Sparkhouse
Rope Walk
Lincoln
LN6 7DQ

☎ 01522 837211
🖷 01522 567603
✉ info@iq-fa.co.uk

Investing in shares

Shares are one of the four main investment types, along with cash, bonds and property. They carry risk, but they can offer the highest returns. This guide explains how they work, and what the risks can be, so you can decide whether shares might be right for you.

What are shares?

Top tip: before you make any decision about buying or selling shares or funds, **find out as much as you can** about the company or fund. Do your own research or get financial advice.

- Shares (also known as equities) are like **tiny fractions of a company**. If you own one, you own a little bit of the company and a proportion of the company's value.
- You can **own shares yourself**, or you can **pool your money** with other people in a collective investment often known as a fund.
- Funds buy a selection of shares, which are chosen and managed by a fund manager. If you put your money into funds, you don't have to do the work of choosing the individual investments.
- When you own shares directly you become a **shareholder**, which usually means you have the right to vote on some company decisions. This doesn't happen if you invest in a fund.

Shares are bought and sold on the stock exchange. Shares from big companies are traded on the London Stock Exchange (LSE) – you'll hear these called 'listed shares' – and smaller companies are traded on the Alternative Investments Market (AIM).

How investing in shares works

Investing in shares means buying and keeping them for a while in order to make money. There are **two ways of getting money from shares of a company**:

if the company grows and becomes more valuable, **the share is worth more** – so your investment is worth more too some shares **pay you part of the company's profits** each year, called a dividend.

If you buy shares in **larger, long-established companies** you'll probably get dividends, but you may not get rapid growth. Shares that pay regular dividends are good for getting an **income** or the dividends can be reinvested to grow your capital. Dividend income is taxed at a different rate from savings interest.

Smaller companies often don't pay dividends. They may have more chance to grow rapidly, but can be more risky.

Shares can be risky

The price of a share will go up or down if people change their minds about how well the company is performing, or about the economic conditions it operates in. If a share price reduces then the value of your investment reduces as well.

However shares have historically provided better returns over the long run than the other main asset classes: property, cash or bonds.

Holding shares in just one company is very high risk. If that company gets into difficulties then you could lose some or all of your money. You can spread your risk by diversifying – buying shares in a variety of companies, and investing in other assets or countries – or by putting your money into pooled investments like unit trusts or OEICs.

<u>Diversifying - the smart way to save and invest</u>
If you are well diversified and invest long term (for more than five years) you can keep risk down, and have a chance of good returns.

Investing in small companies is especially risky

The shares of smaller companies are sometimes known as 'penny shares'. They don't meet the requirements for a full listing on the London Stock Exchange (they're 'unlisted companies'), so they're bought and sold on other markets, like the Alternative Investment Market (AIM) and the Plus Quoted Market.

If you want to sell, it can be hard to find buyers for some shares – you might be stuck with the shares, or have to sell at a much lower price than you paid for them.

There might not be much information available, so it could be hard to assess the business and its finances and predict if it will do well.

Think carefully before you invest in a small company. Is the investment right for your needs? What are the risks, and what might they mean for you?

How to buy shares

Investing in individual shares
If you want to buy and sell shares that you own yourself, you can use:

- a traditional stockbroker
- an online broker
- a financial adviser or investment manager – you can ask them to buy or sell shares for you, but they'll still go through a stockbroker

<u>How to buy investments</u>
Investing in shares through a pooled (collective) fund

In a pooled (collective) investment, **lots of people put their money into a fund**. The fund is invested in shares – or other assets, like cash, property or bonds – chosen by a professional fund manager.
You can invest in funds through many banks, a fund manager, a financial adviser or a traditional or online broker.

<u>Employee share schemes</u>
If your employer offers it, you may be given shares or be able to buy them through an employee share scheme.