

DOS AND DON'TS IN THE SECONDARY MARKET

The Secondary Market is a market in which an investor purchases a security from another investor rather than the issuer, subsequent to the original issuance in the primary market. In Sri Lanka it is the function of the Colombo Stock Exchange.

Stock market investing creates a dilemma that every investor must face. As the best performing asset class in history, the stock market cannot be ignored as an investment vehicle. It has outperformed bonds, real estate, and gold. Unfortunately, in order to obtain these long term returns investors have to survive periodic stock market downturns.

A few people may stumble into financial security. But for most people, the only way to attain financial security is to save and invest over a long period of time. You just need to have your money work for you. That's investing.

There are two ways your money can work for you:

- Your money earns money. Someone pays you to use your money for a period of time. You then get your money back plus "interest." Or, if you buy stock in a company that pays "dividends" to shareholders, the company pays you a portion of its earnings on a regular basis. Now your money is making an "income."
- You buy something with your money that could increase in value. You become an owner of something that you hope increases in value over time. When you need your money back, you sell it, hoping someone else will pay you more for it.

Many people just like you turn to the secondary markets to help buy a home, send children to University, or build a retirement nest egg. But unlike the banking world, the value of stocks, bonds, and other securities fluctuates with market conditions. No one can guarantee that you'll make money from your investments, and they may lose value.

Basic Instructions when investing in the Secondary Market

- Get educated: Read about stocks and the market, take a seminar or class on investing and review online financial sites.
- Develop financial goals and an investing and stock-picking strategy.
- Research individual stocks by reading annual reports, quarterly reports and other documents
- Invest in what you know.

- Diversify. Avoid putting your money in just one or two stocks or, for that matter, in one or two industries.
- Buy stocks that you will feel comfortable holding for three to five years. Resist the temptation to dump a stock the moment its price drops a few percentage points. Give it a chance.
- Know your appetite for risk before you start investing. The stock market can be a roller-coaster ride.
- If you don't have time to research and review stocks daily, try investing in Unit Trust, at least to get started.
- Look for value. Use price-earnings ratios, usually reported in newspapers' stock tables, to compare a stock to industry norms before you buy.
- Don't think that by investing all your money today, you will be a millionaire next month. Invest for the long term.

DOS

- Take a holistic view of your financial goals and invest accordingly
- Invest only after adequate research / analysis
- Be aware that value of your investments is subject to ups and downs of the market. They do not offer guaranteed returns like bank deposits
- Deal only with stock broker firms licensed by the Securities and Exchange Commission of Sri Lanka (SEC). This list is available on SEC and Colombo Stock Exchange (CSE) websites.
- Check and satisfy yourself about the credentials and experience of the intermediary (Stock Broker Firm)
- Keep a record of all
 - instructions and transactions with broker
 - correspondences of complaints against broker
 - contract notes
- Keep track of your portfolio in your Central Depository System (CDS) Account on a regular basis
- In case of any dispute / difference / grievance, contact the compliance officer of your broker firm
- Be aware that all brokers are required to have “Certified Investment Advisor” certification in order to advice you on investing.

- Approach Colombo Stock Exchange , if your grievance is not resolved

DON'TS

- Do not invest a lot with borrowed money
- Do not expect unrealistic / guaranteed returns
- Do not be influenced by advertisement / advices / rumours / unauthentic news promising unrealistic gains and windfall profits in mass media
- Do not be guided by unrealistic predictions on share prices and market movements
- Do not fall prey to market rumours / 'hot tips'/ 'opportunity knocks only once' kind of advice
- Do not invest in scrips on sudden spurts in trading volumes / prices without proper research
- Do not be swayed by market sentiments
- Do not invest on any explicit/ implicit promises made by anyone
- Do not indulge in impulse investing
- Do not give wrong / contradictory / incomplete information in the CDS registration form
- Do not reveal your internet trading account passwords to any body
- Do not allow others to trade in your account
- Do not trade in anybody else's account
- Do not pay money to anyone to trade on your behalf for assured returns
- Do not sign blank forms (account opening forms/ discretionary account forms)
- Do not engage in practices that distort demand / prices artificially

RIGHTS

- To receive copies of all documents of client registration
- To receive the best price prevailing at the time of trade for transactions executed through stock exchange
- To receive contract note for all your transactions
- To receive payment / deliveries within three days of the transaction
- To file complaint with Exchange for any dispute against broker
- To receive dividends if declared
- To attend the Annual General Meeting of the company as an Ordinary Share Holder

RESPONSIBILITIES

- To invest your hard earned money only with sufficient knowledge and analysis
- Invest only after carefully analyzing the suitability in the context of your financial goals and risk taking capacity
- Read and understand the agreements before signing it (such as discretionary accounts, Margin Trading etc)
- Give correct and full details at the time of registration and update it regularly
- Fully understand the risks/rewards before trading
- Ascertain the face value of the share before investing
- Give clear, unambiguous and timely instructions to your broker
- Verify all details in contract note, immediately upon receipt
- Crosscheck details of your trade(s)
- Bring any discrepancy to the notice of broker immediately.
- Ensure timely pay-in of monies
- Scrutinize the statements issued such as
 - Bought Note
 - Sold Note
 - CDS Statement

“I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years”.

Warren Buffett

Source: Securities and Exchange Board of India: Investor