INTRODUCTION

What is Stock Exchange?

A stock exchange is an organization which provides "trading" facilities for stock brokers to trade shares of the listed companies and other financial instruments such as Term Finance Certificates and Derivatives etc. for institutional and individual investors. Stock exchanges also provide facilities for the issue (listing), redemption (delisting) of securities and other capital events including further issues, the payment of income and dividends. Trades on an exchange are by members only.

Stock Exchanges in Pakistan

There are three Stock Exchanges in Pakistan, namely

1. Karachi Stock Exchange; formed in 1947.
2. Lahore Stock Exchange; formed in 1971.
3. Islamabad Stock Exchange; formed in 1989.

Out of all the three Exchanges, the Karachi Stock Exchange is the premiere Stock Exchange of the country, with approximately over 650 listed companies. It was established soon after the creation of Pakistan.

What are Shares?

Shares, as the name says, are shares in a limited company. Each shareholder is a partial-owner of the company in which they have bought shares and investors can buy and sell their shares on the stock exchanges. Companies on incorporation issue shares, (also called equities) and later perhaps when they are building up a business. The original shareholders might still own them, or they may have sold them to someone else through the stock market. If the company makes a profit, it may some of it passed to Shareholders in the form of dividends. The amount paid in dividends varies year by year, depending on how profitable the company has been and how much money the directors and the company management want to keep in reserve for future expansion.

A Company can issue different types of shares such as ordinary shares, preference shares, shares without voting rights or any other shares as are permissible under the law.

There are different ways in which you can participate in the stock market:

1. Directly: by buying and selling shares;
2. Indirectly: through a collective vehicle, in which shares are grouped together, such as a mutual fund or Exchange Traded Funds (ETFs).

What are the Different Types of Stock?

- **Common Stock:** Common stock holders have partial ownership and enjoy voting rights in the company. However, in the event of bankruptcy, common stock shareholders are entitled to assets left over after credi tors, bondholders and preferred shareholders have been paid in full.
- **Preferred Stock:** Preferred stock holders have ownership in the company but may not enjoy voting rights like their common stock holders. However, they do have other benefits. There are four classes of preferred stocks, outlined below:
- **Cumulative:** Shareholders have the right to accumulate dividend payments that were skipped in earlier years. They are the first to receive payments once the company resumes dividend payout.
- **Non Cumulative:** Shareholders do not accumulate skipped dividend payments.
- **Participating:** Shareholders receive more than the normal dividend payments if the company makes more than expected profit.
- **Convertible:** Shareholders can convert the preferred stock into a specified number of shares of common stock.

Why do Companies go Public?

The primary purpose for companies to be publicly listed at the exchange is to cost-effectively raise capital. It reduces the company's reliance on the traditional financiers such as financial institutions and individuals. Listing allows business expansion without increasing borrowings or draining the company's cash reserves. History of listed companies indicate that companies that convert to public ownership are more likely to become successful than control companies that remain private. Companies that go public are also more likely to become acquirers than control companies.

The Initial Offering of Stocks (IPO)?

The initial offering of stocks and bonds to investors is by definition done in the primary market (IPO) and subsequent trading is done in the secondary market. Initial Public Offering (IPO) is the initial sale by a company of shares of its stock to the public in the financial market.

Book Building Process for new Companies?

Book Building is a mechanism of price determination through with indication of interest for investment in the shares offered by an issuer/offeror is collected from institutional investors and High Net Worth Individuals and a book is built which gives a picture of demand for the shares at different price levels. The strike price is determined based on the price at which demand for the shares at the end of book building period is sufficient to raise the minimum capital required.

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TRADING OPTIONS

a. **Ready Market**

The ready market means the market where trades are settled on rolling settlement basis, based on actual delivery. In Ready Market, all listed companies shares are traded during regular market time. Regular market works on T+2 settlement system.

b. **Future Market**

A Futures contract involves purchase and sale of securities at some future date (normally within one calendar month), at a price fixed today. These contracts are traded on an organized and regulated futures exchange enabling buyers and sellers to transact business. A futures contract gives the holder the obligation to buy or sell and both parties of a "futures contract" must fulfill the contract on the settlement date.

