TD Direct Investing

Understanding the Stock Market and Shares

Introduction

The origins of Shares and Stock markets go back to the middle-ages. The London Stock Exchange (LSE), which today is the largest in Europe and fourth largest in the world, was established back in 1801.

The participants in those markets were predominantly professionals, typically large institutional investors such as mutual funds, banks, insurance companies and pension schemes. However, that has changed and today it is far easier for individual investors in the UK to buy and sell shares compared with only a few years ago. This is because of a number of factors.

Individual shareholdings became popular through the many demutualisations and privatisations of the 1990's (examples included British Gas, BT, British Rail, Water Authorities, Life Insurers and Building Societies);

This led to an increasing realisation by individual investors that they are participating in stock markets through their investments in pensions and insurance products, or as employees through work-based share ownership schemes;

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This eGuide is intended for educational purposes only and as such is not a solicitation or personal recommendation to make an investment based on the content of this eGuide.

Investors should be aware that the value of an investment can go down as well as up. You may not get back all the money that you invest.

If you have any doubt over the suitability of a particular investment for you then you should seek independent financial advice.

The tax treatment of shares depends on the individual circumstances of each client and prevailing UK Taxation Law and may be subject to change in the future.

The information within this guide is based on our understanding at the time of writing.

Introduction

Global stock markets themselves have modernised, replacing antiquated trading floors and practices with ultra-fast computerised electronic trading;

The rise of the internet has made real-time market access quick, cheap, efficient and secure. Online trading websites often provide a wealth of tools, market and company information to aid investment decision making;

In the past individual investors relied on their broker for professional advice. In the last decade, non-advised brokerages have brought the opportunity for self-directed individuals to research and make their own share dealing decisions at a lower cost. This is sometimes known as "execution-only" dealing.

This means that stocks and shares provide opportunities for individual investors to make investments themselves. But before considering how this is done it is worth understanding what stocks and shares are and the central role they play in the financial strength of a modern economy.

The stock market

While the stock market can be a complex place, the principles upon which it rests are straightforward. The stock market is one of the most important ways that a company can raise money for its various needs, typically the capital required for further growth and expansion.

By issuing shares in the company at a pre-determined price, the company exchanges ownership with potential investors in return for their money. This is called Equity. The investors hope that the company will be successful with the money raised. If it is, the investors will then receive a return on their equity investment. This can be in two ways;

- **Firstly, if the value of the company rises, this is an increase in the share price of the company. If an investor then chooses to sell their shares they will have made a profit, known as a capital gain.**
- **Secondly, the company may also pay a regular return to its shareholders out of its profits - this is called a dividend.**

Of course, this shareholder investment involves risk and the company's share price can fall as well as rise. In that case investors would make a loss if they sold their shares in that position.

Stock exchanges were invented to enable the buying and selling of shares quickly and easily in a centralised way. This mechanism engages all market participants; a large number of companies together with a large number of buyers and sellers.

Trading in stocks and shares was typically centered on large national stock exchanges such as the **London Stock Exchange (LSE)**. However since 2007, the regulations covering European stock markets have become standardised within the European Union. As well as these traditional exchanges, these rules opened the UK market up to a new kind of competition from Multi-lateral Trading facilities **(MTFs)**. These are regulated companies that compete with the traditional stock exchanges for trading shares and have had considerable impact on where market trades are carried out, with companies such as **Chi-X Europe** now accounting for a significant share of trade volume. This has meant that although trading venues have become more fragmented the costs of trading has fallen.

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The stock market

Admitted to Trading and 'Listed'

Companies that wish to make their shares available undergo, and pay for, a process which must meet and adhere to strict rules – this process can fall into two parts depending upon the exchange, take this example of a company traded on the LSE:

1) Firstly all LSE shares are 'Admitted to trading'
2) Secondly some company shares are 'listed' on the LSE. For this to happen they must have been authorised by the UK Listing Authority for admission to the 'official list'

Often we can refer to a company's shares as being 'listed' when actually they have only been 'admitted to trading', this means that the shares are not on the 'official list'. For example, a lot of overseas companies can be traded on the LSE but are not 'listed' by the UKLA.

