Share investing for newcomers….

To a first-time investor the share market can seem daunting. But it doesn't need to be.

What is a share and how do I buy one?

At its simplest, a single share represents a single unit of ownership in a company.

Companies such as Commonwealth Bank of Australia, Rio Tinto and Woolworths are listed on the Australian Securities Exchange (ASX) — commonly known as the stock market or stock exchange. Although these big names are among the most well-known, more than 2,000 companies are listed on the ASX.

When you buy shares in one of these companies — even a very small number of shares — you then own a small part of that business.

You need to use a third party, called a ‘broker’, to conduct the actual transaction of buying or selling shares.

How can I make money from shares?

People aim to make money from investing in shares through one, or both, of the following ways:

An increase in share price. Usually known as ‘capital growth’ or ‘capital gain’, all this means is that you make money by buying your shares for one price and selling them for a higher price. Conversely, it’s important to remember that if the share price falls below the amount, you paid and you sell your shares at this lower price, you would lose money.

A share in the company’s profits. Usually known as ‘dividends’, these payments are a portion of company profits paid out to shareholders, usually twice a year. Companies don’t have to pay dividends, but many see it as a way of returning earnings to their shareholders.

Isn’t my money safer in a savings account?

It’s true that savings accounts and term deposits are a less risky type of investment, and it is generally recommended you keep some of your money in these assets.

But investing in shares can give your money the chance to earn better returns than it would if you left it in a bank account.

Taking the first steps

Thinking about why you want to invest can help you work out your strategy and avoid making irrational decisions down the track. Ask yourself a few key questions:

- How long do you want to put money into the stock market for?
- How much are you going to invest?
- Are you going to make regular contributions?

How much do you need?

Most brokers would require the first trade to be at least $2,000 which would be referred to as the 'minimum marketable parcel of shares'. The size of increments or additional purchases thereafter would be at the individual broker's discretion.

As a full-service brokerage, OSC Finance Pty Ltd suggests you should “start your share investing with at least $10,000” as a general guide. Understanding the costs involved should help you decide how much you want to invest.

How do you choose which shares to buy?

Researching and choosing companies to invest in can be enjoyable and there are lots of tips and recommendations to guide you through the process.

MoneySmart suggests starting with companies in an industry that you know something about, as this may make it easier for you to understand how a business is doing.

What to look for?

While past financial performance and achievements can be important indicators of the stability of a business, what really drives share prices is a company’s future outlook.

MoneySmart recommends asking questions like:

- Will the goods and services this company provides be in demand in the future?
- Are there opportunities for the company to grow?
- Who are the company’s competitors and are they in a strong position?

Sources such as a company’s annual report, as well as its yearly and half-yearly financial results statements, can be good places to find relevant information. These can be found by searching for the company name on the ASX website.

How much are you willing to lose?

Selling decisions are as critical as buying decisions to your results in the share market, MoneySmart notes.

Consider setting yourself a ‘percentage stop’ of around 15% for each company you buy shares in. This means deciding how much of your originally invested money you are willing to lose. Once a company’s share price falls below this amount, you commit to selling those shares. Otherwise, losses in one company may wipe out gains in the rest of your portfolio.

What next?

Browse market news and investing content or begin your investment journey from the OSC Finance Pty Ltd.’s Official website. www.osccorporation.com

Things you should know

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Investors should consult a range of resources, and if necessary, seek professional advice, before making investment decisions in regard to their objectives, financial and taxation situations and needs because these have not been taken into account.