Shares

Your guide to choosing, buying, owning and selling shares

FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO

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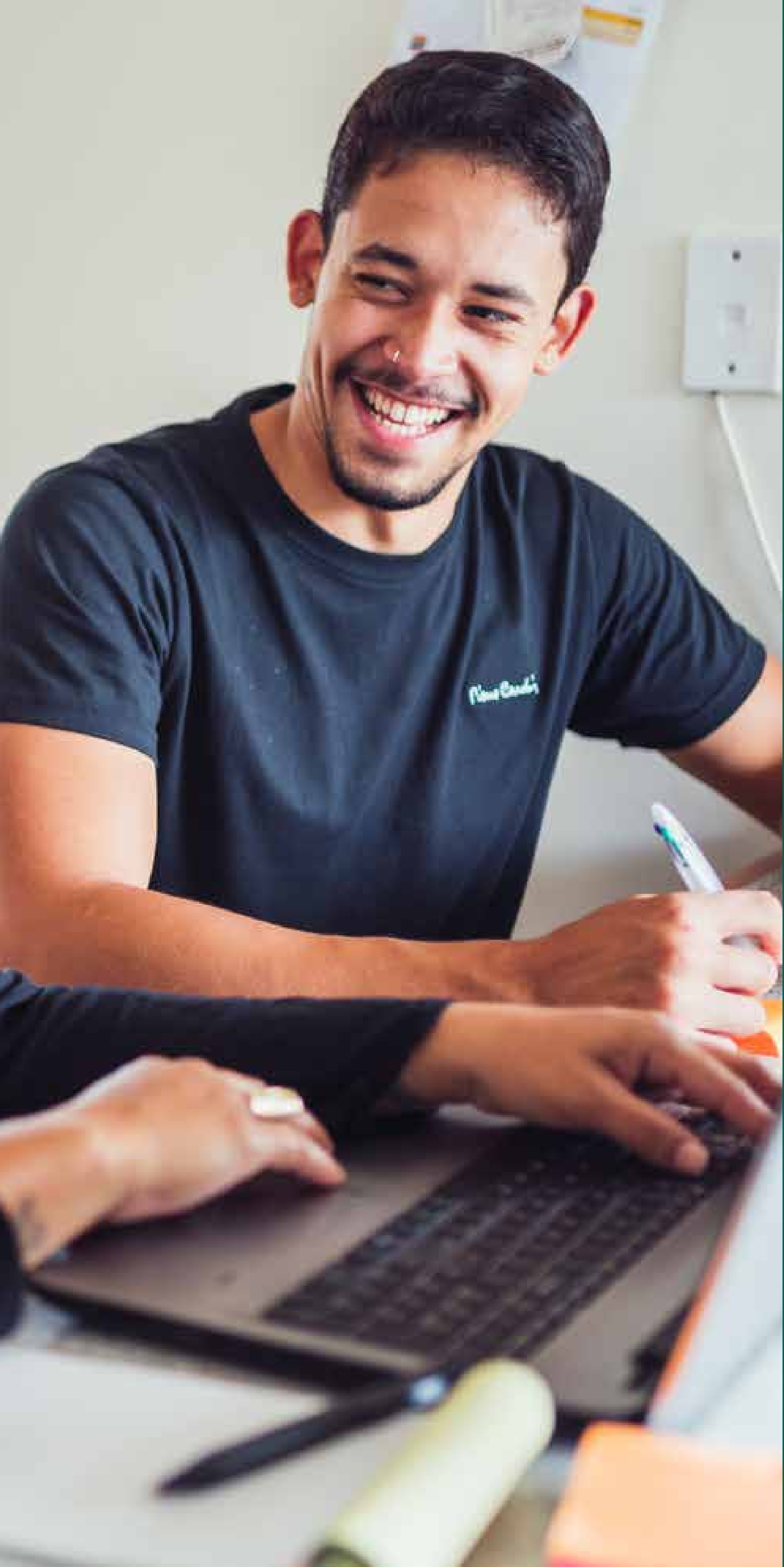
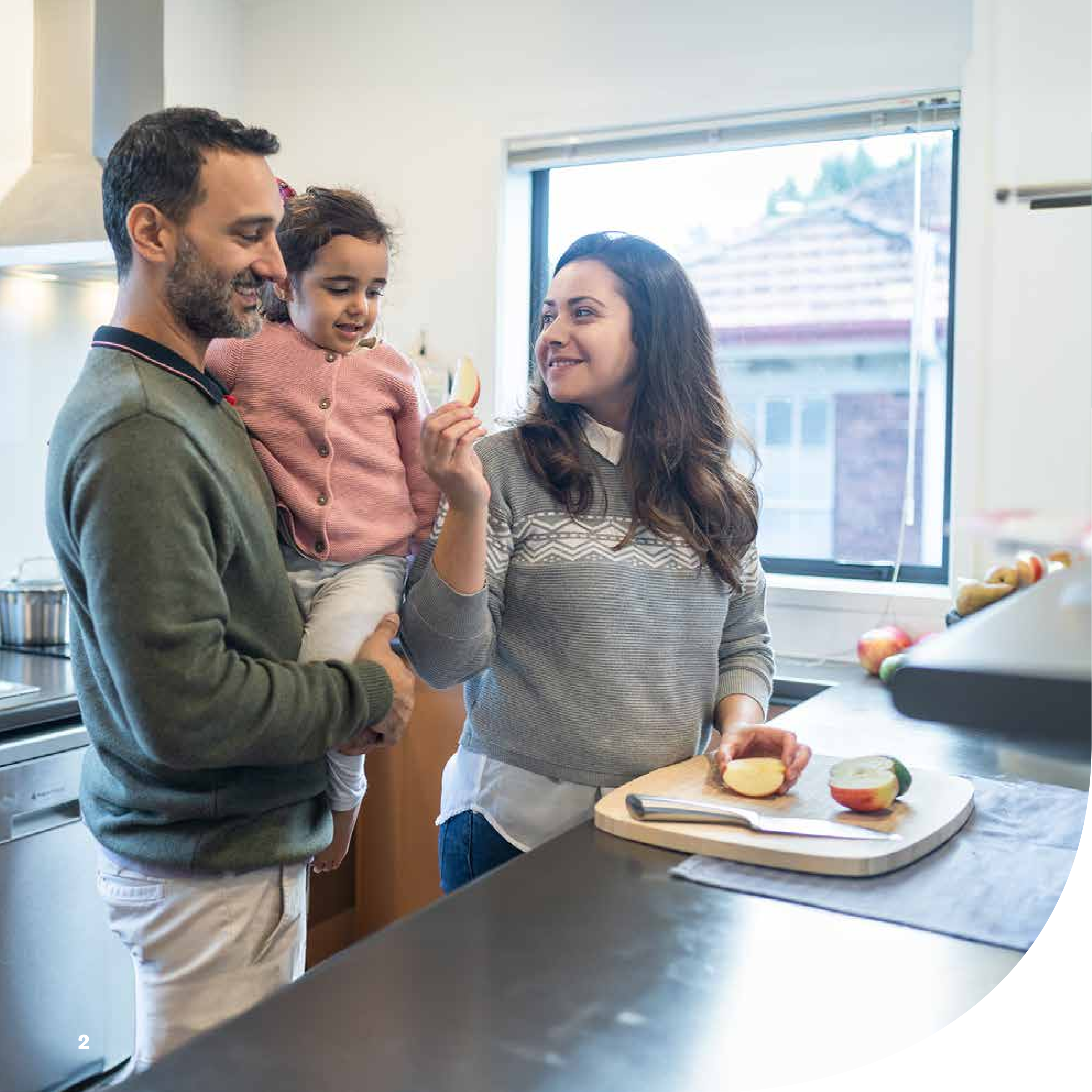


