



Prudential Investment Managers

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## Uncovering the mysteries of trading on the JSE

It's a question few beginner investors can really answer, but one most are too shy to ask. What, exactly, is a stock exchange? What does the Johannesburg Stock Exchange (JSE) actually do and how do you trade on it?

They may sound like basic questions, but when it comes to investing – as with all things – it really pays to know the basics.

A stock exchange (or a stock market) is a place where anyone can invest in companies by buying fractional ownership (or a "share") of those companies, and become a partial owner, or shareholder. These include many household names (like Sasol, Naspers, SABMiller, etc). These listed companies benefit from being on the stock market by being able to raise capital (through investors like you).

As an investor, you can buy a share of pretty much anything – from gold to debt to currency to a small slice of a particular company (which is also known as “equity”) - as long as it has a value. Bonds, where you buy a portion of a company’s or government’s debt, are also quite a popular option.

### **All about the JSE**

South Africa’s stock exchange is the JSE. It has two main purposes: to enable the buying and selling of shares, and to help regulate and protect the listed companies and the investors who use the JSE. In the pre-computer days, traders would buy and sell paper-based shares on the physical floor of the exchange by getting client orders over the phone and shouting out prices; today all trades are done via computer. The JSE is organised as a company (which itself is listed) that is responsible for ensuring that the JSE’s listed companies and its own members follow the rules around raising capital legally and fulfil financial and governance reporting requirements, while also helping to enforce shareholder rights and responsibilities, among other duties.

The JSE is in turn regulated by the Financial Sector Conduct Authority (FSCA), which issues it an operating license and ensures it conforms to strict licensing conditions and laws. The FSCA is a government entity that oversees the market conduct of financial institutions in South Africa, like investment managers.

Individuals must buy and sell listed securities via a member-company of the JSE, who act as stockbrokers and charge a commission for their services. You can find a list of licensed JSE brokers and members on the JSE or FSB websites. You also pay various charges and taxes for trading, including securities transfer tax, VAT on brokerage fees, and trading fees for STRATE, the company that effects and clears every trade on the JSE, and ensures that trades do not fail. These fees make up part of the income earned by the JSE, so the larger the daily trading volumes on the Exchange, the higher its own earnings.

### **Why are stock exchanges so important?**

The key is that they provide asset price transparency for both buyers and sellers in real-time, reacting quickly to the daily news flow, be it positive or negative. They also ensure safety for buyers and sellers in the transaction process, and oversee the dissemination of company information. While the internet has “democratised” access to news and information in recent years, professional investors and traders can still generally learn important price-moving news more quickly than the typical man-on-the street for several reasons: their use of direct, professional new feeds; their ability to focus 100% of their time on the companies, industries and markets they invest in; their close company relationships; and their expertise in quickly analysing the meaning of the news and its potential impact on a company, among others. They are therefore likely to have an edge on a non-professional when it comes to trading.

### **Making a market**

It’s important to know that, apart from simply reacting to the latest news, stock exchanges prices are forward-looking: they always reflect investors’ future views. Professionals try to forecast where company earnings are heading and therefore where share prices should be now. Share prices in the present reflect those future prospects. When fresh data or news comes in that confirms or discounts their view of the future for a company, they adjust their forecasts accordingly. Trading opportunities arise because investors have differing ideas about the future of a company, reflected in different earnings forecasts and therefore influencing the views of where current share prices should be. This creates a market. And good investors take advantage of opportunities where they believe the market is mis-pricing a company’s share.

### **Sound daunting as a non-professional?**

You’re not alone if you’re thinking that inexperienced investors are at a disadvantage when trading on the JSE, despite the help of

“real-time” online systems offered by internet-based companies. With all the volatility and uncertainty in financial markets these days, it’s hard for anyone to be confident about investing their hard-earned savings wisely. So why not use the expertise offered by professional investors like Prudential, who are continually taking advantage of the ever-changing dynamics of the JSE to try to get the best possible returns for our clients. Visit [our funds page](#) to see our range of unit trusts offering different risk and return profiles, where you can own a portfolio of attractively-priced listed shares and/or bonds without having to navigate the ins-and-outs of the stock exchange.

For more information on Prudential’s funds and how to invest, speak to your financial adviser or call our Client Services Team on 0860 105 77, or email us at [query@prudential.co.za](mailto:query@prudential.co.za).