



# Shares

An introduction to buying shares and how this can help you to build wealth



## Shares

This booklet will help to explain the why and how of buying shares. It will answer your questions about how to get started, where to obtain financial advice, what your options are, and who can help you to grow your wealth by building up a share portfolio (a collection of shares).



## Definitions

Reading through the definitions before you continue will improve your understanding of the content.

### **Annual general meeting (AGM)**

An Annual General Meeting (AGM) is a meeting conducted annually where the members of an organisation gather to discuss and vote on key issues. Public companies hold annual general meetings for shareholders. At the meetings, many individuals who comprise the company's leadership give speeches and answer questions from shareholders regarding its short-term and long-term strategies.

### **Authorised user of exchanges (formerly known as a stockbroker)**

A person or company that buys and sells equities or shares for other people. The Financial Markets Act (FMA) defines a stockbroker as an 'authorised person' allowed to perform one or more security services in accordance with an exchange's rules.

### **Corporate action**

An action that affects the securities issued by the company, for instance acquisitions or mergers with other companies, payments of dividends, and so on.

### **Debentures**

A firm of long-term debt, usually longer than 10 years, that is not backed by collateral. The debt is backed by the credit worthiness of the issuer and is most often used by government entities or corporations.

### **Dividends**

A sum of money a company pays to its shareholders out of its net profits and/or reserves.

### **Equities**

Company shares that can be bought and sold.

### **Equity**

The value of a company's shares. Equity usually refers to the stake that you have in a business through shareholding, as opposed to other securities that simply earn an income from the business' balance sheet (profits).

### **Exchange**

An exchange is the physical or electronic market that connects people who want to buy shares to companies selling shares. Exchanges used to have 'trading floors' but most orders are executed electronically these days. The best-known and biggest exchange in South Africa is the Johannesburg Stock Exchange Limited (JSE Limited).

### **Financial Advisor/Financial Services Provider (FSP)**

A person or company that is authorised by the Financial Sector Conduct Authority (FSCA) to provide financial advice and/or render an intermediary service in relation to a variety of financial products, including investment products and insurance policies. The FSP licence of the authorised person or company specifies exactly which financial products or services they can advise on or sell.

### **Full-service authorised user of exchanges (formerly known as a full-service stockbroker)**

A full-service authorised user of exchanges manages the whole process of buying shares. They offer a personalised service that includes researching the best shares for your investment strategy, as well as buying and selling shares on your behalf.

### **Investor**

A person who buys (invests) in shares, bonds, property, etc. in order to make a profit.

### **Maximum turnover**

Refers to a company's total turnover over a set period of time and is calculated on income earned from business operations. It is not the same as profit, which is calculated after business expenses are deducted from turnover. In the South African context, turnover is used to designate company size.

### **Mid-cap shares**

Listed shares are categorised according to the complete value of a company, which is calculated by multiplying the number of shares by the current share price. Companies are listed in one of three categories i.e. small-cap valued at less than R1 billion; mid-cap companies valued at between R1 billion and R10 billion; and large-cap companies which are valued at more than R10 billion.

### **Ordinary shares**

A class of shares owned by people that gives them the right to receive part of the company's profits. A holder of ordinary shares also has voting rights in the affairs of a company.

### **Over-the-counter ('OTC') trades**

Over-the-counter trading, or OTC trading, refers to the trade of shares between two parties instead of being offered for sale on the formal exchange.

### **Preference shares**

These are a special series/class of company shares. Unlike ordinary shares, they have a fixed dividend. Preference dividends are paid out to shareholders before ordinary share dividends are paid. Holders of preferred shares do not have voting rights, unlike ordinary shareholders.

### **Portfolio**

Your collection of shares and other investments makes up your portfolio. You can have just a few shares in a portfolio, but you can also theoretically own an infinite number of shares.

**Return on investment (ROI)**

Return on investment (ROI) is the ratio of a profit or loss made in a financial year expressed in terms of an investment made.

**Risk appetite**

Determining your appetite for risk helps you decide how much risk you are prepared to live with, and importantly, when it becomes necessary to take action to reduce your risk.

**Risk tolerance**

The amount or level of risk an investor is comfortable taking, or the degree of uncertainty that an investor is able to handle.

