

THE ART OF INVESTING IN SHARES



FBC Securities (Private) Limited

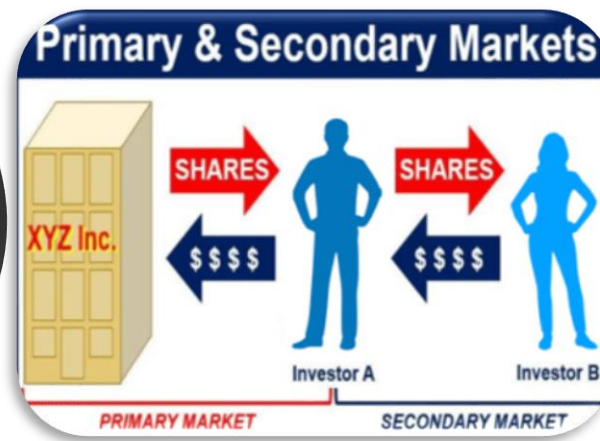
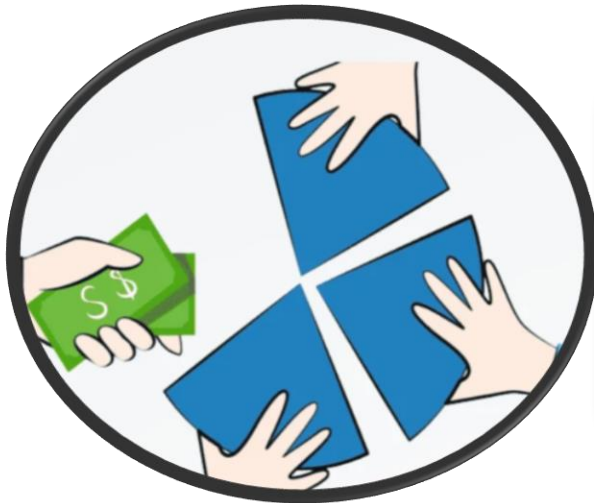
(Registered Stockbroker) - Member of the Zimbabwe Stock Exchange



Introduction

- The **stock market** is a place where people buy and sell ownership shares of companies, called **stocks**.
- Think of it as a giant marketplace where businesses raise money or assets to grow, through selling **pieces (shares)** of those businesses to investors, to share in their success.

How Does the Stock Market Work?



1. Companies Issue Shares (Primary Market of Shares):

- When XYZ Inc. needs money to expand, it offers/sells **shares of its ownership** to the public.
- This process is called an **Initial Public Offering (IPO)**.
- The proceeds from the sale become **capital** that the company utilizes for its operations.

Please Note:

- ✚ *A share is simply a piece of a company that one gets in exchange for money or assets (capital to the company).*
- ✚ *With ownership comes control of the company, but the amount of control depends on the number of pieces one owns.*
- ✚ *The pieces (shares) can be bought by many people or institutions, and a person or institution that buys most of the pieces has the greatest control of the Company (as major/majority shareholder).*

2. Investors Trade Shares (Secondary Market of Shares):

- After the IPO, shares are then bought and sold on stock exchanges like the Zimbabwe Stock Exchange (ZSE).
- For example, in need of school fees for his child, Investor A (on the XYZ Inc. chart above) may decide to sell (liquidate) his shares in XYZ Inc. to someone else (Investor B) with interest in the company.
- **However, Investor A's decision to sell is not only determined by his desire to cash-out. There could be other reasons that include:**
 - ✓ **Concerns about the company's performance-** no one wants to maintain ownership of something whose future is worrying to them.

- ✓ **Personal financial needs** (sell shares and use the cash for personal needs) or changes in goals (e.g., sell shares of **Z Ltd** to invest the proceeds in a more rewarding **Y ltd**).
- ✓ **Profit-taking-** if the stock's price has increased significantly, and the investor wants to lock in profits, selling ensures that they turn paper gains into actual cash, avoiding the risk of a future price drop.
- ✓ **Market, economic, or political factors:** fears of unfavorable market, economic or political events may motivate an investor to sell their shares before they lose value.

NB: Because investors have different goals, strategies, and views about a company's future potential, where there is someone selling, there is usually someone else looking to buy.

What motivates buyers to buy shares

(What drives demand for a share)?

- To understand this, one needs to understand how investors benefit from buying shares:
- ✓ **Income generation:** an investor can get a share of the company's profit, called a **dividend**. Dividends being a share of PROFITS means that the PROFITABILITY of the company is key in deciding whether to pay out the dividend or not. (However, not all companies pay dividends; others choose to reinvest all the profits into the business to support further growth).



