Stocks and Shares 1

EXERCISE 1

Read the following text and then decide whether the statements following are TRUE or FALSE:

The act of issuing shares (GB) or stocks (US) – i.e. offering them for sale to the public – for the first time, is known as floating a company or making a flotation. Companies generally use a bank to underwrite the issue. In return for a fee, the bank guarantees to purchase the security issue at an agreed price on a certain day, although it hopes to sell it to the public. Newer and smaller companies trade on "over-the-counter" markets, such as the Unlisted Securities Market in London. Successful companies can apply to have their shares traded on the major stock exchanges, but in order to be quoted (GB) or listed (US) there, they have to fulfil a large number of requirements. One of these is to send their shareholders independently-audited annual reports, including the year's trading results and a statement of the company's financial position.

Buying a share gives its holder part of the ownership of a company. Shares generally entitle their owners to vote at companies' General Meetings, to elect company directors, and to receive a proportion of distributed profits in the form of a dividend (or to receive part of the company's residual value if it goes into bankruptcy). Shareholders can sell their shares at any time on the secondary market, but the market price of a share – the price quoted at any given time on the stock exchange, which reflects how well or badly the company is doing – may differ radically from its nominal, face, or par value.

At the London Stock Exchange, share transactions do not have to be settled until the account day or settlement day at the end of a two-week accounting period. This allows speculators to buy shares hoping to resell them at a higher price before they actually pay for them, or to sell shares, hoping to buy them back at a lower price.

If a company wishes to raise more money for expansion it can issue new shares. These are frequently offered to existing shareholders at less than their market price: this is known as a rights issue. Companies may also turn part of their profit into capital by issuing new shares to shareholders instead of paying dividends. This is known as a bonus issue or scrip issue or capitalisation issue in Britain, and as a stock dividend or stock split in the US. American corporations are also permitted to reduce the amount of their capital by buying back their own shares, which are then known as treasury stock; in Britain this is generally not allowed, in order to protect companies' creditors. If a company sells shares at above their par value, this amount is recorded in financial statements as share premium (GB) or paid-in surplus (US).

The Financial Times-Stock Exchange (FT-SE) 100 Share Index (known as the "Footsie") records the average value of the 100 leading British shares, and is updated every minute during trading. The most important US index is the Dow Jones Industrial Average.

1. A company can only be floated once. TRUE/FALSE

2. Banks underwrite share issues when they want to buy the shares. TRUE/FALSE

3. It is easier for a company to be quoted on an unlisted securities market than on a major stock exchange. TRUE/FALSE

4. Unlisted companies do not publish annual reports. TRUE/FALSE

5. The market price of a share is never the same as its nominal value. TRUE/FALSE

6. On the London Stock Exchange it is possible to make a profit without ever paying anyone any money. TRUE/FALSE

7. If a company issues new shares, it has to offer them to existing shareholders at a reduced price. TRUE/FALSE

8. A scrip issue can be an alternative to paying a dividend. TRUE/FALSE

9. American corporations with large amounts of cash can spend it by buying their own shares. TRUE/FALSE

10. Companies do not have to sell their shares at their nominal value. TRUE/FALSE

EXERCISE 2

Add appropriate words from the text to these sentences:

1. Offering shares to the public for the first time is called . . . . a company.

2. A company offering shares usually uses a merchant bank to . . . . the issue.

3. The major British companies are . . . . on the London Stock Exchange.

4. In London, share transactions have to be . . . . every two weeks.

5. The value written on a share is its . . . .

6. The value listed in the newspapers is its . . . .

Stocks and Shares 2

Complete the sentences using these words:

arbitrageurs	**bears**	**bulls**	**insiders**
market-makers	**shareholders**	**stags**	**stockbrokers**

1. People who buy stocks and shares are called . . . . in Britain, and stockholders in the USA (although most of the shares of all leading companies are held by institutional investors such as pension funds and insurance companies).

2. People who buy securities expecting their price to rise so they can resell them before the next settlement day are known as . . . .

3. People who sell shares hoping to buy them back at a lower price before the next settlement day are called . . . .

4. People who buy new share issues, hoping to resell them at a profit (if the issue is over-subscribed) are known as . . . .

5. Shareholders place their orders with, and sometimes seek advice from . . . . , who are members of the Stock Exchange, but who can work anywhere with a telephone and a computer screen connected to the Stock Exchange.

6. Brokers in turn buy shares from and sell them to . . . . , who are wholesalers in stocks and shares, and who guarantee to make a market at all times with brokers.

7. . . . . are people who occupy a position of trust within an organization and possess information not known to the public; buying or selling shares when in possession of such information that affects their price is illegal.

8. . . . . are people who buy stakes in companies involved (or expected to be involved) in takeover bids.