ASX
AUSTRALIAN SECURITIES EXCHANGE

Getting Started in Shares

ASX.
The Australian Sharemarket

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Wealth begins with better knowledge

The transformation in the Australian sharemarket over recent decades has been truly amazing. Over 40% of all adult Australians own shares.

Why do they do it? Partly because the sharemarket provides one of the best opportunities to achieve your long-term goals. It's easy, you do not need a lot of money to get started, and shares give you flexibility and control.

People often ask me the key to wealth and the answer is quite simple, no, it's not Lotto. Knowledge is the solution. Shares are an important part of any investment strategy and I think you will find that this booklet will help you to learn about the sharemarket and become a successful share investor.

Paul Clitheroe
Chairman, Australian Government Financial Literacy Board

Message from ASX

Every journey begins with a single step – and if 'Getting Started in Shares' is your first step, we wish you well on a long and productive investment journey.

Increasingly, Australians recognise that they need to familiarise themselves with their finances and take control of their investment decisions.

Just over 40% of the adult population of Australia is a shareowner – either directly through actually owning shares or indirectly through a managed fund. In addition to buying shares themselves, every employee has a superannuation account, which is also very likely to have investments in the Australian sharemarket.

At ASX, we believe that 'wealth begins with better knowledge'. With that in mind, we have written 'Getting Started in Shares' to give you the basic information you will need to understand and participate confidently in the sharemarket.

And remember, you're not alone in starting out on this journey.

ASX helps thousands of new investors every year.

When you have read this booklet, please visit our website www.asx.com.au for more education on investing in the sharemarket.

Best wishes for a successful investment journey.

Robert Elstone
Managing Director and CEO

What are shares?

A share is simply part ownership of a business.

A company can raise money to finance its business by 'going public.' Going public means being listed on a stock exchange and issuing shares to investors. By paying for the shares, each investor buys part ownership of the company's business and becomes a shareholder in the company.

The money that a company raises in this way is called equity capital. Unlike debt capital which is borrowed money, equity capital does not need to be repaid as it represents continuous ownership of the company.
In return for investing in the company, shareholders can receive dividends and other benefits.

Shares that have been issued to investors by a listed company can be sold to other investors on the sharemarket. In this way, shareholders can realise capital gains if the share price has risen – in other words, make a profit by selling their shares for more than they paid for them.

The Australian Securities Exchange (ASX) operates a sharemarket in Australia, providing a transparent and regulated environment where companies and investors can come together.

Why do investors buy shares?

Diversification

One of the most famous sayings about successful investing is 'don't put all your eggs in one basket'. Markets in shares and property move in cycles. Some investors fall into the trap of putting all their money into one asset class – usually at its peak, and then watch as another asset class takes off without them. It is better to diversify, spreading your risk, and enjoy the upturns in markets because you are already in them, rather than trying to 'time the market'.

There's more on risk at the end of this section.

Shares for capital growth

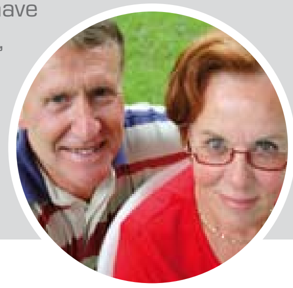
Inflation represents the general rise in the cost of living. The Reserve Bank of Australia aims to keep inflation within a range of 2-3%. So if your investments do not have any capital growth, your money will buy less in the future than it does now.

People invest in shares because they offer the possibility that their price will rise. Owning a share with a rising value allows you to grow your investment. In addition to rising share prices, dividends and dividend re-investment plans can multiply the capital growth effect of a share investment.

Case study

MICHAEL AND JANE (both early-50s)

In addition to a couple of investment properties, Michael and Jane have a sizeable share portfolio because of the flexibility it provides. While their properties give them predictable 'fixed address' exposure to a couple of nice suburbs, the shares let them take advantage of year-on-year changes in the economy – rising oil and gas prices one year and a building boom the next. They like the ability to diversify their holdings – they typically have shares in 6-10 companies at any one time – and, as Michael says, 'slice it and dice it to suit ourselves'. For example, last year they sold a parcel of shares and used the profits to renovate one of their properties and, as they each wind down their working life, they intend to buy shares that pay higher dividends to supplement their income.



Shares for dividend income

A dividend is the distribution of a company's net profit to shareholders. Paying a dividend is one way to reward shareholders. Dividend yields vary greatly from company to company. Companies trying to grow their business might provide a low dividend yield (perhaps 2-4%) while other, more established companies might provide a higher dividend yield (potentially between 6-8%).

Some companies offer dividend re-investment plans. This allows investors to use dividends to purchase additional shares. This process lets you reinvest earnings into new shares.

For Australian investors, dividends are often worth more than the cash payment you receive. This is because a company can also distribute franking credits for any company tax it has paid. Franked dividends carry imputation credits, which entitle shareholders to a tax offset or a reduction in the amount of tax to be paid. If your marginal rate of tax is lower than the company tax rate, the excess franking rebate can be used to reduce the tax payable on other sources of income. This process is explained in further detail on page 7 & 8. If you would like to see what dividends a company has paid in the past, please visit www.asx.com.au

Tax benefits

Shares enjoy very good taxation benefits in comparison to most other investments. Turn to page 7 & 8 to find out more about tax.

Financial control

Flexibility and liquidity are key advantages of shares. It is easy and relatively cheap to buy and sell small amounts of shares to free up some cash, rebalance your portfolio or simply lock-in a profit.