The exchanges own this process, so they still control the shares that are allowed to be traded according to strict criteria set by the regulator; for example this covers the number of shares available, company accounting standards and how company announcements are made.

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The stock market

Initial Public Offer

The first time a company issues shares is often known as an IPO (Initial Public Offer). Once the Company is admitted to trading and potentially listed, the company then has a set number of shares in issue, a number of shareholders that own the shares (and therefore the company) and a market value reflected by the price of its shares. In the UK it is now a Public Limited Company (or PLC).

The company has to decide how many shares it will offer and at what initial price. This determines the company's value, called its Market Capitalisation. A company wanting to raise £10 million by coming to market could, for example, issue one million shares priced at £10, or ten million shares priced at £1, or some other combination. This pricing decision is a complex one, but in part it will depend on the expectation of future earnings potential, i.e. investment attractiveness. In other words, the price is driven by the future return investors expect to receive on their investment. This is known as the price/earnings (P/E) ratio and is expressed as the earnings per share (EPS) – a key benchmark of company performance. The higher the potential earnings, the more attractive the shares will be to buy. This is also why every company has a different initial share price.

The shares will then be regularly traded on the exchange (in effect a secondary market) according to supply and demand and the share price will change accordingly.

Liquidity

The market provides what is known as liquidity - the shares that are traded can be easily exchanged for cash and the more shares, buyers and sellers there are, the more liquidity there is. This liquidity helps make investing attractive, especially compared to more illiquid investments that may be hard to sell. The major stock markets are worth billions of pounds and the value of companies globally traded on markets is worth trillions.

Simplistically, where Investors are optimistic (or Bullish) there will be plenty of demand for the shares and the price will rise. Conversely, when investors are feeling pessimistic (or Bearish), the price falls. The terms Bull and Bear are terms that are commonly used by traders though the origin is uncertain. A favourite explanation is that it refers to how these animals fight. When a bull fights it tosses its horns upwards; while a bear mauls opponents downwards with its paws. Such behaviour was perhaps not uncommon between traders in the markets of the past!

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The stock market

Price Influences

The complexity and risk involved with the stock market comes from the fact that it is not just the company's own performance that influences the price of its shares.

The share price is also influenced by a wide range of factors:

- **External political situations**
- **Economic influences and forecasts**
- **The industry**
- **The country the company operates in**
- **Investor and market sentiment also plays a part - markets are not always rational and have periods of high volatility**

All this means that the direction and velocity of future share prices cannot be predicted with certainty and can change rapidly. Indeed, not only do companies go bust, there have also been spectacular market crashes in the past. It is wise to remember that while any company may be financially sound it is still exposed to macro-economic conditions that can adversely impact its share price. During the banking crisis of 2008 for example, all bank shares dropped regardless of whether they had been involved in the sub-prime lending that was the root cause of the situation.

This means it is possible that an investment in any company can go down as well as up and in the worst case you may lose all of your capital invested, but no more. Therefore, developing an understanding of stock markets as well as the company invested in is essential for every self-directed trader and investor.

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The stock market

Open for business?

Stock markets have set trading hours when they are open for business. For example, The London Stock Exchange is open between 8.00am and 4.30pm.

Because stock markets have globalised it is possible to trade around the clock by using different markets, e.g. in Europe, London, North America and Asia. Some large international companies are traded on more than one exchange - they can then raise capital from a wider investor base, meaning their shares can be continually traded.

In addition the performance of one market frequently has a bearing on another. For example, the opening of North American trading at 2.30pm UK time often has an impact on the UK markets.

