Intro into Share Trading

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Unscrambling Wealth and Finance

Contents

Everyone wants a sizeable retirement nest egg that can financially support their intended retirement lifestyle, whether they want to live modestly or comfortably.

However, simply stashing your money in a savings account could result in a smaller nest egg because of various economic factors such as inflation. This also means potentially missing out on the capital growth that investments enjoy.

Typical savings accounts from accredited deposit-taking institutions (ADIs) may pay interest on the account holder's balance, but the amount is usually outpaced by rising inflation rates.

The most effective way to minimise the effects of inflation while also growing their wealth is to invest the money in the share market. The share market is a great place to find investments that could meet a person's retirement objectives.

However, investors need to exercise caution and invest in their financial literacy to avoid committing the common mistakes that investors make. The best way to do this is to invest in their financial literacy so that they can and make informed investment decisions.

Specifically, this paper will answer the following questions:
What is the share market and what are shares?
What do beginner investors need to get started with trading shares?
What other investment products are accessible in the share market?
Is now a good time to invest in the share market?

KEY TAKEAWAYS

This paper discusses basic information about the share market to guide beginner investors with their investment journey. They will also learn various investment products offered in the share market, so they can make informed decisions when building their portfolio.

This quick guide will help beginners:
Understand the share market
Learn how to begin investing and share trading
Discover and differentiate the various investment products available in the share market
Get a feel of the current investment climate

An overview of the share market

The *share market* is a regulated marketplace where investors come together to buy and sell securities and equities of publicly listed entities. For this reason, it is also called a “stock market” or “equity market”.

The share market can also refer to a physical location where market participants transact on behalf of their clients and/or a digital platform that allows investors to perform these transactions.

PRIMARY VERSUS SECONDARY MARKET

The share market is divided into two parts: the primary and secondary market.

Public listing and initial public offerings (IPOs) happen in the ***primary market*** where transactions are valued in millions or billions of dollars. Most investors in the primary market are either investment banks, investment companies or high-net-worth private investors who purchase stocks or assets in bulk.

The ***secondary market*** is where the investing public gains access to the investment assets in ‘bite-sized’ pieces. These bulk-sized assets from the primary market are broken down into units to be sold in the secondary market (i.e., stocks become share units).

WHO ARE INVOLVED IN SHARE MARKET TRANSACTIONS?

There are two key players involved in share market transactions: investors and participants. Both are necessary.

> ***Investors*** may be buyers or sellers who are looking to trade for an asset to include in or remove from their portfolio.

> ***Participants*** serve as the middleman and are the ones allowed to execute trades in the share market. These participants can be trade companies, stockbrokers or licensed professionals who are also accredited brokers or participants.

TRANSACTING IN THE SHARE MARKET

For common investors, transacting in the share market looks like this:

Only accredited participants are allowed to trade on behalf of investors in the share market.

Investors cannot execute a trade by themselves unless they are a licensed participant (i.e. brokers trading for their personal portfolio).

The only exception to the model above is when the investor has enough money to buy shares during the IPO because they may directly contact the company to express their interest in buying IPO shares.

