THE STOCK EXCHANGE

This is a market where already issued shares and stocks are bought and sold.

Stocks. These are fixed interest loans comprising of government bonds, public bodies loans, and public companies debenture stocks, etc.

In Uganda, the market where shares are bought and sold is referred to as the Uganda Securities Exchange (USE).

The Uganda Securities Exchange is licensed and regulated by the Capital Markets Authority. The Uganda securities exchange (stock exchange) was formed in May 1997 upon receiving its license from the Capital Market Authority.

ROLES/FUNCTIONS OF THE STOCK EXCHANGE

1. It provides ready market to those who want to buy and sell shares.
2. It sets prices for securities i.e. shares of different companies listed on the stock exchange.
3. It provides companies with the facility to raise capital for expansion through selling shares to the investing public.
4. It helps to 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.
5. It provides investors with an opportunity to sell their shares when they find a more attractive security to buy.
6. It publishes useful information in statistical and summary form about various companies for guidance of booth the investors and the relevant companies.
7. It is used as a measure of a countrys economic progress i.e. stock indices is taken as indicators of economic progress.
8. It provides the opportunity for small investors to own shares of the same companies as large investors.
9. It facilitates growth of the related financial institutions like insurance companies and other financial institutions encourage and support savings.

10. It provides an avenue for divestiture of state owned enterprise e.g. Uganda Clays, New Vision Publication Ltd, etc.
11. It enables government to raise capital for development projects by selling securities known as bonds.
12. It facilitates company growth through takeover bid or merger agreement through the stock market.
13. It enables companies to get long-term finances through selling shares than getting loans with high interest.
14. It is a source of employment to those who work in it e.g. brokers and jobbers.

MEMBERS OF THE STOCK EXCHANGE

1. Brokers. These are people who buy and sell shares on behalf of others. Anybody wishing to buy shares must approach a broker, who will brief him/her on various matters and offer advice on different types of shares his customer is interested in buying.

Similarly, a person who wishes to sell his/her shares must also approach a broker who will try to get him the best possible price. A broker is paid for his services on a commission basis.

2. Jobber. This is a middleman in the exchange of stocks and securities among brokers. He is a middleman who buys and sells shares on his own account.

He trades in shares in much the same manner as a wholesaler deals in merchandise. However, a jobber does not intend to hold shares for investment purposes.

His/her intention is to buy them when they are cheap and sell them as soon as prices rise, but not to hold them and earn dividends against them.

Note. A broker must buy and sell shares through a jobber. No member of the public is allowed to sell his shares directly to a jobber.

This is so because if jobbers were allowed to deal directly with the members of the public, who are not well versed in share prices and related matters, jobbers might exploit them.

Hence by having a broker in between, who acts mainly on behalf of the members of the public, their interest is protected.

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 jobbers turn and this constitutes his profit.

TYPES OF JOBBERS

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

2. **Bears.** These are jobbers who sell shares at a high price and wait to buy back cheaply when the price falls.

3. Stags. These are jobbers who deal in new issues (stag) and they buy shares in the hope that prices will soon rise and sell them at a profit within a short period of time.

SPECULATION

The activities of bulls, bears and stages are called speculation.

This is because they all buy or sell shares with a view to make profit when prices change.

They use their expertise to judge as to which shares value is likely to increase or decrease in the coming few days and accordingly make their moves.

To an ordinary person, the activities of bulls, bears and stages appear very similar to gambling, except that whereas a jobber puts his money on stake on the basis of his judgment, a gambler has no means of predicting the outcome of the bet and relies on luck.

SECURITIES/PRODUCTS TRADED IN STOCK EXCHANGE

A security. This is any document that gives its holder a right to money or other property not actually in possession for example a share certificate.

These are;

1. Bearer securities. These are securities that can be transferred by mere delivery without a transfer form being made out or the transfer being registered by the issuing company.

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

3. Bonds. A bond is a loan security issued by a government, nationalized corporation or a company that carries a fixed rate of interest.

Note. Company bonds are also called debentures.

4. Gilt-edged. This is a security that is absolutely safe in respect of both the capital redemption and payment of interest. The best example here is bonds issued by governments.

5. Portfolio. A portfolio is a collection of various securities held by an investor or institution.

6. Stock. This a bond issued by a government of local authority signifying a debt.

COMMON TERMS USED IN STOCK EXCHANGE

1. **Par Value of Shares/Nominal/face Value of Shares.** Par value of a share refers to the value written on its face.

Or; is the amount for which the shareholder is responsible in the event of a companys inability to meet its liabilities.

Note. The total par value of a companys shares represents its share capital.

2. Market Value of Shares. This refers to the value at which a share sells on the stock exchange.

3. Dividends. A dividend is the amount paid out of profits by a company to its shareholders. Usually, dividends are paid in cash and represent the shareholders return on the investment held by them.

4. Bonus Shares. These are shares issued usually free by a company to its members out of accumulated reserves.

It means conversion of distributable profits (reserves) into a permanent share capital. The effect of the issue of these shares is that the reserves are converted into share capital and hence rendered a permanent status. They can no longer be distributed as dividends.

Note. The act of issuing bonus shares is called capitalization of reserves and a bonus issue is called scrip issue.

5. To Go Public. This is an act of converting a private company into a public company, thereby enabling it to obtain a stock exchange quotation and sell its shares to the general public.

6. Institutional investor. This is an institution that makes a business of investing its funds in various securities, aiming to make profits both by earning dividends or interest and by selling its investments at a higher price at an opportune moment e.g. insurance companies.

7. Issuing House. This is a bank that specializes in launching of new issues.

8. Underwriter. This is an institution, or a person who guarantees to a company launching a new issue that all its shares will be sold.

If any portion of the underwritten issue remains unsubscribed, the underwriter buys that portion himself.

