

The step by step process.

An equity market, commonly known as a stock market is identified as a key financial instrument that facilitates wealth creation, economic development and economic equality. Initiatives taken by market stake holders and satisfactory economic indicators had a positive impact towards the performance of the Colombo Stock Exchange (CSE) .The All Share Price Index (ASPI) has recorded a growth of 17.4% while the S&P SL20 Index has grown by 16.9% in the current year.

Investor sentiments are geared at investing in the market when the market is growing. Hence the article will unfold the information required in entering the market, investing and managing ones portfolio.

What is a stock market?

A stock market is an organized place where securities (stocks, debt etc.) are bought and sold. One could enter the market through the Primary Market or the Secondary Market. The Primary Market is a market where new shares or debentures are issued for the first time. In this market the security is directly purchased from the issuer (company).The Secondary Market is a market in which an investor could either buy or sell securities from or to another investor, subsequent to the original issue in the Primary Market. This article will give out the guidelines required in entering both markets.

How do you enter the Primary Market?

- Select a licensed stock broking firm. There are 33 licensed firms that deal with equity and debt.
- An investor who wishes to buy shares should open a securities account in the Central Depository System (CDS) through a licensed Stock Broking Firm.
- The duly completed client account opening forms together with the relevant supporting documents (copy of the national Identity Card and billing proof) must be handed over to the stock broking firm or the custodian bank to open a CDS Account. Read and understand the context of the forms prior to submission.
- Newspapers, websites, radio channels and television stations give publicity to prospective

issuers when a company wishes to be listed or is going to issue shares through an Initial Public Offering (IPO). The company will also conduct a marketing campaign.

- In a share issue the company publishes a booklet (Prospectus) with information about the company, financial status, future plans and the offer. A Prospectus can be obtained free of cost from a stock broking firm, managers to the issue, CSE, its branches and website, bankers to the issue, company offering the shares or any other place that the company indicates.

- Companies issue Prospectus and application forms before the issue opening day (at least 7 market days prior to the date of opening).

- Investors over 18 years of age can apply for an IPO.

- The Prospectus must be read carefully and the application form to purchase the shares must be completed accurately & clearly. If necessary, consult an expert for advice. Remember to indicate your CDS account number, national identity card number and place your signature on the application form.

- Send this form directly to the company concerned/a stock broker firm /custodian bank/managers to the issue with payment for the amount due through a cheque or bank draft. For example if you are applying for 100 shares and the issue price of a share is Rs 20 you have to write a cheque /draft amounting to Rs 2,000.

- Prospectus indicates the opening and closing day of the share issue. Make sure to send the application form along with the cheque/bank draft before the closing day. If an issue has more buyers than shares offered the share issue might close on the opening day itself.

- Immediately after the share issue is closed the company will evaluate the demand for the issue and if investors have asked for more shares than the company initially planned to issue (i.e. in the event of over subscription) the company will announce the way that they are going to distribute their shares.

- The allotted shares would be credited to the applicant's CDS account electronically.

- Where an application is accepted only in part, the refund payment will be made as specified by the company due to oversubscription of the primary issue. For example if you have applied for 1,000 shares at Rs 20.00 per share (total value is Rs.20, 000) and due to over subscription you might only get 600 shares. The company is required to reimburse the money for the balance 400 shares (Rs 8,000) within 10 market days of the closing date, excluding the date of closure of the allocation list.

- Thereafter the CSE will announce the first trading day of the shares. Trading of shares will commence within 22 market days after the closing of the IPO.

- If the shareholder wishes to sell his shares, he/she can contact the investment advisor and give instructions to sell these shares once the shares are listed.

- Most often first time investors come to the stock market by applying for shares at an IPO. Investors should pay attention to the business environment, management of the company, future earnings and valuation, competition, tax incentives and research/ valuation reports about the company. The above information about the company can be obtained from an investment advisor and the Prospectus.

- When deciding to invest in an IPO take in to account the issue price of the share. Always compare the Net Asset Value per share and the issued price. You can obtain it from the Prospectus.

How do you buy and sell shares in the Secondary Market?

- You must first find yourself a licensed stock broker firm /custodian bank and open a CDS account through them.
- An investor can maintain one or more CDS accounts through the 29 licensed stock broker firms. The stock broker firm will allocate you an investment advisor to assist you to buy /sell shares.
- After selecting your licensed stock broker firm bear in mind to sign the Client Agreement. The agreement also draws the client's attention to the risk that is involved in investing in the market.
- If you intend to trade on credit you should sign a Credit Agreement. However it is advised that new investors refrain from trading on credit.
- Some investors who don't have sufficient time to follow the market prefer to let their investment advisors trade on behalf of them at their own discretion. In such an instance they should sign a "Discretionary Account".
- Make sure that you deal with only "Certified Investment Advisors". Investment advisors should obtain this qualification in order to advice investors.
- You could contact your advisor through phone, fax, email or personal visits .You could also trade by yourself through internet trading facilities.
- You need to provide your stock broker with the name of the company, price and amount of shares you want to buy/sell. Investment advisors will advice you as to what to buy/sell. Yet the final decision to buy/sell should be taken by the investor.
- It is advised to analyze the performance of the company prior to investing. The relevant details could be obtained from the annual report of the specific company and the research department of the stock firm you deal with.
- Once the order is processed, the investment advisor will inform you of the shares you were able to purchase at the price you required.
- After the order is executed you will receive a Bought/Sold Note from the stock broker firm. This document confirms the transactions that have taken place with your approval. Bought/Sold Notes are dispatched by the stock broker to the clients before commencement of the next trading session. If you request in writing for Bought/Sold Notes via e-mail you will receive it at the end of the day.
- The buyer must make the payment for the shares bought by the third market day after purchase (T+3). Investors might have to make an advanced payment of 50% of the total transaction prior to the purchase of shares. The seller will receive payment for shares sold by the 3<sup>rd</sup> trading day after the sale (T+3).
- After buying the shares an investor can hold the shares for a desired period of time. The selling price & the decision to sell are determined by the investor.
- The CDS will forward to the account holder a Monthly/Quarterly statement if such account was active .An account shall be considered as an active account if there was at least one transaction (purchase/sale/deposit/withdrawal/ transfer) during the periods referred to above.
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- The investment advisor cannot buy/sell shares without your instructions. If there is a query please contact the Compliance Officer of the stock broking firm immediately.

Few tips when investing...

1. Don't trade on excessive credit.
2. Bear in mind that investing in the market bears a certain amount of risk. However the returns are usually greater compared to other financial instruments. If one makes informed decisions he could minimize the risk involved in investing. Learn about the market prior to investing.
3. You should invest money that you do not require in the near future. Look in to long term investments rather than short term.

Opportunities arising from the robust growth experienced in the market could be employed effectively to the economic process only if local and foreign investors continue to invest in the market. The guidelines given above will undoubtedly facilitate the said process.