NICO Asset Managers
"INVEST today for tomorrow "

INVESTOR'S GUIDE

A guide to the financial markets, investments and the economy
22 February 2019

Topic 301: Investing in Shares

Last week, we looked at interest rate movements. This week, we will look at investing in shares. One of the most common options to consider when thinking about investments is shares. A share represents a unit of ownership in the company or an asset. By virtue of buying shares, you become a shareholder or part owner of that company or asset.

Types of shares

When thinking about investing in shares, one is faced with two options. You can choose to either invest in a company's common shares or preferred shares.

Common Shares

Common shares are also called ordinary shares and are characterized by residual claim, limited liability, voting rights and dividend pay-out to the holder. If you hold a common share for a company, it means in case the company is winding up, you as a shareholder can only claim the company's cashflow that is left after the company has settled all obligations to its creditors. In addition to this, you also have voting rights at the general meetings the company holds. Holding common shares allows you to participate in important corporate decisions through voting on any other matter that arises in the company. One of the key decisions is to vote for the individuals you want to be a director for the company. These directors choose managers who are responsible for the performance of the company. If a corporation is involved in a merger or acquisition, the common shareholders will express opinions on the deals by exercising voting rights. The common shareholders also have limited liability to the company. They will only lose the amount of their investments in the company if the company is declared bankrupt or is sold at a loss. Common shareholders also to receive dividends.

Preferred Shares

These represent ownership in a company like common shares except you are entitled to a fixed dividend. Preference shares are less risky because they give their owners a priority claim whenever a company pays dividends or distributes assets to shareholders in cases of winding up. However, they do not offer any preference in issues concerning the company's corporate governance, and preferred shareholders have no voting rights at general meetings.

Types of Preferred Shares

The types of preferred shares include callable, cumulative, convertible and participating preferred shares.

- Callable preferred shares are those which the company has the power to purchase back from the shareholders at any time for any reason, although usually at a favourable price.
- Some instances, a company fails to pay its dividends to the shareholders. For cumulative preferred shares, this unpaid dividend is summed up over the period. When the company winds up or is able to pay dividend, the unpaid dividend that was accumulated is paid out prior to common stockholders.
- Convertible preferred shares are those which allow the stockholders to convert these into common shares of the same company at some agreed terms and conditions.
- Participating preferred shares are those in which the preferred stockholders may be issued a special dividend if certain financial goals are met by the company.

Head Office
19 Glyn Jones Road
Chibisa House
P.O. Box 3173
Blantyre
Tel No: 01 832 085/086 Fax: 01 821 617

Lilongwe Branch
Corner Kenyatta Drive
NICO Centre
P. O Box 30729
Lilongwe 3
Tel no: 01 757 086 Fax: 01 751 617

invest@nicoassetmanagers.com | www.nicoassetmanagers.com

INVESTMENT MANAGEMENT | CORPORATE FINANCE | INVESTOR SERVICES