

3. Shares

Definition

Shares are securities evidencing an interest held in an enterprise (public limited company). The principal rights of shareholders are participating in the company's profits as well as the right to vote in the shareholders' meeting. (exception: preferred stock)

Return

The yield on equity investments is composed of dividend payments as well as price gains or losses and cannot be predicted with certainty. The dividend is the distribution of earnings to shareholders as decided at the shareholders' meeting. The dividend amount is expressed either as an absolute amount per share or as a percentage of the nominal value of the stock. The yield obtained from the dividend in relation to the share price is called dividend yield. In general, it is considerably lower than the dividend indicated as a percentage of the nominal value.

The greater part of earnings from equity investments is usually achieved from the stock's performance/price trend (see price risk).

Price risk

Stocks are usually traded on a public exchange. As a rule, prices are established daily on the basis of supply and demand. Investments in stocks may lead to considerable losses.

In general, the price of a stock depends on the business trend of the respective company as well as the general economic and political setting. Besides, irrational factors (investor sentiment, public opinion) may also influence the share price trend and thus the return on an investment

Credit risk

As a shareholder, you hold an interest in a company. Consequently, your investments may be rendered worthless in particular by the company's insolvency.

Liquidity risk

Tradability may be limited in the case of shares with a narrow market (especially stocks quoted in the "Unregulated Market, over-the-counter trade).

If a stock is quoted in several stock exchanges, that may lead to differences in its negotiability on different international stock exchanges (e.g., quotation of an American stock in Frankfurt).

Stock trading

Stocks are traded on a public exchange and sometimes over-the-counter. In the case of stock exchange trading, the relevant stock exchange rules (trading lots, order types, contract settlement, etc.) must be observed. If a share is quoted at different stock exchanges in different currencies (e.g. a US stock quoted in euros at the Frankfurt Stock Exchange) it also entails an exchange rate risk. Please contact your investment adviser for further details.

When purchasing a stock in a foreign exchange, please bear in mind that foreign exchanges always charge "third-party fees" that accrue in addition to the bank's usual fees. For the exact amount of such fees, contact your customer adviser.