

## The Stock Market: Path to Financial Well-Being?

The stock market is a place where securities of listed companies are bought and sold. In simple terms it provides companies with access to capital in exchange for giving investors a slice of ownership in the company. The stock market makes it possible to grow small initial sums of money into large ones, and to become wealthy without taking the risk of starting a business. The Colombo Stock Exchange (CSE) operates as the only licensed Stock Exchange in Sri Lanka.

Investors could enter the stock market through the Primary Market or the Secondary Market. In the Primary Market, investors buy securities directly from the company issuing them, while in the Secondary Market, investors trade securities among themselves, and the company with the security being traded does not participate in the transaction.

### Benefits of Investing in Stocks

#### Rights and Free Shares

Companies often issue shares free or at a discounted rate for their existing shareholders.

#### Investment Gains

Capital gain is an increase in the value of a stock that gives it a higher worth than the purchase price. The gain is not realized until the asset is sold.

#### Dividend Income

Dividends can be seen as a reward for shareholders. They are paid when a company is profitable and has cash in the bank after it has satisfied all its obligations. However it is not mandatory for a profitable company to pay dividends.

#### Liquidity

Every day, investors buy and sell their shares in the stock market. When you want to cash your stocks, it is quick and easy to find a buyer. Thereby stocks are considered as a relatively liquid asset.

#### Information

The regulatory framework that governs the stock market facilitates access to information which is vital for decision making. Some other investments do not have as much public information, so it is harder to make an informed decision.

#### Ownership

Buying shares of a company means taking on an ownership stake (you become a shareholder) in the company you purchase stock in. You may be given the voting right and thereby play a part of the decision making process of the company. This means that investing in the stock market also brings the benefit of owning a fraction of a business.

## Stock market investment Key to Financial Well-Being ?



### Beyond Savings

Many tend to rely on savings when formulating their financial plans. The importance of savings cannot be undermined yet you have to obtain a much more dynamic approach if you are to achieve your financial goals. Investment could be considered as an ideal complement towards your habit of building wealth.

There are many different forms of investment. This leaflet will focus on investing in the stock market.

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## Managing Risk

Stock investing is similar to any other form of investment. It entails a certain level of risk. This risk exists because you can never correctly and accurately predict the future price of a stock 100%.

## Why Should You Undertake Risk?

The conflict that lies at the heart of investing is the tradeoff between risk and return. In simple terms, higher risk is associated with greater probability of higher return and lower risk is associated with a greater probability of lesser return.

A rational and intelligent investor driven by wealth maximization will adopt a liberal attitude towards risk taking. Nevertheless this does not warrant undue risk but encourages calculated risk taking to maximize returns.



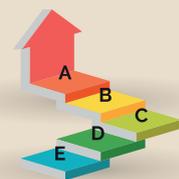
### Avoid Panic

Panic is an emotion that causes us to make irrational decisions - to sell a stock when it should be held, or to buy a stock when perhaps it should be sold.



### Invest in knowledge

It is important to research about the company, prior to purchasing its stocks.



### Play by the rules

The foundation for balanced success is honesty, self discipline and integrity. A legal system is put in place to safeguard the interest of the individual. You cannot expect to find solace in the legal system to protect your investment when your hands are unclean.



### Diversify

Don't invest all your money in one company. Allocate money across an array of stocks. However excessive diversification is also not suitable.



### Asses your risk appetite

People's risk taking ability defers with their financial status, health, age etc. Hence before investing decide on the risk you can take.



### Make an investment plan

The plan must take in to account your investment goal, time-frame, risk appetite, need for liquidity, personal financial situation etc.



### Think long term

Over the short term markets are volatile. Hence investing with a long - term perspective is one of the safest ways to succeed in the stock market.



# Minimizing Risk and Maximizing Returns



## Are you interested in investing in the stock market?

If interested in investing in the stock market investors should open an account at the Central Depository System (CDS) through a licensed stock broker firm. You can obtain a full list of stock broker firms from [www.cse.lk](http://www.cse.lk) or [www.sec.gov.lk](http://www.sec.gov.lk)

