Newsletter

Understanding share price changes

“Why isn’t the opening price the same as the closing price of the previous day?”

“I placed my order after 4pm and it went through. Why?"

These are common questions, so let's take a look at why!

The main hours of the market are between 10 am and 4 pm; 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 4 pm and 4.12 pm where orders may still be processed.

Game tip 1: *If you are placing an order at the end of the day…it would be best to do so after 4.12 pm.*

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

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

There may also be some unexpected overnight news from Global markets that impacts share prices.

Game tip 2: *If you place an order before the market opens, it is safer to use a ‘limit’ order.*

If you enter an order based on the previous day’s prices, as mentioned above, the share won’t necessarily open at this price the next day. If there is a sudden move up or down and you have a ‘market to limit’ order in place, you could end up buying or selling the shares for more or less than you intended.

What else can impact a share price?

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.

Game tip 3: *If there is an asterisk beside a company code, this means there is a company announcement - click on the asterisk and this will take you to the announcement.*

The Economy: Alongside the impact of global markets, a range of economic factors within Australia can also affect share prices, for example, the overall health of the economy, the level of unemployment and interest rates etc.

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, those looking to sell may have to offer it at a lower price in order to sell it.

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.

As an investor it is wise to keep an eye on global and local news as well as keeping up with the announcements of the companies you are invested in.

Stock Doctor Webinars

Webinar 1 recording
Game on with Stock Doctor

Webinar 2 recording
Smarter Game strategies

Webinar 3 recording
Reporting season update – the good, the bad & the ugly

Webinar 4 - Six secrets of successful sharemarket investing
Wednesday 17 October 2018 @ 12.30 pm AEST
Register here

Lincoln
Stock Doctor

Is the price right?

Successful share investing over the long term involves identifying financially healthy businesses with a great management team and a stable outlook to support future growth of the business. These are the first three of Lincoln's Golden Rules, which determine whether a company is a Star Stock or not.

But many things can affect price in the short term, resulting in price swings both to the down and upside. Some investors will make their decision based on moments where the current price is disconnected from what we call the company's "intrinsic value."

So, what is "intrinsic value"?

What determines value is a crucial point of conjecture, as there are many ways to arrive at an 'intrinsic value' for a company. At Lincoln, our approach is to price for 'known' outcomes, rather than Blue Sky. We formulate estimates on a company's future performance by speaking to management, assessing current risks, reviewing peer research and attending industry presentations. This allows us to formulate opinions that are the basis of our valuation.

It is important to note that we are not trying to determine what a price will be over a set period. Instead, we are calculating a value of the business today. But given it is often based on future assumptions around cash flow generation and future expenditure, it is never 100% correct.

How could you use Valuations as part of your strategy?

Investors should not be fooled into believing that a stock's share price will gravitate to its intrinsic value in an orderly fashion and then stop there. Rarely, if ever, does a stock trade at a rate close to its valuation on a consistent basis. Often it will overshoot, to either the positive or negative side, when the market gets too excited or too pessimistic.

Growth focussed investors also appreciate that at times they will need to pay a premium price to get into a great business. The fact is, share prices don't go up over 100%, and the stock still trades at a 50% discount. It just doesn't happen.

Rather than be disheartened by this reality, investors can harness a valuation as a means of managing their exposure and risk. For example, a quality company that is undervalued may give an investor confidence to invest. Further, should price move above the valuation by a considerable amount, say 30%, then investors may invest. Further, should price move above the valuation by a considerable amount, say 30%, then investors may choose to rebalance their exposure by taking profits off the table to lock-in gains.

By understanding what the intrinsic value represents and how you should interpret it, goes a long way to helping you incorporate it as part of your overall strategy. But at Stock Doctor, we advocate focusing on identifying great companies first, because if you find a good business, you will see a share price that looks after itself, no matter what the current ‘intrinsic value’ is.

Try Stock Doctor for 30 days FREE. The link to sign up is via your Game dashboard.

Game update