What are shares?

When you buy shares, you're buying a part of a company. This gives you certain shareholder rights, such as the right to receive dividends and the right to vote on company matters like appointing or removing directors.

The market price for a share depends on how well investors think the company is performing, based on the company's profit, the dividends it pays to shareholders, its potential for growth, the risks it's facing and overall market sentiment.



Is investing in shares right for you?

Before you make any investment, it's important to consider your personal situation and why you're investing. Having a diversified mix of assets, such as shares, bonds, property and cash, is one of the basic rules of investing, but there are different ways you can achieve this.

Investing directly in shares is most suitable if you:

- **Want to invest in individual companies**
- **Have time to do research** – you will need to do initial research and keep up to date with the companies you're investing in by following the news, reading their annual reports and attending annual meetings.
- **Understand the risk** – shares are higher risk than other types of investment and there is no guarantee you will make money. Over the long-term, the trend is for diversified portfolios of shares to outperform other types of investment. But prices can fluctuate significantly and suddenly drop in value, which means you may not get the price you want at the time you need to sell.

If you want to invest in shares, but don't have time or interest in doing your own research, **managed funds** or **exchange traded funds (ETFs)** are a better option. When you invest in a managed fund or ETF, your money is pooled with other investors and a manager chooses the shares (and other assets) on your behalf. If you're in KiwiSaver, you're already in a managed fund and you probably already own shares.

How much money will you need to invest?

There is no set amount you need. Typically, when you invest in a company you have to buy a minimum number of shares.

You don't have to invest a lot to get started – opportunities to start investing in the sharemarket have been advertised for as little as 1 cent to $1.

Some people start by just putting a small amount of money into one or two companies they're familiar with. This can give you experience investing in shares without the risk of losing large amounts of money.

If you're putting a significant percentage of your wealth into shares, you need to make sure your money is **properly diversified**. You also need to make sure you're not dependent on selling your shares for a particular amount to meet a financial goal – particularly if the goal is less than five years away (for example, to buy a house).

In KiwiSaver?

Find out more about what shares you already own through your KiwiSaver fund on **Smart Investor**.

sorted Smart Investor

How do you make money from shares?

1. Dividends

A **dividend** is a payment made to shareholders as a way of sharing profits. If the company decides to reinvest its profits in the business, they may reduce your dividend or not pay anything at all.

Some shares don't pay dividends so if you're looking for regular income, you should check before you buy.

2. Capital gains

Capital gain is the money you make if you sell your shares for a higher price than you paid.

Many factors influence share prices, making it difficult to predict future values. Share prices can go up and down but over the long-term, the value of a diversified portfolio of shares has generally increased at a higher rate than inflation. This gives you a good chance of making long-term gains, but won't always be the case.

If the company you're invested in is not performing well or there is a market downturn at the time you want to sell your shares, you may make a loss. In extreme cases, the company may not be able to pay its debts and could go into liquidation – making your shares worthless. Therefore, you need to make sure the price you pay reflects the risks the company faces. If you're actively trading in shares, capital gains may be considered taxable income.

Buying and selling shares

How to buy listed shares

The main ways to buy listed shares in New Zealand are through:

- a financial adviser
- an NZX-approved broking firm
- an NZX-approved online trading website.

Using a financial adviser or full-service broking firm

Financial advisers and broking firms trade shares on your behalf. Some provide a full, personalised service where they help you pick the shares that are best for you. Others provide generic recommendations so you can make your own decisions.

A full-service option is most likely to suit you if you have a larger sum to invest, you're new to share investing or you won't have time to do your own research.

Using an online trading website

Online trading websites enable you to trade shares yourself online. They are usually easy to use and cheaper than a financial adviser or full-service broking firm, but you need to be comfortable making your own trading decisions as you won't receive advice and you won't usually receive research reports.

What it costs

The fees charged will vary depending on the type of service you choose. The brokerage is generally a percentage based fee and may be subject to minimum charges.

You should expect to pay more if your broking firm is providing additional services, such as sending you company research and helping to select your investments.

How your trades are recorded

Whenever your financial adviser or broking firm trades shares on your behalf, or you trade for yourself online, you should receive a 'contract note'.

This provides a record of your transaction, including the number of shares bought and the price you paid. A share registry will also keep a record of the number of shares you hold.

Don't get scammed

Fraudsters often use fake online trading websites to scam New Zealanders. These websites can look very sophisticated and can be hard to tell apart from a genuine investment opportunity.

Before you use an online dealing website, make sure it is authorised by NZX.

