FAST MONEY

Succeed with Shares

Jimmy B. Prince

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Chapter 1: Making money on the sharemarket

As share prices can fluctuate daily the anxiety that you could lose money is a constant feeling you may experience. Sure you can drop a bundle if share prices plunge. But you can also make heaps if they rise. Provided you do your homework and invest sensibly, owning shares can be a very rewarding and lucrative way of building up your wealth. In this chapter I chat about the basics, and explain that investing in the sharemarket is not all doom and gloom. I also chat about the different ways you can invest in shares.

To gain confidence dealing with this type of wealth-creating asset, it's important that you understand the fundamentals — both good and bad. The following information explains the nuts and bolts of investing in the sharemarket.

Cashing in your chips: highly liquid

During one of my sharemarket courses a woman casually said to me, 'I own a $50 000 share portfolio but I have no cash that I can quickly access'. When the first aid officer helped me recover from the sudden shock of hearing such a statement, I had to remind her that shares are effectively a substitute for cash. In chapter 2 I emphasise it normally takes no more than a few seconds to buy and sell them (especially if it's done online). And you'll normally get your money back within a few days. Alternative investments like managed investment schemes, real estate and collectables could take an eternity to sell. So what does all this mean? Shares allow you to quickly get in and out at minimal cost. And you'll be able to take advantage of any good buying opportunities in other asset classes that may pop up from time to time.

Shares also give you the opportunity to sell small parcels at short notice. For example, you own 1000 BHP Billiton shares and you need to sell 500 shares to access some cash quickly. Unfortunately, you can't do this with alternative investments such as real estate and collectables: you can't rock up to an auctioneer and try to sell your front bedroom or the left-hand corner of an expensive painting by a famous artist! Although there is no minimum number of shares you can sell, the brokerages fees payable to sell minute parcels could make the transaction uneconomical.

Adding to the pile: investing small amounts

One of the great things about shares is you don't need a truckload of money to start the ball rolling (as is the case with wealth creation assets like real estate). There are simply no set minimums. With as little as $1000 you can start a small share portfolio and build from there. And you can buy more shares as you become more affluent. Further, when you become a shareholder, you may be given the opportunity to participate in rights issues and dividend reinvestment plans, where you can buy more shares direct from the company. These offers to buy additional shares are normally at a discount to the current market price, and no brokerage fees are payable! A great example that comes to mind is the National Australia Bank share purchase plan. In

August 2009 shareholders were given the opportunity to buy shares direct from the company at $21.50 per share. When the shares were allotted to the shareholders a few weeks later, they were trading at around the $28 mark (you little ripper!).

Counting your money: prices published daily

I love counting my money, especially when share prices are rising. The great thing about owning shares is you can instantly check their current market value, while sitting in front of your laptop sipping a cool drink at a popular holiday resort. If they go up in value you can quickly sell them and take a profit, and either buy them back again if they fall in value or move into something else. For example, on Monday you pay $30 for 1000 shares. On Tuesday at 10.05 am they jump to $31.25. You immediately sell them and pocket a lazy $1250 profit (less brokerage; building wealth and loving it!). At 2.45 pm they fall back to $30. So you decide to buy the shares back. Unfortunately, you can’t do this with alternative wealth-creating assets like real estate. Although you can get a sworn valuation it’s meaningless unless you can find a buyer who’s willing to pay the price you’re asking.

Rolling in dough: receiving a dividend

The major Australian companies listed on the ASX normally declare two dividends around the same time each year. They are called an interim (or mid-year) dividend and a final