There have been introduced new products/systems namely Margin Trading System (MTS), Margin Financing System (MFS) and Securities Lending and Borrowing (SLB). The Rules for these products/systems are called 'Securities (Leveraged Market and Pledging) Rules, 2011' (SLMPR) and are available at SECP website www.secp.gov.pk.

Margin Trading System (MTS)

Margin Trading refers to purchase of securities in ready market by equity participation. Information / procedures are placed at NCCPL website www.nccpl.com.pk.

Margin Financing System (MTS)

Margin Financing refers to financing against net ready market purchases and may be obtained as per agreed Financier Participation Ratio. Information/procedures are placed at NCCPL website www.nccpl.com.pk.

Securities Lending and Borrowing (SLB)

SLB refers to the temporary exchange of securities with an obligation to redeliver the same securities in the same number and at an agreed premium on a future date. Information/procedures are placed at NCCPL website www.nccpl.com.pk.

ORDER/TRANSACTION TYPES

1. **Market Order**

Carefully read and sign off the Account Opening Form including special terms & conditions for online trading and declaration.

2. **Limit Order**

This is an order where the investor will send the Limit Price and the Order Quantity so the exchange will execute the trade when the market price reaches the Price specified.

3. **Stop Loss Order**

A stop-loss order is a request to sell a security once the market price reaches or falls below a customer-specified price. Once the target price has been reached or surpassed, the order becomes a "market" order. This is spe cially true in a fast-moving market where stock prices can change rapidly. A stop-loss order is typically used to sell a security, to lock in profits or limit losses if a security price falls. Setting a stop-loss order for 10% below the price at which you bought the stock will limit your loss to 10%. Stop-loss orders are only available when selling a security to close a position.

Example: If a certain investor purchases XYZ shares at Rs. 175 per share and right after buying the stock he enters a stop-loss order for Rs.160. This means that if the stock falls below Rs.160, the investor's shares will then be sold at the prevailing market price. Stop loss can be used for sell transactions as well where once the target price has been reached; market order is placed on the trigger price to buy back shares. In these conditions, investors expect that price will rise again.

4. **Short Sell**

Short selling refers to the practice of selling securities the seller owns in the hope of repurchasing them later at a lower price. This is done in an attempt to profit from an expected decline in price of a security. Such as a stock or a bond, is contrast to the ordinary investment practice, where an investor "goes long," purchasing a security in the hope the price will rise.

The term "short selling" is often used as a blanket term for all those strategies which allow an investor to gain from the decline in price of a security. Those strategies include buying options known as puts. A put option consists of the right to sell an asset at a given price; thus the owner of the option benefits when the market price of the asset falls. Similarly, a short position in a futures contract, or to be a short futures contract, means the holder of the position has an obligation to buy the underlying asset at a later date, to close out the position.

TRADING & SETTLEMENT

1. **T + 2 Settlement System**

In the T+2 settlement system, purchase and sale of securities is netted and the balance is settled on the second day following the day of trade.

2. **Provisionally Listed Securities**

The shares of companies, which make a minimum public offer of Rs. 500 million inclusive of Pre-IPO place ment through Book Building Process and make a minimum offer (IPO) of Rs. 250 million, are traded on this segment from the date of publication of the prospectus/offering documents. When the company completes the process of dispatch/credit of allotted shares to subscribers, it is officially listed and placed on the T+2 counter through the CDC. Trading on the provisionally listed counter then comes to an end and all the out standing transactions are transferred to the T+2 counter with effect from the date of official listing.

3. **Spot / T+1 Settlement**

Spot transactions imply delivery upon payment. Normally in spot transactions, the trade is settled within 24 hours.

4. **Future Contract**

A futures contract involves the purchase or sale of a financial or tangible asset at some future date, at a price fixed in the present.

RULES & REGULATIONS

Regulatory Framework:

The Stock Exchanges in Pakistan are governed under the Securities and Exchange Ordinance, 1969 Framework. The ordinance prohibits dealing in listed securities outside the Stock Exchange by any person and transaction in securities listed in the Stock Exchange. The Capital market has a triangular foundation in Pakistan, supervised by SECP, comprising of the Stock Exchange, Central Depository Company (CDC) and National Clearing Company Pakistan Limited (NCCPL).