International Markets

International stock markets work in a broadly similar way and have similar rules and regulations. However, each market may have unique features and be regulated differently by its home country as well as having different opening hours. Dealing overseas also introduces currency risk, where even if the share price of a foreign company rises this can be impacted by fluctuations in the value of the currency the share is traded in against the value of UK sterling. In the rest of this eGuide we shall deal only with the markets and practices in the UK. To really appreciate the differences it is wise to develop a good working knowledge of, and experience in, the UK marketplace before venturing further afield.

> "In the rest of this eGuide we shall deal only with the markets and practices in the UK"

The UK stock exchanges

There are a number of regulated stock markets in the UK but the two of primary interest to individual equity share traders and investors are the LSE main market, and its subsidiary, the **Alternative Investment Market (AIM)**. Between them they provide access to nearly 3,000 companies. We have seen that the UK stock market has become more competitive, with MTFs such as Chi-X proving alternative venues for trading shares.

As we have seen, to join the **London Stock Exchange**, companies must meet certain entry criteria for corporate governance and financial strength to be admitted to trading and potentially join the official list. These criteria include a minimum market value of at least 25% of the company to be floated, and a minimum three year period of audited historical financial accounts.

The stock market itself has several established performance indices, i.e. a benchmark value of the shares in the index. This gives a measure of the overall market performance and how an individual share compares. The **FTSE 100** (or "footsie") is the most familiar, it is the index of the largest 100 UK companies by value, the **FTSE 250** lists the next largest 250 companies, while the **FTSE350** is a listing that combines the FTSE100 and FTSE250. The listings are evaluated each quarter. You may also see the **All Share Index** which covers most companies that are admitted to trading and can be divided down into different industry sectors.

Many smaller and younger companies need investors with the capital they can use to grow their business, however, they may not meet the requirements to be admitted for trading and potentially be listed on the LSE.

For these shares there is a market where the listing requirements are less stringent, and here the shares are quoted on the AIM. This is operated by the LSE and was launched in 1995 to help small young companies gain access to capital. While it is possible to transfer both ways between the main market and AIM, companies quoted on AIM are typically more risky investments because they cannot meet the more stringent requirements of the main market.

The **ICAP Securities and Derivatives Exchange (ISDX)** is also based in London and is run in competition to the LSE/AIM exchanges for small and medium sized companies coming to market.

Types of shares

Not all shares are created equally and there are a number of different types although all confer ownership of the company. The two most common ones are ordinary shares and preference shares:

- Ordinary shares are usually the shares that people refer to when talking about shares and prices. They give the owner rights to dividends, voting, attendance at annual general meetings and receiving accounts. There may also be an entitlement to specific perks such as company discounts.
- Preference shares are a special preferential class that will pay a fixed dividend before any remaining dividend is paid to ordinary shareholders. Sometimes these can also be redeemed for a set price or they may be convertible to ordinary shares in the future.

How shares are traded and priced

The UK has a hybrid market structure for buying and selling shares which can be confusing for the novice. This structure has developed over time and combines traditional features with modern technologies.

It combines an electronic order book with a number of competing firms known as market makers. Market makers are specialist firms that are licenced to deal in a specialised range of shares on the London Stock Exchange and they also match buys and sells. This situation is different to stock markets in many other countries where all trades are automatically matched on a centralised electronic order book.

The traditional way to trade was via the market maker. This still has benefits today, and not just in less frequently traded or less liquid shares. The market makers act as middlemen that are obliged to offer prices on these shares subject to a maximum size. Each market maker will offer what it considers its best price to compete for the business. In effect the market maker acts as a wholesaler, quoting buy and sell prices for shares to brokers and institutional clients. Those market makers that deal with stock brokers are also known as Retail Service Providers (RSPs).

Order book systems need a steady flow of trades; hence the electronic order book trades only the most liquid shares, generally the FTSE 350, electronically matching the many thousands of buy instructions with sell instructions automatically, without the need for a middleman.

