Basic knowledge on investing in listed shares

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As an outsider, investing for your own account on stocks of companies listed in the Stock Exchange can be a daunting task. To start with, stock exchanges are full of jargon – calling it a stock exchange or a securities market, by itself are jargons. Why would shares be called stocks or securities? Why would government bonds be called securities or government papers?

So, stock exchanges have all these kinds of jargons, but also levels of volatility scare off an average person, resulting to people doing very little investing in listed instruments beyond the usual savings and deposits kept in banks. However, in truth, investing in stock markets is relatively simple, especially after one gets rid of common myths surrounding investing in stock markets.

Before we proceed with addressing those myths, let me answer the real questions of why we invest in companies listed in the stock markets?

Forget about getting rich quickly and in a hurry, or the speculation and gambling and gaming the market -- that shouldn't be the fundamental reason for investing in companies listed in the stock market, besides, it is simply not feasible. Why? Because, even if one is taking the highest possible risk available and it somehow pays off (which is very unlikely), you will be richer, but would that be enough so that you can immediately retire? Probably not.

The profit from a massive risk may be a return of many more per cent but in reality, we wouldn't have had a large enough pile of money to invest anyway. And of course, the fact of the matter is that massive risk appetite pretty much always leads to total loss – that is what is happening in betting, gambling and gaming.

The beauty of investing on companies listed in the stock market is that wealth is created over time. Remember cases such as, if you invested about Sh1 million in Berkshire Hathaway's (Warren Buffet Investment Vehicle) 54 years ago — that investment is now worth over Sh12 billion with a compounded annual growth rate of 20 per cent per annum during this whole period.

Shares of companies listed in the stock markets are some of the best-performing assets class over many decades, so history informs us. While they also carry risks, but the risk is limited in the sense that a share can go to zero, resulting in a 100 per cent loss. However, the upside is unlimited, like the case above where prices and valuation of shares increasing many times.

Despite noting the benefits of investing in listed shares, still some people would hesitate to invest, usually the three myths that stop many people from investing are: you need to be rich to start investing in shares, you need to know the right people with the rights connections; and it is for professionals only.

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These myths may be were true in the past, but that is no longer the case. Departing with these concerns is easy enough. Let us start with the misconception that *you have to be rich*. You don't actually have to wait until you get a million shillings for you to start investing in shares. DSE rules require that you have to buy at least 10 shares – with the prices of Sh1,000 per share in some companies, you need as little as Sh1,000 for you to get started in investing in shares and become a shareholder.

You don't need to be rich to start investing in listed shares. PHOTO | FILE

Knowing the right people – in the stock market, it is what you know that matters not who you know, and information is publicly available for everyone to get acquitted with performance of shares and fundamentals of listed companies. Sure, you may require to seek interpretation and clarification on the information that you see on TV, newspapers, annual reports, etc – but the thing to note is that, we may each interpret differently the information available and that is exactly what a market is all about – different views on the same information. Just be careful on the interpretation you make on these data and information.

Lastly, while *professionals* may have an upper hand because they spend their days focusing on investing and which shares to buy and sell, individual investors also enjoy the advantages.

As a retail investor – we typically deal with small amounts of money and investments, which means we are a lot more able to buy and sell with ease with less risk, we are also able to be more focused, investing in just a few high-quality shares, while professional investors such as portfolio managers have to invest much wider, again due to size of their funds and also their risks.

So, now that the myths have been explained, where do we start – almost everything we need is available, and for free. Information is available in the DSE website and offices, on TV, in newspapers, etc. Once you are informed, get down to actual investing.

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