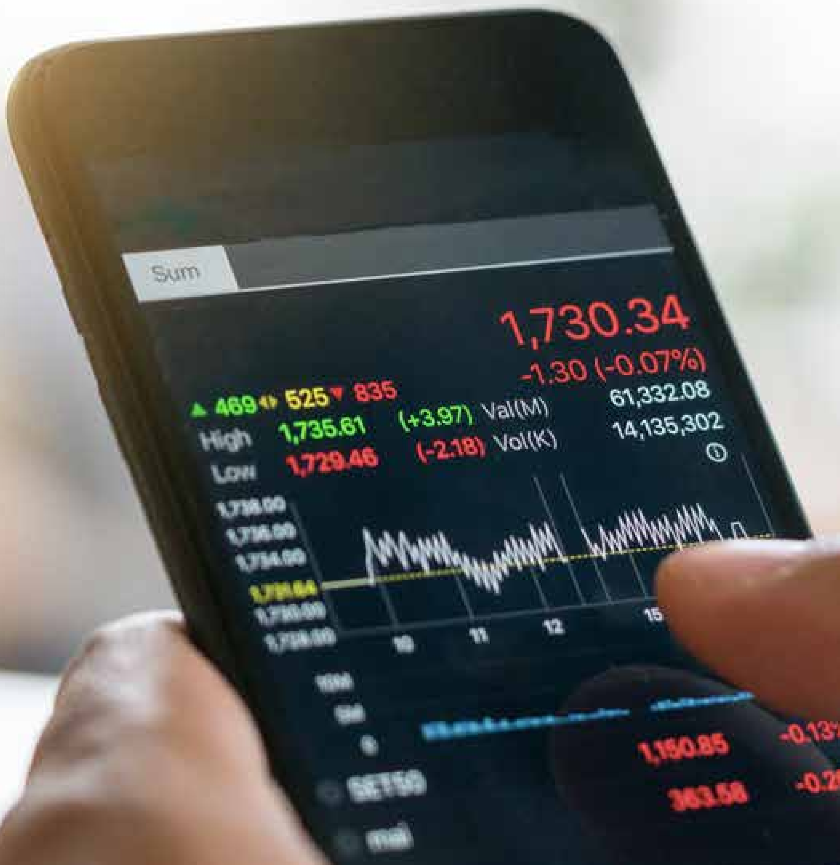
How to sell listed shares

You can sell your listed shares in the same way you buy them – through a financial adviser, NZX-approved broking firm or NZX-approved online trading website. Your shares are sold on an exchange (known as a secondary market) and the money, less the brokerage fee, is paid to you two business days later.

It's typically easier to sell shares in a company listed on an exchange, but it's not always straight-forward. At the time you want to sell, your shares may be worth less than you originally paid or there may not be buyers available at the price you want to sell. If you need to access your money quickly, you may have to sell your shares for less than you'd like.

Buying and selling shares not listed on an exchange

If you decide to buy shares that are not listed on an exchange (through an equity crowdfunding offer for example), you need to check the options for selling. It's usually much harder to sell these shares as there is no public exchange. Some companies may run their own market to help you buy and sell shares but not all companies will do this.



The difference between primary and secondary markets

1. Primary markets

When a company creates and sells shares to the public for the first time, it does this in a primary market. As a member of the public, you can access:

- **Regulated offers** – where companies must meet strict legal requirements. A company's first regulated offer is an initial public offer (an IPO) and they must provide you with a **product disclosure statement**. To buy shares in a New Zealand-based IPO you will usually need to go through an NZX broker. If a company subsequently wants to raise more money they might make more regulated offers.
- **Equity crowdfunding** – a special type of offer allowing companies to raise smaller amounts of money with less regulation. Companies raising money this way don't have to provide you with the same level of information but they must use a crowdfunding operator licensed by the FMA. See our **crowdfunding web page** for more information.

2. Secondary markets

You can buy 'listed' shares from existing shareholders on a secondary market. Examples include:

- The **NZX** (New Zealand's stock exchange) – we license and oversee the NZX, and the companies listed are subject to continuous disclosure requirements. This means they must provide the exchange with ongoing information about significant events affecting the company. Buying shares from overseas exchanges such as the London Stock Exchange, New York Stock Exchanges and Australian Securities Exchange (ASX) is more complicated than buying from the NZX as there are different tax implications. If you do buy overseas shares, we recommend you get help from a share broker to ensure you comply with the law.
- **Unlisted (USX)** – an alternative marketplace in New Zealand enabling investors to trade shares in small and medium-sized companies that don't want to list on the fully regulated NZX Main Board. We don't license or oversee Unlisted. This means it's not subject to the same protections and disclosure requirements as fully regulated markets.

