INVESTING 101

BY SCSTRADE

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Standard Capital
Securities (PVT) LTD

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WHAT IS STOCK MARKET

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WHAT IS EQUITY TRADING

n finance, equity trading is the buying and selling of company stock shares. Shares in large publicly traded companies are bought and sold through one of the major stock exchanges, such as the New York Stock Exchange, London Stock Exchange, or Karachi Stock Exchange, which serve as managed auctions for stock trades. Stock shares in smaller public companies are bought and sold in over-the-counter (OTC) markets.

Equity trading can be performed by the owner of the shares, or by an agent authorized to buy and sell on behalf of the share's owner. Proprietary trading is buying and selling for the trader's own profit or loss. In this case, the principal is the owner of the shares. Agency trading is buying and selling by an agent, usually a stockbroker, on behalf of a client. Agents are paid a commission for performing the trade.

WHAT IS STOCK EXCHANGE

Stock Exchange (also called Stock Market or Share Market) is one important constituent of the capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient to place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations.

It performs various functions and offers useful services to investors and borrowing companies. It is an investment intermediary and facilitates the economic and industrial development of a country.

Stock Exchanges play a crucial role in the consolidation of a national economy in general and in the development of the industrial sector in particular. It is the most dynamic and organized component of the capital market. Especially, in developing countries like Pakistan, the stock exchanges play a cardinal role in promoting the level of capital formation through effective mobilization of savings and ensuring investment safety.

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SHARE TYPES

DIFFERENT TYPES OF SHARES

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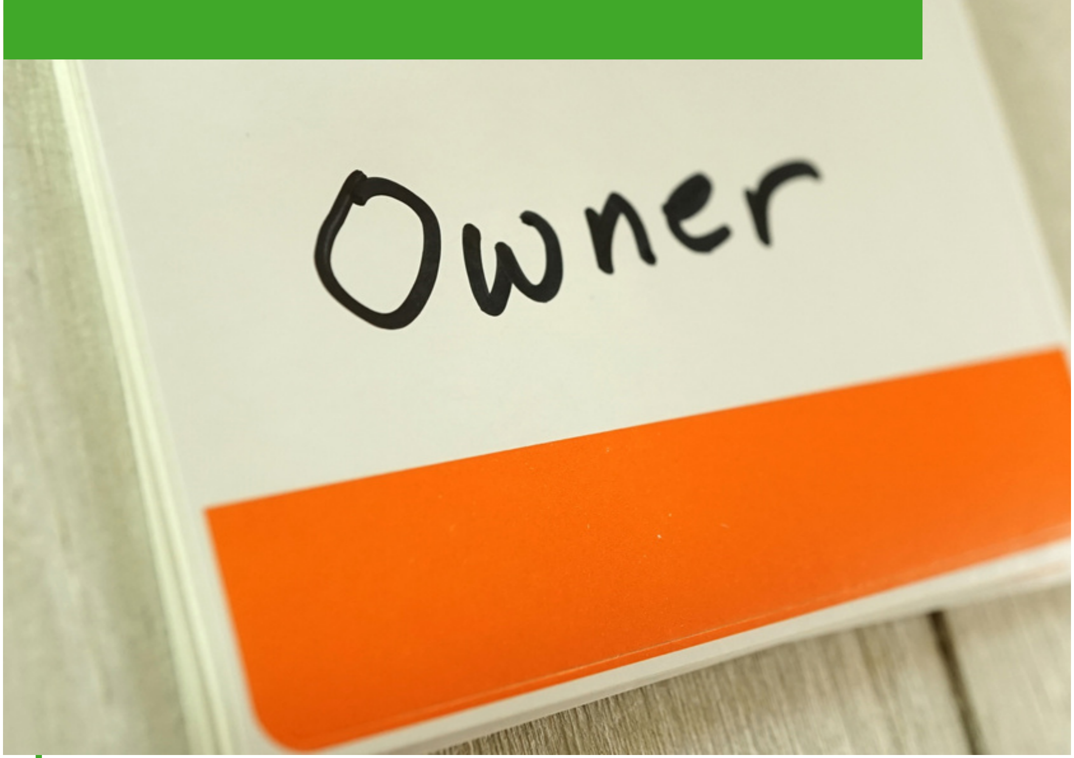

WHAT IS A SHARE

The capital of the company can be divided into different units with a definite value called shares. Holders of these shares are called shareholders or members of the company. There are two types of shades that a company may issue (1) Preference Shares (2) Equity Shares.

PREFERENCE SHARES

Shares that enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate of dividend. Preference shares may be:

EQUITY SHARES

Equity shares will get dividends and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year. This rate of dividend is determined by directors and in the case of larger profits, it may even be more than the rate attached to preference shares. Such shareholders may go without any dividend if no profit is made.

CUMULATIVE PREFERENCE SHARE

If the company does not earn adequate profit in any year, dividends on preference shares may not be paid for that year. But if the preference shares are cumulative such unpaid dividends on these shares go on accumulating and become payable out of the profits of the company, in subsequent years. Only after such arrears have been paid off, any
dividend can be paid to the holder of quality shares. Thus a cumulative preference shareholder is sure to receive dividends on his shares for all the years of the earnings of the company.

