

The Stock Exchange Corner

The Benefits of Owning Shares & Answers to Frequently Asked Questions

Potential investors may ask themselves what is to be gained by buying and owning shares in companies. If we remember that a company may raise capital by issuing shares to the public, then at a macro level, investors may say that they are financing economic growth, especially if we consider the private sector as “the engine of growth”. Companies will use investors’ funds to purchase new or replace obsolete plant and equipment thereby increasing productivity and output. This will lead to an improvement in the standard of living and a more optimistic view of the future.

On a personal level, three main benefits for the investor may be:

- The value of the shares may grow over time, assuming the company is properly managed. This increase in the value of the shares is called price appreciation.
- Once the company is managed profitably, the investor/shareholder will receive dividends declared by the company’s directors periodically.
- The investor gets the satisfaction that he/she is contributing to the development of a well/managed company which will make a positive contribution to the country’s economy.

It is worthy of note that shareholders do not pay taxes on dividends in Guyana while interest on bank deposits is subject to withholding tax of twenty per cent. Investors may also use their shares as collateral for loans from lending institutions. When we combine these last two benefits with those listed above, we can see that there are positive gains to be reaped from investing in well-run companies.

Members of the public often ask questions about the Stock Market. We give some of these Frequently Asked Questions (FAQs) and their answers below.

Frequently Asked Questions (FAQs)

What is a Stock Market?

A stock market is a place where stocks and shares are traded; it may either be a physical room where the traders gather together or a communications network linking the traders’ offices.

What is being implemented in Guyana?

The securities market in Guyana is being operated by the Guyana Association of Securities Companies and Intermediaries (GASCI). Trading takes place at the GASCI office where orders to buy and sell are matched on a computer-based "Limit Order Book"

What financial products are traded on exchange?

Shares and bonds

Why does there have to be a special market for stocks and shares? Can't they be bought and sold like cars or houses or goods in any other market?

Stock markets need to be regulated more than other markets because they deal in large amounts of money and because the customers and the members of the market must have confidence in it. In particular they must be confident that prices are fair and equally available to everyone; they must also be confident that any trade executed on the market will be honoured.

What is a Stock Exchange?

A stock exchange is a company which organises and supervises a stock market to be used by its members, either on their own behalf or on behalf of their customers.

Does the Stock Market have to be organised by a Stock Exchange? Can't it be done by a computer bureau?

A stock market in Guyana must legally be organised and supervised by a company whose members are traders on the market. Technically it is possible to trade some securities in some countries without involving a stock exchange, but it would not be feasible in Guyana even if it were legal.

What is the use of a Stock Market – in general?

A stock market allows owners of stocks and shares to dispose of them at a fair price, it allows new investors to buy them at a fair price, and it allows companies to sell new shares to finance the growth of their businesses. Most new investment is by or for people saving up for their retirement. People buy stocks and shares with the expectation that they will be able to sell them again, unlike companies who generally issue stocks with no expectation of ever having to buy them back. This means that older people selling their shares when they retire have to dispose of them, not to the companies that issued them, but to younger

people who are building up their savings. This process cannot take place unless there is a reliable marketplace in which to buy and sell. A further benefit of a market is that it provides a basis for valuing businesses, whether for the purposes of stock trading, or for establishing credit with banks and other lenders,

What is the use of a stock market - in Guyana when so many people have so little money?

The total volume of savings in Guyana is quite high, but it is held mainly in cash or short term bonds. If it could be mobilised to help finance the growth of the economy through purchase of new shares issued by companies, savers would have a better return on their savings and the economy would grow. There is, in fact, a shortage of stocks and shares in which to invest. If there were more stocks available and a reliable market savings should increase and funds should be attracted from overseas.

Why does it not use the Trinidad Stock Exchange?

It might well be possible for some trading to take place in Trinidad through the “listing” of Guyanese securities on the Trinidad and Tobago Stock Exchange, but there would still be a need for trading to take place in Guyana, under Guyanese law, settled in Guyanese dollars, recorded in Guyanese companies’ shareholder records and subject to Guyanese procedures and regulations

Next week: More FAQs and answers

N.B. – More information may be accessed on our website: www.gasci.com