Deciding which shares to buy

Share prices can fluctuate more than other types of investment like bonds and cash investments, so it's important you do your research first. Here are some points you can consider to help you choose:

Do the shares meet your goals?

If you want to receive a regular dividend from your shares you need to check the company's policy for this – not all companies pay dividends, even when they are doing well.

Do you understand the company and its strategy?

Learn what the company does and how it makes money, what its strategy is and the experience of its leadership team. Use this information to decide whether you think you can trust the company to increase the value of your investment. Things you may want to check about the leadership team include:

- Do they have a good mix of skills?
- Are their qualifications and experience relevant for the role?
- Have they been involved in any company failures?
- How are they paid? Do their incentives align with yours?
- Do they own shares in the company?

You can find this type of information in the product disclosure statement (if there is one available) and on the company's website. It's also useful to balance this by seeking out independent information from other sources such as online searches.

Do you understand the key risks to the company?

As you do your research, questions to ask include:

- Does the company have many competitors?
- Do they rely on particular customers and markets?
- How long have they been in the industry?
- Has the company borrowed a lot of money?
- Do they have cash flow problems?

If you're investing in a primary offer, the product disclosure statement will show the key risks. Otherwise, you will find this information in broker research reports and the company's annual reports.

Is the company performing well?

It is important to understand a company's finances before you invest in a new share offer. Companies making a regulated offer must give you a product disclosure statement. This explains how the investment works, gives an overview of the company, warns you of the risks and enables you to make an informed decision. Before you invest in a new share offer, **read our guide to selected financial information**.

Is the share price reasonable?

If you're choosing between two or more shares and want to work out which is better value for money, valuation ratios and multiples can be handy if used carefully. You'll find them in the newspapers' business pages, analysts' reports and product disclosure statements. See **understanding ratios** for more information.

While ratios are important, they only measure share prices relative to earnings or dividends at a particular point in time and shouldn't be the only information you rely on. Make sure you consider the long-term prospects of the company as well.

Do you have a good mix of shares?

As with any type of investment, it's riskier to put all your eggs in one basket. If you invest in just one company, there is a higher risk you will lose all your money if things go wrong. By spreading your money across a number of companies, if one has a bad year, the returns from the others may make up for it.

It's important to choose shares in companies from a range of different industries and markets because they may all perform better at different times – the healthcare industry may perform well when the financial services industry performs poorly, for example. Full-service providers and financial advisers can help you decide on an appropriate mix of shares. Diversifying doesn't guarantee you won't make any losses but done properly, it will help you manage your risk.

Is it a legitimate offer?

New Zealanders have lost millions of dollars through scams they believed were legitimate.

Common examples of share scams are:

1. You are offered shares in a well-known company and told you need to act quickly to benefit – these might be advertised as 'pre-IPO' shares.
2. After purchasing, you are told that the sale can only go ahead if you purchase more shares, or that there are taxes to be paid.
3. You are offered a good price for shares you already own, but told you need to pay an advance or restriction fee.

In New Zealand it's illegal to sell financial products through a cold call or other unsolicited communication. You should ignore any call, text-message, letter or email from a stranger about an opportunity to invest in shares.

See our **scams** web pages for more tips on how to protect yourself.

Keeping track of your shares' performance

The business news will regularly update you on the price and performance of major shares. In addition, there are a number of different ways you can keep track of your shares' performance.

Online

When you invest in shares you will have access to an online trading account where you can see how your shares are performing. You can view NZX-listed share prices and other information on the NZX website.

Shareholder announcements

If a company is listed on an exchange such as the NZX, they are required to make announcements about significant events such as profit warnings, changes in key executives and major new contracts. You can find these announcements on the exchange website and may also be able to receive them through an app.

Annual reports

Any company that has issued shares to retail investors must publish an annual report. This shows you how the company has been performing and gives you an opportunity to evaluate the leadership team. **See 'How to read a company annual report'** to learn what information is most important – including red flags to look out for.

Through your financial adviser or broking firm

If you are using a financial adviser or broking firm, they will send you regular updates.