Securities & Exchange Commission of Pakistan Limited (SECP)

The regulatory authority for the securities market and corporate sector in Pakistan is the Securities and Exchange Commission of Pakistan (SECP). The SECP administers the compliance of the corporate laws in the country and is run by commissioners under a chairman.

The Securities and Exchange Commission of Pakistan, is an autonomous regulatory authority, and at the same time provides an accountability mechanism through establishment of a Securities and Exchange Policy Board.

All policy decisions are made by the board on the recommendations of the commission and the board is directly answerable to the Parliament.

The Laws, Rules, Regulations etc., can be retrieved from SECP website www.secp.gov.pk.

Stock Exchanges

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3. Islamabad Stock Exchange; formed in 1989.

Stock Exchanges have their own Rules, Regulations, etc., that are placed at their respective websites:

KSE: www.kse.com.pk

LSE: www.lahorestock.com

ISE: www.ise.com.pk

National Clearing Company of Pakistan Limited (NCCPL)

In the capital market development program, Asian Development bank gave recommendations to have a separate individual and centralized system for all three Stock Exchanges. So in replacement of the old system, a complete automated electronic settlement system was developed called the National Clearing & Settlement System (NCSS). Any security which becomes live in Central Depository System, on ready status, is inducted accordingly into the National Clearing & Settlement System (NCSS). The main purpose of the NCSS is to act as clearing house for all capital market transactions. The system provides clearing and settlement services for all markets including Ready, Future, IPO, etc. The system caters and facilitates brokers, non brokers, and banks.

The Rules, Regulations and further information including about UIS Services are available at NCCPL website www.nccpl.com.pk.

Central Depository Company (CDC)

Central Depository Company of Pakistan Limited (CDC) started in 1993 to manage and operate the Central Depository System. CDS is an electronic book entry system to record and transfer securities. Electronic book entry means that the securities do not physically change hands and the transfer from one client account to another takes place electronically. CDC is to operate as a central securities depository on behalf of the financial services industry to support an effective capital market system that will attract institutional and retail level investors from Pakistan and abroad. Its basic purpose is to operate and maintain an electronic book entry settlement system for equity, debt and other financial instruments. The three Stock Exchanges are linked to the Central Depository System (CDS) of the Central Depository Company.

The Rules, Regulations and further information including about SMS and IVR Services are available at CDC website www.cdcpakistan.com.

TAXES

- **Income Tax:** When you receive your dividend cheque/warrant, income tax has already been deducted by the company at basic rate. Basic-rate taxpayers have nothing more to pay. Higher-rate taxpayers have to pay the difference between basic and higher rate at the end of the tax year. Non-taxpayers can reclaim the tax deducted through their local tax office.
- **Capital Gain Tax:** You make a capital gain when you sell shares at a higher price than you are paid. If you sell at a lower price, you make a loss. Capital gain tax is applicable with certain conditions/rates. Kindly check the applicability/rates as applicable to you and you may visit FBR website for details www.fbr.gov.pk.
- **Federal Excise Duty:** Federal Excise Duty of 16% is charged on brokerage commission on purchase/sale of shares on a stock Exchange.
- **Withholding Tax:** Withholding tax of 0.01% on sale value is charged on the sale of shares on a stock Ex change.

Note: Tax is a very complex subject. Tax rates may be revised by the Government and sometimes additional taxes are also imposed. Further, tax rates/applicability is different for mutual funds, TFCs etc. You should always speak to a properly qualified tax adviser to make sure you have a complete picture of the tax rules.

DISPUTE RESOLUTIONS:

How does the client know if he/she has a case against stock exchange member?

Just because the client has lost money while dealing in securities doesn't mean that he/she has a case against the member. The financial markets have always gone through periodic down turns and upturns and these fluctuations are not always the fault of member. However, it is the responsibility of a member to invest money according to the client's instructions. There are certain malpractices against which a client can lodge a complaint such as:

- Unauthorized trading (Sale/Purchase)
- Unauthorized transfer/movement of shares
- Non-supply of statements of account
- Non-supply of trade confirmations within 24 hours
- Overcharged commission

- Unauthorized transfer/movement of shares
- Failure to execute investors' instructions/orders
- Suspension of payment
- Non-Delivery of securities.