- ✓ **Gains from “buying low & selling high”:** besides a dividend, an investor can benefit from a positive price change, called **capital gain or capital appreciation**, e.g., If Investor B buys a share for \$10 and its price rises to \$15, he can sell it to Investor C for a \$5 profit per share.

- ✓ **This happens when demand for the company's shares grows. This demand is driven by various factors such as:**

- Profit potential:** the higher the profit, the higher the dividend & consistency in making profits increases the chance of consistency in paying out dividends.

NB: The profit potential attracts investor interest, increasing demand for the Company's share & pushing the share price up. This creates **Capital Gains**.

What drives demand for shares?

- ii. **Growth potential:** in most cases, the bigger the company, the more valuable its share becomes. Therefore, companies with high growth potential tend to attract more investor interest.
- iii. **Consistent dividend record:** income-focused investors are attracted by companies that have a record of consistent dividend payouts.
- iv. **Market dominance:** just like in soccer betting where bias is largely on the more dominant teams, dominant companies tend to attract higher investor interest due to their competitive advantage.



- v. **Positive Analysts Coverage:** companies that get more coverage by market analysts (e.g., analysts' briefings, research reports & earnings updates etc.) tend to draw more investor attention.
- vi. **Herd Mentality:** If many investors are buying, others may follow, increasing demand further.
- vii. **Fear of Missing Out (FOMO):** A rising stock price can drive demand as investors rush to join the trend.
- viii. **Safety/Value Preservation Objective:** In periods of economic uncertainty investors tend to prefer shares of big, stable, profitable & low risk companies.

How Do Investors Make Money? (A Recap)

Basically, there are 3 ways of making money on a stock market:

i. Capital Gains (Buying Low, Selling High):

- If you buy a stock for \$10 and its price rises to \$15, you can sell it for a \$5 profit per share.
- This happens when the company grows, performs well, or when more people want to buy its shares.

ii. Dividends (Profit Sharing):

- Some companies share a portion of their profits with shareholders as dividends.
- For example, if one owns 100 shares of a company that pays \$1 per share as dividend annually, they earn \$100 in dividends.

iii. Compound Growth:

- Reinvesting one's earnings (capital gains and dividends) can grow their wealth over time through compounding (multiplied growth of invested capital).



Investor vs Trader vs Speculator

Aspect	Stock Market Investor	Stock Market Trader	Stock Market Speculator
Who They Are	Investors are like gardeners who plant seeds (shares) and patiently wait for them to grow into big trees (wealth).	Traders are like merchants who buy goods (shares) at a low price and sell them quickly for a profit.	Speculators are like gamblers—they take big risks hoping for big rewards.
Their goal	Build long-term wealth by holding onto stocks for years or even decades.	Earn short-term profits by taking advantage of frequent price movements.	Make quick and high-risk profits, often by betting on uncertain events.
How They Operate	<ul style="list-style-type: none"> - Focus on a company's fundamentals (profits, growth potential, stability). - Ignore short-term price movements. 	<ul style="list-style-type: none"> - Buy and sell stocks daily, weekly, or monthly. - Use technical analysis (charts, patterns) to predict price trends 	<ul style="list-style-type: none"> - Rely on market rumors, hunches, or risky strategies like short-selling. - Often ignore a company's fundamentals and focus on highly volatile stocks.
Example	Someone buys shares of a strong company like Delta Corporation and holds them for 10 years, expecting steady growth and dividends.	A trader buys a stock at \$20 and sells it two days later at \$25, making a quick \$5 profit per share.	Someone hears a rumor about a company launching a new product and buys its stock expecting a price surge, even though the company has no solid track record.
Risk Tolerance	Low to moderate; prefers stability and steady growth.	Moderate to high; accepts market risks for short-term gains.	Very high; willing to risk significant losses for potential big rewards
Time Horizon	Years to decades; focuses on sustainable growth and dividends.	Days, weeks, or months; capitalizes on short-term price movements.	Minutes, hours, or days; targets quick gains from volatile stocks.
Market Conditions	Thrives in stable economies with predictable long-term growth prospects.	Performs well in volatile markets with frequent price swings.	Benefits from highly volatile environments with significant uncertainty.

How Does One Decide What to Buy or Sell?

Investment analysis involves fundamental analysis and technical analysis:

Fundamental Analysis (Company Health):

- **Revenue and Profit:** Is the company making money and growing its profits? Remember that **dividends** are a portion of profits & a profitable company usually attracts more demand for its shares, boosting their prices to generate **capital gains** for shareholders.

