

7

HOW TO BUY AND SELL SHARES

HOW TO BUY AND SELL SHARES

A market is where buyers and sellers come together for the purpose of exchange. What is being exchanged or traded in the sharemarket are shares. There are a few differences though in how the sharemarket operates compared to your local food or craft market.

- The Australian sharemarket does not have a physical location such as a trading floor any more. Trading occurs via a computerised trading system linking stockbroking firms around the country.
- You need an agent, called a stockbroker to buy or sell shares on your behalf. There are over 90 stockbroking firms authorised to buy and sell shares on ASX. Some of these firms are called full service brokers. Other firms are non – advisory they simply buy and sell shares after being given your instructions.
- Setting up an account with a broker requires completion of paperwork and the broker will often require a minimum amount of money to be placed into an account before you can buy shares.
- Brokerage is the fee charged by the stockbroking firm for buying and selling shares on your behalf.
- When buying or selling shares your order is entered into a computerised trading system at a stockbroking firm. The trading system finds a seller in the market that is prepared to sell shares for the price you are willing to purchase them for.
- Within three days of your broker executing your order, payment will be made. If you have sold shares you must provide access to the shares you have sold so they can be transferred to the new owner.
- If you are purchasing shares in a 'float' or 'Initial Public Offering' you can still organise this through a stockbroking firm. For more details on buying shares in a float see Lesson Two.
- To buy and sell shares you must be over 18 years of age although arrangements can be made for adults to buy shares on your behalf.

ACTIVITY ONE

Read the following statements and note whether they are true or false.

- A. If you wish to buy shares you must physically go to the counter at the Australian Securities Exchange (ASX) and purchase them directly from there. **True/False**
- B. If you wish to receive advice about buying or selling shares on the secondary market you must use a full service stockbroking firm. **True/False**
- C. When you buy shares you are buying them directly from the stockbroking firm who has a supply of them. **True/False**
- D. The computerised trading system matches buy and sell orders and then trades them automatically. **True/False**
- E. There is no charge for buying and selling shares on the secondary market. **True/False**

LEARN ABOUT...

[HOW TO BUY AND SELL SHARES](#)

[ASX COMPUTERISED TRADING SYSTEM](#)

[STOCKBROKING FIRMS](#)

DID YOU KNOW?

Trading shares has become much cheaper in recent years as stock brokers have made use of new technology to provide a better service to you. Buying and selling shares can cost as little as \$15 for a transaction-only service. You may need to pay more if you want advice and/or access to research on a company.

FAMOUS QUOTE

"Seventy years ago the stock market was a rich man's game. The average investor put his money in the bank or under the mattress. Today, the stock market has become everyone's best hope for a strong retirement income"

Diana Henriques

7 HOW TO BUY AND SELL SHARES

COMPUTERISED TRADING SYSTEM

All share trading on ASX takes place via computer. Members of the public do not have access to the trading system but place orders by contacting their broker. A snap shot of the trading system can be seen below.

The most common order used on the market is an "at limit" order. This is when you instruct your broker to buy or sell a security at a given price or better. If you want to buy, that means a given price or lower. If you want to sell, that means a given price or higher. If there is more than one order at the same price, the order that was placed first takes precedence.

Order Depth [TLS] - OPEN													
ID: TLS		XD		Qty: 139930E		Update							
All orders are shown, click to aggregate non-firm orders.													
BClI	BUser	BPart	Type	TBQty	BQty	Bid	Ask	AQty	TAQty	Type	APart	AUser	ACI
			LMT		83,227	415.0	416.0	199,999		LMT			
			LMT		10,000	415.0	419.0	178,809		LMT			
			LMT		200	412.0	419.0	500		LMT			
			LMT		15,000	410.0	419.0	25,000		LMT			
			LMT		1,400	410.0	420.0	15,000		LMT			
			LMT		2,500	410.0	420.0	30,000		LMT			
			LMT		15,000	410.0	420.0	500,000		LMT			
			LMT		20,000	410.0	420.0	450,000		LMT	AU150	XXXXX	B43
			LMT		5,000	410.0	420.0	2,000		LMT			
			LMT		200,000	409.0	420.0	9,578		LMT			
			LMT		2,500	405.0	420.0	300		LMT			
			LMT		2,500	405.0	420.0	1,000		LMT			
			LMT		1,200	405.0	420.0	600		LMT			

Rank: 8 Qty: 1,399,308 Avg ASK: 419.2 EP: SV:

Large orders have no priority over small orders. Once you have instructed your broker to buy or sell shares the order is immediately entered into the trading system by a person called a 'Designated Trading Representative' (DTR).

Let's now look closely at the screen shot above of the computerised trading system ASX operates.

You can see there are 2 orders in the market willing to buy TLS for \$4.15. The quantity of shares to be purchased at this price is 93,227 (83,227 + 10,000). If there is more than one buyer at a price the number of shares each buyer wishes to purchase at this price is often added together to show a combined total. The lowest price any seller is willing to sell TLS shares for is \$4.16 and the quantity of shares to be sold at this price is 199,999. The order depth screen shows there is only one order at this price. So, this is how the market works, we have buyers wishing to buy TLS for \$4.15 but a seller will only sell at \$4.16.