What are the different ways to handle a problem with stock exchange member?

- **AMICABLE SETTLEMENT:**

  Although the client has the recourse to approach the relevant stock exchange, SECP or the Courts for lodging complaint, it is strongly advised that the complaint/problem should first be taken up directly with the member. This will not only save the time consumed in correspondence and procedures but will also preserve the trust and confidence.

- **ARBITRATION COMMITTEES OF STOCK EXCHANGES:**

  The client also has the alternative of taking up his/her complaint with the management of the concerned stock exchange. All the stock exchanges have their own Arbitration Committees that look into the griev ances/disputes between the Investor and the Members. Arbitration Committees after perusing the docu ments and providing the parties an opportunity of being heard pass an Arbitration Award in accordance with the relevant Rules and Regulations of the Exchange.

- **SECP:**

  The client can also lodge his/her complaint with the Vigilance Cell which has been setup at SECP to ensure that grievances/complaints of the general public are heard and redressed, in a quick and efficient manner.

- **CIVIL COURTS:**

  The client can also file his/her complaint with the Civil Courts.

GENERAL INFORMATION

Why do investors Buy Shares?

Studies have shown that over a twenty-year span, investment in shares has provided greater returns than most other forms of savings. Shares can provide you with a regular stream of income through dividends as well as the potential for your investments to grow in value. If the prices of shares go up, you can sell them for more than you paid. This is called capital gain.

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What are Dividends?

Dividends are returns paid to shareholders out of the profits of the company. Returns can be in the form of cash or additional shares of the company called bonus shares. Dividends are usually paid once or twice a year depending upon the company's profit distribution policy.

What is Capital Growth?

This is one of the ways in which shares differ from deposit accounts. The principal amount of money you put in a bank or any fixed income savings scheme always stays the same e.g. if you start with Rs. 100,000 you will always have Rs.100,000 (other than any interest earned). However, with good management, the value of your investment in shares of a company can grow over time so that your shares are worth more than you paid for them.

RISKS

The price of securities does fluctuate and individual investment may experience upward and downward movements and the securities may even become valueless. The fluctuation may be due to many reasons. If the respective company performs badly, the share price may go down and the value of your investment will be reduced. Other factors, such as the performance of the stock market as a whole and the general economic climate, political activities, law and order situation, regional and international wars/politics etc. may also affect the price of your shares. Investment in shares is therefore investment in 'risk capital'.

Understanding risk is an integral factor that is required to be evaluated before making any investment. You can view risk as portfolio volatility, as the risk of not achieving your goals, or as the risk of permanent capital loss. When you are assessing risk, questions to ask yourself include:

How much volatility am I willing to accept? What are the consequences if I do not achieve my investment objectives? How large a loss can I sustain? Do I want to use leverage?

Risk and returns are generally related. Over the long term, increasing your risk typically leads to higher expected returns, while lowering your risk leads to lower expected returns. However, this is not always so. For some occasions, which may occur for an extended period of time, higher levels of risk may lead to lower returns, and vice versa.

Things you should know before you Buy a Stock?

- What does the company do?
- Is the company Profitable?
- What Is the Company's Earnings History and Outlook?
- How Richly Is the Company's Stock Valued?

- Who Are the Company's Competitors?
- Who Runs the Company?
- Have You Read the Company's Annual Reports?

What is Company Profile?

Information regarding companies invested in and their economic profile should be exposed to the investor. Investor should be well aware of the financial background, management style and the nature of business of the company to make an adequate investment. Investing in the stock market requires looking ahead to anticipate future events in the company's life and changes in its business environment, to minimize risk and maximize return on investment.

How do you decide when a stock is Attractive to Purchase?

There are two general ways of determining a stock's potential as an investment. You can look at the “fundamentals” or you can look at “technical analysis” and of course you can look at both.

Fundamental analysis looks at factors such as earnings, cash flow, debt, strength in its industry, outlook for the industry, general economic factors, interest rates, and so on. If these factors are good, then even if there are short-term setbacks, over the long run, the stock should do well.