**Sector**

Shares in the same industry belong in the same sector. For example, the technology sector includes companies like Apple and Microsoft. Some authorised users of exchanges prefer to trade in one sector because they know the industry well and can better predict the performance of the shares.

**Self-regulatory organisation (SRO)**

A self-regulatory organisation that is non-governmental and has the power to create and enforce standards and regulations for its industry. A financial SRO, such as an exchange, protects investors, authorised users and issuers by establishing rules and regulations, and setting standards that promote ethics, equality and professionalism for its members.

**Share**

One of the equal parts that the ownership of a company is divided into, which can be bought by members of the public as shareholders.

**Shareholder**

A person who owns shares in a company.

**Small to medium enterprise (SME)**

A small to medium enterprise is defined by the number of employees however, different sectors have different turnover thresholds that affect how they are classified. All small enterprises employ between 10-50 people while medium enterprises employ between 51-250 people. Maximum turnover is set at different rates per sector. For example: a small agricultural enterprise has a turnover up to R17 million while a medium sized agricultural business has a turnover up to R35 million. In mining, the turnover for each type of business is up to R50 million and R210 million respectively.

**Stock**

Stocks refer to the holding of corporate equities, or securities traded on a stock exchange in general, whereas shares may refer only to shares, whether listed or not, for a particular company.

**Trade**

The activity of buying and selling shares in companies.



# Contents page

1. What are shares?	7
2. What is the share price?	8
3. Types of shares	8
4. Buying shares	9
5. What you should know as a shareholder	11
6. Advantages of buying shares	12
7. The risk of buying shares	13
8. How do I find an authorised user of an exchange platform?	14
9. Exchanges in South Africa	15
10. The FSCA protects investors	16
11. Grounds required to lodge a complaint	17
12. How to submit a complaint to the FSCA	18
Useful contacts	



# 1. What are shares?

**Shares** give you part ownership of a company. Shares are also referred to as equities and stocks, which is why we talk about **stock markets**, **stock exchanges** and **stockbrokers** (now called authorised users of exchange platforms).

Companies usually offer shares through a stock exchange to raise initial funds for operations or as a way to fund growth or specific projects. The level of ownership depends on the number of shares you own.

**Example:**



A company issues  
**1 000 shares**



You invest by buying  
**100 shares**

$$\frac{\text{Your shares}}{100} \div \frac{\text{Total issued shares}}{1000} \times 100 = \frac{\text{10\% Equity}}{10\%}$$

Or, in other words,  
your **100 shares** mean you own **10%**  
of the **equity** or **stock** in the company.

## Why do companies issue shares to the public?

Issuing shares and selling them to the public is an affordable way for private-sector enterprises to raise capital to fund the expansion or growth of the company. This means that you, as an investor, can buy shares at a certain price today, in the hope of selling them in the future, for more than what you originally paid for them. This is how you can increase your wealth.

As a shareholder (someone who owns shares), you are entitled to a share of any declared dividends (profits).

If the company does not perform well, its share value decreases and your shares may be worth less than when you bought them (until such time that the company recovers). If a company's performance does not improve, or the company ceases operations, you may lose some or all of your investment.

While shares are most often associated with a stock exchange, not all companies are listed on a stock exchange. There are small unlisted businesses that often find investors among family and friends, or simply a group of private individuals willing to buy shares in the business. The money raised by a small business serves the same purpose, that is, to expand and grow the business.



## 2. What is a share price?

The price of a share is determined by the company's past financial performance (profits and growth) and the demand for its shares. Single shares can be valued as low as R10; however, you will still need to buy a minimum number of shares. The higher the demand for a company's shares, the higher its share price will be. As with any market, prices on a stock exchange are determined by supply and demand.

Demand will increase the value of each share. On the other hand, the value of the shares will drop if:

- investors who hold a large block of shares sell, thereby creating an oversupply
- a company does not meet income targets
- there is no demand for the share, created by, among other things, negative perceptions regarding a company



## 3. Types of shares

The most common types of shares issued are **ordinary** and **preference** shares.

**Ordinary shares:** Owners of ordinary shares are entitled to a vote for every share owned and have full voting rights at a company's annual general meeting (AGM).