NB: Once-off profitability is not enough, focus on the historical **consistency** of profitability and potential for the profitability to continue.

- **Price-Earnings (P/E Ratio):** Is the stock price reasonable compared to the company's earnings? Earnings are profits attributable to owners of the company (shareholders),

and from the earnings:

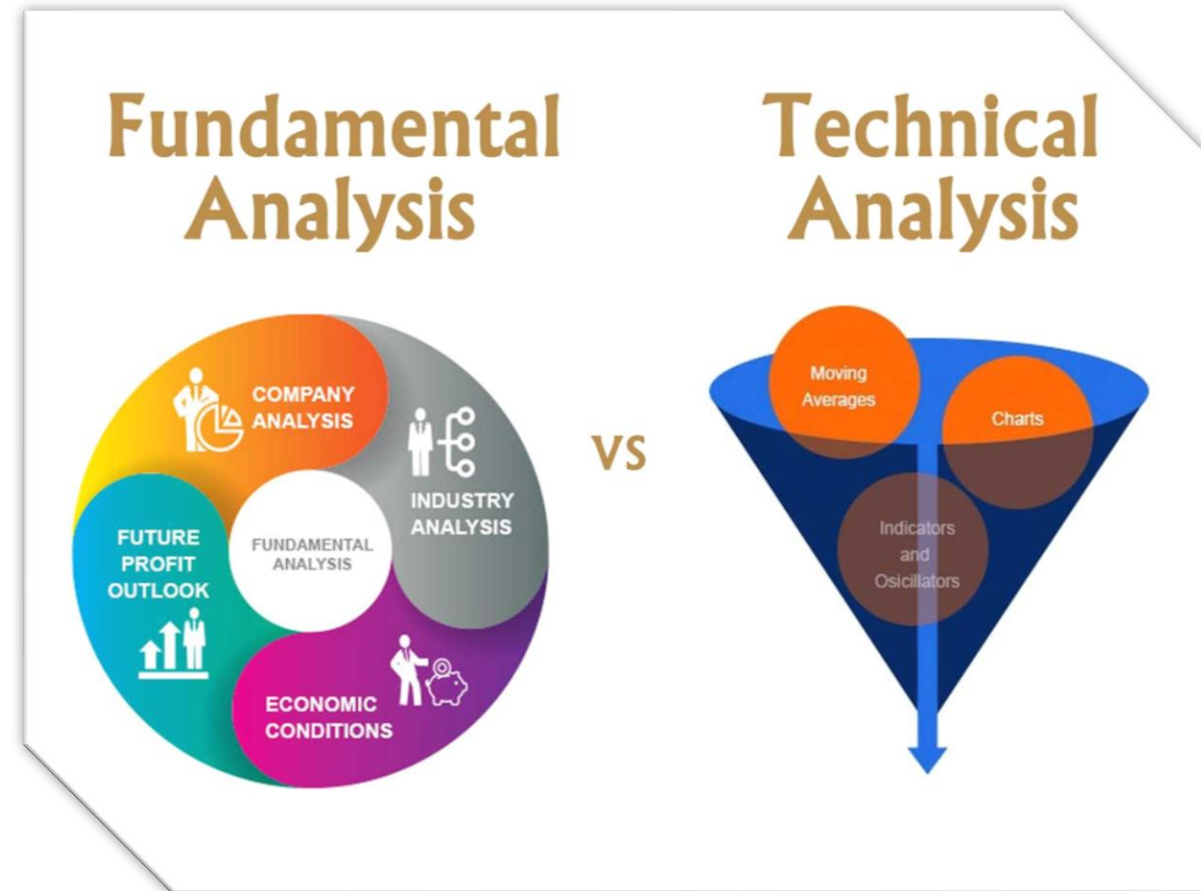
- i. A portion is paid to shareholders as **dividends**, and
 - ii. The remainder is reinvested into the business for expansion which creates **capital gains** later, if well managed.
- **Debt Levels:** Does the company have too much debt? Interest on debt is an expense deducted from profits to arrive at **earnings**. Therefore, higher debt levels of a business mean higher interest burden/expense, and lower **earnings**. Lower earnings mean little or no dividends and retained earnings to support further growth.
 - **Dividend Yield:** Does the company pay dividends, and are they consistent?

How Does One Decide What to Buy or Sell?