Technical analysis looks at factors like volume of trading, cyclical behavior, trends, moving averages and many others. Some investors use both approaches. They use fundamentals to determine the long-term potential of a company and technical analysis to decide when to buy. For example, you may believe that a certain company has great potential over the long-term and will be worth much more in years to come.

However, it could be that the current market for this company’s product is temporarily weak and that as a result, the stock price could fall. Technical analysis could be helpful in determining how far the price might fall and could provide help in indicating a good time to buy.

Things you should know about Equities?

Stocks and shares are the most volatile asset class in terms of price movements and thus, the most risky. Hence, do not invest directly in the stock market unless you can bear a fall in price without it having any impact on your day-to-day living standard. Remember the saying: “the greater the reward, the higher the risk”.

The aim of investing in stocks and shares is to buy at a low and sell at a high, but knowing when, is the problem. Many investors attempt to time the market: they try to figure out when the market is going up and buy into it before it does, and then figure out when it is going to crash and sell everything just before it does. Unfortunately such spot on accuracy is usually impossible to achieve, so what you can do is try to catch a portion of each big swing. You buy when the upswing has begun, and sell as the downswing starts. But for this to work, you must be able to control your greed, as you do not know exactly when the top or bottom is reached.

- **How much money can you afford to Invest?**

Investors should be aware of the fact that investments in the stock usually do not result in immediate profits. A sound investment strategy avoids speculative moves. An investor should have excess reserves with its broker to protect himself against frequent fluctuations in stock.

- **Why Stocks are vital for Superior growth?**

Equities are mainly growth investments, and can include things like real estate, art, and gold. However the most popular equity investments that people rely on for growth are stocks. But stocks can also serve purposes other than growth. In addition to potential capital gains, stocks also have the potential to pay dividends. If you have equity in a business you are an owner, and if your company makes money, you are rewarded with dividend.

- **Expert Opinion?**

Financial experts have many opinions on many things, but there is one fact on which they will all agree. You need to have stocks in your portfolio to provide the growth you need to stay ahead and have a secure future over the long-term.

They also agree on the best way to invest in stocks is with a long-term view in mind. Over the long run, equities do go up and have proven to be the most profitable investment by far. But the key phrase here, the vital strategy for success is "over the long run". When you hold stocks for the long run you get good days and bad days. If you are a short-term trader, unless you have a crystal ball working for you, you are going to miss most of those good days. The simple secret to success is to stay invested.

- **How to build a Portfolio?**

Most investors dream at some point of putting all their money into the shares of just one company and making a fortune overnight.

Unfortunately, the chances of this happening are extremely slim and the risks are too high. Putting all your investment eggs in just one basket is a risk very few people can afford to take.

Successful investing is not about taking big risks but balancing risk and return by investing in a broad portfolio of cash, bonds, property and cash.

- Cash is king
- Your attitude to risk
- Don't forget property
- Buying shares

- **CASH IS KING**

The starting point for every investor is to make sure you have enough money tucked away safely for emergencies. The best place for this money is in a deposit account with a bank or building society where you can get to your cash quickly. The amount of rainy day money you need depends on whatever makes your comfortable but most experts say you should put away between three and six months salary.

- **YOUR ATTITUDE TO RISK**

Your next step should be to decide what type of investor you are. This is crucial as it will determine the type of investments that will suit you. Investment experts tend to put investors in one of three categories: cautious, balanced or adventurous.

Deciding which category you are in depends on how much risk you are happy taking but there are some guidelines to help you. If you are a young investor you can afford to be more adventurous with your investments in the hope of getting better returns as you have longer to replace any money you lose. You can also be adventurous if you are wealthy and have plenty of money in other assets.

Balanced investors tend to be those who are slightly older, perhaps with families or who are prepared to take a little risk to get a better return.

If you want to ensure your capital is completely safe you are a cautious investor and should think carefully about whether investing in shares is for you. This is particularly important for people in or near retirement who would suffer a decline in living standards if they were to lose money.

You also need to consider whether you want income or growth from your investments, why you are saving and when you need to access your investment. All these factors will influence how much you can afford to put into shares. If, for example, you are saving for your retirement in 30 years you can afford to take more risk than someone who is saving to buy a house in three years.