Ordinary shareholders earn an income in two ways:

- By selling their shares at a profit when the share price goes up.
- When a company performs well and meets profit targets. It can then choose to declare and pay out a dividend, which is a share of the profits.

Over the long term, history has proven that ordinary shares generally stay ahead of inflation and offer a higher profit (return on investment, or 'ROI') than most other types of investments.

**Preferred or preference shares:** Owners of preference shares have no voting rights at a company's annual general meeting, but they do receive some of their investment, if not all, back if the company becomes bankrupt (closes down) before the ordinary shareholders are paid out. They are called preference shares because the shareholder is shown preference over ordinary shareholders, receiving part of the company's profits before the holders of ordinary shares are paid. Preferred shareholders' capital investment must be repaid if the company fails and closes down.



## 4. Buying shares

You can buy or sell shares through a full-service authorised user of an exchange platform or manage your own trades online through a trading account set up with an authorised user.

While online trading gives you total control over your collection of shares (portfolio), you would also need to research companies yourself. Successful investing is built on experience and background knowledge – a level of awareness and understanding that most inexperienced and beginner investors do not possess.

As digital or online trading has become accessible and more popular, the danger of overextending yourself or being scammed has grown exponentially. Online trading may seem like a safe option, but scams abound on digital platforms and you could easily fall victim to one of them.

For someone just starting out, it is safer to use the services of an authorised user of an exchange platform. They have the knowledge and expertise to help you build your portfolio into a profitable investment.

A portfolio with the shares of more than one company or from different economic sectors is called a diverse portfolio and is one investment strategy that helps you to lower your risk. When one company does not perform well, another company in your portfolio may do very well. They balance each other out and can help to prevent big losses in your portfolio.

If you are looking at building wealth over the long term, a diverse portfolio of shares can be a very good option.



**Full-service authorised user of exchange platforms (full-service stockbroker)** A company that manages the whole process of buying shares. They offer a personalised service that includes researching the best shares for your investment strategy as well as buying and selling shares for you.

**Authorised user of exchange platforms (stockbroker)** A person or company that buys and sells stocks or shares on behalf of its clients.



**Note:** While the designation 'stockbroker' is still used widely and is known to financial customers, the term 'authorised user of exchange platforms' is used in the Financial Markets Act (FMA) to bring terminology in line with international standards.



## Dangers of online trading

- **Scams:** Fraudsters have become more sophisticated and it is often difficult to tell the difference between real investment opportunities and scams. Using an authorised broker who has access to preexisting online trading information and understands the financial sector lowers your risk of losing your investment to a scam.
- **Speed:** Speed and simplicity are sold as advantages of digital trading platforms; however, this increases the risk of you making poor investment decisions or overinvesting. Most platforms give you the option to place limits on your account as a way to control what you buy and how much you invest.

It is important that you use an authorised user of exchange platforms who has passed the exams administered by the South African Institute of Stockbrokers (SAIS).



## 5. What you should know as a shareholder

As a share owner, or shareholder, you must know and understand the following:

- **Sharing in the profit or loss of the company:** When listed companies make a profit, they can choose one of two options. They can either reinvest the profit into the company or they can declare a dividend pay-out to holders of ordinary shares. As a shareholder, you have no say over the percentage of the profit that is paid out or whether a company does pay dividends. Those decisions are made by the company's board of directors. However, if the company is not paying out dividends because it needs to fund business growth, the value of the share usually increases in any event. If a company continuously suffers a loss or does not share profits with shareholders, it runs the risk of shareholders selling their shares. This will cause the value of the shares (and your investment) to decrease.
- **Participating in the annual general meeting (AGM) and corporate actions:** As a shareholder, you are a part-owner of the company. However, this does not give you a say in the day-to-day running of the company. All shareholders have the right to give input on important proposals that affect the company, such as whether to merge with another company or purchase other businesses. As an ordinary shareholder, you can raise and vote for or against issues at the company's AGM. An ordinary shareholder who cannot attend the AGM can usually vote by mail or give another shareholder the power to vote on their behalf. This is known as voting by proxy. Voting rights would ultimately enable majority shareholders to vote out members of the board of directors and replace them with others.
- **Access to information as a shareholder:** Shareholders are entitled to information about the company they hold shares in. Companies can use mail, electronic communication or even telephone calls to communicate news to shareholders. Companies listed on a stock exchange (for example, the JSE) are required to have their company properly audited and they have to produce an annual report detailing their business activities and financial reports for the previous year. This report must be shared with all current and future shareholders in addition to the Financial Sector Conduct Authority (FSCA).
- **Transferring ownership:** Shares, especially when they are liquid, can be converted into cash immediately in the event of an emergency. 'Liquid' simply means that there are buyers ready and willing to buy shares as sellers make them available; in other words, it is easy to convert your shares to cash. The opposite is also true – 'illiquid' means you are unable to sell shares at the price you want because there are no willing buyers. The sale and purchase of listed company shares can only take place through an exchange licensed by both the FSCA and the Prudential Authority (PA), via an authorised user of exchange platforms (those platforms are simply the access point for a company that holds a stockbroker licence).