- **Going Concern Status:** looking at the economic environment, state of the industry in which the company belongs and internal company affairs, how likely is it that the company will continue to exist? This is commonly called **E-I-C** analysis (i.e., Economy, Industry & Company analysis)

Technical Analysis (Price Trends):

- **Price Patterns:** Study charts to identify when a stock price is likely to rise or fall. Patterns usually repeat!
- **Volumes:** Check how many shares of the company are being traded per day, per week etc.; high volume often means high investor interest (demand) and potential for high capital gains.



Downsides of Stock Market Investing

Downside	Description
Market volatility	<p>Stock prices can rise and fall unpredictably, leading to potential losses if one sells during a downturn.</p> <p>Traders and speculators are much more likely to face this risk than investors.</p>
Company risk	A company's poor performance or bad decisions can cause its stock price to plummet.
Loss of control	If one is a minority shareholder, they can't control company operations, management, or external factors affecting its performance.
Emotions	<p>Fear or greed can lead to bad investment decisions, e.g., selling too early or buying overpriced stocks.</p> <p>This is why it is advisable that one stays close to his/her professional advisors, especially stockbrokers.</p>
No guaranteed returns	<p>Unlike savings accounts, there's no guarantee of profits in the stock market.</p> <p>Losses are possible.</p>

Ways of Minimizing The Downsides

Strategy	Description
Educating Oneself	<p>Learn about investing basics and market trends.</p> <p>Get close to stockbrokers & investment analysts.</p>
Diversify	Spread investments across multiple stocks, industries & jurisdictions.
Long term investing	Stocks tend to perform better over extended periods.
Start small	Begin with amounts you can afford to lose while gaining experience
Buy "value" not "cheap"	<p>The value of a share/stock is in the rewards it can generate for the shareholder, namely dividends, capital gains, and capital preservation.</p> <p>Choose a stock/company that has POTENTIAL to generate that VALUE.</p> <p>Not all CHEAP stocks are worthy buying.</p>

ZSE & VFEX Top Performing Stocks 2024

VFEX Capital Gains Top Performing Stocks 2024

Symbol	Full Name	2024 YoY Top Performers	Paid 2023 Dividend	Paid 2024 Dividend
FCA.VX	First Capital Bank	115%	Yes	Yes
INV.VX	Invictus	25%	No	No
EDGR.VX	Edgars	23%	No	No
NTFD.VX	National Foods	21%	Yes	Yes
PHL.VX	Padenga Holdings	11%	Yes	Yes
SIM.VX	Simbisa Brands	10%	Yes	Yes
AXIA.VX	Axia	10%	No	No
INN.VX	Innscor	6%	Yes	Yes

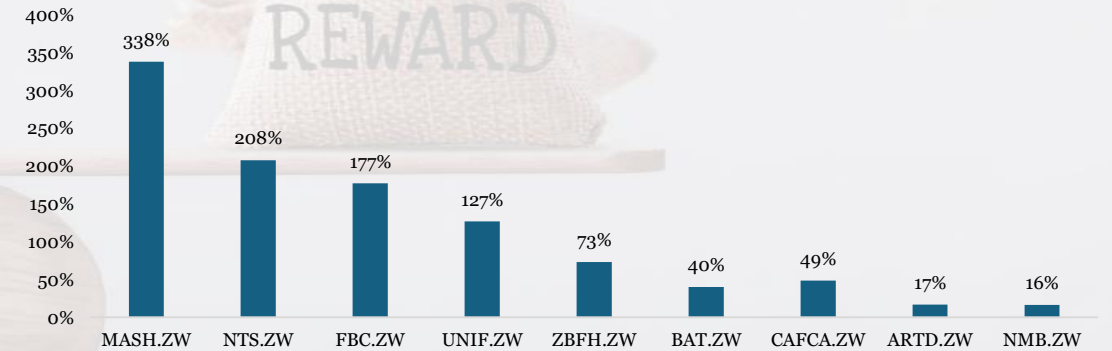
ZSE Capital Gains Top Performing Stocks 2024

Symbol	Full Name	2024 Capital Gains Yield	Paid 2023 Dividend	Paid 2024 Dividend
MASH.ZW	Mashonaland Holdings	239%	Yes	Yes
NTS.ZW	National Tyre Services	208%	No	No
FBC.ZW	FBC Holdings	174%	Yes	Yes
UNIF.ZW	Unifreight	127%	Yes	No
ZBFH.ZW	ZB Financial Holdings	73%	Yes	No
BAT.ZW	BAT Zimbabwe	40%	No	No
CAFCA.ZW	CAFCA	40%	Yes	Yes
ARTD.ZW	Art Corporation	17%	No	No
NMB.ZW	NMB Holdings	11%	Yes	Yes
NPKZ.ZW	Nampak Zimbabwe Ltd	1%	No	No