Many people appreciate how easy it is to invest in shares. There's no conveyancing cost, stamp duty or ongoing expenses. You can do everything over the internet if you wish, and brokerage fees are much lower than typical real estate agent fees. A good approach is to start small, buying shares in companies you know, and take the time to learn as you go.

Risk and reward in perspective

The risk-reward trade-off is a common concept in investment. You need to be aware that if you expect a return on your investment you need to bear a degree of risk. The higher the potential return, the higher the risk to your funds. Share prices of any company, even a blue chip, are always subject to change. If you'd like to find out more about why share prices move, visit www.asx.com.au/classes and participate in a free online class.

Having a number of different shares in your portfolio works towards reducing the risk inherent in share investing. Not all parts of the economy perform at the same levels at the same time. Exposure to a range of different parts of the economy enables you to tap into different sectors of the economy as they grow.

The range of industry groups and some well-known companies in those groups is detailed on page 10.

First-time share investors

You might already own some shares, but are you a share investor? If you want to make shares an effective part of your investment portfolio you need to answer a few key questions:

- What are my goals?
- How much money should I invest?
- How should I invest?
- What are the tax implications?

What are my goals?

It's not just a matter of your age and stage in life, although that is important. Financial freedom means something different to everyone: being able to retire earlier, setting up your own business, helping the kids pay their mortgage, writing that novel, travelling to a different part of the world every year. Take a moment to write down your goals.

Next, think about how much money you will need to realise them. Then consider how hard your investment capital will have to work in order to earn that money for you.

How much money should I invest?

You can invest small amounts in shares quite effectively because the cost of doing so is low compared to many other investments. However, that does not mean you should just buy some shares whenever you spot an opportunity or have a bit of spare cash. You should first think about your goals and level of risk you are prepared to take. Then you can allocate the appropriate amount of money to shares as one part of your investment portfolio.

As a rough rule of thumb, many brokers suggest that you should start your share investing with at least $2,000.

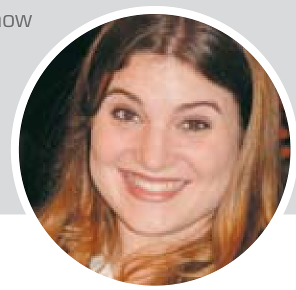
How should I invest?

Once you decide how much you want to invest in shares, there are a number of ways you can go about it.

Case study

MELISSA (aged 29)

Melissa used the $3,000 her mum gave her when she finished her degree to buy shares in the Commonwealth Bank. Seven years later she can't even remember what she paid for the shares (it was her mum's idea). Melissa wants to buy a small unit and was feeling quite depressed about ever getting the deposit together until her mum mentioned the CBA shares. Much to her delight, the shares are now worth about $5,980*. Suddenly a place of her own doesn't seem such an impossible dream.



* Approximately 115 shares bought at $26 each for total cost of $3,000, CBA shares valued at approximately $52 at May 2010, share parcel worth approximately $5,980.

When you invest in your own name in shares of individual listed companies, this is typically referred to as 'direct investing'. Direct investing gives you more choice and control than indirect investing. Also, your overall costs are often lower because you are not paying anyone to manage your investments.

Indirect investment commonly takes the form of cash management trusts, property trusts, and managed share investment funds. In the case of a managed share fund, a fund manager follows the market, buying and selling shares in an effort to get consistent returns for investors. Managed funds are offered to investors through a prospectus and with an unlisted managed fund, the manager sets the price of the units available.

Listed Managed Investments (LMIs) hold and manage a portfolio of assets on behalf of their investors, with buy and sell decisions being made by investment professionals.

Their popularity can be attributed to their simplicity – one investment can provide access to a professionally managed portfolio of assets. LMIs are purchased through ASX in the same manner as ordinary shares and are an increasingly popular tool for investors seeking to accumulate or preserve wealth. They can also be effective income producing investments.

More information on Listed Managed Investments can be found by visiting www.asx.com.au/LMI

Exchange Traded Funds

Another way investors can obtain exposure to the broad market or particular market sectors, without directly buying shares in individual companies, is to consider buying exchange traded funds (ETFs). These funds are also bought and sold on ASX just like shares. ETFs seeks to track the underlying index by investing in a basket of securities reflecting that index. They will also provide distributions paid by securities included in the fund. ETFs are considered to have a number of advantages including low management fees compared to other funds. More information can be found on ETFs by visiting www.asx.com.au/ETF

What are the tax implications?

All investors want to optimise their after-tax returns. For this reason you should have at least a basic understanding of the tax treatment of different types of share investments.

As resident individual taxpayers, investors are liable for income tax on any income they receive from their investments in the form of dividends. Investors are also liable for Capital Gains Tax (CGT) on any net capital gains realised by selling their investments. Please note the following treatment relates to a resident taxpayer (who are not deemed to be trading on revenue account) and a non resident may be subject to different tax rules. There are also other tax rules which may affect the outcome therefore you should seek your own tax advice.