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"In effect the market maker acts as a wholesaler, quoting buy and sell prices for shares to brokers and institutional clients"

How shares are traded and priced

All prices are quoted with a "two way price" known as the bid/offer spread. The offer is the higher price, being the price at which you can buy and the bid (the lower) is the price at which you can sell. This price is constantly updated during market hours. The difference between the offer and the bid is known as the spread. The spread reflects the liquidity of the share and how wide the spread is will be different for particular shares depending on this liquidity i.e. how easy it is to buy and sell them and how much is being traded. Popular shares have very narrow spreads. The spread therefore contains the market makers profit margin, received in return for risking their capital in the shares to be traded.

Today, computerised systems are used to trade shares, making it quicker, efficient and far cheaper, with continuously updated ("real-time") prices. With electronic systems this activity takes fractions of a second and ensures that you, the client, receive the best price available at that point in time.

Since 1997 and "Big Bang" there is no longer a trading floor, or "pit" for human traders to meet, this was replaced by SEAQ. SEAQ stands for the stock exchange automated quotation system. This lists all of the market makers' bid and offer prices electronically. Shares traded using SEAQ are said to be traded on the 'quote book'.

Instead of SEAQ, the very largest companies quoted on the London Stock Exchange, usually the FTSE350, are traded on the Stock Exchange Electronic Trading Service (SETS). Also introduced in 1997, the shares have sufficient liquidity so that buyers and sellers can be matched automatically without the need for a market maker. This is known as the 'order book' and the shares are sometimes called order book stocks. In theory this system makes the bid/offer price even narrower, and market makers can still compete for business using this system.

To complicate matters, a further development was launched in 2003, known as SETSmm. This was introduced to extend the SETS concept to include smaller AIM companies, with the market makers providing the liquidity.

Where do I buy shares?

As a private retail investor in the UK you will need to use a broker with the expertise to access the markets on your behalf. There are a number of ways to achieve this:

- Use an **Advisory** service, where an investment manager or financial adviser will recommend which shares you should buy.
- You may take this concept a step further and employ your investment manager or adviser on a **Discretionary** basis, giving authority to buy and sell on your behalf.
- It is now common for Investors to be able to buy and sell without any advice, on an "**Execution-only**" basis, using the telephone, online or even by mobile apps.

The brokers' job is to take the best price available for the shares in the market back to you, the client. There is usually around fifteen seconds to decide whether or not to accept it. During that time, the quote is usually 'held firm' even if the underlying share price moves. Every broker is required to demonstrate to the regulators that it is obtaining the best price available at the time of the trade for its clients and has to publish its Policy on how they obtain this, known as Best Execution.

As an example, TD Direct Investing's Best Execution Policy can be viewed here.

"The brokers' job is to take the best price available for the shares in the market back to you, the client"

Selecting shares

It was mentioned earlier in this eGuide that assessing the merits and potential of the company to be invested in is an essential part in deciding which shares to buy.

Before looking at investing in shares you should also think about your investment goals, time horizon and whether you are looking for income (via dividends), or growth (via an increase in the share price).

Because the price of shares and the underlying value of your investment can fall as well as rise, thinking carefully about your own tolerance, appetite and capacity for risk is crucial and you should only invest what you are prepared to lose.

"Before looking at investing in shares you should also think about your investment goals..."

If you dislike the idea of taking any chances with your money then direct investing in the stock market will not be suitable for you. Always remember that the higher the potential reward, the more risk you are likely to have to take. There are risks posed by the specific company and also risks in the wider market:

- **Company Risk** – as an example, large Blue Chip companies may be more stable due to their size and track record, whilst small start-up companies could have more potential for rapid growth and so be considered riskier. Whilst this is a general rule of thumb, there are exceptions such as the extreme circumstances affecting large banks during the banking crisis.
- **Market Risk** - stock markets have the potential for considerable investment returns, particularly over the longer term but history shows they are not immune from crises that can occur at very short notice and past performance can be little guide to the future.