## 6. Advantages of buying shares

- **Reduced risk:** Licensed stock exchanges like the JSE operate within a strict financial regulatory environment. This means that companies must comply with rigorous listing requirements before they are allowed to list and when trading their shares through the exchange. This regulatory system creates an efficient market and makes for transparent pricing. This, together with buyer demand, sets the share price so you know if you are paying the market price for your share and are investing in a real company. Share trading affords you the opportunity to invest in different companies and even in different sectors of the economy. This is a good way to keep your investment safe (not to be confused with market movement losses).
- **Simplicity:** The financial sector has embraced technology, which makes it easier for shareholders and other investors to access information about shares and exchanges. Technology has also made it easier to buy and sell shares. Shares are easier to disinvest (withdraw your money) from, which is important if you need money urgently.
- **Build wealth:** Because share prices rise and fall all the time, shares should be viewed as a long-term investment. Over the long term, a portfolio of shares bought from a number of companies (a diversified portfolio) is a more efficient wealth builder than any other form of investment. Shareholders can earn income in two ways: through dividends or from profits earned when you sell the shares after the value increases.





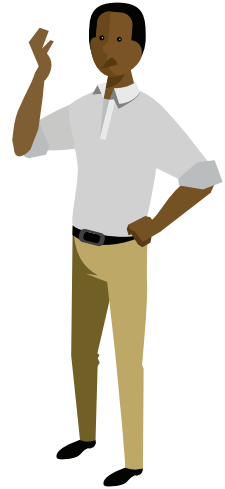
## 7. The risk of buying shares

There is some risk, and sometimes considerable risk, to owning shares. It is possible to lose your entire investment in a company. If a company performs poorly (makes a loss), investors will sell their shares, which will push the share price down, along with the value of your investment.

If you sell when the share price is down, you may lose your initial investment (receive less money out than you initially invested to buy those shares). If you can't afford to lose your investment, then an authorised user of exchange platforms can assist you to invest in other financial products.

Other risks include:

- **Ordinary shareholders may be paid last:** If a company goes out of business, the South African Revenue Service (SARS), employees, holders of preferred shares and creditors are paid first. Ordinary shareholders must share the balance of what is left, if anything. By investing in different companies and in different sectors of the economy, you can lower the risk of losing your investment if any one company in which you own shares makes a loss or shuts down.
- **Buy shares only if you understand the risk:** Share prices rise and fall second by second (this is known as 'volatility'). An experienced authorised user of exchange platforms can offer advice on when the time has come to sell or hold onto your shares. Beware of 'timing the market' and trying to predict future market price movements. World events can have a considerable impact on the value of shares. The market crash of 2008 saw investors worldwide lose billions of rands, while the Covid-19 pandemic in 2020 also had a devastating effect on investments.





## 8. How do I find an authorised user of an exchange platform?

For some people, buying shares becomes a kind of investment hobby or special interest. Others who lack the expertise, interest or time to conduct their own research, or build and manage a portfolio, should make an appointment with an authorised user or financial advisor. This professional can help you to make solid investment choices that serve your needs and budget.

Depending on the mandate you give them, an authorised user can select, buy and sell shares on your behalf, or you can instruct them to trade in the shares of your choice. A **discretionary** mandate allows an authorised user to make trades, buying or selling securities in an investor's account without the investor's approval.

