

What is the sharemarket?



Shares can be bought and sold in the sharemarket. You have probably been to a market of some kind, whether it be a craft, trash and treasure or food market.

The sharemarket is like any other market where buyers and sellers come together for the purposes of exchange. Fruit is bought and sold in a fruit market and shares are bought and sold in the sharemarket.



The sharemarket, has two distinct markets so let's look at the primary or first market to begin with.

The primary market

The primary market can be likened to "launch pad" where companies that wish to raise capital (cash), issue shares (and other securities) to investors for the first time. It all boils down to a company needing ready access to cash in order to set up a new business or expand its existing business. Shares in a primary market are purchased directly from the issuing company. Complete Activity one to learn more about why a company may wish to raise capital through issuing shares.

Learn about

- The primary sharemarket
- Becoming a listed company
- Buying shares in a float

Famous quote

"One of the funny things about the stock market is that every time one man buys, another sells, and both think they are astute." William Feather

Do you know?

There are over 1,470 companies listed on the Australian Stock Exchange (ASX). In 2002, 86 new companies listed on ASX.

Here's an idea!

Shares are first issued on the primary market. That's the starting point and from then on shares are traded on the secondary market. It's just like someone buying a new stereo and selling it a year later to someone else second hand.

Becoming a listed company

Companies wishing to issue shares on the sharemarket must first be listed on the Australian Stock Exchange (ASX).

In order to qualify to be listed on ASX the company must meet certain requirements. The company must be large enough to ensure there is a market for their shares amongst investors and must also abide by the ASX listing rules. These rules require listed companies to inform the sharemarket of any activities that may affect the price of the shares on the market. For example, the news that a mining company has discovered a new deposit of gold would certainly affect share price as company profits are likely to rise in future.

ASX listing rules also require companies to report any company profits and other specified financial information.

Buying shares in a float

A float is when a company issues shares for the first time. Think of a ship beginning to set sail for the first time. Another term for float is Initial Public Offering (IPO). A Company issuing shares for the first time must issue a prospectus describing its business and financial situation (its prospects if you like) with details of the proposed share issue. A prospectus is an official document that has been lodged with and registered by the Australian Securities and Investment Commission (ASIC).



If you wish to buy shares in a float you will need to review a prospectus and fill in an application form, specifying the number of shares you wish to purchase and send it with your payment to the company or your adviser. If there are many investors interested in the float, you may receive no shares or only some of the shares you applied for. If this is the case your money will be refunded.

Once the application deadline has been reached and shares have been issued, there will be a listing date where the shares begin trading on the secondary market. Shares purchased in the primary market from the issuing company can be sold to other investors in the secondary market.

Some investors buy shares in a float to make a short term gain as the issue price of shares on the primary market is generally priced at a discount to the real value in the market. This means that the shares may be slightly undervalued when first issued on the primary market. The issue price is the price paid for the shares prior to trading commencing on the secondary market.

Do you know?

According to a survey undertaken by PricewaterhouseCoopers, listing premiums (stag profits) were low in 2002, with a third of companies (14) ending the first day of trading with their share prices below issue price.

PricewaterhouseCoopers undertakes an annual survey of sharemarket floats. Visit <http://www.pwcglobal.com.au> and search for information on floats.

Do your homework

Here is a list of some companies that have floated in the last few years with the issue price for each of their shares. Look at the sharemarket tables in the newspaper or go to www.asx.com.au to find the latest share price for each of these companies. If you had invested \$1000 in each of the companies below, how much money would you have gained or lost?

Company

Issue price

1. TAB Limited \$2.05
2. Commonwealth Bank of Australia \$5.40
3. Telstra Corporation Limited \$3.30 (T1), \$7.40 (T2)

Website/s to visit

Visit ASX's website

www.asx.com.au for a list of recent and upcoming floats. Just roll your mouse over the floats icon on the home page.


When trading starts on the secondary market, the price may surpass the issuing price. For example, if you purchase shares in a float for 20 cents each and on the first day of trading the price of those shares reaches 27 cents, you will make a gain of seven cents per share if you sell those shares at 27 cents. Purchasing shares in a float and selling them shortly after they have listed to achieve a short-term gain is referred to as stag profits. Complete Activity two.

A list of upcoming floats is available from ASX’s website. [Click here](#) or go to www.asx.com.au and click on the float icon. In some cases you can obtain a prospectus online by visiting the company’s website or contacting the underwriter of the shares if there is one. An underwriter is a person or organisation that agrees to take up all or some of the issue that was not subscribed to. In other words the underwriter takes the risk should the shares not be fully taken up and in return will receive a fee for this.

 **Activity one**

The first column in the table below lists some quotes by four companies about to list on ASX. The quotes are taken directly from each Company’s Prospectus and explain the reason why the company wishes to raise capital by listing on ASX. Match the reason for becoming a listed company (in the second column) with the quote in the first column. The first answer has been done for you.

Quote	Explanation
1. “Our company has funds under management of approximately \$115 million as at April 2003, which will increase to \$180 million with the successful capital raising for our new Property Securities fund.” <u>B</u>	D. Listed company involved in gold, nickel and diamond exploration requires funds to finance more drilling projects.
2. “Growth opportunities exist to produce new and complimentary specialty steel products...” _____	A. Singapore civil engineering and construction company, whose main business is land reclamation, seeks to list on ASX to continue developing this side of the business.
3. “There are a number of priority targets ready for immediate drilling” _____	B. Investment Property Fund Company wishes to raise money to launch a new project.
4. “The company is seeking a listing as a way to invest some of the capital raised by this offer in quarries. This will strengthen the company’s position as a premier reclamation and shore protection specialist.” _____	C. Metals and Mining Company wishes to produce new steel products with the capital raised from the float.

 **Activity two**

The table below shows some companies that were floated on ASX in April and May 2003. List the companies whose share price closed higher compared to the opening price for the shares on the first day of trading in the secondary market.

Company name	ASX code	Listing date	1st day's trading	
			Open	Close
COOL OR COSY LIMITED	COS	04/06/2003	0.26	0.24
COONAWARRA AUSTRALIA PROPERTY TRUST	CNR	09/05/2003	0.96	0.96
PEPPERCORN INVESTMENT FUND	PIV	22/05/2003	1.3	1.26
PROMINA GROUP LIMITED	PMN	12/05/2003	1.94	1.98
SIBERIA MINING CORPORATION LIMITED	SIB	29/04/2003	0.23	0.3

B Go to www.asx.com.au and click on the float icon. List the companies that will float on ASX in the next six months.

1. _____
2. _____
3. _____
4. _____
5. _____



Teacher notes and answers

Lesson two: the primary market

Approach

Rather than be too ambitious and explain how the sharemarket works in terms of the primary AND secondary markets, it is better to start with the primary market and cement that concept first before moving on to the secondary market in lesson three.

Keep focusing on the students' own experiences when teaching the concepts in this lesson. For example, when introducing the concept of the primary market, ask students whether they have sold anything second hand. Buying goods new and then later selling them second hand highlights the concept that shares are issued "new" on the primary market and then can be subsequently sold to others on the secondary market. Similarly, when briefly explaining that ASX sets the rules for companies, ask students who sets the rules in their own school.

Answers – lesson two

Activity one

1. B 2. C 3. D 4. A

Activity two

Companies whose share price closed higher compared to the opening price on the first day of trading were: DPL, PMN and SIB.

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