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Selecting shares

Research

Always do your own research from which to base your own investment decisions. That is what the professionals do. While that in itself is still no guarantee of success, knowledge and understanding will help you become a more confident investor. Fortunately, there is a wealth of information available that is now a mini-industry in itself; videos, books and magazines, information websites and the facilities provided by broker platforms are easily accessible. Brokerage platforms usually provide up to date price and company information, news, charts and independent analyst articles upon which you can form your own opinions.

There are many strategies to decide which shares to buy. While no plan is infallible, they are all techniques based on assessing company shares by analysis and reasoning.

- One way of assessing a company is to use its "fundamentals". In essence that is a portrait of the Company's health and performance, using the financial indicators found in the published company accounts. The strength of a company balance sheet, its profitability, borrowing and cash flow are important clues to how a company is performing in its market and indicates the quality and strength of its management and staff. Similar companies and markets can also be compared to show who is thriving and who is surviving. An assessment of the products and services offered, though more subjective, is also an important element in deciding whether the company has a bright future or is in decline.
- Value-investing is a strategy looking for shares that are currently underpriced in the market using those fundamentals.
- Growth investing seeks out fast growing innovative companies.
- Income investing meanwhile looks for sustainable returns from solid companies that historically pay good dividends to their investors as a way of providing shareholder value.
- Other investors prefer to use a stock selection strategy based on Technical Analysis. They are less interested in the company itself, instead they look to analyse historical price data with a range of sophisticated mathematical charting tools. These "Chartists" seek to spot indicators and trends that may predict the future price movements in shares.

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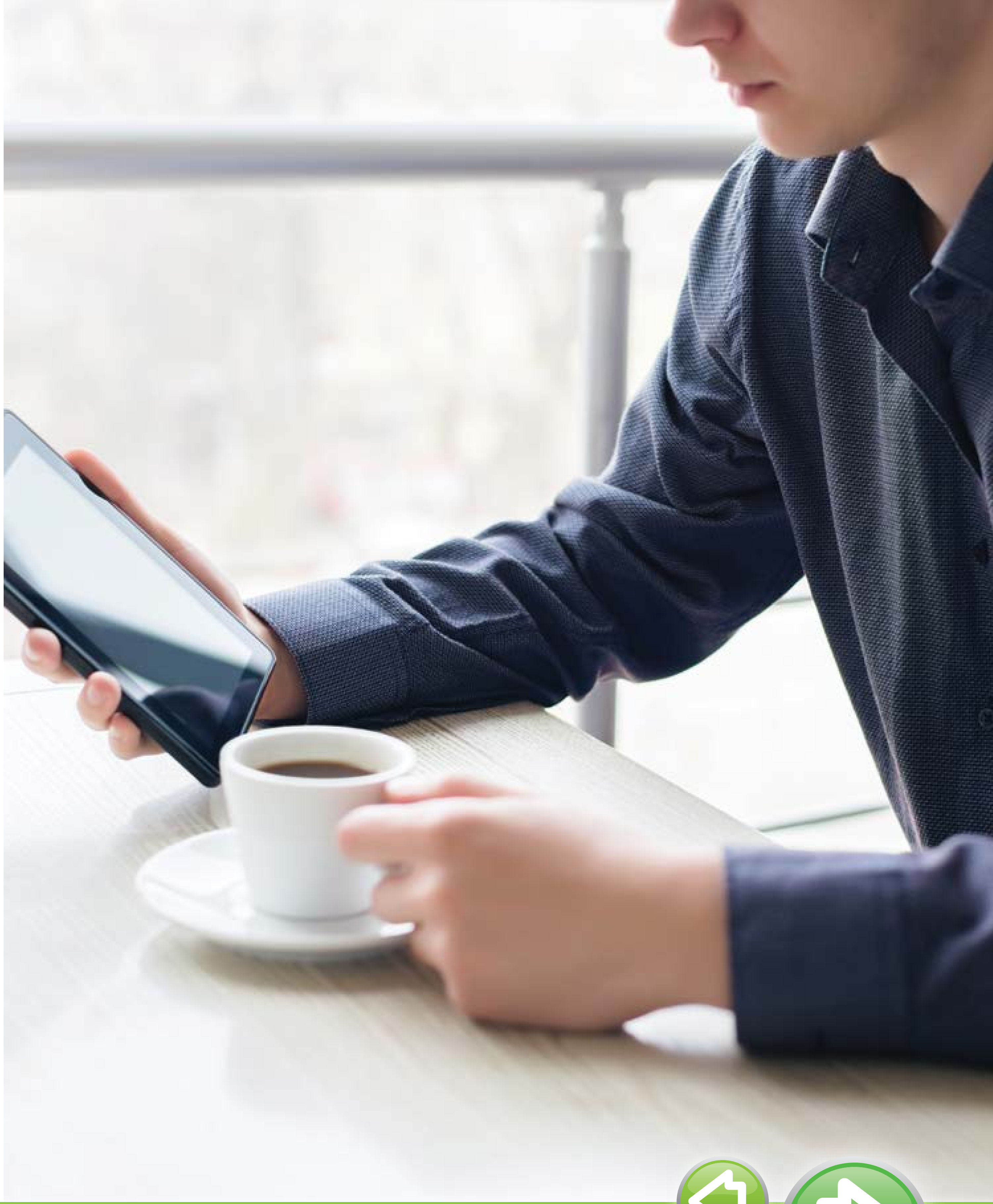
Selecting shares

