LEARN ABOUT SHARES

Share -
Share is nothing but the Ownership of the company divided into small parts and each part is called as Share or Stock.A person carrying a share of a company holds that part of ownership in that company.
A person holding maximum shares has maximum ownership like directors, chairman etc.

Definition of "Shares"

A share is a certificate representing one unit of ownership in a company. A shareholder is one who owns one or more shares of a company. The proof of his ownership is the share certificate, which he may hold in multiple numbers, each certificate comprising a certain quantity of shares. Now with the advent of Depositories, he can hold the shares in electronic form. We will discuss Depositories, process of dematerialisation and rematerialisation in the coming chapters.

Different Type of Shares

· Equity Shares

Equity shares represent proportionate ownership in a company. Investors who own equity shares of a company are entitled to ownership rights, like voting for selection of directors on the Board, share in profits of the company, etc. Investors who own equity shares in a company are called shareholders. Shareholders are entitled to share profit of the company in the form of "dividend" or "bonus shares", if Board of Directors and majority of the shareholders agree. The equity shareholders are paid an annual dividend depending on the profitability of the firm, which is proposed by the Board and passed in the Annual General Meeting of the company.

In finance a **share** is a unit of account for **various financial instruments** including stocks, mutual funds, limited partnerships, and REIT's. In British English, the usage of the word share alone to refer solely to stocks is so common that it almost replaces the word stock itself.

In simple Words, a **share or stock** is a document issued by a company, which entitles its holder to be one of the owners of the company. A share is issued by a company or can be purchased from the stock market.

By owning a share you can earn a portion and **selling shares** you get capital gain. So, your return is the dividend plus the capital gain. However, you also run a risk of making a capital loss if you have sold the **share** at a price below your buying price.

A **company's stock price** reflects what investors think about the stock, not necessarily what the company is "worth." For example, companies that are growing quickly often trade at a higher price than the company might currently be "worth." Stock prices are also affected by all forms of company and market news. Publicly traded companies are required to report quarterly on their financial status and earnings. Market forces and general investor opinions can also affect share price.

· Preference Shares

As the name suggests, owners of preferential shares enjoy a preferential treatment over equity shareholders with regard to corporate benefits such as dividend. In case of the company being wound up, the preference shareholders are given priority over the equity shareholders to receive their amounts. They however, do not have voting rights. The return on preference shares is generally fixed and is payable if the company declares dividends.

Preference shares are issued by a company with varying features such as:

Cumulative and non-cumulative preference shares
Redeemable and non-redeemable preference shares
Convertible and non-convertible preference shares
Preference shares with a combination of the above features.

Debentures, Bonds

· Debentures

Debentures may be of three types - fully convertible debentures (FCDs), Partly convertible debentures (PCDs) and non-convertible debentures (NCDs).

FCDs are debentures whose face value is converted into a fixed number of Equity shares at a fixed price. The price of each equity share received by way of converting the face value of the convertible security i.e. debenture is called the conversion price. The number of equity shares exchangeable per unit of the convertible security i.e. debentures is called the conversion ratio.

Quick Facts on Stocks and Shares

· Owning a stock or a share means you are a partial owner of the company, and you get voting rights in certain company issues

· Over the long run, stocks have historically averaged about 10% annual returns However, stocks offer no guarantee of any returns and can lose value, even in the long run

· Investments in stocks can generate returns through dividends, even if the price

How does one trade in shares ?

Every transaction in the **stock exchange** is carried out through licensed members called brokers.

To trade in shares, you have to approach a broker However, since most **stock exchange brokers** deal in very high volumes, they generally do not entertain small investors. These **brokers have a network of sub-brokers** who provide them with orders.

The general investors should identify a sub-broker for regular trading in shares and palce his order for purchase and sale through the sub-broker. The sub/broker will transmit the order to his broker who will then execute it .

What are active Shares ?

Shares in which there are frequent and day-to-day dealings, as distinguished from partly active shares in which dealings are not so frequent. Most **shares of leading companies** would be active, particularly those which are sensitive to economic and political events and are, therefore, subject to sudden price movements. Some market analysts would define *active shares as those which are bought and sold at least three times a week*. Easy to **buy or sell.**

Everything about bonus Shares

If you've attended any annual general meeting of any company, one issue that shareholders never fail to sally forth - other than the demand for higher dividend - is "Chairman saab, is saal kya bonus issue offing me hai?" ("Mr Chairman, is there a bonus in the offing this year?"), which sometimes also takes the sarcastic tone of "bahut deri se aap ne hum chhote shareholders ko koi bonus nahi diya?" ("it's been a while since you gave us small shareholders bonus shares?").