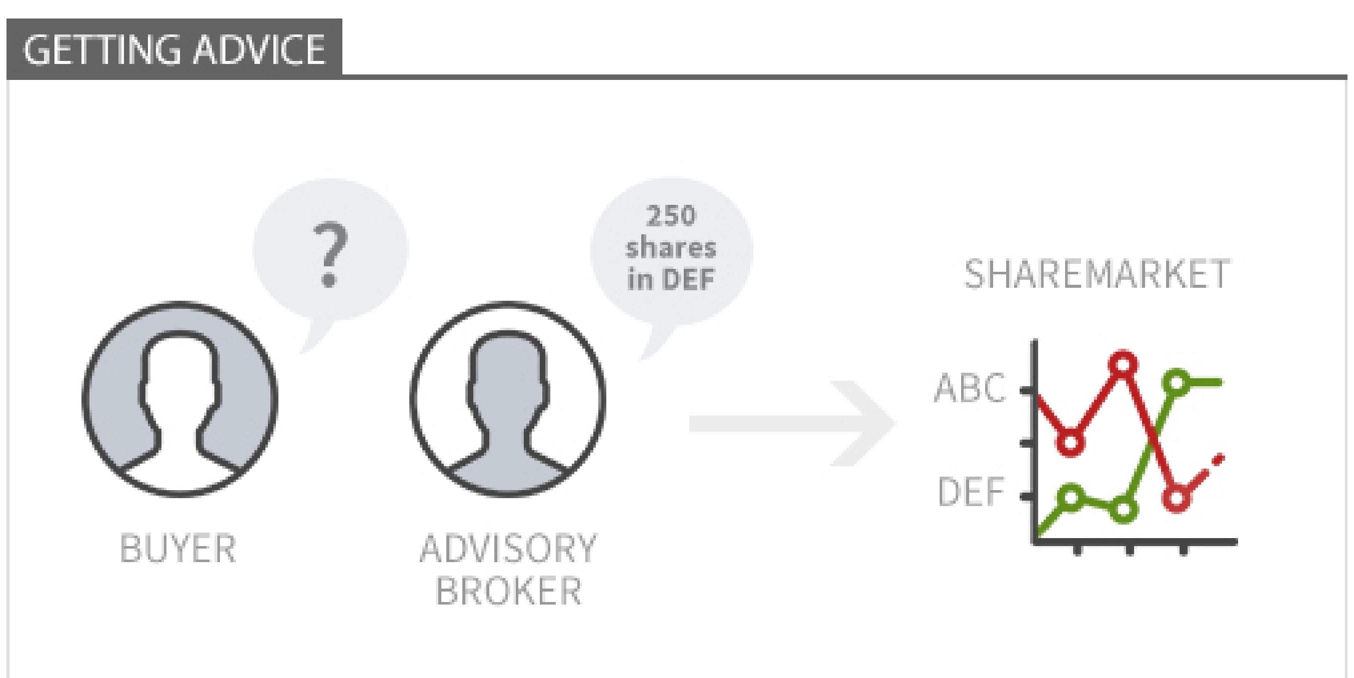
CHOOSING A PARTICIPANT

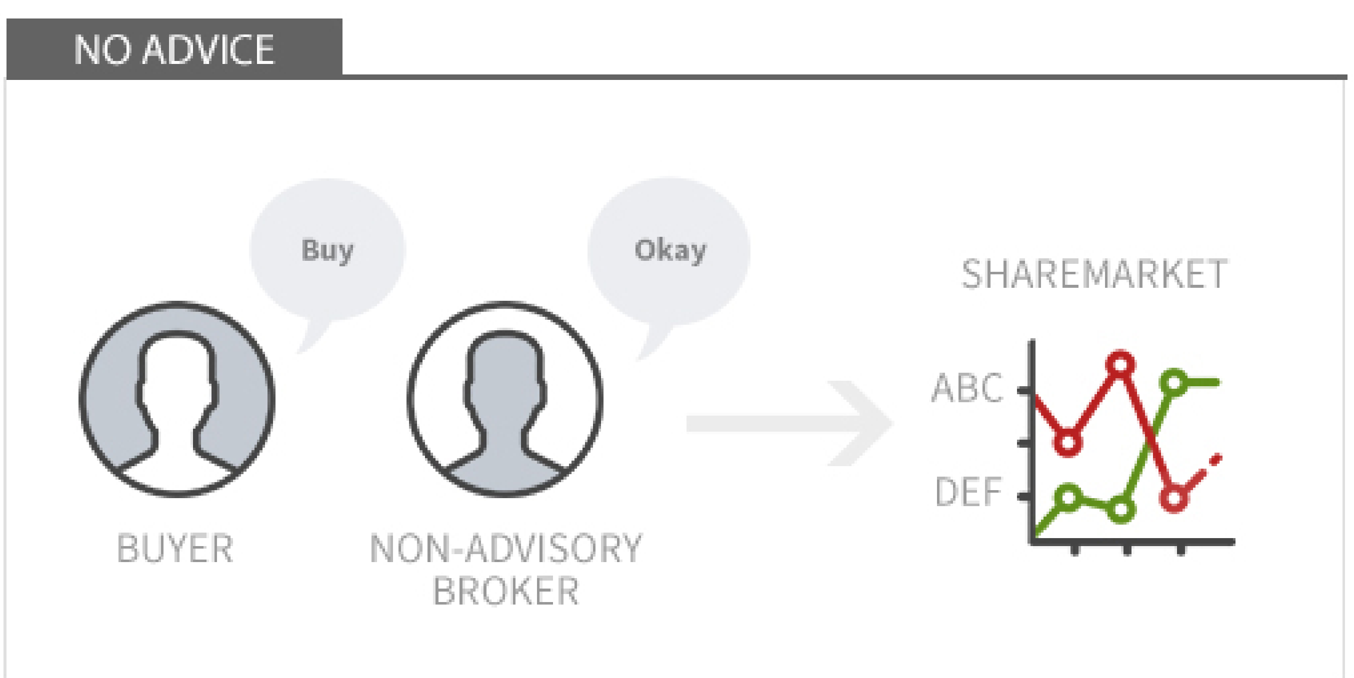
There are two types of brokers to choose from: advisory/full-service and non-advisory/discount. The types of service and fee depend on the type of broker the investor will use. Here's how to differentiate the two:

