

The basic understanding prior to investing in shares



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Since the DSE launched the mobile trading platform also known as 'Hisa Kiganjani,' there has been significant interest from the public considering opening investment account at the Dar Stock Exchange (DSE). For most of the interested individuals, it is their first time to engage with the stock markets, its products and services. It is only fair that we go back to the basics of: what does owning shares mean, what is a share, who can issue shares, who can invest in share, etc.

Owning shares

It goes like this - wouldn't you love to be a business owner without ever having to show up at work? Imagine if you could just be sitting back, watch your company grow, and collect the dividend cheques as the money rolls in year on year! and in case of cash/liquidity challenges and you really need money, you can just look into the TV or reading a newspaper, get the price of your investment, call a stock broker/or use your mobile phone, place a sale order and there you are - have the money you really needed. This situation is the experience that you go through when invested in shares which are listed into the stock exchange, and this is what owning shares is all about.

When you start on your road to financial freedom, you need to have a solid understanding of shares - and how they trade on the shares market.

Over the last few decades, the average person's interest in the shares market has grown exponentially. Shares are now widely considered as the vehicle for growing peoples' wealth. We may have come across the story of Warren Buffet, who (together with his investment partners) made significant amount of wealth through investing in shares via a company called Berkshire Hathaway Inc.

Despite their popularity, however, most people don't fully understand shares. You have probably heard comments from relatives and friends:

"So and so uncle made a killing in certain shares, and now he's got another hot tip..." or "Watch out with shares-you can lose everything in a matter of days!" However, so much of this misinformation is based on a

get-rich-quick speculative mentality. This is being misinforming people to sometimes thinking that shares are the magic answer to instant wealth with no risk. Shares can (and do) create massive amounts of wealth, but they aren't without risks. The key to protecting yourself in the share market is to understand where you are putting your money. It is for this reason that we have initiated and embarked in this thought leadership programme: to provide the foundation you need in order to make investment decisions yourself. Yes, you might need to seek investment and financial advice from more sophisticated and trained individuals, but you will have the basics.

So, what is a share?

A good place to start on your basic investment knowledge journey is to understand what a share is, different types of shares and the share/stock market. Let's begin at the beginning with a basic understanding of what shares are.

The definition of a share

Plain and simple, shares represent ownership of a company. A share represents a claim on the company's assets and earnings. As you acquire more shares, your ownership stake in the company becomes greater. Whether you say shares, stocks, equity, it all means the same thing.

By buying a share, money, which

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could have been idle or otherwise, held in low interest earning savings in banks and other financial institutions and instruments moves to a more productive economic activity.

Being an owner

Holding a company's shares means that you are one of the many owners (shareholders) of a company, and, as such, you have a claim to everything the company owns. Yes, this means that technically you own a relative part of every piece of furniture, every machinery and equipment, every trademark, and every contract of the company. As an owner, you are entitled to your share of the company's earnings as well as any voting rights attached to the shares.

A share to the company is represented by a share certificate/CDS Receipt, a piece of ownership of a company. When you buy a share, you become an investor (or a shareholder) and thereby an owner of a

piece of the company's assets, debts, profits or losses.

One thing to note -- being a shareholder of a public company (a company listed in the stock market) does not mean you have a say in the day-to-day running of the business, as opposite to a sole proprietorship, or a partnership or even a private company. Instead, one vote per share to elect the board of directors, to approve appointment of auditors or to approve audited accounts at annual meetings is the extent to which you have a say in the company.

For instance, being a bank shareholder doesn't mean you can call up the management of the company and instruct them on how you think the bank should be run. In the same line of thinking, being a shareholder of a brewery company doesn't mean you can walk into the factory and grab a free case of beer! The governance and management of the company is meant to enhance the value of the firm for shareholders. If this doesn't happen, the shareholders can vote to have the Board, and in some cases, the management removed. You don't have to work to make money, management works for you.

This last point is worth repeating: the importance of share ownership is your claim on assets and earnings. Without this, the shares wouldn't be worth the paper it's printed on.

Another extremely important feature of shares is its limited liability, which means that, as an owner of a share, you are not personally liable if the company is not able to pay its debts. Other businesses such as partnerships are set up so that if the partnership goes bankrupt the creditors can come after the partners (shareholders) personally and sell off their house, car, furniture, etc. Owning shares means that, no matter what, the maximum value you can lose is the value of your investment. Even if a company of which you are a shareholder goes bankrupt, you can never lose your personal assets.

So, you want to succeed in the shares market and make a fortune out of it! If the answer is yes. The first thing you need to consider is to look at your current circumstances. Some of us have goals, which are a good start, but we need to see if we can actually afford the investment required to realize our goals. In other words, you need to determine if you have the spare cash to make investments in shares. Thus, you need to construct your personal balance sheet and seek answers to some important questions to see where you stand. For instance, it is only after you have paid off all your short-term debts, and you have income (savings) left over, that you should consider investing in shares, etc.

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