

ifs Student Investor 2009/10 – Worksheet 4

SHARE PRICES

Quoted company share prices rise and fall for many reasons, including internal and external factors. Prices traded on the market are influenced by factors such as expected profits, new product development, economic growth and economic fundamentals. Put simply, the price of a share is reflected in the buyers' and sellers' **confidence** in the company, the stock market and the economy. When the shareholders are feeling positive, then the general rule is that share prices increase and the stock market rises. The opposite is true when there is uncertainty in the market or about a specific company. Stock prices fluctuate so that it can generate profits for one investor and losses for others. Take Barclays Group plc: on 21st January 2009 its share price was 47.30p, on 15th October 2009 it achieved a high of 390p and less than one month later it fell to 359p (on 22nd October 2009). If you had bought the shares at 390p per share and sold them at 359p, you would have lost money. But if you had bought them at 47.30p and sold them on 15th October for 390p, you would have made a good profit. The important decision is when to buy and when to sell shares.

Activity 4.1

If you had bought 500 shares in each of the three companies in the table below at their highest price in 2008/2009 and sold them all on 22nd October 2009, work out the total loss or gain on those shares.

Company	Highest price	Lowest price	Price on 22/10/2009
First Choice (TUI Travel Plc)	294.75p	169.50p	246.50p
Imperial Tobacco Group	1,983.00p	1,376.00p	1,809.00p
BT Group	145.00p	70.20p	139.70p

Source: www.bloomberg.com

If you had bought 800 shares each in all three companies at their lowest price in 2008/2009, and sold 50% of them on 22nd October, what would your total loss or gain be? Calculate, the lowest price as a percentage of the highest price for each of the companies.

What conclusions can you make about these three companies? Based on the information provided here, would you be tempted to invest in any of them?

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Activity 4.2

Look at the following share price charts of two companies quoted on the stock market: ITV (television) and TUI Travel (which includes the brand name First Choice). ITV shares are listed under the 'Media' category and TUI Travel shares are listed under the 'Leisure' category in newspapers such as *The Times*, *Daily Telegraph*, and so on.

ITV share prices November 2008 to October 2009



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TUI Travel share prices November 2008 to October 2009



Using your new knowledge of shares and performance, analyse these two charts and make some basic judgements about when would have been a good time to buy the shares in the period shown. When would you have sold them? Would you have sold all of them, sold some of them, or not sold at all and held onto the shares?

Tip Look at different time periods. Were the share prices going up or down?

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Activity 4.3

On 2nd January 2009 you invested £1,000 in each of the three stocks below. Calculate the number of shares you bought based on the share price on 2nd January. On 22nd October 2009 the stock prices changed. Based on the number of shares you bought, what is your total wealth on 22nd October?

Company	Share price (2/1/2009)	Number of shares acquired	Share price (22/10/2009)	Total value of shares (22/10/2009)
Vodafone	136.80p		139.50p	
Old Mutual plc	60.30p		109.50p	
ITV plc	41.75p		48.40p	

Source: www.bloomberg.com

Tip The number of shares acquired is the total amount invested (£1,000) expressed in pence divided by the price of each share. Work out the number to the nearest integer (whole number). The total value of shares is the number of shares acquired multiplied by the share price on 22nd October.

Activity 4.4

Share clubs are groups of investors, often friends or family, who pool their money together to invest in shares. Find out about some of the advantages and disadvantages of share clubs by exploring the following website:

www.proshareclubs.co.uk

Go to 'Start A Club' and then 'Why Start A Club'.

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Activity 4.5

There are some interesting benefits of investing in share clubs, related to tax exemption. Go to the following website and find out about the tax benefits of investment clubs:

www.hmrc.gov.uk/cgt/investment_clubsfaq.htm

Activity 4.6

Another benefit of investment clubs is the diversification they offer. Because clubs buy portfolios of stocks, the risk of a price change is not concentrated on one single stock. Let's explore this a little further by looking at the following website:

www.bloomberg.com

Go to 'Market Data', then 'Stocks' then 'Movers by Index', then 'FTSE 100'. The FTSE 100 is an index comprising the 100 biggest companies traded on the London Stock Exchange, based on market capitalisation. Rank the stocks based on 'Volume' with the largest number of trades at the top.

What are the ten most traded stocks? Are these stocks from the same sector? What is the most traded stock?

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