Income tax and dividend imputation:

As mentioned earlier, dividends from shares are often paid with franking credits attached in order to pass on the value of any tax that the company has already paid on its profits. Thus

INCOME TAX PAYABLE ON A FULLY FRANKED DIVIDEND FOR AN INVESTOR PAYING 45% TAX*

Cash dividend [A]	$560
Franking credit (non-cash)	$240
Total assessable income	$800
Tax at 45% ($800 x 45%)	$360
Less franking credit offset	$240
Net tax payable [B]	$120
After-tax return [A – B]	$440
Cash dividend yield ($560/$10,000)	5.60%
Grossed-up yield ($800/$10,000)	8.00%
After-tax yield ($440/$10,000)	4.4%

* Ignoring Medicare levy

CGT LIABILITY ON A DISCOUNTED CAPITAL GAIN FOR AN INVESTOR PAYING 45% TAX*

Realised capital gain (A)	$2,746
Discounted 50%	$1,373
Total assessable income	$1,373
Tax at 45% ($1,373 x 45%) (B)	$618
After-tax return (A – B)	$2,128
Effective CGT rate ($618 / 2,746)	22.5%

* Ignoring Medicare levy

shareholders receive an 'imputed' credit with their dividends. Dividends can be fully franked to the extent of the company tax rate (currently 30%), partially franked or unfranked.

When you receive franked dividends, you must declare both the cash amount of the dividend (received either as cash or shares via a DRP) and any franking credits as assessable income in your tax return. Then you can apply the franking credit amount to offset (reduce) your income tax liability.

For example, a fully franked dividend of 56 cents per share would include franking credits of 24 cents per share. The franking credit amount will be shown on your dividend statement and is calculated as follows: Cash dividend 56 cents ÷ (100% – 30%) × 30% = Franking credits 24 cents.

After applying the franking credit offset, an investor paying the top marginal tax rate of 45% would end up with an after-tax return of 44 cents per share.

Continuing the above example, if the investor owns 1,000 shares purchased for $10 each (total cost $10,000), a fully franked dividend of 56 cents per share or $560 provides a 5.6% cash dividend yield, 8% grossed-up yield and 4.4% after-tax yield.* By way of comparison, if the investor had received $560 in interest from an equivalent investment in term deposits, the after-tax return would be only 3.08%*.

Capital Gains Tax (CGT):

You realise a capital gain whenever you sell shares and the consideration received (sale price less related costs such as brokerage) is more than the cost base (purchase price plus related costs). If the shares were acquired on or after 20 September 1985, the capital gain must be included as assessable income in your tax return and is subject to CGT. CGT is payable at your marginal tax rate in the year in which you sell the shares.

For shares acquired on or after 21 September 1999 and sold 12 months or more after the date of acquisition, capital gains may be discounted by 50%; meaning only half of the capital gain must be included in your assessable income. For example, 1,000 shares purchased in July 2001 for $10 each plus related costs of $110 (total cost including related costs $10,110) are sold more than12 months later for $13 each less related costs of $144 (net proceeds $12,856), realising a capital gain of $2,746. This gain is discounted by 50%, so only $1,373 is subject to CGT. As a result, an investor paying the top marginal tax rate of 45% would end up with an after-tax capital gain of $2,128 (rounded)*.

In addition to the treatment of capital gains, there are rules regarding the treatment of capital losses on shares acquired on or after 21 September 1999, which you should be aware of. An accountant or professional tax adviser will be able to advise you.

Stamp duty and GST:

Stamp duty and GST do not apply to the purchase or sale of listed shares. However, GST will be imposed on brokerage fees associated with such transactions.

ASX does not offer advice on taxation. Before entering into a transaction, you should ensure that you fully understand the legal, tax and accounting consequences. ASX advises that you always consult your accountant or other professional taxation adviser before making any investment decision.

When should I start?

Many people who decide they need shares as part of their investment portfolio often hesitate when it comes to actually buying the shares; usually because they're not sure if it is the best time to buy or they feel they still have a lot to learn about the sharemarket.

How you approach the sharemarket may depend on your investment horizon. When taking a long term view, the best time to buy shares is not about timing the market but rather about time in the market. For those investors who have a short term investment timeframe, timing the market does become important as short term volatility may present trading opportunites.

You can learn about the sharemarket by observing it, keeping an eye on how your shares perform under different market conditions. ASX Investor Education offers online education that is designed to give investors the knowledge to perform the fundamental research and analysis to select shares. For more details visit www.asx.com.au/classes.

People often think they should put off buying shares until they get certain other things out of the way – finish their degree, get the kids in a good school or pay off the mortgage. If this sounds like you, remember that no matter how small your share portfolio is at the start, it could be growing while you do all that.

How to decide what to buy

When it comes to deciding what shares to buy, the most important thing to consider is your investment goals, in particular, the performance goals you set for the share investments portion of your portfolio.

For example, you might be aiming to achieve an average after-tax dividend yield of 4% p.a. and capital growth of 8% p.a. over the next 10 years. In that case, you could buy some shares that provide reliable, tax-effective dividends and the expectation of solid year-on-year growth. Alongside long-term investing, there are share trading opportunities that offer the chance to grow your investment capital more quickly. Active or daily trading carries with it certain risks that need to be considered carefully. With this in mind, looking at the range of categories that shares fall into can be a useful place to start.

- *Income shares* – Are shares in companies that have historically paid larger dividends, compared to other types of shares. This type of share can be used to generate income without selling the shares. But you need to take into account the cost of the share relative to its typical dividend.
- *Blue chip shares* – Issued by companies with long histories of growth and stability. Blue chip shares usually pay regular dividends and generally maintain a fairly steady price trend.
- *Growth shares* – Issued by entrepreneurial companies experiencing a faster rate of growth than their general industries. These shares may pay little or no dividends if the company needs most or all of its earnings to finance expansion.
- *Cyclical shares* – Issued by companies that are affected by general economic trends. The share prices tend to fall during periods of economic recession and rise during economic booms. For example, mining, heavy machinery, and home building companies.
- *Defensive shares* – The opposite of cyclical shares. Companies producing staples such as food, beverages, pharmaceuticals and insurance are often regarded as defensive shares. They tend to maintain more of their value during economic downturns.

