



Rubiani Wealth Management

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Introduction to Investing in the Nairobi Stocks Exchange

Trading in stocks is one of the simplest, well known and widespread ways of investing. Its main advantage is the low investment needed to get started. With as little as 100.00, you can get started with stocks.

History and Background - The Nairobi Stock Exchange (NSE) market was commenced in 1954. The market is owned by stockbrokers – though the NSE is now listed and therefore open to ownership by the public. It is regulated by the Capital Markets Authority.

Stockbrokers – As of 2015, there were 23 NSE stockbrokers with 2 brokers under statutory management. The trading is done electronically through a system called Automated Trading System (ATS). Different brokers will auction stocks on behalf of their clients on the system and in turn, other brokers will make an offer for the stocks. The price is therefore determined by demand and supply forces.

Companies and Categories – As of 2015, there were 50 companies listed on the stock exchange divided into 13 categories namely;

- Fixed Income - Automobile - Banking - Commercial - Growth Enterprise
- Insurance - Construction - Energy - Telecommunication
- Agricultural - Investment - Real Estate - Manufacturing

Shareholder Registry - Each company has a register (list) of their shareholders. The registers of shareholders are also held in a common electronic database called Central depository System (CDS) to facilitate trading. The company registry and the CDS therefore liaise continually to update their records.

Company's Interaction with Shareholders - After listing, companies will keep shareholders updated with general company information, pay out dividends (share of profits), provide a rights issue (selling more shares to owners to raise more capital), provide bonus (extra share) and split the share price to attract trading.

Trading in Stocks: Factors that Affect Company Price and Stock Investment Performance

When you invest in stocks, your investment grows in two ways; from company dividends and from appreciation of the stock price. Usually, company dividends are low thus making the main investment

returns on stocks mainly from capital gain or appreciation of the stock price. There are 3 main factors that affect the performance of a company share price;

3. Company Performance: The profitability and potential of an individual company listed on the stock exchange will determine the price growth of share price. A company like Safaricom Ltd. has had its price appreciate three fold (as at March 2016) to Ksh 15 from its initial price of Ksh 5 due to its consistent profitability. On the other hand, Mumias Company has had its share price reduce to below Ksh 2 (as at March 2016) mainly due to the poor company performance. Factors that affect company performance include;

- ✓ Senior management (Esp CEO) and their strategy for growth
- ✓ Government owned company have political interference
- ✓ Uniqueness of products

2. Industry/ Sector Performance – The other major determinant of share price is the sector performance. Sectors that have expected growth will generally have prices grow irrespective of individual company performance. For example, banking sector has generally done well in Kenya thus keeping the prices of bank shares very stable and with good growth.

1. Overall NSE Market Performance – The factor that affects the performance of a company share price the most is the overall NSE market performance. Almost all shares in the market will grow when market is doing fine and drop when market is declining irrespective of company or sector performance.

Factors that affect the overall market performance are;

- ✓ **Interest rates** – When interest rates are high, treasury bills, bonds and money markets will also have high returns. Fund managers and large investors will therefore move funds to these products and this will almost inevitably lead to a regression of the stock market – and vice versa.
- ✓ **Inflation** – When there is too much money in the economy, the market will generally appreciate.
- ✓ **Political Temperatures** – Before general elections in Kenya, prices will generally drop due to uncertainties. However, when a political dispensation is promising, prices do go up.
- ✓ **Business Environment** – A good business environment may induce price growth.

VERY IMPORTANT;

Unless you enjoy NSE statistical analysis and research, you do not need to overly bother with technical analysis of company performance or technical predictions into future performances. Just simply time the market lows and highs and these seasons are always easy to detect. Then invest in the lows and exit in the high seasons.

How to Tell – There are various ways of telling the low and high seasons. An easy way of doing this is using the “highest/ lowest” check - In the stock market report on the newspapers or NSE website, there is a section for “12 Months Low/High”. This gives the highest and lowest price of a given stock in the last 12 months. When prices tend towards lowest, it’s a low season – and vice versa. This is a simple but very effective way of knowing the seasons and thereby knowing when to enter and exit the market.

Subscribe to Rubiani Investment Report - You can also subscribe to this report through the Rubiani website so as to get updates on the market performance, the stocks to consider and further advisory on investing in stocks.

An Interesting Observation – An investment advisor made an interesting observation. The shares market works contrary to most other markets. Unlike a supermarket sale, when share prices are low and

there is a big sale at the NSE, people shy away and are totally disinterested in the market. However, when prices are high, everyone now rushes to buy... only to be disappointed when prices come down!