Advisory or full-service brokers offer a full range of services to its clients for a higher fee. Their services include but are not limited to:

- Recommending investment assets based on the client's objectives
- Giving advice with regard to transactions
- Executing orders
- Assisting in portfolio management

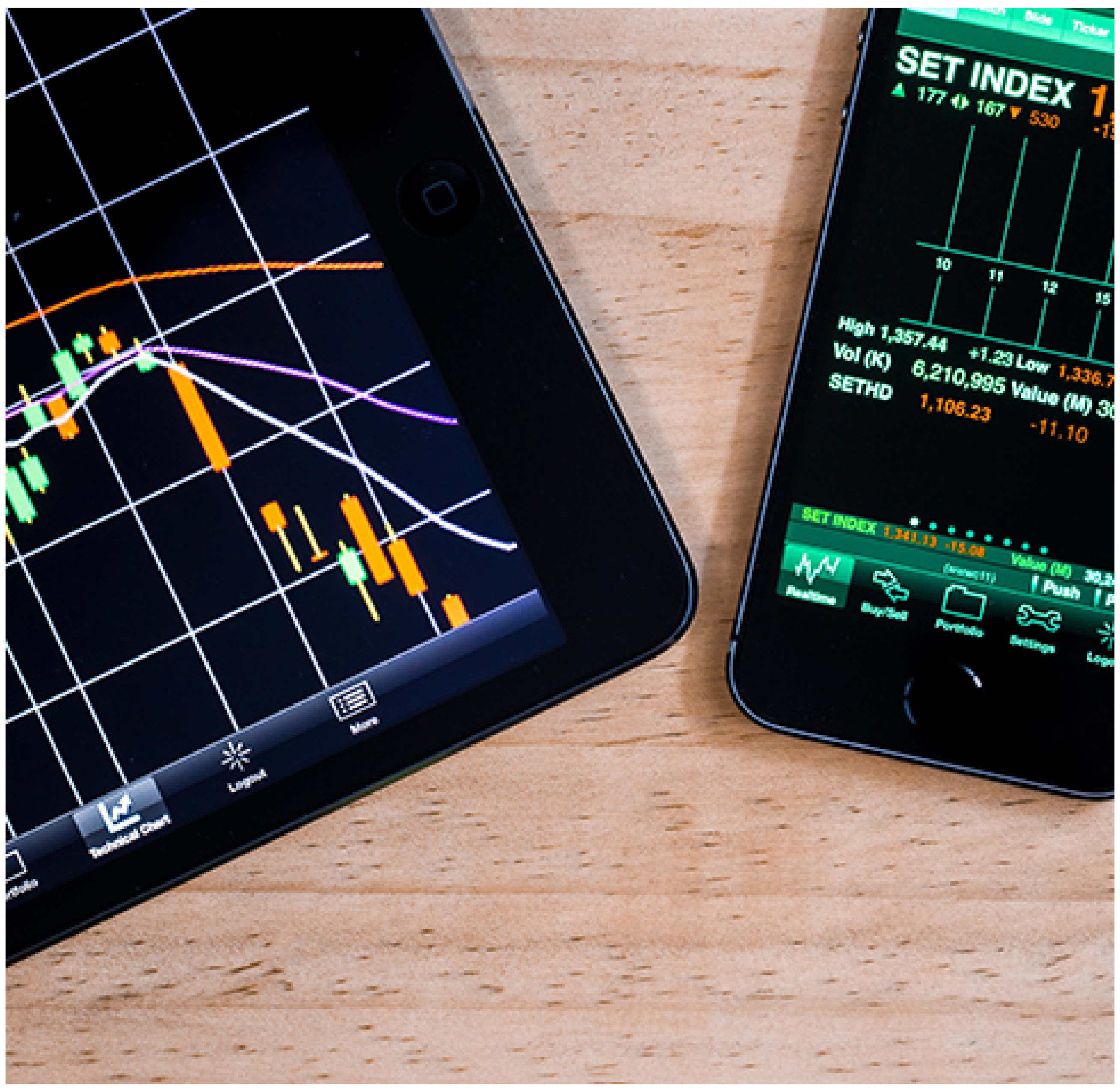
Non-advisory or discount brokers, on the other hand, charge lower fees but their service is limited to executing orders.