Identifying the above types of shares can be achieved by analysing newspaper share tables (see page 20 for an example) broker reports and wider financial media.

Companies listed on ASX are categorised into 13 different sectors. The table overleaf outlines these industry types and highlights some well-known companies in each.

INDUSTRY GROUP	SAMPLE COMPANIES
Energy	Oil Search, Santos, Woodside Petroleum
Materials	Orica, Amcor and Incitec Pivot
Metals and Mining	BHP Billiton, Rio Tinto, Fortescue Metals Group
Gold (Metals and Mining sub-industry)	Newcrest Mining, Medusa Mining, Andean Resources
Industrials	Leighton Holdings, Transurban, QANTAS
Consumer Discretionary	JB Hi Fi, Harvey Norman, Crown
Consumer Staples	Wesfarmers, Foster's Group, Woolworths
Health Care	CSL, Cochlear, Ramsay Health Care
Financials	Commonwealth Bank, ASX, NAB
A-REITS	Mirvac, Stockland, Westfield
Information Technology	Computershare, IRESS Market Technology, carsales.com
Telecommunications Services	Telecom of New Zealand, iinet, Telstra
Utilities	AGL Energy, SP Ausnet, Spark Infrastructure

Definitions of each industry group are available on the ASX website, www.asx.com.au

Following identification of share type and industry category comes actual stock selection. When thinking about buying shares in a particular company, first do your research on that company. Talk to your adviser and/or read sufficient recent company reports and research materials to make sure you understand the company's situation.

When to sell

Many investors find deciding when to sell their shares more difficult than deciding what to buy in the first place. In particular, ASX research has found there is a tendency for inexperienced investors to 'buy and hold' without knowing why.

When thinking about a time to sell some factors to consider are outlined below.

- *The shares no longer suit your investment goals* – This might happen because your goals have changed (as they will over time) or the company you invested in has changed its direction (for example, its dividend policy).
- *You need to rebalance your portfolio* – Perhaps because one of your shares represents an overly large exposure in your portfolio. Could you rebalance your portfolio by buying some other shares rather than selling the ones you have? First consider your overall investment portfolio allocations.
- *Reinvestment opportunities* – Before jumping into 'a better investment opportunity', think about how it fits with the rest of your portfolio and investment strategy.
- *Tax implications* – For example, can you use capital losses to offset the CGT liability on other capital gains? How would that affect the CGT discount? Consult an expert.
- *Share prices can recover after a downturn* – What was your original investment time frame? Has anything changed about the company's prospects for the future? The chart over the page shows some of the emotions you might experience.

Case study

ANTHONY (aged 41)

Anthony goes online to check his share portfolio and watchlist every day and is always spouting jargon about earnings revisions, capital utilisation and the like. So his friends were surprised to learn that he uses a full-service broker as well as an internet broker. For Anthony it makes a lot of sense. 'I'm an accountant,' he says, 'so I know how to read company reports and form my own views. But my broker follows the resources sector – what he knows about mining and exploration would take me years to learn. And for trades over a certain amount, the brokerage isn't that expensive.'

Why you need a stockbroker

ASX provides a secure and regulated trading environment. Licensed ASX Market Participants typically act in the capacity of a broker, executing purchase and sale transactions on behalf of investors in return for a service fee (brokerage). To execute transactions on the ASX market, brokers must comply with the relevant ASX Operating Rules and the Corporations Act overseen by ASIC.

Do you need advice or want to go it alone?

You can choose whether to make your own decisions regarding what and when to buy and sell, or take advice from a professional, or both.

The advantages of professional advice are often well worth any additional cost while you are getting started or if you do not have the time to do all your own research and follow the market. On the other hand, doing it yourself can also be rewarding.

Regardless of whether you consult an adviser, you are ultimately responsible for your own investments so it is important to be comfortable with whatever road you take. For this reason, many investors rely on a combination of their own ideas based on research they do themselves plus an adviser's recommendations. Because every investor's goals and needs are different, it often pays to stick with one adviser who can get to know you over time.

Your decision regarding whether you want advice and who to get it from may effect the type of broking service you choose. In general, broking services can be categorised as follows, regardless of whether you access the service via a broker, financial planner or accountant:

- *Advisory broking service (also called full-service)* – Includes advice on buying and selling shares, investment recommendations and research. Typically also offer advice on other investments and tailored investment planning. Brokerage fees are generally higher for advisory broking services. However, some full-service firms also offer the ability for you to trade via the internet, usually for a lower brokerage fee.

- *Non-advisory broking service (also called discount or execution-only)* – Offer no personalised investment advice or recommendations. Research may be sourced from outside providers. As a result, brokerage fees tend to be lower. Most non-advisory broking firms focus on providing internet trading facilities, although you can usually also place an order over the telephone.