NON-CUMULATIVE PREFERENCE SHARES

The holders of non-cumulative preference share no doubt will get a preferential right in getting a fixed dividend it is distributed to quality shareholders. The fixed dividend is to be paid only out of the divisible profits but if in a particular year there is no profit as to distribute it
among the shareholders, the non-cumulative preference shareholders, will not get any dividend for that year and they cannot claim it in the
next year during which period there might be profits. If it is not paid, it cannot be carried forward. These shares will be treated on the same footing as other preference shareholders as regards payment of capital is concerned.

REDEEMABLE PREFERENCE SHARES

Capital raised by issuing shares is not to be repaid to the shareholders (except buyback of shares in certain conditions) but capital raised through the issue of redeemable preference shares is to be paid back by the raised thought the issue of redeemable preference shares is to be paid back to the company to such shareholders after the expiry of a stipulated period, whether the company is wound up or not. As per section (80) 5a, a company after the commencement of the Companies (Amendment) Act, 1988 cannot issue any preference shares which are irredeemable or redeemable after the expiry of a period of 10 years from the date of its issue. It means a company can issue redeemable preference shares which are redeemable within 10 years from the date of their issue.

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ORDER CYCLE

HOW THE ORDER IS EXECUTED

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ORDER EXECUTION CYCLE

Order placed by the investor through desktop, mobile, or web-based interfaces is first evaluated at the broker's end. Broker records the order and verifies the margin and cash requirements. If an order is within the defined limits it is forwarded to Exchange, otherwise, the order is rejected and a rejection message is sent back to the client. If an order is pushed to the stock exchange, it queues the order in the respective security book and send a confirmation of receiving the order.

The order confirmation is recorded in the broker's database and forwarded to the investor's terminal (in the case of a web terminal, the investor may need to refresh his page to view the order confirmation). Only when confirmation from the exchange is received, it appears in the Outstanding order view as a pending order.

If an order is get traded in the stock exchange, an execution
confirmation is sent to the broker. Broker record the execution and forwards it to the investor's terminal as well. On receiving the execution confirmation, a trade record appears in the transaction list, and the outstanding volume of the pending order is reduced by the trade volume.

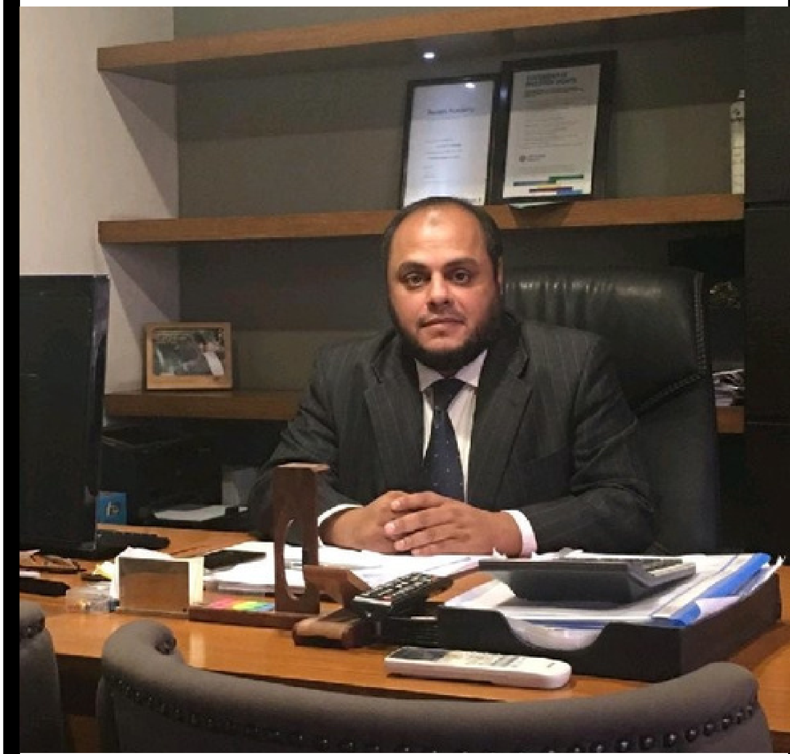
If an order is completely executed it is removed from the outstanding orders window. If the link between investor machine and broker servers or the link between broker's server and the stock exchange is broken, the order or execution confirmation may not be received at the terminal. In most such cases reconnecting the terminal and refreshing the order book and trade book updates the client position, otherwise, the investor should call to broker's call center for verification.

In case of system failure, orders may be canceled by calling the help desk.

DELIVERY AND SETTLEMENT

A subsidiary account for each investor is opened in CDC at the time of account opening. Shares traded over the internet follows the standard delivery and settlement process. Shares purchased are deposited to the CDC sub-account on the settlement date and the client is expected to make the payments. In the case of debit cash balance, plenty may be imposed as communicated by the broker or the broker can sell the client shares to cover the debit cash balance.

HAVE ANY QUESTIONS?



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