Note. The underwriter is paid a commission called underwriting commission.

9. Yield rate. This is the rate that shows the true return to an investor on his investment. It is calculated by expressing the amount of interest or dividend received in a year from a security as a percentage of its market value.

For example, if a share in Uganda Clays Ltd is being quoted at Shs. 120 but has a par value of only Shs. 80, with 20% dividend, the yield rate would be arrived at as follows:

Dividend amount = 20% of par value of share

= 0.2 x 80

= Shs. 16

$$\text{Yield rate} = \frac{\text{Dividend amount}}{\text{Market value}} \times 100$$

$$= \frac{16}{120} \times 100$$

$$= \mathbf{13.3\%}$$

10. Rights Issue of Shares. This is where the existing members in a company are given a “right” to buy shares out of the new issue. This right is proportionate to their present shareholding.

A company that has profitably operated for some years and now wishes to raise more capital by selling new shares is likely to command a market price higher than its par value. Such a company may decide to benefit its members by restricting the new issue to members only, or by selling the new issue at two prices i.e. a lower price for existing members and a higher price to other applicants.

However, the shareholders can transfer their right to buy new shares to anybody they desire (outsiders) at a higher price so as to earn profit.

SELLING PRICES

Shares may be bought and sold at the stock exchange at cum-div or ex-div, cum-rights or ex-rights, cum-cap or ex-cap prices.

1. **Cum-div.** Cum-div stands for "with dividend". After a company has declared dividends but has not yet paid them, a seller may offer his shares at cum-div price. Here, the buyer becomes entitled to the dividend that has already been declared.

2. **Ex-div.** Ex-div stands for without "dividend". After a company has declared dividends but has not yet paid them, a seller may offer his shares at ex-div price. Here, the seller receives the already declared dividend when it is paid by the company and the buyer becomes entitled only to subsequent dividends, but not to the one that may have been declared before the date of purchase of shares by him.

Note. A seller would ask for a higher price if he sells shares cum-div than when he sells them ex-div.

If a security carries interest instead of dividend, for example debentures, the terms may be modified as **cum-interest** and **ex-interest.**

3. Cum-rights. Cum-rights implies with the "right to buy shares out of the new rights issue" i.e. when a company has announced a rights issue, the buyer becomes entitled to the right to buy shares out of the new rights issue.

4. Ex-rights. Ex-rights implies without the "right to buy shares out of the new rights issue" i.e. the seller retains the right to buy shares out of the new rights issue.

Note. A seller would ask for a higher price if he sells shares cum-rights than if he is selling them ex-rights.

5. Cum-cap. Cum-cap stands for cum-capital. If a company has declared a bonus issue but has not yet issued the free bonus shares, the seller may sell his shares cum-cap. Here, the buyer will get the free bonus shares in addition to the ones he is now buying when the company actually issues them.

6. Ex-cap. Ex-cap stands for ex-capital. If a company has declared a bonus issue but has not yet issued the free bonus shares, the seller may sell his shares ex-cap. Here, the seller retains the right to receive the free bonus shares, hence the buyer only getting the shares he is now buying.

QUOTED & UNQUOTED COMPANIES

A quoted company. This is one whose shares are bought and sold on a stock exchange. Members of the stock exchange are allowed to deal in shares of only those companies that are approved by the stock exchange council.

A company wishing to be approved by the stock exchange council must make a formal application giving all the relevant details of its business and financial position. If it is approved, its name will be listed on the stock exchange list and the price of its shares quoted, hence the term quoted company.

Note. Only public companies can be quoted at the stock exchange because their shares are freely transferable. .

Unquoted companies. This is one whose shares are not traded on a stock exchange.

Note. All private companies are unquoted, while some public companies may also decide not to obtain a stock exchange quotation.

Obtaining a Quotation. This is the act by a company of applying to the Stock Exchange Council to allow its shares to be included in the Stock Exchange list.

ADVANTAGES OF QUOTED COMPANIES

1. Shareholders find ready market if the want to dispose of their shareholdings.
2. A quoted company stands a better chance of obtaining loans because creditors view quoted companies more favorable.
3. A quoted company is always aware of the market value of its shares, which serves as a guide to the investors about the company.

4. A company quoted serves as a guarantee to a new investor who is not fully conversant with share dealings.

6. They are required to submit their final accounts to the stock exchange council and from these accounts useful statistics are prepared by the council and made available to the quoted companies.

STEPS INVOLVED IN THE PURCHASE OF SHARES

1. Approaching a broker. A member of the public wishing to buy shares approaches a broker who is known as a buying broker.

2. Making inquiries. This is where the buying broker inquires from other brokers if they have any client who wishes to sell the particular type of shares.

3. Negotiating for the price and writing out a contract note to be sent to the client by the buying broker.

The contract note gives information about; price of share, brokerage, amount of stamp duty, or transfer duty, registration fee of the new shareholders name and details of shares to be bought.

4. Making out a stock transfer form by the selling broker and getting it signed by the seller for whom he is acting.

5. Issuing the stock transfer form and share certificate by the selling broker to the buying broker.

6. Making payment by the buyer to the buying broker.

7. Paying the selling broker by the buying broker.

8.Paying the seller by the selling broker after deducting the selling brokers commission and tax on capital (if any) on the sale of the shares

ANSWER THESE QUESTIONS

1.(a) Define a stock exchange

(b) Identify the importance of a stock exchange market in Uganda.

2.(a) What are the securities traded on the stock exchange in Uganda.

(b) Give the advantages and disadvantages of quoted companies?

3.(a) Distinguish between the following;

(i). Blue chips and portfolio.
(ii). Cum-div and Ex-div
(iii). Nominal value and Market value of shares

(b) What are the problems experienced by the stock exchange market in Uganda?