There are approximately 80 broking firms authorised to trade on ASX, many with branches throughout Australia. Most full-service firms employ a number of advisers to look after individual investors. If you need help in selecting a broking service, visit the *Find a Broker Service* on the ASX website at www.asx.com.au This section of the site can help you decide which broker best suits you, provides contact details for brokers and gives you some suggestions on the sorts of questions you should ask your broker. Please note that ASX cannot recommend a particular broker to you however we can provide you with contact details by phoning ASX Customer Service on 131 279.

Availability of shares

You can buy existing shares on any ASX trading day (generally any business day) by placing a purchase order with a broker. Alternatively, you can buy new shares that are issued by companies from time to time by applying to participate in a float or initial public offering (IPO). You can look at ASX trading days by visiting www.asx.com.au

New share floats (IPOs)

When a company seeks to raise equity capital by offering new shares to the public, the process is referred to as a float or initial public offering, commonly called an IPO.

A list of upcoming new share floats is available on the homepage of the ASX website.

The company must first submit details of its business and the proposed share issue to the Australian Securities and Investments Commission (ASIC) in the form of a prospectus or Information Memorandum. Once the prospectus is lodged with and, if required, registered by ASIC it can then be provided to potential investors for their consideration.

Companies typically use broking firms to promote a float and distribute the prospectus to potential investors. For a float that is expected to be popular with investors, the company may seek to reduce its costs by allocating shares to only a limited number of brokers. In that case, clients of those brokers may have priority access to the float.

If you wish to buy shares in the float, you should first review the prospectus then fill out the attached application form specifying the number of shares you wish to buy and send it with your payment to the company or lodge it with a participating broker before the application deadline.

Depending on how popular it is with investors, a new share float may be oversubscribed or undersubscribed. If it is oversubscribed, you may be allocated fewer shares than you applied for or none at all. If it is undersubscribed, often an underwriter of the issue (typically a broking firm) is committed to purchasing any unsold shares. Once the shares are issued and listed on ASX, the underwriters can sell their shares on the market, subject to some restrictions.

The price of shares issued in a float may be specified in the prospectus. Alternatively, it may be determined by a tender process where investors or underwriters are invited to submit bids. In that case, the price may not be set until just prior to the first day of trading on ASX. Once new shares are issued and listed on ASX, they may trade at a market price substantially different from the issue price (either higher or lower). This is due to supply and demand for the shares in the company.

Existing shares traded on ASX

You can invest in existing shares in over 2,000 companies listed on ASX. The main advantages of investing in existing shares are price transparency and liquidity.

On any typical trading day, prices at which investors are willing to buy and sell shares (bids and offers) are available for the majority of the companies listed. Compare this to the property market where fewer properties tend to be available for sale at any one time and the asking price for those properties is often not declared.

Most actively traded shares in 2009 calendar year

STOCK	ASX CODE	S&P/ASX 200 INDEX WEIGHT†	MARKET CAP ($BN)	AVERAGE DAILY VALUE‡	AVERAGE # OF TRADES / DAY‡	AVERAGE TRADE SIZE‡
BHP Billiton	BHP	12.7%	$144.7	528,708,832	14,479	$36,515
Commonwealth Bank	CBA	7.5%	$84.2	203,107,462	9,666	$21,013
Westpac	WBC	6.6%	$75.2	185,735,314	9,051	$20,520
National Australia Bank	NAB	5.1%	$58.0	191,376,964	9,135	$20,950
ANZ	ANZ	5.1%	$58.0	178,814,031	9,375	$19,074
Rio Tinto	RIO	2.9%	$45.4	209,435,343	10,494	$19,958
Telstra	TLS	3.3%	$42.7	200,141,082	4,766	$41,998
Woodside Petroleum	WPL	2.1%	$35.3	97,903,578	7,602	$12,879
Woolworths	WOW	3.0%	$34.7	98,834,450	6,901	$14,321
Wesfarmers	WES	3.2%	$31.4	88,072,895	6,611	$13,322

Source: IRESS † at 31 Dec 2009 ‡ January 2009 – December 2009

The price of shares issued in a float may be specified in the prospectus. Alternatively, it may be determined by a tender process where investors or underwriters are invited to submit bids.

An important note is that different stocks have different liquidity. That is, different numbers of buyers and sellers for the shares. Some companies may have very few buyers and/or sellers on any given day. This is an important consideration as it affects the price you might have to pay and how easily you can sell your investment.

Buying and selling shares

To buy or sell shares traded on ASX, your order must be placed with a broker, typically over the telephone or online via the internet.

Your order will typically go into a market called the Central Limit Order Book (CLOB). In this market, buy and sell orders are matched by price in the order that they entered into the system.

Trades are settled on a T+3 basis. That means transfer of ownership of the shares and related payments between the buyer's broker and the seller's broker are completed on the third ASX business day after the trade takes place.

Settlement in such a short period of time is possible because there are no paper share certificates. All ASX-listed shares are registered electronically on either the Clearing House Electronic Sub-register System (CHESS) operated by a subsidiary of the ASX Group, on behalf of listed companies or on the companies' own sub-registers.

The mechanics of how your share trades are settled will depend on where you decide to have your shares registered.

If you arrange to have your broker act as your CHESS sponsor, your broker will be able to electronically register details of any purchases or sales by reference to your Holder Identification Number (HIN).

Alternatively, you can elect to have any parcel of shares issuer-sponsored on the company's own sub-register. You will have a Security-holder Reference Number (SRN) issued by the Registry for your share parcel.

Placing an order with your broker

Many brokers require you to provide funds before accepting your first order to buy shares. Some brokers require you to establish a cash management account to facilitate funds transfer.