What will need to happen for a trade to take place? Both buyer and seller will need to agree on a price. Buyer/s will need to pay one cent more per share or seller/s may accept being paid one cent less for TLS shares just to sell their shares.

Remember that if someone offers to buy shares at a price higher than the current offer they may take all the quantity for sale at the best price and then have access to shares on offer at the next best price. Similarly, if someone offers to sell at a price lower than the current best price, they will move to the top of the queue and have the first opportunity to sell their shares.

ACTIVITY TWO

Use the screen shot on the previous page to answer the questions.

- How many bids or buyers are there in the market wishing to purchase TLS shares at \$4.10?
- How many offers are there to sell TLS shares at \$4.20?
- How many TLS shares are available to buy at \$4.19?
- How many TLS shares can be sold at \$4.12?
- If a buyer comes into the market wishing to buy TLS shares at \$4.16, they will jump the queue ahead of buyers who are only willing to buy shares at \$4.15. Do you think that is fair? Give a reason for your answer.

ACTIVITY THREE

A DAY IN THE LIFE OF A STOCKBROKING FIRM

Read the following interview with two advisers from the fictitious stockbroking firm Canterbury Stockbroking. Answer the following questions.

- At what time does the sharemarket open in the morning?
- Why do you think it important that advisers might start the day with a meeting?
- What is the name of the person who inputs the orders into the computerised trading system?
- What educational qualifications do you require to become an adviser?
- What role do analysts play in stockbroking firms?

7 HOW TO BUY AND SELL SHARES

James, an adviser for ten years with the company Canterbury Stockbroking arrives at work at 7:45 a.m. to read the morning papers and catch up on movements on overseas markets overnight. It's then time to attend the morning meeting at 8:30 a.m. There are 25 advisers (also called dealers) and four analysts working in the firm. They all meet to discuss what is happening in the marketplace before it officially opens for trade at 10:00 a.m. (Sydney time). At 9:00 a.m. James arrives back at his desk fully informed about the upcoming floats and several companies that he might recommend to his clients that day. In between the constant phone calls from clients wishing to buy or sell stock, James manages to answer some questions.

HOW DID YOU FIRST BREAK INTO THIS INDUSTRY?

'I started as a messenger and then worked in the back office which handles all the paper work associated with share transactions. After that I became an operator, or as they say these days a "Designated Trading Representative" (DTR). As a DTR I was responsible for buying and selling shares using the ASX trading system. This is a computer network, which allows an operator to trade securities at the push of the button. The adviser fills in an order form and the operator places this into the system. I gradually moved from this to advising clients.'

WHAT QUALIFICATIONS DO YOU NEED TO BECOME AN ADVISER?

'Educational qualifications differ depending on the stockbroking firm but ideally to become an adviser, a degree in either finance, business, economics, accounting, law, mathematics, actuarial studies or a related discipline is desirable. The Stockbrokers Association of Australia offers training courses for people working or wanting to work in the stockbroking industry. Our firm itself requires a licence to operate, and as their representative, has provided me with an "authority to trade" so I can advise clients. I have also been accredited by the Australian Securities and Investment Commission (ASIC) and am also required to undertake further professional development each year to ensure my knowledge is up to date.' James takes another phone call from a client wanting to know more about a new share issue so I speak with another adviser, Julie, who has worked with Canterbury for three years.

WHY DID YOU BECOME AN ADVISER?

'I sold my business in the hospitality and tourism industry and my accountant suggested I invest in the sharemarket. I developed a keen interest in the market through developing my own share portfolio and this led to a whole new career.'

WHAT DO YOU LIKE MOST ABOUT ADVISING?

'It's not like work to me. Keeping up to date with what's happening in the market is stimulating and I enjoy looking after clients. If you work hard the rewards are there.'

HOW DO YOU STAY INFORMED OF MARKET TRENDS?

'A team of analysts work at Canterbury. The analysts provide invaluable research on listed companies, keeping us fully informed through written reports and discussions at our morning meetings. I also attend company presentations where the Directors of various listed companies outline the profitability and future direction of their business. Of course reading the newspapers and journals also helps to stay fully informed.'

WHAT IS THE SECRET TO BECOMING A SUCCESSFUL ADVISER?

'It's not just the right advice that clients want - it is also the service to back up the advice. Keeping in touch with the client and regularly reviewing their share portfolio is important.'

Normal trading finishes at 4 p.m. Julie has an appointment with a client who prefers to do business face to face instead of on the phone. James attends a company presentation. The operators and administrators in the back office busily attend to the paperwork arising from the day's business. Both advisers conclude the day with an informal chat and can testify that the All Ordinaries was indeed up on the previous day's trading.

ASK YOUR PARENTS, GRANDPARENTS, AND FRIENDS?

Ask your parents, grandparents and friends whether they remember how trading used to occur in Australia before the introduction of the computerised trading system in 1987.