Share portfolio

Whether it is because of Building Society changes or the privatisation of the once state owned utilities, it is far more common for people to own shares than it was just twenty years ago. The introduction of Internet share dealing brings share ownership another step nearer to us all, as it allows individual investors to buy and sell shares quicker and more cheaply than ever before.

The value of shares and the income from them cannot be guaranteed to rise. People, who invested in quoted company shares, saw their money grow faster than would have been the case had it been invested in Bank or Building Society deposits, although their money was not as secure as it would have been in a bank or building society deposit account and they were not certain to make a profit and could have made a loss. Past performance is not a guide to future performance.

Arranging the sale or purchase of company shares requires a level of Financial Regulation not normally required by us. Therefore to assist our clients in regards to share dealing we usually introduce them to an organisation that specialises in share dealing. This organisation is Regulated by the FSA is registered with the London Stock Exchange and normally arrange for share deals to be completed on an 'execution only' basis. This means no advice on the suitability of any particular share transaction will be offered to you.

Please note:

- The value of investments and income from them can fluctuate (this may partially be the result of exchange rate fluctuations) and investors might not get back the full amount invested.
- Past performance is not a guide to future performance.

Share Dealing

What is it?

Share dealing is the process of buying and selling shares on a recognised stock exchange.

In theory, the actual process of buying and selling shares is quite simple. Looking on the Internet or in the financial pages of the press, you will find lists of shares and the prices between which they are being bought and sold. You decide how much you are willing to pay for the shares and put in an offer. If the offer is accepted, you receive the shares and pay for them. Selling shares works the same way: you offer your shares for sale at a price and if someone accepts your offer, you receive payment and hand over any share certificates you have.

In practice, there are a number of ways in which you can achieve the above process.

What are the different ways of dealing?

You buy and sell shares:

- Through a stockbroker: you can ask the broker to advise you or just to buy and sell shares as you direct without their advice
- Through a share-dealing service: most banks and building societies now offer this service
- Through an on-line trading service.
- Through solicitors and accountants

- Through the stock broking department of your bank
- Direct from the company: companies advertise upcoming share offers in the Press, on national television and on the Internet. You apply for a prospectus and application form, complete the form and send it with your cheque. You need to remember that if this is a very popular share issue, you may not get the amount of shares for which you applied.
- Through a share shop: these are shops set up in your local high street which may be independent, or have a connection to a bank or building society – or even be located within the bank or building society itself.

Note: you can buy shares from family, friends or colleagues direct, without going through the stock market at all. You will still need to complete the legal paperwork and pay stamp duty on the transaction.

Each stock exchange will have its own way of dealing with the mechanics of transferring payments for and from share deals and with the paperwork.

See below for more information on Crest, the UK stock exchange system for paperless trading

What should I think about when deciding how to deal?

You need to think about the following when selecting the way you will conduct your share dealing:

- What is most convenient for you? If you have the time and energy, you may prefer to deal with all your transactions in person
- If you find it easier to let a third party buy and sell for you, how much control over their actions do you want? You might want them to check every deal with you or leave it to their judgement entirely.
- How many shares do you intend to buy and sell? A few shares occasionally are better suited to a share shop: major investments are appropriate for a dedicated stockbroker
- Consider the costs of each type of service
- How quickly will a third party pay you your money from a transaction?

More information on stockbroking services

Stockbrokers can trade shares for you in one of three ways:

- Execution only: you instruct the stockbroker to buy and sell your shares at a given time and at a given price.
- Advisory: you ask the stockbroker for assistance in deciding when to buy and sell shares and at what price. If you are a major investor, the stockbroker may take the initiative and contact you to discuss potential transactions.
- Discretionary: you give the stockbroker powers to buy and sell your shares when they think they can obtain the best deal for you.

Charges for each type of service vary, with execution only being the cheapest and discretionary the highest. A commission is charged on each transaction: the commission is a percentage of the transaction value but you should be aware that there may be a minimum fee. The appropriate level of fees will be outlined to you by the share-dealing organisation before you buy or sell any shares.

In addition to any fees due you should also consider stamp duty on any purchase of shares. Please note that for large transfers of shares there is also a 25p levy due to the Panel of Traders & Mergers.