If you are placing an order to sell shares, you will need to provide the relevant ownership information, either the HIN or SRN, which enables your broker to authorise transfer of the shares to the new owner.

You can buy or sell shares at the prevailing market price by placing an 'at market order' with your broker. Alternatively, you can set the maximum purchase price or minimum sale price by placing a 'limit order'. Either way, your broker is obliged to try to get the best price that can be achieved in the prevailing market conditions. As a result, you may end up selling your shares for more than the limit price or buying shares for less than the limit price.

Our website includes more information to assist you in finding a broker and knowing what to expect when you contact them.

If you place your order with an adviser, the adviser may agree to contact you if a trade takes place. Regardless of how you place your order, your broker will send you a contract note (also known as a confirmation) if your order results in a trade. The contract note will show the details of the trade including any amount you need to pay or will receive. It is important to check the details on the contract note closely.

Checklist before you place an order to buy or sell shares

- Does your broker require a minimum order amount?
- If you are buying, how will you pay?
- If you are selling, your broker will require the HIN or SRN. How do you want the sale proceeds to be paid?
- Number of shares: specific number or, if you are buying, a maximum dollar amount.
- Share price: at market order or limit order? Market orders are more likely to result in a trade. For limit orders, write down the price. The price and market depth over the time period that the order is left in the market will affect the likelihood of a trade.
- Duration of the order: is your order just for this trading day or, if no trade takes place, do you want your broker to resubmit it when the market opens the next day?
- How will you receive the contract note: by post or by email?
- Brokerage rate for the order.

What are the costs?

When you buy and sell shares on ASX, typically your only costs are brokerage for each trade and GST on the brokerage amount. GST and stamp duty do not apply to the purchase or sale value of the shares.

Brokerage rates vary between brokers to reflect the different services they provide. Brokers will provide clients with a Financial Services Guide (FSG) setting out services they offer, standard brokerage rates and other fees. Some firms charge a flat fee for transactions up to a certain limit and most firms charge a minimum fee for all transactions. Minimum fees currently range from approximately $20 (online broker offering no advice) to $120 (full-service broker providing advice and research) per transaction.

Brokerage rates for trades over the internet are typically lower than non-advisory phone orders, which in turn tend to be cheaper than a full-service broker. Some internet brokers also charge monthly or annual membership fees for access to the research, charting and other services they provide.

Low costs mean you can buy and sell relatively small amounts of shares without greatly eroding the returns on your investment. The value of your shares has to grow by only a relatively small amount for you to recoup your entry costs.

Some brokers may negotiate the brokerage rate based on your expected requirements including size and frequency of trading and any other business you have with the firm. The level of advice and guidance you need is an important factor in deciding the type of broker you select.

Changing brokers

As your investment needs and experience change you may wish to change stockbrokers. Because different broking firms offer different levels of service, it is important that you find the one that you are happy with. Changing broking firms is straightforward. If your shares are issuer-sponsored, you will need to complete a new client agreement form, provide some of your personal and financial details and the relevant Security Reference Number.

If you have a HIN and you wish to change your CHESS sponsor, this is possible however a fee may be applicable. Talk to your broker or ASX Customer Service for details.

The business of being a shareholder

Many share investors are a bit overwhelmed by all the reports and other notices they receive and the decisions that need to be made regarding taking up shareholder rights and benefits. The business of being a shareholder is much easier if you are organised from the beginning and base your decisions on your investment goals and strategy.

How can you hold shares?

As mentioned earlier, you have two choices regarding where to have your shares registered.

On the CHESS sub-register in a HIN (Holder Identification Number)

You can elect to have a broker (or another party such as a margin lender) act as your CHESS sponsor for any shares that you own. The "CHESS Sponsor" will ask you to sign a sponsorship agreement that sets out the terms and conditions under which they can operate your holdings on the CHESS sub-register on your behalf. There is no change to your legal ownership of the shares. In that case, you will have one Holder Identification Number (HIN) for each broker that sponsors any of your shares. You can enter into a sponsorship agreement with more than one CHESS sponsor.

On the Issuer Sponsored sub-register under a SRN (Security-holder Reference Number)

Alternatively, you can hold shares in an issuer sponsored form on the issuer sponsored sub-register. In that case, you will have a different Security-holder Reference Number (SRN) for each parcel of shares. If you do not provide a broker purchasing shares for you with a HIN, your shares will be registered on the issuer sponsored sub-register by default.

The principal register for any particular company is made up of the combined holdings register on both the CHESS sub-register and issuer sponsored sub-register.

Having your shares on the CHESS sub-register provides benefits such as security, efficiency and convenience. For example, you can place an order to sell your shares without needing to find and provide the relevant SRN. Your CHESS sponsor has immediate access to the relevant HIN and can sell your shares without first contacting the company's registry to confirm your ownership. Your broker can also accept your shares as security for amounts outstanding on future purchase orders, or as security for a margin loan facility.

Another advantage of having your shares on the CHESS sub-register is receiving CHESS statements. These are produced at the end of each month only if there has been a movement in the balance of your holding. Many brokers also provide year-end statements of transactions for taxation purposes.

If your shares are registered in CHESS, you can use the sponsoring broker to sell the shares, or request a form authorising transfer of the shares between brokers before you place a sale order with any other broker. For issuer-sponsored shares, any broker can accept a sale order if you provide the relevant SRN.

