

Buying and Selling Shares on the Sierra Leone Interim Stock Trading Facility

When you buy shares in a company you quite literally take a share in the **ownership** of that company. There are two ways in which you can do this. You can either buy new shares when a company sells them for the first time to raise money to invest in the business (the primary market), or you can buy existing shares from an individual or an institution that wishes to sell them (the secondary market).

The Role of the Sierra Leone Interim Stock Trading Facility – A Regulated Market

The Interim Stock Trading Facility will perform the functions of a stock exchange until the necessary legal and regulatory framework for a full-fledged stock exchange is put in place. The Stock Trading Facility will exist to provide a central, regulated market where stocks and shares can be bought and sold safely.

It does this in several ways:

- providing a trading floor;
- helping to create liquidity in shares by bringing together buyers and sellers in one place;
- ensuring transparency, by publishing information about companies, share prices and trades; and
- through its rules and regulations, creating a level playing field for all participants.

The Stock Trading Facility is responsible both for the primary and secondary markets. This means that it determines which securities may be admitted to trading on the Facility, and ensures that all participants conduct their business according to the rules and regulations. It has

the power to investigate and, if necessary, to discipline anyone who breaks those rules.

The Role of Licensed Stock Brokers and Dealers

All trading must be undertaken by licensed Stock Brokers. Stock Brokers are firms or qualified members of such firms, which are authorised by the Bank of Sierra Leone to buy or sell securities on behalf of their clients according to their instructions. The broker must operate according to the Rules and Regulations of the Interim Stock Trading Facility, which are designed to protect investors from fraud or unfair dealing.

Brokers may simply buy or sell shares as instructed, but they can also give trading advice to their clients, and will provide up-to-date information about the securities traded in the market. The broker will charge a fee, or commission for providing these services. Dealers are brokers that are additionally authorized to buy and sell shares for their own account

How to buy or sell shares

To buy or sell shares in the market you will first have to register with a stock broker – currently two firms are ready to provide brokerage services. These are listed at the end of this document.

When a stockbroker has an order from a client, he will buy (or sell) the shares at the best price available on the trading floor of the Facility. When the deal is completed, the broker sends a contract note to his client confirming the details of the transaction, such as the number of shares bought or sold, the price of the shares bought or sold, and the commission due.

Once payment has been made for the shares and the transaction is complete, the buyer will receive a share certificate as proof of

ownership. Details of every listed company's shareholders are maintained by an institution or individual known as a registrar. If you do not get your name registered for the newly bought shares, you are not a legal owner of those shares and you will not be entitled to receive any dividend or to vote at AGMs of the company.

What determines share prices?

Various factors can combine to determine the price at which shares will be traded. Some of the most significant are:

• Supply and demand

As in any market, if the number of people wishing to buy exceeds those wishing to sell, the price will rise. Of course, the reverse is also true. Institutional investors tend to have a significant impact on a share price, because they will deal in much larger quantities than private investors.

• The performance of the company

If, for example, a company puts out a warning that business conditions are difficult, its shares will often drop in value as investors anticipate a fall in profits. If, however, a company announces that it has signed a major new contract, the shares are likely to rise in value, with expectations of increased profits. It is important to monitor this information on a regular basis.

• General economic outlook and associated investor sentiment

The health of the national (and regional) economy has a fundamental influence on share prices because it will have an impact on company profits. Very broadly speaking, if the economy is growing, company profits can be expected to improve and shares become more highly valued. Investors will be made likely to have higher levels of disposable income which they will be

more inclined to invest in shares. If the economy is weakening, then levels of disposable income will be reduced, company profits will be more likely to fall, and share prices can be expected to follow suit.

- **Interest rates**

Interest rates generally affect the cost to companies of borrowing and so can impact on their profitability. However, different sectors of the economy may be affected in different ways. For example, a rise in interest rates can be bad news for house builders as people feel less confident about taking on debt to buy houses. On the other hand, pharmaceutical companies are less likely to be affected as demand for medicines is generally less affected by the strength of the economy.

- **Press Comment**

Positive or negative coverage of a company in the press can influence investor sentiment and consequently the share price.

- **Taxes**

Tax Policy of the government is another important factor affecting share prices. If the government imposes a tax on a certain sector of the economy, the net profit of businesses on that sector will be affected which in turn will affect these share prices.

The two Discount Houses, who may be licensed very soon to operate as Dealing Members in the Sierra Leone Interim Stock Trading Facility, are

First Discount House Limited
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