expiry based of cash settlement with under line cash market price of the scrip.

2) After having instructed your broker to buy shares, the broker will draw up contract notes, which typically are sent to your address or mobile phone number within next 24 hours. This will show details of the transaction carried out on your behalf.

3) You must send payment for your shares immediately upon receiving your contract note. In June 2007 the Stock Exchange adopted a two-day settlement system called T+2 system, under which transactions are due for settlement 2 working days after dealing.

4) Upon receipt of payment, the purchased shares are transferred in your name in your Central Depository Company (CDC) account electronically. You are now the proud owner of a portfolio.

5) At this stage you can sell your shares if you wish. You are now entitled to attend the company's Annual General Meeting (AGM). Talk to the other shareholders, especially representatives from the institutional investors. Just one sizeable disinvestment could make all the difference to the outcome of your overall operation.

A stockbroker or financial adviser can help you choose which shares to buy, and advice on the best time to sell.

You will need to decide:

- Will I need the money soon?
- On the other hand, can I leave my money to grow over a number of years?
- Alternatively, Do I want a combination of both?
- How much money can I afford to invest?
- Will I spread this over a small number of shares, or a larger number?
- Do I want to invest directly in shares?
- Do I want shares in blue chip companies, medium-sized companies or new, small companies (which can be less secure)?
- On the other hand, do I want the relatively safe government backed investment schemes available through National Saving System (NSS), or Pakistan Investment Bonds (PIBs)?
- Am I interested in indirect ways of investing, through closed end Mutual Funds or through Term Finance Certificates available at the Stock Exchange?

What is Central Depository Company (CDC)/ Central Depository System (CDS)?

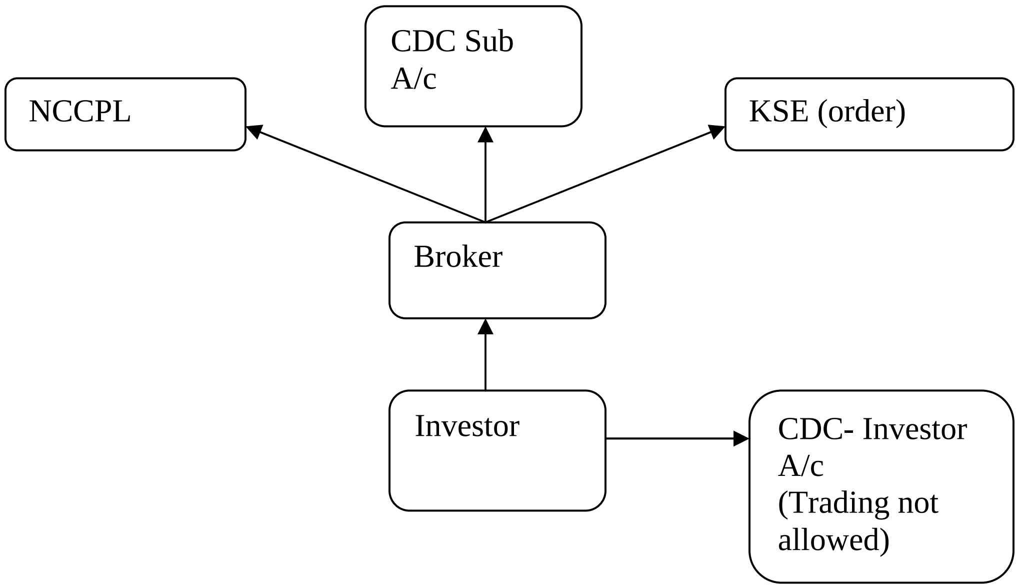
The CDC is a company that operates an electronic share register called the Central Depositary System (CDS). The CDS eliminates the need for physical movement of share certificates. CDC electronically manages book entry system for custody and transfer of securities. CDS was introduced to replace the manual system of physical handling and settlement of shares at the stock exchange and is managed by the Central Depository Company (CDC), which is incorporated under the Central Depositories Act 1997. Investors can open their accounts directly with CDC called Investor Accounts or open sub accounts with a brokerage firm. It has also solved investor problems related to stock handling on the settlement date, registration of shares, and exercise of corporate action benefits. Visit CDC website for further details regarding shares safe keeping. (www.cdcpakistan.com)

How are Settlement and Clearing Done?

Clearing and settlement of all stock exchange transactions are provided by National Clearing Company (NCCPL), which acts as go between for KSE and Central Depository Company (CDC) which is the share depository company. Shares move between share-accounts held by the different participant-brokers of the Central Depository Company (CDC).

Stock market transactions are settled on the second day after the trade. Transfers are based on trades done at KSE. Shares are transferred on settlement date (T+2) to the buyer, and the buyer pays the seller through the clearing banks within the same settlement period. This means that transactions done on Monday must be settled by Wednesday. Settlements of accounts are done in the clearing house through National Clearing & Settlement System (NCSS), which is a fully automated electronic settlement system. Visit NCCPL website for further details regarding clearing and settlement, www.nccpl.com.pk.

THE FLOW



When an investor first wishes to enter the stock market, he has two paths. Either he opens a direct investor account with the CDC or approaches a Broker who then manages his trade transactions. In opening a direct investor account, the investor is not allowed to carry out transactions personally. So in any case, the investor has to open an account with a broker.

The broker has the option to open a sub-account with the CDC through which he can execute investor transactions. The broker places orders at the KSE, holds the shares at CDC and clears them through the NCCPL.