Shareholder rights and benefits

As a shareholder, you often need to make decisions about taking up various rights and benefits offered by the companies you have invested in. In each case, you should keep your investment goals and strategy in mind and decide whether to consult an adviser.

Shareholder rights and benefits can include the following:

- participating in annual general meetings
- receiving reports and information
- dividends and dividend reinvestment plans
- further issues of shares
- share buy-backs.

Annual General Meeting (AGM): Australian listed companies each conduct an Annual General Meeting (AGM) where shareholders can participate in decisions such as electing new directors to the board and other resolutions relating to the company's business. The Chairperson of the board and company Chief Executive Officer (CEO) usually address the meeting. You will be sent a notice of when and where the AGM is to be held and can usually participate without physically attending by returning the voting forms sent to you. Many investors see the AGM as a good opportunity to hear what senior management have to say.

Reports and information: ASX-listed companies issue annual and interim (and sometimes quarterly) financial reports to shareholders. Reading these is a good way to keep in touch with the company's business and future prospects. You can often choose whether to receive a full report or condensed report in either paper or electronic form.

Dividends and dividend reinvestment plans: Most ASX-listed companies that pay dividends pay them twice a year, an interim dividend followed by a final dividend once the company knows how much profit it has made. You can often elect to have dividends direct-deposited into your nominated account and some companies provide the opportunity to reinvest your dividends in additional shares, sometimes at a discounted share price.

Further issues of shares: When companies seek to raise additional equity capital by issuing more shares, they often offer the shares to existing shareholders rather than the general public. For example, a company may conduct a rights issue where existing shareholders have the right to take up additional shares at a specific price by a certain deadline if they elect to do so.

The value of your current shares may be diluted (reduced) by a rights issue because each share you hold will represent a smaller portion of the company after the issue. Companies can also make bonus issues of free shares to shareholders.

Share buy-backs: Established, profitable companies which are not currently seeking to expand their business occasionally, have excess profits after paying dividends. In such cases, they may offer to buy-back shares from shareholders rather than retain the extra capital in the company. The price of the offer is usually related to the current or recent average market share price.

Other corporate actions: Other corporate actions for which companies may seek shareholder permission or make an offer to shareholders include mergers with other companies and de-mergers of their existing business into two or more separate businesses. These are often very complex, can affect the share price and distributions to shareholders of a number of companies, and you should consult an adviser before making a decision.

Why do share prices go up and down?

The price of anything that can be bought or sold is unpredictable to some extent, as many factors can simultaneously affect values both positively and negatively over different periods of time. However, the impact of many individual factors is sometimes quite predictable so it can pay to consider them since that is what many other investors will be doing.

You should think in terms of factors that affect each of the following:

- supply of and demand for the shares
- the inherent value of the shares
- other less direct influences on share prices.

Supply and demand

The sharemarket is a market place like any other. The forces of supply and demand determine the price of shares. The more people want to get hold of a particular share, the higher its price will go. If people no longer want a share and few people are willing to buy it, people may have to offer it at a very low price in order to sell it. Supply and demand for shares is influenced by some of the factors outlined below.

Inherent value of future earnings

Dividends provide immediate and concrete value to shareholders so a share that pays dividends has inherent value. For this reason, the price of a share will often fall by approximately the dividend amount when the share goes ex-dividend (ex-dividend date: shares are quoted 'ex-dividend' four business days before the company's record date, and will remain 'ex' for five business days. **Normally to be entitled to a dividend a shareholder must have purchased shares before the ex-dividend date (or buy them cum after the ex))**. A share that offers a strong likelihood of capital growth due to reinvesting company profits also has a certain amount of inherent value.

You should assess a company's ability to pay dividends or provide capital growth in the future; in particular, what are its expectations of future earnings? The most important factor affecting the price of a share is the company's future earnings prospects, as its earnings will determine the future inherent value of a share. Any changes in forecast earnings, either by company management or by market analysts, will impact the share price.

Past earnings, as can be found in the company's annual report, are an important indicator of a company's earnings ability, but you should also consider the impact of any changes to its business. For example, how will it be affected by a change in senior management, new efficiency measures, product innovations, industrial action or the acquisition of another business?

Other factors

A range of economic factors both in Australia and overseas affect share prices. In assessing these factors you should avoid getting caught up in the short-term reaction to announcements of economic data (or short-term market volatility) but instead think of the direction of price trends and whether prices might be expected to turn around.

Australian share prices are affected by the following Australian economic factors:

- overall economic growth (prefer steady or strong)
- level of unemployment (prefer low but not too low or wages will rise)
- consumer confidence (prefer high as long as borrowing is not out of control)
- spending (by consumers, businesses and governments can boost profits)
- inflation (high retail prices can dampen the economy), and
- the value of the Australian dollar (affects individual companies differently: a rising currency can benefit importers but disadvantage exporters).

Because Australia is part of the global economy, Australian share prices are also affected by economic conditions overseas. Movements on overseas exchanges can have flow on effects to our domestic market. This is partly a result of Australian company reliance on overseas markets for a portion of their profits. The globalised economy allows the funds of overseas (and Australian) investors to flow rapidly into and out of the Australian sharemarket as prevailing conditions change.

How do I tell if my shares are doing well?

Your shares are doing well if they are achieving your investment goals or, better yet, overachieving. However, overall sharemarket performance varies greatly from one period to the next and a declining market can drag your shares down with it. For that reason, you should consider your shares' performance for any one period within the context of the overall market or a market sector.

