

Shares and gearing in a nutshell

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If you want to get into investing – here’s some easy to understand information about how you can make money from shares.

Shares

One of the most popular asset classes you can invest in shares, also known as equities. When you buy a share, you buy part-ownership of a particular company. You can invest in shares directly, by purchasing them yourself (for example, via an online trading account), or indirectly, through a managed fund or managed account. You can even borrow money to invest in shares, by using gearing.

Making Money From Shares

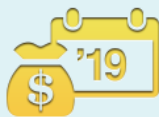
Making money from shares

There are usually two ways you can make money from shares:

Selling shares at a higher price than you paid for them.



Receiving annual or quarterly dividends (a percentage of the company's profits).



And there are generally two ways you can lose money from shares:

Selling shares at a lower price than you paid for them.



Buying shares that you're unable to sell at any price.



If you're a shareholder in a company that goes out of business, you could lose the full amount you paid for your shares if you are unable to sell them.

Share Values Rise and Fall

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Shares are considered a growth asset, which means they offer potentially higher returns when compared to other asset classes. But share prices can also experience high volatility over the short term.

A company's share price depends on how well each company is run. But it also depends on other factors, such as general market conditions that are beyond the control of company management.



Let's say you buy shares in a well-run company that produces one particular resource, such as copper wiring. If demand for copper wiring drops, there's a good chance your shares will drop in value as a result of the change in market conditions.

Share prices can change on a daily basis due to events that can be impossible to predict. Natural disasters, currency fluctuations, and announcements of senior management changes are just a few of the events that can make a company's share price rise or fall. For these reasons, shares are a higher risk but potentially higher return investment than bonds and other assets classes that offer a more predictable return.



Advantages of Share Investing

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Compared to some other asset classes such as cash and bonds, investing in shares may offer the following advantages

Returns – can generate both income (via dividends) and capital growth.



Liquidity – can usually buy or sell listed shares at any time.



Upside potential – chance of higher returns from long-term investment positions.



Control – can make your own investment decisions when investing directly in shares.



Diversity – can invest in many different industries and markets.



Flexibility – can usually invest with smaller amounts, more often.



Open ended - can keep your shares as long as the company remains in business.



Investing Your Time

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If you want to invest some of your money in shares, you'll also need to invest some of your time.

It's hard to make informed share trading decisions – whether it's buying or selling – if you don't know anything about the companies in question.

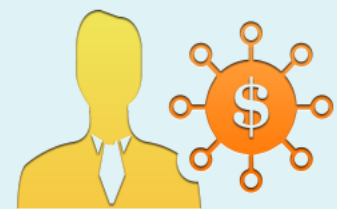
You can entrust an expert to make sharemarket investments on your behalf, but if you want to make those decisions yourself, you'll normally need to spend some time on research, and keep up with the financial media and other sources of market education.



Shareholder rights

Shareholders have limited liability, which means, usually, you're not personally liable if a company in your portfolio is unable to pay its debts (assuming you've paid the full price on your shares). By investing in shares you can hold ownership stakes in local and foreign corporations across a wide range of industries. These ownership stakes normally entitle you to:

- A share of annual or quarterly profits (dividends)
- A vote at the company's annual general meeting
- Annual company reports and other reports
- A share in the underlying assets of the company if it goes into liquidation



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