

The Stock Market

The Stock Market is a market, which deals in the exchange of shares and bonds of publicly quoted companies, among other instruments for money.

Shares are financial instrument where one acquires ownership stake in a company. When one buys a share he owns a fraction of the company, and is allocated a fraction of the profits in terms of dividends. Bonds on the other hand are financial instruments that serve as an IOU; an investor loans an issuer, and returns are fixed and guaranteed. When one buys a bond, he becomes a creditor of the company and is paid a percentage interest on their bond value in agreed intervals, until the bond reaches maturity when the principal will also be paid back by the company.

How to buy and sell Shares/bonds (securities)

1. **Decide what company to buy in.**

Make sure the company is in a strong industry, and that it in itself is strong and growing.

2. **Select a stockbroker/investment bank to use.**

Select one that is duly licensed by the CMA, and meets all your service needs in terms of efficiency in order execution, and provision of timely and unbiased investor information.

Types of Orders

There are 3 main types of orders:

- **Market order:** where one just asks the stockbroker to buy or sell securities at the best price it can get its hands on.
- **Limit order:** Here, one tells the stock broker to trade only when the stock is at a certain price or better. This takes more research and predicting on one's part
- **Stop order:** An investor tells the broker to sell his securities if the price drops below a certain specified level.

Categories of investors

Investors can generally be classified as:

- Investors who invest in anticipation of prices to rise in the long run thereby enabling them to make capital gains.
- Those investors who rely on dividends. These are long term investors who should therefore invest in firms with a concrete dividend declaration policy or history
- Those with a view to control a company by owning over 50% of the issued capital..
- Those who buy shares as a collateral security for raising loans
- There are investors who would like to invest with a bias towards safety of their investments. These investors go for corporate and government bonds and shares of very solid firms.

- Speculative investors, who invest in anticipation of a rise in share prices in the short run, so as to enjoy capital gains. They buy when the share prices are low and sell when they are high. Chances of one burning their fingers here are very high. Only investors who are well versed on market movements can afford to do this effectively.
- Finally there are the risk-averse or small net worth individuals who want to invest in shares and bonds but fear the risk. This investor are advised to invest through

What to look out for when choosing selecting securities

1. **State of management in the company:** The Board of Directors and other key management personnel in the company ought to be people of repute, reliable and who can be trusted to run the company honestly and successfully.
2. **Nature of the product dealt in and its market share.**
Is the product vulnerable to changes in various market factors?
3. **The marketability of the security.** Are shares from a particular company readily sold or bought? The security should be readily saleable when one wants to dispose them off.
4. **Do not to put all one's eggs in one basket.**
An investor is advised to invest in shares of various companies, so as to diversify risk of one company failing, or experiencing reduced profitability.
5. **Progress and readiness to meet growing future demand.**
The company's development and expansion programmes should be looked into. If a company has the capacity for future growth, then it is a good company to invest in.

In conclusion, it is important to re-emphasize the essentiality of consulting a licensed stockbroker/investment banker, investment advisor, and/or fund manager when one is in doubt about where to invest as these institutions have the requisite professional expertise and experience, which should be taken advantage of.