Through a portfolio management platform

This may be provided by your broker or can be accessed or purchased from a software provider.

Where can you get help?

If you're just starting out, you may find it helpful to meet or chat online with like-minded people, or pick the brains of more experienced investors.

For example, you could:

- Join the **New Zealand Shareholders' Association**, which provides information, education and access to analysis for shareholders managing their own investments.
- Find a share club or online forum such as **sharetrader.co.nz**.
- Attend one of the **NZX's** retail investor evenings where companies share their investing stories.
- Attend an investor seminar or workshop run by an advisory or funds management firm or by an investing service.

Your broker will be able to talk you through how their trading tools work. Many also have guides and information online.

For personalised advice that takes into account your broader financial situation, you should speak to a financial adviser. See our **getting financial advice** web pages to learn more.

Where experienced investors go for help

- **The product disclosure statement and annual report**, for information about the product, company and industry.
- **Conversations with friends, brokers and advisers**, to test their thinking and analyse new investment opportunities.
- **Online and through business publications**, for independent research on the company and wider industry, and to monitor the wider financial markets.
- **Online forums**, to stay up-to-date with what others are thinking.

Understanding the jargon

Here are some common terms you may come across when you start investing in shares.

Bear market

A market in which share prices are falling dramatically (usually 20% or more) amid widespread pessimism and negative investor sentiment. This may prompt investors to sell. This is the opposite of a bull market (see below).

Broker

A financial services provider who holds or deals with client money or property on behalf of clients.

Bull market

A market in which share prices are rising, encouraging investors to buy. It's normal for share prices to rise and fall continuously during trading, so the term 'bull market' is typically only used when a large proportion of share prices are rising over an extended period. Bull markets tend to last for months or even years.

Dividend

The distribution of a reward from a portion of a company's earnings that is paid to a class of its shareholders. Dividends are decided and managed by the company's board of directors, though they must be approved by the shareholders through their voting rights.

Earnings

A company's net profit after tax. Earnings can also be before tax, so it's important to understand what definition of 'earnings' is being used.

EBIT

Earnings before interest and tax. This is the profit a company makes before expenses such as interest payments and tax.

EBITDA

Earnings before interest, tax, depreciation and amortisation. As above, but also excludes depreciation and amortisation, which are accounting treatments used to reflect the falling value of fixed assets as they age.

Growth share

Shares in companies that have the potential to achieve above-average growth in share price over time. Growth companies tend to pay small or no dividends and re-invest their profits into growing their business.

Imputation credits

When a New Zealand company pays a dividend, it may attach imputation credits to reflect the tax already paid on earnings. This is because companies pay dividends out of net profit after tax and prevents you paying tax twice.

Income shares

Shares for which companies pay out a high proportion of earnings as dividends and offer a relatively high dividend yield.

Index

An index is a measure of how a selected portion of a share market is performing. Investors and the media use indices to describe how a market is performing and to compare returns on specific investments. Common examples include New Zealand's S&P/NZX 50 index, the S&P 500 from America, and the ASX 200 from Australia. The number in each of these examples represents the number of companies included in the index.

Initial Public Offer (IPO)

The process of publicly offering shares to investors and listing on the share market. An IPO (also called a float or listing) may involve the issue of new shares to raise more capital for the company or the sale of shares previously owned by other shareholders.

Market capitalisation

The total market value of a company or market as a whole, as determined by the buyers and sellers. To calculate, multiply the total number of shares on issue by its market price. This enables investors to work out the market value of one company, an index or the value of all companies listed on an exchange.

Market price

The prevailing price of shares traded on a stock exchange. This may be the last price at which the shares traded, or the most recent price offered (selling) or bid (buying) for the shares.

Payout ratio

The percentage of after-tax profits paid out to shareholders as dividends.

Quotes

The prices at which investors offer to buy and sell shares to each other. Final 'buy' and 'sell' quotes for each trading day are useful for investors looking ahead to the next trading session.

Rights issue

An offer of additional shares to existing shareholders in proportion to their shareholding, usually at a discount to the prevailing market price.

Stocks

An American word for shares.

Traded volume

The number of shares bought and sold in the market. There are trading volume numbers for each company.

Yield

The annual income return on an investment in percentage terms compared to either the original investment or the market value of the investment.

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