Broadly speaking, you should think carefully about investing in shares unless you can afford to leave it untouched for at least five years. It would be great if your investment were to rocket in value in just one year but shares can be volatile, suffering falls as well as gains. The longer you leave your investment untouched, the greater chance you are giving it to grow – like a fine wine, shares can take time to reach their best.

Once you have decided what type of investor you are, you can start allocating your investments. Corporate bonds should play an important part in your portfolio. Like shares, bonds are issued by companies but are a different type of investment. Rather than linking your returns to the company's profits, corporate bonds pay a fixed amount of interest, known as the yield, and provide little capital growth. This makes them very popular with investors who need income but even younger investors should have some bonds in their portfolio as they tend to be less volatile than shares. This makes them something of a safe haven investment and will provide some security in your portfolio.

The amount of money you put in bonds depends again on your attitude to risk. But as a rough guide, most experts suggest you should have the same amount of bonds in your portfolio as your age. So, if you are 40 you should have around 40% of your portfolio in bonds. Remember though, this is a very rough guide and the amount you should have will depend on your personal circumstances.

- **DON'T FORGET PROPERTY**

You should also try to have some property in your portfolio. If you are a homeowner you already have this covered but if not, think about putting a small portion, say 5% to 10% of your portfolio, in a property fund. Property funds do not invest in houses but commercial property such as factories and offices so you might want to get some exposure here even if you are a homeowner.

- **BUYING SHARES**

The remainder of your portfolio can go into shares. The most important thing to remember about investing in shares is diversification. If you invest in a small number of shares the risk of you losing money is greater so you need to invest widely in different types of company and different countries.

If you only have a small sum to invest the best way to do this is to put your money in an investment fund. Funds, which pool the investments of a number of investors, are a good bet because they employ professionals to invest your money in a variety of shares, usually more than 50.

They also enable you to access markets where it is difficult to buy shares directly, such as the Far East and Japan. You can also use ETFs to access markets.

If you have a larger sum to invest you can look at buying individual shares. Buying shares can be enjoyable and profitable but you need to invest time in picking the right shares and areas to invest in, monitoring your investments and, choosing the right time to sell.

STRATEGIES FOR INVESTMENT

Stock market investors spend a lot of time analyzing information before deciding which shares to buy and sell. But what is the best information to pay attention to and what do you ignore? Does the economic cycle, for example, have more influence on a company's share price than the quality of the management running that company?

Unfortunately there is no right or wrong answer. Professional investors consistently argue for and against the effectiveness of using different types of information. In the end the best information to pay attention to depends on whether it works for you.

The different types of information individual investors pay attention to are categorized and called investment strategies. Among the most common of these are: top down, bottom up, value or growth, large or small cap, ethical investment and technical analysis.

- Top Down and Bottom Up
- Value v growth
- Large v small cap
- Thematic investing
- Technical analysis

- **TOP DOWN AND BOTTOM UP**

Are global economics a more important influence on how well your investments do than the health of individual companies themselves? Whichever you decide is more important will determine whether you can be categorized as a 'top down' or 'bottom up' investor.

If you think that correctly analyzing the economic environment and basing your investment decisions on your assessment is the best way to pick shares, you can classify yourself as a 'top down' investor. Followers of this investment strategy believe that picking individual stocks comes second because if the economic conditions are not right for the industry a company operates in, it will find it difficult to make profits, regardless of how efficient the company is.

But, if you think that identifying individual companies that can grow rapidly and have attractive valuations is more important, you are a 'bottom up' investor or a 'stock picker'. Bottom up investors look at a variety of factors to work out which companies have the best opportunities, including strong management and growing market share and then look at whether these positive aspects are reflected in the share price. If they don't believe they are, the shares are worth buying. In reality professional investors tend to employ an element of both strategies when making investment decisions.

- **VALUE V GROWTH**

Another way investors categorize themselves is by whether they are growth or value investors. Growth investors invest in companies they think will produce the fastest growth and are usually prepared to pay premium prices to buy them. Growth investors are usually happy to pay more for these companies, which tend to have high price earnings ratios; because they think that over time, share prices reflect the earnings a company is capable of producing. Growth investors also tend to follow the 'bottom up' style of investing. Investors who spend most of their time trying to find companies that look cheap in relation to their real worth or potential future value are called 'value' investors. Companies that fall into the value camp usually have low price/earnings ratios (P/Es) compared to other businesses in their sector.

