What affects share prices?

We had an email this week asking why the price at market close isn't necessarily the open price for the next day.

Firstly one of the things mentioned in the last newsletter was that **if you place an order before the market opens**, it is safer to use a 'limit' order. Our reason for highlighting this is that if you enter an order based on the previous day's prices - you need to be aware that the share won't necessarily open at this price the next day. So if there is a sudden move upwards and you have a market to limit order in place, you could end up buying the shares for more than you intended.

So what happens, why does the price change?

The main hours of the market are between 10am and 4pm; however there is an opening auction prior to market open (no trades are processed during this time) which may affect a share price at the open. There is also a closing price auction at the end of the day between 4pm and 4.12pm where orders may still be processed.

So if you are **placing an order at the end of the day**…Be aware that orders may still be processed between 4pm and 4.12 pm as this is a final closing period. If you are looking to place an order for the next day, it would be best to do this after 4.12 pm.

To help you understand the auction process more, read the following article Understanding the ASX opening and closing auctions by Shannon Rivkin.

Another thing that may affect the share price is that if a share goes ex-dividend, this may also affect the price. More often than not the price of a share will fall by approximately the dividend amount when the share goes ex-dividend.

What other elements can impact a share price?

Supply and demand: The sharemarket is a market place like any other. The more people want to get hold of a particular product or in this case a particular share, the higher its price will go. If people no longer want a share and few people are willing to buy it, those wanting to sell may have to offer it at a lower price in order to sell it.

Company announcements: One of the most important factors affecting the price of a share is the company's future earnings. Any changes to the forecast in earnings, either by company management or by market analysts, may impact the share price. Keeping up to date with company announcements is important. The easiest way to keep an eye on any announcements is via your watchlist or your holdings. If there is an asterisk beside a company code, this means there is a company announcement – simply click on the asterisk and this will take you to the announcement.

The Economy: A range of economic factors both in Australia can also affect share prices for example the overall health of the economy, the level of unemployment, interest rates etc. Also because Australia is part of the global economy, movements on overseas sharemarkets can have flow-on effects to the Australian sharemarket

Other factors: Natural disasters such as floods or earthquakes etc. or other disasters can have a significant impact on the sharemarket. Often however, these are simply reactions to the unexpected news and the market or shares affected can recover in a very short period of time. It's helpful not to react to news like this and to take a long term look at your shares rather than a short term panic reaction.

We hope this gives you a greater understanding of why share prices move.

The indices and share price list has been updated for the period 26 Feb - 11 March (CSV 13KB). Here is the hot & cold stocks list for the week.(PDF 20KB).

Rankings: At the top of the leaderboard is theP from NSW with a portfolio value of $53,260. In 2nd place is pinkpoppy31 from WA on $52,471 and only $155 behind is Macka55 from NSW with a portfolio value of $52,316. **The most improved player** for the 1st full week of the Game was scoot26, increasing his portfolio by 4.6%.

If you have any issues, please email us at share.game@asx.com.au.

Enjoy the learning experience,
The Games Team

What to look for when a company reports

Reporting (or Earnings) season is a key time of year for investors. During this period, listed-companies lift the hood on their businesses and report their results to the market, also providing guidance for the year ahead. But what should investors look for? How do you know if they made the grade?

For Growth investors, who are seeking capital appreciation, it is important that the company you have invested in continues to successfully grow its business. A few criteria we recommend for analysing the quality of growth companies include:

- **Financial Health:** You want your companies focused on growing the business, not paying the bank manager. Therefore manageable debt levels, high profitability and strong cash flows are essential.
- **Earnings per share (EPS):** EPS should be positive and growing each period, as it represents growth in the profit each share you own is generating.
- **Return on Assets (ROA):** ROA reflects the efficient use of what the company owns. A high and increasing ROA compared to the previous period reflects good asset use by management.
- **Return on Equity (ROE):** This is a measure of a company's use of shareholders' money. Like ROA, ideally it should be high and growing from period to period as this reflects good returns on funds invested in the business.

For income seeking investors, it is important to look for a steady stream of dividends/distributions which can function as income. With interest rates so low, investing for income has increased in popularity, however the sustainability of these payments is essential for investors.

Key criteria that income seeking investors should look for:

- **Financial Health:** Any risk of liquidation endangers the sustainability of an income stream.
- **Dividend yield (%)**: Measures the value of dividends you receive on your investment in the form of a percentage. A historically stable dividend per share (DPS) and above market yield is preferred. The current average yield on the market is around 3.5%.
- **Franking:** Australia is unique in offering investors tax credits with dividends. A 100% (fully) franked dividend is worth approximately 43% more than the same unfranked dividend or interest of an investment, and are highly valued by those on low tax rates.
- **Dividend Cover**: Investors should be wary of DPS that equal or exceed a company's EPS. They are typically unsustainable going forward as dividends are paid from a company's profits.

Carrying out due diligence on any investment is essential as you are becoming a part owner of the

Carrying out due diligence on any investment is essential as you are becoming a part owner of the company you are making an investment in. Whether you are seeking income or capital appreciation, you should ensure that you carefully analyse a company's report. In particular, focus on items relevant to why you bought the stock in the first place. This will allow you to make confident decisions and help fulfil your investment objectives.

Tim Lincoln, Managing Director, Lincoln Indicators, www.lincolnindicators.com.au

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This information is current as at 23 February 2015.