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INVESTING IN SHARES

Before your invest your hard-earned money into major companies, learn more about their shares and how to get a good return on your investment

LAST year we looked at investments (How to invest wisely, 1 October 2015) and how you can make your money work for you. We looked at different methods such as forex and offshore investments (How to trade and invest offshore, 15 October 2015), dabbling in the property market (Property investment, 5 November 2015), and unit trusts (Investing in unit trusts, 10 December 2015).

Now, as promised, we will take an in-depth look at the final area where people are investing their money – shares.

The best performing investment over time is buying shares. Shares are also known as stocks or equities. In this type of investment, an investor buys into a company and becomes a shareholder. As the company makes profits, they are then shared amongst the shareholders.

UNDERSTANDING RISK

One of the first things to consider with any investment is the risk, and the possibility of losing some or all of your invested money is very high when you buy shares. Companies sometimes succeed and sometimes fail, so when considering investing in shares one must always seek professional advice.

Shares are amongst the riskiest investments you can buy, and in return for this risk, they are also amongst the most profitable when you make the right investment choices.

In order to reduce risk, it is best to consider shares as medium to long-term investments. These are investments you are willing to hold for at least 10 years before selling. The stock market may go up and down during this period, presenting you with opportunities to sell your shares at a higher price, but you must be able to wait it out. The longer you are invested in shares, the less risk there will be.

Shares therefore make excellent investments when saving for children's tertiary education and other long-term objectives.

INCOME WHILE YOU ARE A SHAREHOLDER

The main way of making money from shares is by buying them at a low price, and then selling at a high price. This is called capital appreciation.

However, as a shareholder, you do also get some income every year if your invested company makes a profit.

Companies often pay out some of the profits in the form of a dividend. This is the company's profit divided amongst all the shareholders. This amount of money