Getting started

The first thing you need to do before your first trade—other than due diligence—is to open a trading account. Each trade you perform triggers a brokerage fee as payment for the buy or sell execution, so the broker's rates should be one of the first things to consider, especially if you plan to trade actively.



If you plan to hire an advisory broker, you would open a trading account with them and course your money and trades through them. Make sure to do your research and choose a broker who understands your investment objectives so they can make appropriate recommendations.

If you want to open an account with a discount broker, it's still important to do your research since fees are not standardised.

Likewise, consider how actively you plan to manage your portfolio because the value of a platform and its services may be more beneficial for certain trader types.

For instance, some trading accounts could charge slightly higher but offer free market analysis and other premium services for investors who trade at least $15,000 annually. If you don't plan on trading actively then it may be better to search for a platform that charges lower fees.

COMMONLY USED TRADING PLATFORMS

There are many available trading platforms that you can access. Although some tend to be more popular than others, that doesn't mean that they're the best option for you.

Before choosing a platform to use, consider how you intend to use it.

Answer the following questions if you are unable to decide:
1. Does the operator or broker have an Australian Financial Services (AFS) License?
2. Is the platform easy to navigate and understand?
3. Do you intend to invest for the long term or become an active trader?
4. What kind of services do you need and can you get them for free?
5. Will you invest in international shares or just local ones?

The following trading platforms, operated by Australia's big four banks, are commonly used by beginner investors because they can start investing by simply linking their existing deposit or investing account:

ANZ	ANZ Share Investing
CommonwealthBank	CommSec
nab	NABTrade
Westpac	Westpac Online Investing

There are more online trading platforms outside of the big four that offer a wider range of services—some at a lower cost. Some platforms offer fees and services, such as lower rates and detailed market reports for more trades, but these are more suitable for active investors.

Some trading platforms that advertise low fees per transaction also require a minimum number of trades per month or year and charge extra if you don't meet the minimum. Ensure that you read the fine print before signing up for a trading platform.

Australian share markets

The share market is a place where various investment products are traded on a regular basis for as long as the market is open.

There are currently five share market exchanges in Australia that investors can trade in. These are:

Australian Securities Exchange (ASX)
ASX is the major securities exchange in Australia. It offers trading, clearing and settlement services for various asset classes, as well as offers educational tools for beginner investors.

National Stock Exchange of Australia (NSXA)
The NSXA lists small to medium-sized companies that operate within Australia and internationally.

SIM Venture Securities Exchange (SIM VSE)
Operated by the NSXA, SIM VSE is an exchange that lists and companies focused on the fields of biosciences, renewables and clean technology.

Sydney Stock Exchange (SSX), formerly known as Asia Pacific Stock Exchange (APX)
This exchange lists growth-oriented companies in the Asia-Pacific region.

Chi-X
Chi-X is simply a platform for trading ASX-listed equities.

Investment products

EQUITIES

Equities refer to investments which extend ownership of the underlying security to the investor.

This usually refer to shares and its various forms, such as:

Shares

Shares refer to part-ownership in a publicly listed company. The issuer may extend the right to vote on important company matters and the right to receive dividends from company profits, but these would depend on the type of share that was purchased.

Some investment assets available in share markets are:

Equities

Debt securities

Managed funds

Futures

Futures are legally binding contracts that obligate an investor to buy or sell a particular asset for a specific price upon a specified future date regardless of its market value. Futures are used for speculative trading and may end with a huge loss for either of the contracting parties if the market performance is not favourable to their position.

