Equities

General information

Equities, also called stocks or shares, are securities that represent partial ownership in a company. For companies, that issue stocks, it is a way of raising money in order to grow their business. For investors, typically called shareholders, purchasing equities is a way of growing their money at a rate higher than inflation.

A shareholder of a public limited company is not personally liable for its obligations, but in case of bankruptcy, it risks losing all of its investment in the said company.

By purchasing shares of a company, an investor receives certain rights. Most common rights of a shareholder are participation in shareholders meetings and receiving of dividends in case it has been decided in a shareholders meeting.

Types

Two main types of equities are:

- Common stock – most commonly issued and traded type of equity. Common shares entitle its holder to receive profits (dividends in case they are paid) and participate in shareholders meetings. Common stockholders have the ability to participate in decision-making over management issues and corporate policies.
- Preferred stock – does not provide voting rights to its holders to participate in the decision-making process of the company. However, preferred stock provides preferential rights to its holders in comparison to common stock holders when it comes to distribution of dividends as well as during liquidation process.

Depositary receipt (DR) is a certificate, which represents shares of a foreign company. DRs give opportunity to hold shares, which are traded in foreign exchanges. For example, American depository receipts (ADRs) provide access to foreign companies' shares to the U.S. investors.

Value

When investing in equities, investors expect to earn from capital gains (when the shares of the company grow in value) and income from dividends. Investment in equities is considered riskier than investment in debt securities as generally the value of stocks tend to fluctuate more considerably than that of debt securities.

Investment in equities is also less protected – during liquidation of the company, common shareholders would receive their investment back only when (if) all creditors and preferred shareholders receive back their funds. This results in higher volatility of the stock price – the share price depends on the demand and supply of shares, the performance of the company that issued them, changes in the economic sector in which the company operates, national and global economic and financial market conditions.

There is not guarantee that the share price will rise in the future. Also, previous performance of the stock cannot be perceived as a reliable indicator for the future movements.

Target market

- Type of clients: shares may be traded by non-professional clients, professional clients and eligible counterparties;
- Client experience and knowledge: clients with general knowledge of stocks. Clients may not have previously held shares traded on trading venues, unless clients intend to purchase shares that are not listed;
- Clients' financial situation and possibility of incurring losses: possibility of incurring 100% loss.
- Client's risk tolerance: Low to medium risk tolerance for exchange-traded equities, medium to high risk tolerance for shares that are not listed.
- Client's objectives and needs:
    - Investment tenor: Short, medium and long term.
    - Investment objective: Capital protection and appreciation, future income stream.
    - Liquidity: Willing to hold the investment for a longer period with a possibility to exit the investment early with possible losses.
- Distribution strategy: execution only.

Risks

Investing in equities is associated with a number of risks. Below list of risks associated with investing in equities may not be comprehensive and may vary depending on the characteristics and classification of the equity.

- **Capital risk** is the risk that the investor will lose all or part of the invested funds. This risk is directly related to the market characteristics of a particular financial instrument (liquidity, supply and demand ratio, etc.). This risk is not directly related to the issuer (see credit risk), it is more related to the investment circumstances;
- **Credit risk** is the risk that the issuer's financial position will deteriorate when the issuer is no longer able to pay interest or pay its debts. This risk is assessed by credit ratings, but it should be noted that they only reflect the opinion of the agency and the situation may have changed. Nor is a rating an absolute guarantor of the quality of a financial instrument;
- **Market risk** is the risk related to general factors affecting the whole market of financial instruments, such as the economic situation of the country, instability of national exchange rates, changes in key interest rates, etc.;
- **Liquidity risk** is the risk that the invested funds will not be able to be withdrawn at the desired time, for example, due to the fact that there are no people willing to buy shares at that time, so the price of the financial instrument may need to be reduced.
- **Currency risk** is the risk that an unfavorable exchange rate may reduce the overall return on investment when investing in financial instruments of a foreign country with a floating exchange rate;
- **Systemic risk** is the probability that the insolvency of one financial brokerage firm, credit institution or investor will adversely affect many financial brokerage firms, credit institutions or investors;
- **Regulatory risk** is the risk of incurring losses due to unexpected provisions of national legislation. Therefore, before investing, it is important to look at the legal regulation of the market in which you intend to invest, especially when investing in the market of a little-known country;
- **Issuer's risk** - the value of a financial instrument may decrease due to reasons caused by the issuer: these may include performance, financial indebtedness, reduced demand for the issuer's goods / services, the sector in which the issuer operates, etc.

Taxes and Fees

Tax treatment varies according to individual circumstances and tax residencies of each client.

Fees applied:

- Brokerage and third party fees related to transactions with equities;
- Safekeeping fee.

Fees applied are subject to changes over time. Current price list is available on Macte Invest FM AB website.