Although you can pay your stockbroker by cheque each time you complete a transaction, your stockbroker may prefer you to open a nominee account with them. This means that a given amount of money is held in an account ready to buy shares. You will not receive a share certificate but you will be registered as the holder of the shares and receive dividends.

Some companies offer shareholders special discounts or incentives on the products or services they provide. If your stockbroker provides a 'advisory' service then they will be able to advise you of any share holder incentives available.

The stockbroker's account should be held separately from the rest of the firm's accounts, so if the firm goes bankrupt your money is not affected.

The advent of paperless trading has helped to speed up the time in which settlement is made. See our section on Crest for more details.

More information on share-dealing services

Many investment companies, banks and building societies offer share-dealing services for the public. However, unlike stock broking firms the services offered are normally on an execution only basis (this is where you instruct the stockbroker to buy and sell shares on your behalf and they do not give any advice as to the suitability of such a transaction). You can usually give your instruction for the transaction by letter, telephone or more recently via the Internet.

Charges for share dealing services are competitive with stock-broking services, and may be less. You will still have to pay stamp duty and, on large transfers, the Panel of Traders & Mergers' levy of 25p.

Share-dealing services linked to financial institutions like you to have an account with them, so that they can take money directly from it for purchases and pay directly into it money from sales.

If the company you work for has employee share option schemes, it may have an arrangement with a share-dealing service (or a stock-brokers) where you can trade your shares at a discount.

More information on on-line trading

With the growth of use of the Internet, on-line trading is fast becoming one of the most popular ways for investors to trade shares. The principal advantage is the speed at which transactions can be made, allowing you to capitalise on the rises and falls of the stock market.

On-line trading facilities are now offered by both dedicated 'on-line' share dealing businesses and also by the traditional stock-broking firms. It is important for you to be aware that most of the 'on-line' trading facilities have been established on an 'execution only' basis (i.e. this is where you receive no advice on the suitability of the transaction you wish to make) and forfeit any rights to complain.

On-line trading systems take care of the whole process of settlement following your transaction. They deposit or take delivery of shares from an electronic Crest account. They also ensure that once delivery has taken place, payments are automatically paid into or taken from your deposit account.

Charges are competitive compared to traditional stock-broking: from £14.50 per transaction (depending on the size of the transaction). You pay stamp duty on all transactions and, on large transfers of £10,000 or more, the Panel of Traders & Mergers' levy of 25p.

Services can also offer access to on-line libraries of information, these will enable you to study details about companies such as their financial performance over previous years and aspects that the current performance of the business.

More information on Crest

Crest is the London Stock Exchange's paperless trading system, set up in 1994.

The system enables brokers to settle deals in 3 days rather than once or twice a month, as there is no paperwork involved.

If you are a private investor who makes a reasonable number of transactions, you can choose to join Crest as a private member, paying an annual fee of between £10 and £20.

What Crest does is hold your shares electronically rather than you having to receive or send in physical certificates each time you trade. You do not have to hold all your shares in Crest: you can keep some holdings in certificated form if you wish. Your rights as a member of a company are the same: your name will still appear on the company register of shareholders as the proof of your title of ownership, you will receive dividend payments, the annual report and, usually, any shareholder discounts from the company.

As a Personal Member, you are required to have an arrangement with a Crest payment bank that will make and receive payments on your behalf. The person who sponsors your application to join Crest normally arranges this for you. The time delay in actually receiving payments from transactions depends on the arrangements you have with your Crest payment bank and the person who set up your Crest account.

Theoretically, Crest is intended to lower the costs of share dealing, though the initial outlay required by stockbrokers on computerisation may mean brokerage charges actually rise in the short term.

More FAQs on share dealing

When do I pay for the shares I buy? And when do I get the money from the shares I've sold?

On the UK stock exchange, there is system of 'rolling settlements' in place. This means that you have a given amount of time – 3 days – to pay for your shares. The money you earn from selling shares must also be delivered to you within 3 days. If you are using a stockbroker, they must complete all the paperwork within this time frame too.

Because this is quite a tight deadline, the nominee account is very popular, where you keep a certain amount of money ready for trading. This saves the stockbroker from having to produce a certificate for you, and at the same time the stockbroker knows you have the money there and are ready to pay.

Alternatively, you can reach an arrangement with your broker to settle in 10 days, as brokers recognise that completing the paperwork and payment in 3 days can be very difficult for private investors.