Whichever method you choose, never forget the bigger picture. Keep up with the news, global as well as local, political and economic events can have a big impact on the value of your investments. It is also important to consider your emotional involvement and how that can influence or impair your judgment. Understanding your investment goals, time horizon and attitude to risk at the outset can also help in this respect. The markets themselves can be irrational or overreact to events.

Test and learn

There is always market opportunity so there is no rush. It is wise to consider using platform facilities to test out your trading ideas before making a commitment. Many platforms provide "stock watch" facilities that can track individual share performance and also have demonstration facilities so you can get familiar. Setting up a fantasy portfolio is another technique that can be used to test ideas. Whether you are experienced or a novice, the motto is, "do your homework first."



Buying shares

Having decided on which shares to buy, you will need to open an account. This process is straightforward and usually done online, although telephone account opening is usually possible. Always read the Terms of Service beforehand as this will state how the account will operate, what the brokers' responsibilities will be and what the service is that you are agreeing to. You will need to provide information such as bank details and personal identification and in many cases will be able to choose how you wish to conduct your trades and communicate with your broker. Using an electronic online service (including mobile Apps) is the most popular as this is convenient, efficient and often cheaper. Once the account is open, you will then need to fund it with the cash needed for share purchase, for example by debit card. You are now ready to make a trade.

Understanding the basics about how you buy shares, how you hold your shares and finally, what happens when you come to sell will allow you to concentrate on the investment performance of the shares themselves rather than worry about the process.

Placing an order

When you instruct your broker by placing the order at the stated price, your broker obtains the shares from the market in exchange for the cash value in your account. A contract note will be sent to you confirming the details. While you own these shares immediately, this process of exchange is called Settlement and the standard time period to complete this is two business days after the trade (known as T3). Most shares are settled by a system called CREST, which exchanges the shares you have bought for your cash amount. Using this method, the shares are held electronically and securely on your behalf by the broker in their nominee account until you are ready to sell. Think of a nominee account as working in a similar way to your bank account, but holding your shares securely rather than cash.