There is no simple answer to whether growth or value investing is best, as each goes through cycles and many investors tend to employ an element of both strategies. Growth investors will, for example, usually pay attention to the price they are paying for shares. They prefer to call themselves 'growth at a reasonable price' or 'GARP' investors. This means that they are only happy to pay what they regard as a fair price for a company's shares.

Similarly, value investors do not simply go out and buy all the companies with low P/E ratios. Instead they look for reasons why the company is lowly rated to weed out the good companies from the bad. It may, for example, have poor management and therefore deserve its rating. But if the company later puts better management in place you might decide that the company's prospects have improved and that the shares are too lowly rated.

- **LARGE V SMALL CAP**

Stock market investors often characterize themselves by the size of companies they invest in. Size in stock market terms is not measured by looking at the value of a company's assets but by the total value of its shares in the market, known as the market capitalization or 'cap'.

Big companies will often be referred to as 'large caps' or, in the stock market term, as blue chips while smaller firms are known as 'mid caps' or 'small caps'. Shares in these three different size categories often perform in a similar way. The largest companies, for example, are usually more attractive to overseas investors because their shares are traded more frequently which makes them easy to buy and sell. Big companies are also more attractive to investors during a recession because they dominate their markets and so are less likely to go bankrupt than smaller firms. But large companies are very well researched by professional investors and this can make it harder to find ones that are undervalued. They also tend to produce lower growth rates than smaller companies. For this reason some investors prefer focusing their portfolios on this part of the market. Investing in smaller companies can, however, be more risky as these firms are more likely to suffer financial problems than larger companies.

Other investors, however, think that it makes more sense to move between large, medium and smaller companies as market conditions dictate. These investors are often said to have a 'multi-cap' approach to investing.

- **THEMATIC INVESTING**

With the world becoming an increasingly global market place an increasing number of investors have started to look at the major themes that drive share prices around the world rather than just focusing on how share prices move in local markets. This strategy is called thematic investing.

One of the major themes that drives share prices, for example, is population change. Many countries, including the UK, Europe and US have ageing populations. Older people spend more on healthcare and financial services and, so the theory goes, companies in these sectors will do well regardless of the country where they are listed. Another theme is technological change, which could be positive for Technology Company's long term.

Global themes are not, however, the main influence on all sectors of the market. Retail stocks, for example, are driven more by wages and employment in local markets than what is going on at a global level.

A different type of thematic investing is ethical investment. Investors who follow this strategy seek out companies that adhere to certain ethical criteria, perhaps avoiding those that damage the environment. Shares in sectors such as tobacco and defense are typically avoided.

- **TECHNICAL ANALYSIS**

The rise of home computing and the Internet has brought a whole new world to the fingertips of investors. Technical analysis of shares is no longer the preserve of the professional investor but something any private investor can do.

Technical analysis, also known as Chartism, is simply the study of past share price movements and stock market index trends, which are then used to forecast how shares and stock markets will behave in future. Some investors view technical analysis as a kind of crystal ball gazing but few ignore it completely and many professional investors employ people to analyse what history may teach us about the future.

Technical analysts try to identify, for example, trends in a variety of stock market charts. They argue that if the charts show an upward trend, investors should continue buying. If, however, the charts show a downward trend, you should sell. They also look at moving averages, showing changes in the average share price over specific periods, say a month, and employ a range of other studies to predict future share price movements.

Tips for Investing Wisely?

When trading in the Stock Market, one should avoid,

1. Greed; being greedy can be a problem as it corrupts wisdom,
2. Making the same mistake twice,
3. Following the crowd, as the loss at the end is of the individual and not the crowd itself,
4. Putting all your 'eggs in one basket'. You should diversify and spread your investment,
5. Using rumors as tips, as this can result in losses. A tip can end up as a 'pit',
6. Emotions; being emotional can effect reasoning. Traders should use research backed by fundamental reasoning.
7. Impatience; patience pays, perseverance gains,
8. Over borrowing; loan repayment is not an investment.