Options

Options are also contracts to buy or sell an asset at a particular price by the specified future date, but enforcement of the trade is optional. If the contract expires without exercising the option, the contract is terminated and the seller gets to keep the money paid for the option.

If the buyer exercises the option, the seller is obligated to produce the asset and sell it at the contracted price—even if it is below the current market price.

DEBT SECURITIES

Debt securities refer to fixed-term investments that requires the issuers to pay regular fixed income from interest rates and the full principal investment upon maturity. Debt securities are called such because the investor acts as a lender.

Two popular debt securities are bonds and certificates of deposit (CDs).

Bonds
Bonds are fixed-term securities that assures regular fixed income from interest payments that are computed against the face value for the duration of its term. Once the bond matures, the issuer pays back the face value in full.

The face value of a bond is not necessarily the amount of principal investment. Despite its reputation as a low-risk investment, exposure to risk still depends on the type of bond purchased.

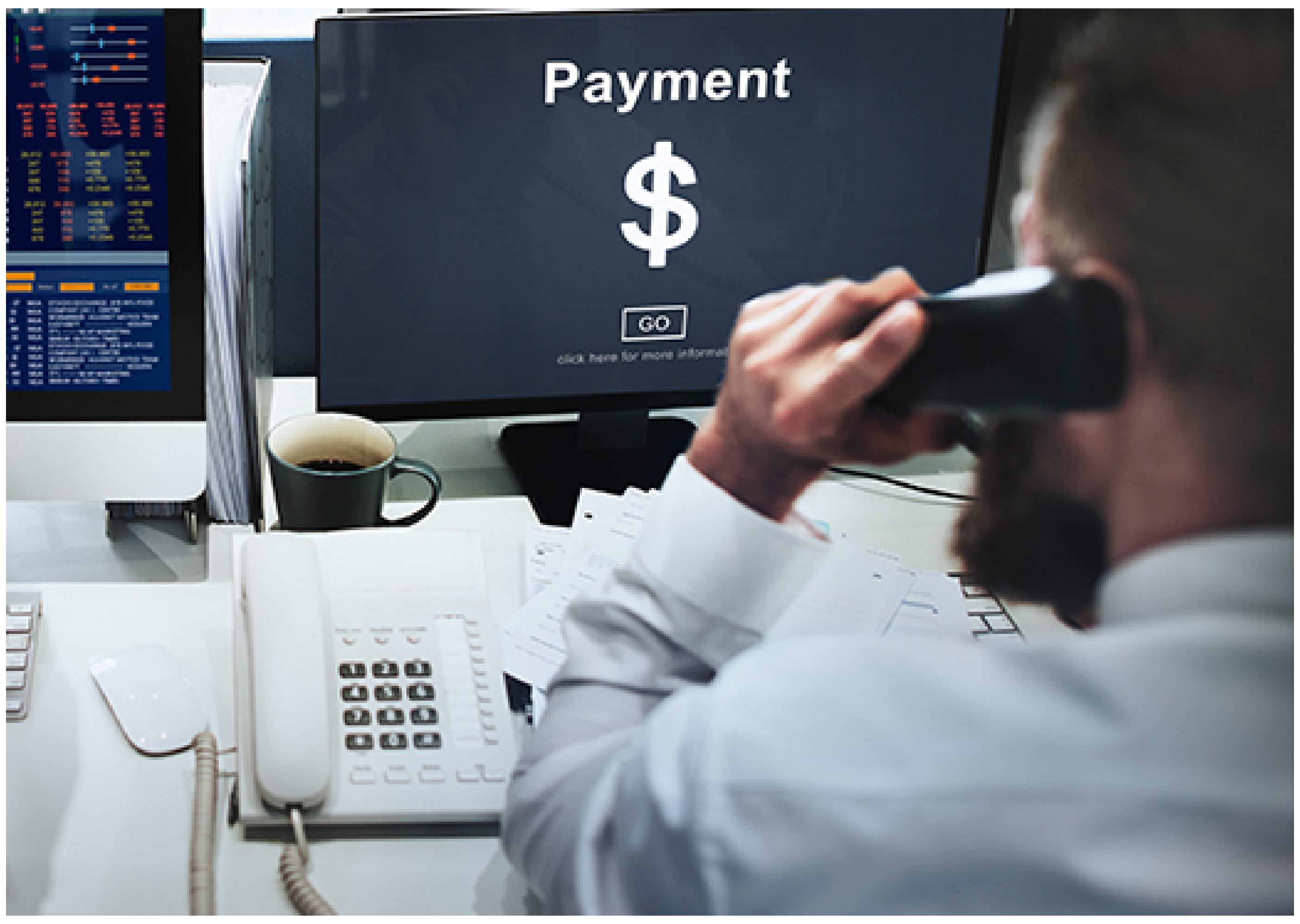
Consider the differences in the three types of bonds below:

