

SHARES AND THE STOCK MARKET

The financial benefit of being a shareholder is that a rise in the share price will increase the value of your holdings. Another benefit is that ‘public limited companies’ (plcs) reward shareholders by sharing some of the profits made – through a dividend payment. By becoming a shareholder you become a partner of the company and face all its risks. Companies that go public, selling their shares in the stock markets, have to disclose information about their activities, future plans, profits, operations, and so on. The investor decides whether to invest in a certain company based on the information disclosed. New information will impact prices – for example, whether or not the company is able to produce revenue and profits. A company’s growth, reflected in its increased revenue, is a fundamental driver of stock price. If a company is able to turn revenue growth into profits, then most likely its stock will become more valuable.

If you want to invest in stocks, you have to decide if you want to **buy**, **sell**, or **hold** the stocks, and most importantly **when** to do it. Past performance is a source of information but no guarantee of future performance. Stocks are risky investments because the price of a stock can fall, causing the investor to lose money. Because stocks have such variability, it is advisable to enter the stock market with a long-term investment horizon.

Activity 3.1

Let’s look at one company’s recent performance to see what we can learn from it.



Source: www.londonstockexchange.com

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What were the lowest and highest share prices of Barclays plc between November 2008 and October 2009?

Lowest

Highest

An investor bought £1,000 worth of Barclays plc stock on 2 January 2009. The price was 180 pence each stock. The investor did not want to lose money on this stock so he set up a **stop loss order**. A stop loss order is an order to sell shares when the share price falls to or below a specified **stop price**. The stop price for this investor was 150 pence, or a loss of around 16.7% (or $30/180 \times 100$). The stop loss is used to cap the amount you are prepared to lose on a certain holding. Do you think this stop loss order was placed? When did the investor sell his holdings in Barclays plc?

Activity 3.2

Earnings per share (EPS) is the total amount of earnings, or profits, over the number of outstanding shares, so it indicates the earnings of the company per unit share. Not all earnings are distributed to investors in the form of dividends. Using the information about the three companies given in the table below, answer the questions that follow.

Company (data from 22/10/09)	Earnings per share	Dividends per share	Dividend yield
Sainsbury's	16p	13p	3.8%
BP Plc	37p	34p	6.02%
Vodafone Group	6p	8p	5.7%

Source: <http://uk.reuters.com>

Please note that these figures are rounded to the nearest whole pence

What percentage do the dividends per share represent of the earnings per share for each of the three companies?

'Dividend yield' is the ratio between the dividends per share and the stock price. Calculate the price of each stock on 22nd October 2009 based on the dividend yield and the dividends per share. What do you deduce about the different percentages and each company's decision to pay dividends?

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Activity 3.3

Compare Vodafone's revenue and profits/losses for 2006 to 2009, as given in the table below, and look for possible reasons why the share price fell between 2006 and 2007 and then rose between 2007 and 2009.

Vodafone Group fundamentals

Year ending	Revenue (£m)	Pre-tax profit/loss (£m)	EPS	Dividend per share	Dividend yield	Share price (£)
31/3/2006	29,350.00	-14,853	(27.66)p	6.07p	4.40%	137.71
31/3/2007	31,104.00	-2,383	(8.94)p	6.76p	5.00%	135.50
31/3/2008	35,478.00	9,001.00	12.6p	7.5p	5.03%	149.00
31/3/2009	41,017.00	4,189.00	5.8p	7.8p	5.70%	139.50

Source: www.reuters.com

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Activity 3.4

Now that you have learned something about stocks, let's find out how you buy and sell them. Explore the following two websites and find out what sort of services stockbrokers provide:

www.investopedia.com/university/stocks/stocks5.asp
www.find.co.uk/investments/share_dealing

Now take a look at the following website:

www.londonstockexchange.com

Go to 'Private investors' then 'Investing'. Use the information in this section to match the four types of market participant to their correct description in the table below, by drawing a line between the market participant and its correct description.

Types of market participant		Descriptions
Private investor		Its shares can be bought and sold on a stock exchange
Stockbroker		Buys and sells shares on behalf of the investor
Listed company		
		Facilitates the trading of shares between all parties involved
London Stock Exchange		Buys shares through stockbrokers

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