S.4 COMMERCE

(To be copied down from the book of Business Calculations)

STOCK EXCHANGE

Stock exchange is a market where **already issued** shares and stock are bought and sold.

Only members are allowed to buy or sell shares at a stock exchange. These members constitute the market. The stock exchange is run by a council of members known as the stock exchange council.

Members of stock exchange may be brokers or jobbers.

BROKERS

These are people who buy and sell shares on **behalf** of others. A broker is paid on a **commission** basis.

JOBBERS

These are middlemen who buy and sell shares on their own account i.e they trade in shares in much the same manner as a wholesaler deals in merchandise.

The difference between the price a jobber pays for the shares he buys and the price he charges for the same shares when he sells them is called the **jobber's turn** and constitutes his **profit**.

TYPES OF JOBBERS

There are 3 types of jobbers namely bulls, bears and stags.

BULLS

These are jobbers who buy shares when they are **cheap** expecting to sell them at a **high** price.

BEARS

These are jobbers who sell shares when the prices are high and wait to buy back cheaply when the price falls.

STAGS

These are jobbers who deal in **new issues**. They buy shares in the hope that their prices will soon rise and sell them at a profit.

FUNCTIONS OF A STOCK EXCHANGE

- It provides a ready market to those who want to buy and sell shares.
- It sets prices for securities (shares) of different companies listed on stock exchange which is of great help to both the investors and the relevant company.
- It helps direct a large part of savings by members of the public to invest in joint stock companies, which help in the mobilization of domestic savings.
- It affords investors an opportunity to sell their shares when they find a more attractive security to buy. This makes the transferability of shares meaningful.
- It publishes useful information, in statistical and summary form about the various companies for guidance of both investors and relevant companies.
- It is used as a measure of a country's economic progress i.e stock exchange indices are taken as indicators of economic progress.
- Government gets income through capital gains tax that is levied on the profits made by selling and buying shares.
- Capital market enhances the flow of international capital.
- Companies are able to raise long term finances through selling shares than getting loans with high interest.
- It is a source of employment to those who work in it like jobbers, brokers etc.
- Provides an avenue for divestiture of state owned enterprises eg Uganda clays, the new vision publications LTD etc.
- The stock exchange authority undertakes the role of advertising shares of individual companies, hence marketing them.

COMMON TERMS USED IN STOCK EXCHANGE

(i) Quoted companies

A quoted company is one whose shares are bought and sold on the stock exchange. Only public companies can be quoted on the stock exchange because their shares are freely transferable. Examples of companies that are quoted on Uganda's securities exchange are;-

- The New Vision printing and publishing company LTD.
- Stanbic bank Uganda limited
- East African Breweries
- Uganda Clays Limited
- British American Tobacco Uganda
- DFCU Limited

NOTE: Unquoted companies are those companies whose shares are not traded on the stock exchange e.g Private Limited Companies.

(ii) Going public

This means converting a Private Limited Company into a public limited company on the stock exchange. Going public also refers to the "floating the company" .

(iii) Security

A security is any document that gives its holder a right to money or other property not actually in possession. Examples of securities include debentures, bill of lading, bonds, share certificate etc.

(iv) Blue chips

These are shares in companies of high repute and sound financial history.

(v) Bond

A loan security issued by a government or a company that carries a fixed rate of interest. Company bonds are also called debentures.

(vi) Portfolio

A collection of various securities held by an investor or institution.

(vii) Dividends

A dividend is the amount paid out by a company to its shareholders. Dividends represent the shareholder's return on the investment held by them.

(viii) Cum- div or Ex – div

Cum – div stands for "with dividend" and Ex – div stands for "without dividend".

(ix) Per value of shares/nominal value of share

This is the value written on the face of the share i.e it is the amount for which the shareholder is responsible in the event of a company's inability to meet its liabilities. The total per value of a company's shares represents, the share capital of the company.

(x) Market value of shares

Refers to the value at which a share sells on the stock exchange.

(xi) Capital market

These are markets that deal in the trading of financial products such as company shares, bonds issued by the government, debentures, commercial paper and notes. These financial products are also referred to as securities and are generally traded on the stock exchange.

Securities traded on stock exchange

Shares

This is a unit of capital issued by public limited companies to the public in order to raise share capital of a public company.

Bond

A loan security issued by the government and carry a fixed rate of interest.

Debenture

A loan security issued by a public company to the public and carry a fixed rate of interest.

Stock

A bond issued by a government local authority (local government) in order to raise money from the public.

Treasury bills

These are short term security issued by the central bank.

STEPS IN THE PURCHASE/SALE OF SHARES

1. A member of the public wishing to **buy** shares approaches a broker i.e a buying broker.
2. The buying broker inquirers from other brokers if they have any client who wishes to **sell** a particular type of shares.
   Upon finding one he (buying broker) haggles (bargains) for the price and finally agree at one. However, he must get consent of his client (buyer) about the price.
3. After agreeing on the price, he (buying broker) writes out a **contract note** which he sends (gives) to his client (buyer).
   This contract note states;
   - Price of the shares
   - Brokerage
   - Amount of stamp duty

- A fee for registering the name of the new share holder to the company.
- Details of the shares to be bought

4. The selling broker makes out a **stock transfer form** and gets it signed by his client (the seller) for whom he is acting .
5. The selling broker passes the **stock transfer form** and **share certificate** to the buying broker.
6. The buyer pays the buying broker after receiving the two documents from the selling broker.
7. The selling broker deducts the commission and tax on capital gain (if any) on the sale of shares, and pays the balance to the seller of the shares.

Problems faced by the stock exchange market

(i) General low levels of incomes earned by people. They cannot invest by buying shares traded on stock exchange.
(ii) High degree of illiteracy and ignorance. People look at it with suspicion and prejudice thus not on demand.
(iii) Lack of qualitied stock exchange specialists e.g stock brokers and stock jobbers.
(iv) Weak industrial sector, many people are employed in the agricultural sector.
(v) Most businesses operate on small scale hence cannot be quoted on stock exchange since they usually have small profits.
(vi) Political unrest in some parts of the country, this affects the expansion of the industrial sector.
(vii) Low interest rates on securities yet there are high rates of inflation in the economy thus the investment in securities is discouraged.
(viii) Limited government support by way of developing the financial infrastructure and inadequate funding from the government.
(ix) Operations of stock exchange markets are limited to urban centers.
(x) Dominance of foreign and privately owned companies which do not offer their shares to the public.
(xi) Existence of a large informal sector that is not regulated and **monitored**.

END