Fund managers, who are typically competing against each other, often use sharemarket indices as a benchmark for measuring their own investment performance.

The broader benchmark for the finance community is the S&P/ASX 200 index. This index is calculated by Standard & Poor's. It provides an indication of the share price movement for the 200 leading ASX listed companies. Indices are also calculated for particular industry groups. In addition to share price indices, Standard & Poor's calculates accumulation indices that incorporate both share price performance and dividend reinvestment.

The All Ordinaries Index (All Ords) is another common index also calculated by Standard & Poor's. The All Ords share price index is based on the share prices of the major listed companies, weighted according to the market capitalisation of the companies. It represents approximately 95% of total ASX domestic market capitalisation.

While share prices rise and fall on a daily basis, dividend income is usually much steadier and often grows over time. A good way to check this aspect of your shares' performance is to calculate the dividend yield from your portfolio on an annual or more regular basis.

Leverage

Margin lending is the term for borrowing money from a broking firm or bank to buy shares and using those shares as collateral for the loan. Investors use margin lending to buy more shares than they would otherwise be able to. Another type of loan available is a Protected Equity Loan. This type of loan allows an investor to borrow the total value of a share parcel from a pre-determined list of shares. Protected Equity Loans have high minimum borrowing amounts and high rates of interest. When the loan matures, if the shares are worth less than the loan, the lender takes the shares in full satisfaction of the loan.

Before undertaking borrowing to purchase shares, investors are advised to talk to an advisory broker or financial planner about their ability to bear risk and the tax deductibility of interest payments on the loan.

ASX Investor Education

Experience is one of the best teachers and as an investor hopefully you will learn from both your successes and your mistakes. Participating in some additional structured education on an ongoing basis will help you crystalise the lessons and gain confidence in your investment choices. It will also help you make more sense out of the many articles written every day on shares and other information. Too many investors fail to make the investment that provides the best returns: an investment in their own education.

Some readily available sources of Investor Education include:

Online courses: ASX offers a free education program of online courses from introductory to advanced. Courses are easy to follow with interactive diagrams to make learning easier and activities to test your knowledge. Courses cover, shares, options, warrants, interest rate securities, ETFs, futures and ASX Listed CFDs. Visit www.asx.com.au/classes

ASX Investor Hours: Presentations on various investment topics by industry professionals are hosted regularly by ASX. Attending these is a good way to keep up-to-date with the latest market developments. These sessions are also recorded and distributed as a Podcast you can listen to at your leisure. Refer to www.asx.com.au/investorhour for more details.

ASX Sharemarket Game: Playing the Sharemarket Game not only tests your trading skills; it is a good way to learn more about the sharemarket at the same time. Learn more at www.asx.com.au/sharegame

ASX brochures: ASX provides useful brochures on options, warrants, futures, interest rate securities, and listed managed investments. These can be accessed from the ASX website or call ASX Customer Service on 131 279 to have a copy sent out you.

SAMPLE NEWSPAPER PER SHARE PRICE TABLE

Company name	**Last sale price**	**"+ or –"**	**Quote**		**52 Week**		**Dividend**		**PE**
			Buyer	**Seller**	**High**	**Low**	**Rate**	**Yield %**	**Ratio**
AGL Energy Ltd	14.78	+27	14.78	14.79	15.69	13.07	57.00f	3.86	54.7
AMP Ltd	5.78	-3	5.77	5.78	6.97	4.55	30.00p	5.19	15.6
ANZ Banking Group	21.73	-42	21.72	21.73	26.23	14.90	108.00f	4.97	15.0
ASX Ltd	32.70	+41	32.70	32.82	37.90	31.03	163.60f	5.00	18.1
BHP Billiton	37.24	+35	37.23	37.23	44.93	31.33	95.15f	2.56	20.1
Coca-Cola Amatil	11.31	+17	11.31	11.34	11.81	8.26	43.50f	3.85	18.7
CSL Ltd	32.55	+15	32.53	32.55	37.56	28.43	75.00	2.30	15.3

* Please refer to the Glossary on page 27

Source: Australian Financial review 19 May 2010

See bid*

See offer*

Price range for 52 weeks

See dividend rate*

See dividend yield*

See price earnings ratio*

Refining your investor skills

Being good at investing in shares is about being informed, monitoring your shares' performance on a regular basis, keeping an eye on your goals and investment strategy and participating in ongoing education as you need it.

Reading newspaper tables and where to go for other information

In addition to business news about listed companies, many newspapers publish tables of information on share prices, changes in value and volume of trades from the previous ASX trading day. While the format varies between newspapers, the shares are usually listed in alphabetical company name order. Industrial and Resource sector shares are often listed separately.

A great deal of information is available via the internet. This includes ASX's website www.asx.com.au, brokers' websites and listed companies' websites. Some of the most popular information from these sources are company reports, daily company announcements, historical and current share prices, and company news.

The ASX website has a wealth of product information and services including online classes, free sharemarket games, a 'find a stockbroker service', and a portfolio watchlist tool for you to monitor the information of your choice. You can set up a watchlist by registering in the MyASX section of www.asx.com.au

Paper-based sources of information can be very useful for more leisurely analysis including forming a view on the economy and overall direction of the sharemarket. Investor magazines, economic and market reports and newsletters produced by brokers and fund managers are good choices. The Reserve Bank of Australia regularly publishes its own economic analysis and outlook.