A **non-discretionary** account is one in which the investor decides on what trades to make after receiving advice from an authorised user who has reviewed your financial position and investment targets. Do not leave everything to the authorised user and do not forget that it is your money that is being invested. Try to learn more about the financial history of a particular company (are they making a profit or a loss?), the management of the company, and whether it is in fact listed on one of the exchanges.

When you start, let your financial goals and risk tolerance guide the choices you make. Let an authorised user or your financial advisor lead you in these decisions, especially if you don't have the experience and specialist knowledge to do so yourself. Ask lots of questions to educate yourself so you understand what is happening on the markets and, therefore, with your investment.

**Important:** Check with the FSCA that the person or company you have mandated to buy and sell shares on your behalf is an authorised user on the exchange platform of your choice.



### Risk tolerance

The amount of risk that an investor is comfortable taking, or the degree of uncertainty that an investor is able to handle.

(N/A)	↑	13857.60	↑	1.42	↑	0.00%	0 (N/A)	3929	50	Buy	100%
(N/A)	↑	7058.67	↑	2.49	↑	0.01%	0 (N/A)	3438	50	Buy	100%
(N/A)	↑	26516.05	↑	2.05	↑	0.04%	0 (N/A)	1470	100	Buy	100%
(N/A)	↑	308705.76	↑	0.76	↑	0.01%	0 (N/A)	376	50	Buy	100%
(N/A)	↑	17002.31	↑	2.31	↑	0.00%	0 (N/A)	1481	50	Buy	100%
(N/A)	↑	17002.31	↑	2.31	↑	0.01%	0 (N/A)	128	50	Buy	100%
(N/A)	↑	13667.97	↑	1.97	↑	0.01%	0 (N/A)	9654	4	Buy	100%
(N/A)	↓	33148.24	↓	-1.76	↓	-0.01%	0 (N/A)	4359	75	Buy	100%



## 9. Exchanges in South Africa

Listed shares can be traded on stock exchanges. Some shares, especially those of smaller companies that do not meet the listing requirements of an exchange platform, can be traded between two parties in an ‘over-the-counter’ (OTC) transaction instead of being offered for sale on the formal exchange.

Listed securities as defined by the Financial Markets Act No.19 of 2012, such as shares, bonds, debentures, and so on, are traded on a stock exchange. Exchanges allow investors to buy and sell shares of various listed companies on a regulated electronic platform. It is important to remember that not all financial instruments, like money market instruments for example, are traded on an exchange.

After a review of the Securities Services Act No. 36 of 2004, the FMA was promulgated. The FMA promotes competitiveness in the financial sector, striking a balance between market participants and investment models. There are now five licensed exchanges in South Africa – the JSE, A2X, ZAR X, EESE and 4AX – each with its own business model.

The **JSE** offers five financial markets, namely:

- equities
- financial derivatives
- currency derivatives
- commodity derivatives
- interest-rate instruments

In 2003, the JSE offered an alternative exchange, **AltX**, for small and mid-cap listings, followed by **Yield-X** in 2020, for interest-rate and currency instruments.



## 10. The FSCA protects investors



The FSCA is mandated to educate and protect investors. The responsibility of the Market Integrity Division is to supervise and oversee market infrastructures. The Market Infrastructures and OTC Markets Department is responsible for the licensing and supervision of market infrastructures such as the licensed exchange platforms, central securities depositories, and clearing houses such as Strate (Pty) Limited, and JSE Clear (Pty) Limited.

The FMA makes provision for an exchange, a central securities depository, and an independent clearing house (collectively referred to as market infrastructures). The FMA makes provisions for the market infrastructures to use the self-regulatory organisations (SRO) model to supervise and regulate their respective members. An SRO, like a stock exchange is allowed to set and enforce regulations and standards for its members.

As SROs, exchanges have to abide by the Financial Services Ombud Schemes Act (FSOSA) which adds an extra layer of protection for investors. This legislation allows for the Ombudsman for Financial Services Providers (FAIS Ombud) to act as an impartial party in disputes between financial services providers (FSPs) and clients.





