CAMPBELL & McCONNACHIE

chartered financial planners

Investing in equities

Buying and selling stocks and shares for the first-time equity investor.

Investing in the stock market for the first time can be intimidating. However, put aside the jargon and the process is surprisingly easy. As long as you do your research, know your goals and have a sound investment strategy, taking your first steps into equity investment will not be as daunting as it initially appears.

This guide will provide an overview of some of the things to consider when starting to invest using the stock market.

This guide is aimed at people looking to own shares directly, rather than invest via a collective investment fund such as a unit trust or an open-ended investment company.

Equity investment

A share is a token of ownership of part of a company, the price of which reflects its overall value. For instance, if a company is valued at £100 million in the market, and offers 100 million shares, each share will be worth £1 at that point in time.

Businesses issue shares in order to raise money and may pay out dividends to shareholders who decide to invest their money into the business.

Buying shares in a company will see you become a joint-owner, potentially giving you company discounts and a say in how the company is run via a shareholder's right to vote at the company annual general meeting.

Types

Company shares come in 2 types:

- **Ordinary**
  These are the most common type of shares. Investors owning ordinary shares receive dividends and voting rights, giving you a say in company decisions such as takeovers and directors' salaries. Ordinary shares may be divided into classes of different value.
- **Preference**
  Owners of preference shares will receive their dividends before ordinary shareholders. They also provide more security should the company enter administration as any money will be paid out to preference shareholders before ordinary shareholders. However, unlike ordinary shares you will not usually get voting rights.

Benefits vs. risks

As with any investment related decision it is important to understand the potential risks as well as the potential rewards.

Benefits

Potentially high returns

Conventional wisdom tells us that investing in stocks and shares could give you a higher return in the long-term than cash, bonds and property. Of course, your success on the stock market will depend on the companies you invest in and how you diversify your portfolio.

Perks

Depending on the company you invest in and the type of shares you buy, you will be granted various perks such as discounts on the company's goods or services. You will also gain voting rights by purchasing ordinary shares, though in practice your input into how the company is run is likely to be limited.

Risks

Volatility

Shares are seen as a higher-risk investment due to the potential for volatility and losses in the stock market. The performance of individual companies is only 1 part of the equation as prices can fluctuate wildly in response to movements and sentiment in both the UK and the wider global economy.

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Your exposure to risk will also depend on the company. A business listed on the FTSE100 will usually carry less risk than a start-up venture listed on the Alternative Investment Market.

Liquidity

Shares are generally considered to be a liquid asset (i.e. quick and easy to sell) compared to other investments such as property. Be mindful that this is not always the case, and trying to sell shares in a company on the brink of default can be near impossible.

Talk to us about your investment strategy.

Purchasing shares

The easiest way to purchase shares is through a share dealing platform. These online services allow you to buy and sell shares in companies listed on the London Stock Exchange and selected overseas stock markets – all from your computer or mobile device.

Always keep a close eye on any charges levied by share platforms. These include (but are not limited to):

- **account fees:** platforms often charge for usage. Fees will occur monthly, quarterly or yearly
- **buying/selling fees:** expect to pay a fee each time you buy or sell shares
- **inactivity charges:** many platforms will charge you if you fail to make a minimum number of trades in a designated period.

Returns

There are 2 main ways to profit from investing in equities: dividends and capital growth.

Dividends

The value of the company's dividends (also known as the dividend yield) should be a key consideration when you choose which companies to invest in.

A dividend is a share of a company's profits that is paid out to shareholders.

It may seem strategically sound to invest only in companies paying the highest dividend yields. While this may generate more short-term profit, it doesn't necessarily indicate that the company is financially stable.

Capital growth

Seeing the value of your shares rise over time is known as capital growth. As an equity investor, selling your shares for a profit should be a key priority. Even after dividends are taken into account, it is hard to make an overall profit if you're forced to sell shares for less than you paid for them.

Doing research into the company's finances, the market it operates in and the broader economic outlook will help you be aware of the company's potential for growth and the degree of risk.

Our team can help you understand your investment options.

Taxation

Dividend tax

Summer Budget 2015 saw an overhaul of the way dividends are taxed. The old tax credit system was replaced with a new £5,000 tax-free allowance while the tax rates underwent substantial changes.

This means that dividends issued on or after 6 April 2016 won't attract tax on the first £5,000 of dividends, and anything above this will be taxed at the following rates:

Tax band	Tax rate on dividends above £5,000
Basic rate	7.5%
Higer rate	32.5%
Additional rate	38.1%

Dividends on shares held within ISAs remain tax-free.

Capital gains tax

Any profits you make from selling shares can be liable for capital gains tax (CGT). The current tax-free allowance is £11,100, and everything above this will be taxed at either 10% or 20% depending on whether you're a basic or higher/additional rate taxpayer.

A way of avoiding CGT on shares is to use stocks and shares ISAs. You can put up to £15,240 worth of shares into an ISA in the 2016/17 tax year. This will rise to £20,000 in April 2017.

The chancellor's decision to cut the basic rate of CGT from 18% to 10% has effectively removed the need for basic rate taxpayers to claim entrepreneurs' relief.

However, the reduced 10% CGT rate available through entrepreneurs' relief remains an advantage for eligible higher and additional rate taxpayers.

Stamp duty

How you purchase your shares will make a difference as to how you pay stamp duty. A stamp duty reserve tax (SDRT) of 0.5% is charged on UK company share purchases (and also on foreign companies with a UK share register), whether electronic (any value) or via a stock transfer form (on transfers of more than £1,000).

Electronic purchases can be made either through the 'CREST' system (a central securities depositary which allows shares to be held and traded electronically, as well as administer other actions like dividend payments) or outside it.

SDRT will be deducted automatically if the purchase is done through CREST. SDRT will not be deducted automatically during off-market transactions (i.e. outside CREST), and you will need to send HMRC a written notice with details of the transaction.

SDRT will be rounded up to the nearest £5 on shares purchased through a stock transfer form, potentially costing you more in tax.

Forms must be sent to the Stamp Office within 30 days of purchase and the SDRT must be paid to HMRC.

We can advise you on your finances today.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. ISA eligibility depends on personal circumstances.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based upon its content. The value of equities can fall as well as rise and you may not get back the full amount you originally invested.

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