- **Government bond** are issued by the federal and local governments and comes in the form of treasury indexed bonds (TIBs) and exchange-traded treasury indexed bonds (eTIBs). Government-issued bonds pose the lowest risk to investors at the cost of lower returns. Despite lower returns, experts suggest owning government bonds as a form of defensive investment in the face of market volatility.

- **Corporate bonds** are issued by corporate entities. These bonds usually offer higher interest rates and returns in exchange for increased exposure to risks. When selecting a corporate bond, exercise caution because high-risk bond issuers usually make their bonds more attractive by promising higher returns.

It's best to check the company's credit rating before deciding whether to add a bond to your portfolio.

- **Junk bonds** are issued by entities with a low credit rating and offer the most tempting and highest returns. However, they also pose the greatest exposure to risk compared to other bonds and experts are often sceptical about the company's ability to pay its debts, as evidence by low credit ratings.



Certificates of deposit (CD)

A certificate of deposit, also called term deposit (TD), is usually offered by authorised deposit taking institutions (ADIs). It involves locking in your money for a fixed term to receive higher interest rate from ADIs at regular intervals until maturity. Once the CD matures, depositors are free to take their money back, along with the interest payments.

MANAGED FUNDS

Managed funds are pooled investments that are managed by professionals who adjust the portfolio and make decisions on behalf of the investors. Managed funds may try to imitate or outperform benchmarks and the manager's investment strategy would depend on their goal.

It's important to read a managed fund's prospectus and understand its objectives, as well as the manager's proposed strategy before giving your money because liquidity could become an issue. Likewise, ensure that the fund manager has an AFSL.

Index fund

Index funds aim to track the performance of its chosen market index such as the ASX 200 or Standard & Poor's 500 index (S&P 500). This set-up gives investors access and beneficial interest to a basket of shares that the fund manager owns.

Exchange-traded funds (ETFs)

Like index funds, ETFs also provide investors with instant diversification and beneficial interest in a basket of investments. ETFs may track a market or attempt to outperform it using active management strategies. Compared to index funds, however, it usually costs lower to buy and hold an ETF.

Trading ETFs would trigger charges that could render its low cost useless.

Real estate investment trusts (REITs)

REITs are good options if you want to invest in property but don't have enough money to purchase one directly. You would also enjoy receiving income from the property without performing landlord duties.

Fund managers usually pool money from investors to purchase and manage a property for a fixed term and investors receive regular income from its profits in the form of distribution payments.

Fund managers may invest in residential, commercial or industrial properties, Australian REITs (A-REITs) or properties in other markets, and may offer the investment for a fixed term or a fixed but renewable term. The best way to know what you're signing up for is to read the prospectus.

Listed investment companies (LICs)

LICs are closed-ended investments that are incorporated as companies and listed on an exchange. The way it works is that the company purchases and manages its own portfolio and investors may gain beneficial interest in the underlying assets by purchasing its company shares.

Since LICs are companies, they usually have access to a broader range of investments in local and international markets. LICs may also pay dividends with franking credits.

Current state of the share market

Some investment professionals believe that the prolonged bull cycle could be due for a market correction anytime, especially since the Australian share market experienced greater volatility in the first half of 2018. However, others continue to be optimistic about the local, global and emerging market economies in 2018.

Likewise, experts expressed their confidence that Australia's weak labour market would rebound in the second half of 2018 and that its market will continue to outperform New Zealand.

Although the share market always had its share of volatility, it shouldn't deter investors from building their portfolio. Experts say that the current market volatility should be no cause for alarm, nevertheless, they also agree that investors should stay alert and remain cautious with their investments.

Investors should still base their investment strategies and decisions on their own objectives and time horizon.

If in doubt, discuss your objectives with a licensed professional who can take your personal circumstances into consideration.

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