## 11. Grounds required to lodge a complaint

All exchanges are regulated by the FSCA, which ensures that they adhere to the rules and regulations set out in the law. If they do not adhere to the rules and regulations, you have a right to complain.

### **Conduct of the exchange that can lead to complaints**

- Contravening or failing to comply with any instruction given by the investor, or any agreement or mandate entered into with the client.
- Contravening or failing to comply with the FMA rules and the directives of the exchange.
- Acting dishonestly, negligently or recklessly.
- Treating the investor unreasonably or unfairly.

Keep in mind that not all authorised users are admitted as members of every exchange. If you want to check that your chosen professional is authorised to buy and sell shares, you can contact the relevant exchange or the FSCA to find out. By authorising FSPs, the FSCA helps maintain trust in the financial sector.

If you have a complaint relating to your investment or the purchasing/selling of shares, you must follow the proper complaints process.



## 12. How to submit a complaint to the FSCA

The exchange and then the relevant Ombud should be given the opportunity to resolve your complaint. If you are still not satisfied with the outcome of your complaint, you can submit a detailed written complaint to the FSCA.

### **Complaints to the FSCA can be submitted as follows:**

- Complete the online complaint form on the FSCA website: [www.fsca.co.za](http://www.fsca.co.za)
- E-mail your complaint to [complaints@fsca.co.za](mailto:complaints@fsca.co.za).
- If you are unsure you can e-mail [info@fsca.co.za](mailto:info@fsca.co.za) or [enquiries@fsca.co.za](mailto:enquiries@fsca.co.za) for general enquiries.
- Write a letter to the Manager:  
Complaints, Query and Resolution, P. O. Box 35655, Menlo Park, Pretoria 0102.
- Send the complaint by facsimile to the Manager:  
Complaints, Query and Resolution on 012 346 6941.



### **What information needs to be provided when lodging a complaint**

Complainants should provide the FSCA with:

- the name and surname of the complainant
- contact details (including postal address, telephone number, fax number and e-mail address, whichever is applicable)
- full details of the complaint or grievance
- copies of any relevant documentation that supports the complaint
- name of the financial services provider/product provider/financial advisor complained against
- details of the steps the complainant has already taken to resolve the complaint or grievance and the outcome of this process
- the outcome the complainant would like to receive.

### **How will I know what the outcome of the investigation is?**

The FSCA will advise you in writing of the outcome of the investigation and the reasons for reaching their conclusion.



## Useful contacts

### Financial Sector Conduct Authority (FSCA)

To check if an FSP or financial advisor is authorised to sell you financial products and services, and which products they can sell you, contact the FSCA.

**Call Centre:** 0800 20 3722 (FSCA)

**Switchboard:** 012 428 8000

**Fax number:** 012 346 6941

**E-mail:** [Info@fsc.co.za](mailto:Info@fsc.co.za) / [enquiries@fsc.co.za](mailto:enquiries@fsc.co.za)

**Website:** [www.fsc.co.za](http://www.fsc.co.za)

#### Physical address:

Riverwalk Office Park, Block B,  
41 Matroosberg Road, Ashlea Gardens,  
Pretoria, South Africa 0081

#### Postal address:

P.O. Box 35655, Menlo Park, Pretoria, 0102

**Website:** [www.fsc.co.za](http://www.fsc.co.za)

### FSCA's Consumer Education Department (CED)

For more consumer financial education information contact the FSCA's CED:

**E-mail:** [CED.Consumer@fsc.co.za](mailto:CED.Consumer@fsc.co.za)

**Website:** [www.fscamymoney.co.za](http://www.fscamymoney.co.za)

### Ombud for Financial Services Providers (FAIS Ombud)

Do you have a complaint against a product provider or financial advisor? Contact the FAIS Ombud for free assistance.

**Sharecall:** 086 066 3247

**Switchboard:** 012 762 5000

**E-mail:** [info@faisombud.co.za](mailto:info@faisombud.co.za)

#### Postal address:

P.O Box 74571, Lynnwood Ridge 0040

#### Physical address:

Kasteel Park Office Park, Orange Building,  
2nd Floor, 546 Jochemus Street, Erasmus  
Kloof, Pretoria, 0048

**Website:** [www.faisombud.co.za](http://www.faisombud.co.za)

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