VFEX Top Stocks (Total US\$ Return) 2024



ZSE Top Stocks (Total US\$ Return) 2024



Interpretation (e.g., First Capital Bank):

- ✓ A total return of 116% means that an investor who invested, say US\$10,000 in First Capital shares on 1 Jan 2024 closed 2024 with US\$21,561 (a return of US\$11,561 calculated as $116\% \times \text{US\$}10,000$). For Mash Holdings, the return would be US\$33,817 ($\text{US\$}10,000 \times 338\%$). Subtract a c3% USD YoY inflation in 2024 from the respective total returns, you remain with significant real US\$ returns from stock market investments.

ZSE & VFEX Top Dividend Paying Stocks 2024

Counter	Total Yearly Div/Share	Assume an investor with 100,000 shares of each company
ZSE (US cents)		
CAFCA	4.90	4,900.00
Delta	2.00	2,000.00
Meikles	1.50	1,500.00
Econet	1.37	1,373.33
NMB	0.62	620.00
Afdis	0.60	600.00
Masimba-usd	0.51	507.89
FBC	0.50	500.00
FML	0.16	164.00
RTG-usd	0.08	78.35
Mash	0.02	23.70
REITs (US cents)		
Tigere REIT	0.14	135.17
Revitas REIT	0.04	37.50
VFEX (US\$)		
National Foods	0.06710	6,710.00
Innsco	0.02650	2,650.00
Simbisa	0.01012	1,012.00
Padenga	0.00800	800.00
Caledonia	0.00560	560.00
African Sun	0.00068	67.62
First Capital	0.00007	6.92

Disclaimer: most of the ZSE counters have only paid interim dividends in 2024, which we used to calculate implied annual rates. CBZH also announced an interim dividend in its HY24 financials but is yet publish a notice with an actual amount.

- Delta, Afdis, FBC, Meikles, NMB, FML, RTG, Mash, Tigere, Revitas and all the highlighted VFEX counters have all been somewhat consistent in paying out dividends.
- Most of them also have dominant market positions in their respective spaces.
- Expectations are that the Zimbabwean operating environment will improve to allow these companies' margins to grow and dividends & capital gains to surge.
- Income-focused institutional investors should consider investing in any of these counters.
- Retail investors should accumulate their holdings of the highest dividend paying stocks that are stable enough to preserve their investments and have potential for meaningful capital gains.

Take the First Step Toward Financial Empowerment!

1. Start Your Investment Journey

- Engage a Stockbroker of your choice, open a brokerage account and explore your options.
- Begin small—invest what you can afford to grow over time.

2. Educate Yourself

- Stay informed on market trends, economic news, and key strategies.
- Leverage resources like Books, Podcasts, Online courses (e.g., <https://zsetraining.co.zw/>)

3. Think Long-Term

- Harness the power of compounding by staying consistent.
- Focus on your financial goals rather than reacting to short-term market fluctuations.

4. Are You Ready to Act?

- The stock market is a powerful tool for building wealth and achieving financial freedom. Don't wait—start today and take control of your financial future!

“The best time to plant a tree was 20 years ago. The second-best time is now.” Chinese quote

DISCLAIMER

This document may contain certain FBC Securities (Private) Limited analysts' opinions, expectations of performance and forecasts with respect to certain or all financial securities herein discussed. By their nature, all such forward-looking statements, opinions, expectations and forecasts involve risk and uncertainty because they relate to future events and circumstances which are beyond the control of FBC Securities (Private) Limited, including, among others, domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation and the timing and impact of other uncertainties of future acquisitions or combinations with relevant industries, as well as the impact of tax and other relevant legislation.

As a result, FBC Securities (Private) Limited's forecasts, opinions, expectations, and forward-looking statements may differ materially from the reality that may emerge. FBC Securities (Private) Limited undertakes no legal obligation to update the forward-looking statements, opinions, forecasts and expectations contained in this document, or any other forward-looking statements it may provide. Facts and assumptions contained in this document should not be replicated or quoted without author's consent.

2nd Floor Bank Chambers
76 Samora Machel Av.
P O Box 1227
Harare, Zimbabwe
Website: www.fbc.co.zw

Tel: 2634797759/ 797761/64/67/69
Fax: 263 4 780848
Email: stockbrokers@fbc.co.zw



FBC Securities (Private) Limited

(Registered Stockbroker) - Member of the Zimbabwe Stock Exchange
You Matter Most