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Buying shares

Certificated shares

Electronic custodial services are fast, accurate and cheaper because they involve no paper-trail. However, you may decide to hold your shares yourself in paper form as a Certificate. This was once the only way individuals could own shares. However, this costs more and takes longer (settlement is ten days after the trade, i.e. T10) and there is a higher risk of errors or important documents being lost or mislaid. When you come to sell it will also take longer to get your money. For these reasons Certificates are now much less popular and most brokerages offer a free service to turn these into electronic form in your account, a process known as dematerialisation. This is a very useful service, particularly if you already hold shares with a number of Certificates. It is key to note that if you wish to transfer these shares out of the nominee, or 'rematerialise' them into certificate format, there are often steep costs involved with this process.

How much do I need to invest?

As well as making lump sum investments it is often possible to make small regular monthly investments into a pre-selected range of shares at very low dealing cost. Clearly the ratio of cost to the amount of investment made is higher but it may be beneficial where you do not have a capital sum to invest but still want to participate in the stock market and gradually build up your investment over time.

> "Certificates are now much less popular and most brokerages offer a free service to turn these into electronic form within your account, a process known as dematerialisation"

Controlling your orders

Order types

A market order is the simplest and will be dealt by your broker at the next available opportunity at the best price available.

Because market prices are constantly and rapidly moving, most platforms usually offer a range of optional order types when buying and selling shares. These can be used to help you limit the potential amount of financial losses if market prices fall, particularly when you may be unable to monitor your share prices. They are best seen as risk management tools, although they cannot remove risk completely.

- **Stop loss**. This is a type of order that is triggered to sell your shares at your chosen pre-set price if the market moves against you. Stop Losses are particularly beneficial where your shares are left unmonitored because the Stop Loss will be activated if the share trades at the price set. Although the order will be dealt as soon as possible, the price you receive may still be lower or higher than your stop loss price, so your loss could therefore be bigger than you anticipated.
- Some brokers also offer **trailing stop loss**. These act in a similar way to a stop loss but move in tandem with the market price to protect profits as prices move up.
- **Limit orders**. A buy limit order enables your order to be placed automatically if a share falls to your target price. You can usually set these as being "Good for the Day" (GFD) or "Good until Cancelled" (GTC) or GTD ("Good until a specified future Date during the next 90 days"). A sell limit order instructs your broker to sell your shares if the price rises to your specified pre-set level.
- A **fill or kill** order is effectively an all or nothing instruction. A fill or kill lets you place an order with a limit price, and if the brokerage can get this limit price or better, your order will be placed (filled). If it is not possible to get your desired limit price it will instead lapse.

The costs involved when buying shares

The costs of buying and selling shares will depend on the broker and the type of service that you are using. Electronic share trading is today inexpensive compared with just a few years ago. Nevertheless, you should understand the costs involved before trading by reviewing the brokers' rate card. **The TD Direct Investing Rate Card is here**.

The broker will charge a trading commission at the time of the trade, for both the buy and the sell. Increasingly this is a fixed charge, though it may be based on the size of the trade. Check the rate card for any other fees involved with operating the account and ask your broker if anything is unclear. If you elect to buy international shares, the brokerage charges may be different and there may also be additional foreign currency exchange costs to consider.

In the UK, the government also levies a tax on the **purchase** of all UK registered stocks known as SDRT (Stamp Duty Reserve Tax), currently 0.5% of the transaction value. Irish Registered stocks traded on the London Stock Exchange will have SDRT charged at 1% of the transaction value. For trades over £10,000 there is also a flat £1 charge known as the PTM Levy, collected by the Panel on Take-overs and mergers. These charges are not made when you sell. All transaction costs will be detailed on the contract note sent to you at the time of the trade. Please note that international share dealing frequently has its own pricing structure which can involve different taxes and levies – please review the broker website for details of this.

"The broker will charge a trading commission at the time of the trade, for both the buy and the sell"

Holding your shares

In addition to a **trading account** there are usually tax-efficient accounts offered which may be suitable for you, depending on your personal circumstances. Most familiar is a **Stocks and Shares ISA** where the UK government allows an annual sum to be invested that is not subject to income or capital gains tax, (although any dividends paid and cash held are subject to taxation).