The big "bonus" question seems so important to most shareholders, we thought we should evaluate why they make this supernormal demand. But before we get into the relevance of a bonus issue, we'll touch upon what a bonus issue is, and why companies have been issuing bonus issues since time immemorial.

What's a bonus issue?
Bonus is an issue of free shares by a company to its shareholders in proportion to their existing holdings. In short, it means that the company has turned part of the profits and reserves to capital. So while the reserves stand reduced, the capital has increased.

For example: You own 100 shares in a company and the current price is Rs1,000 per share. If the company announces a '1 for 1' bonus issue and issues you 100 more shares, you now own 200 shares. Does that mean your holding doubles in value? No, because the market will adjust the price of the shares so that the total value of your holding remains what it was before. In the above example, the share price would adjust to about Rs500 per share, so you still have a holding worth Rs100,000. Similarly, the dividend per share will adjust pro rata.

Suppose company A, with an equity of Rs60cr and reserves of Rs120cr, announces a 1:1 bonus, there is no change in the net worth but the earnings per share changes. But hold on, the change has been to the extent of the change in the share price. So, effectively, there is no change in the share value of the shareholder.

Company (A)	Pre bonus	Ex bonus
Equity	60	120
Reserves	120	60

Profit	450	450
New worth	180	180
Book value	30	15
Price per share	1,000	500
For Share holders		
No of shares	100	200
Value of holding	**100*1000**	**200*500**
	= 100,000	**= 100,000**

What good a bonus issue does

Wait, there may be something positive about a bonus issue. Let's dwell into this argument further and provide reasons for the relevance of a bonus issue. The main objective of having a bonus issue is to make the shares more marketable. With more shares in circulation and a lower share price, a company expects better liquidity and higher investor interest in its shares. Let's take the example of MRF's shares, which see little activity owing to the illiquid nature of the stock (the company's equity is only Rs4.24cr). But if MRF were to issue a bonus issue the liquidity in the stock would improve. Also the company is trying to signal that it is now capable of servicing a large shareholder base.

Picking the finer points

So far, so good. But the important question is: is that company capable of servicing a large customer base? If so, can it maintain its dividend ratio? Remember, next year, the company would have to shell out a large part of its profits to the shareholders, even if it maintains it previous dividend ratio.

And if it does maintain its ratio, it is possible that the company might be putting back a relatively smaller part of profit back into the business. And this in turn might have other implications on the company.

Let's take the case of Century Textiles. The company issued its fifth bonus issue in 1997. The bonus of 1:1 was issued to reward its shareholders on its 100 year of operation. But the point is the company was well aware that it would not be able to service its customer base and would not be able to continue with the dividend ratio. The net result: the following year, the dividend ratio fell by 60 percent to 10% and is today giving a dividend of just 6%.

Century Textile	2000	1999	1998	1997
Share capital +	193.04	193.04	193.04	46.52
Reserves & Surplus	785.18	777.16	893.99	1034.97
Net profit	6.14	-91.3	-86.7	5.48
Dividend	6%	6%	10%	60%

Now let's look at Infosys Technologies. The company issued its third bonus since 1999 of 1:1. The good part is that the company has been able to not only maintain its dividend, but between its first bonus in 1994 and today, the dividend ratio has increased from 35% to 90% respectively. The company has been able to match its dividend as it has been growing at a compounded annual growth rate of 58%. The company has no problem in giving a bonus share issue, as it is not only able to plough back sufficient funds into the company, but also give its shareholders a good dividend.

Infosys	2000	1999	1998
Share capital +	33.08	33.07	16.02
Reserves & Surplus	800.22	541.36	156.94
Net profit	293.52	135.26	60.36
Dividend	90%	75%	60%

Bonuses are like pizzas

The two examples above amply demonstrate that on its own, the bonus issue has no relevance if it isn't serviced well by the company. Even from an investor's point of view, a bonus share issue does not add up to capital appreciation. An investor may still be motivated because the investor is hopeful that his next dividend will fetch him higher returns. But like we have already seen in our earlier example, much depends on the performance of the company.

Remember: a bonus issue is like a pizza. You could cut it into as many slices as you want, it still won't increase the size of the original pizza. Also, like a pizza, enjoy your bonus issue, but take it with a pinch of salt!