There may also be a **SIPP** (self-invested personal pension) for long term investing for retirement. The share dealing principles with all these accounts is the same but there will be different rules about how they operate, for example, they will be nominee account based. **See the eGuides on ISA and SIPP for further details.**

Nominee Accounts

When you hold your shares in a nominee account there will be regular statements sent to you showing your investment details and any company dividends will automatically be applied. You can also track your positions in real-time online. These days it is also possible to continue to receive your company information and voting rights at the Company Annual General Meeting (AGM) should you wish. Depending on the individual shares held, there may also be other benefits conferred as you are an owner of the Company. This might be preferential discounts on its products and services.

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Holding your shares

Corporate Actions

When you are holding shares you may encounter events that are collectively known as Corporate Actions. These are undertaken by the Company and they will affect your shareholding. These can be grouped into three main types:

- Corporate restructuring. These are usually mergers between companies or break-ups of a large company into smaller ones;
- Company share splits, rights issues and buy-backs are ways that a company will seek to influence its share price by increasing or decreasing the number of shares on offer;
- Payment of regular cash dividends or bonuses to reward shareholders from company profits.

If you hold the shares in nominee form the broker will contact you giving details about the specific Corporate Action and the options open to you, which may be mandatory or optional. For example, in the case of Dividend payments, you may have the option to choose how the value of the dividend is paid to you, either as Cash or alternatively as further shares (SCRIP dividend). A broker may also be able to reinvest a cash dividend into further company shares for you (known as a DRIP).

How safe is my money?

In the UK, investment business is carefully monitored and regulated by the Financial Conduct Authority (FCA). This, alongside European Union legislation, provides detailed rules to ensure customers are treated fairly and can trust that their assets are safely held on their behalf. This naturally includes share dealing. In addition, there are financial compensation schemes that guarantee customer shares and cash to set limits should the platform become insolvent.

"In the UK, investment business is carefully monitored and regulated by the Financial Conduct Authority (FCA)"

Building your portfolio

Despite the overall rising and falling of stock markets, not all companies and their shares will do well or badly at the same time. This is because each will react differently to world events and economic factors, as well as being influenced by the industry sector they operate in and their own business performance. As we have seen, some shares are also riskier than others. These are all reasons why most experts recommend that you spread your money across several investments and create what is known as a portfolio. With shares you could therefore choose to construct a portfolio that invests in different types of businesses in different sectors and at different stages of their economic cycles. That will help smooth out the risks to your money through diversification. It is really just putting into practice the old principle of not putting all your eggs in one basket.

Many investors take this idea a stage further, and over time invest some of their money in shares alongside other investments such as bonds, cash and collective investments. This is known as asset allocation. If you find for example that investing in individual company shares is not suited to you, perhaps you do not have the time to research and monitor your holdings yourself, you could still participate in the stock market by investing in collective investments. There are four main types (Unit Trusts, OEICs, ETFs and Investment Trusts), which are all professionally managed baskets of investments based on stock markets. To find out more about them, please see our **Funds eGuide**.

> "It is really just putting into practice the old principle of not putting all your eggs in one basket"

Selling shares

You may decide to sell some or all of your shares at some point in the future. You may decide to take profits, crystalise your losses or change the mix in the portfolio of shares held. The procedure for selling is simply the buying process in reverse. You must decide when it is a good time to sell some or all of your shares. You will place the sell order with the brokerage having received a price quotation from the market and your shares will be exchanged for the cash value less any trading commission charges. Once again, the standard settlement period is T2 if you hold the shares in nominee, or T10 if held as a paper Certificate.

> "The procedure for selling is simply the buying process in reverse"

Summary

This eGuide has outlined the principles of UK company share ownership and the stock market, including outlining the risks involved, when investing in them. It has described how you, the trader or investor, can buy, sell and hold shares in a portfolio.

If you would like to continue your shares fact-finding journey, please visit www.tddirectinvesting.co.uk for more information.

Legal Disclosure