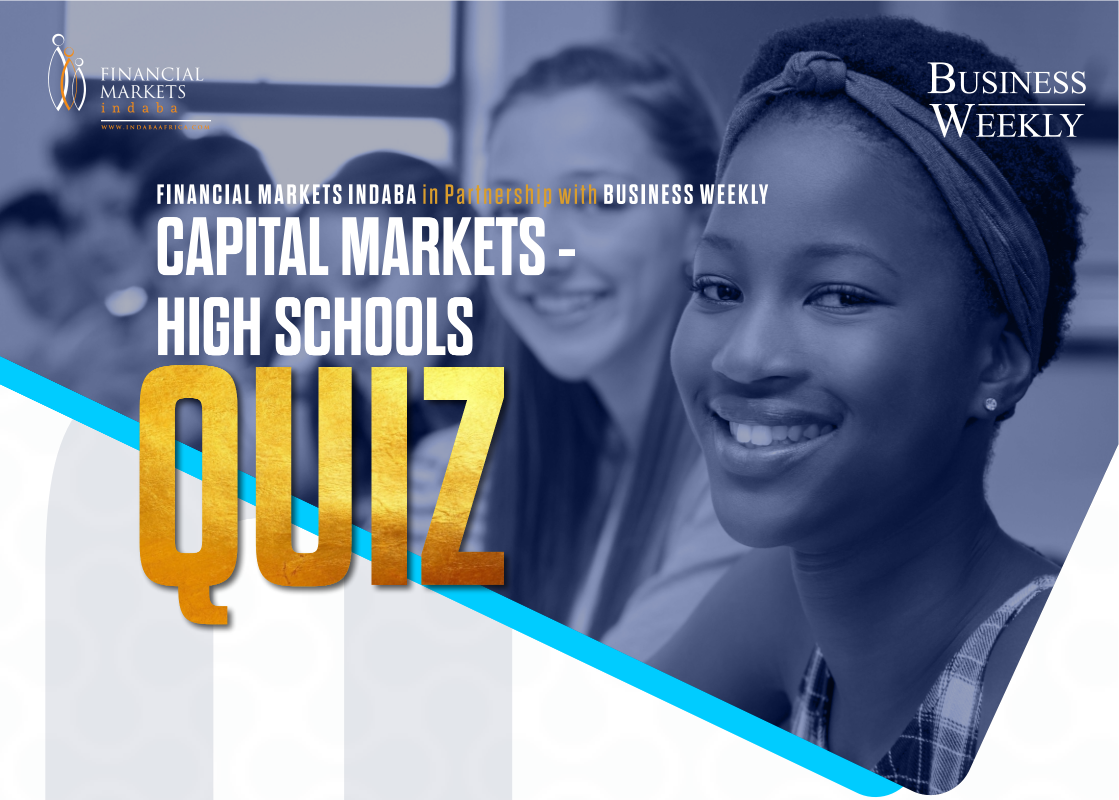

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CAPITAL MARKETS - HIGH SCHOOLS QUIZ

Zimbabwe Stock Exchange Investment 101 Guide

ZIMBABWE STOCK EXCHANGE

CHAPTER ONE – UNDERSTANDING CAPITAL MARKETS

Lesson 1: **What Are Capital Markets?**

The capital market is a financial market that links investors and institutions seeking to raise long term capital. Capital markets offer long term products (products with lifespan of at least 1 year) such as shares, bonds and derivatives. Capital markets provide an avenue where, for example, a company raises funds (capital) to expand its businesses by issuing shares to the public. The public therefore extends capital to the company in return for part ownership (shareholding) in the company. This aspect, where an institution raises money by selling securities directly to investors, constitutes the primary market. In addition to providing the capital raising avenue, capital markets provide an avenue for investors to dispose of their investments for cash or other securities. This is normally referred to as the secondary market and is what the general public observes on a day to day basis. In Zimbabwe, the stock exchanges are the face of the capital markets but there are other key players.

Lesson 2: **Securities & Exchange Commission of Zimbabwe ("SECZ")**

The SECZ is an independent regulatory body of Zimbabwe's capital markets established in terms of the Securities and Exchange Act [Chapter 24:24] in 2008 by the Government through the Ministry of Finance and Economic Development.

Roles of the Commission;

1. Regulating trading and dealing in securities
2. Registering, supervising and regulating securities exchanges
3. Licensing, supervising and regulating licensed persons
4. Encouraging the development of free, fair and orderly capital and securities markets
5. Advising the Government of Zimbabwe on all matters relating to securities and capital market

Lesson 3: **Securities Exchange**

Zimbabwe Stock Exchange

The Zimbabwe Stock Exchange (ZSE) is a stock exchange licensed in terms of the Securities and Exchange Act (24:25) to assist institutions to raise long term capital through issuance of securities as
well as offer a secondary market for the trading of listed securities. The ZSE currently facilitates the listing and trading of the following security types:

- ordinary shares;
- preference shares; and
- fixed income instruments such as debentures, notes and bonds.

Roles of the securities exchange;

1. Provision of a virtual market place for trading of securities by securities dealers on behalf of investors;
2. Provision of a platform for raising funds by companies, Government and other institutions;
3. Regulation of securities issuers and trading members (stockbrokers); and
4. Provision of market information.

Lesson 4: **Central Securities Depository (CSD)**

A CSD holds securities on behalf of investors either in certificated (physical) or uncertificated (electronic also referred to as dematerialized) form to enable book entry transfer of securities. To reduce market wide operational risks in the capital markets of Zimbabwe, Chengetedzai Depository Company was formed in 2010 to undertake the setting up and operation of an electronic Central Securities Depository (CSD).

Lesson 5: **Securities Dealers and Dealing Firms (Stockbrokers)**

Zimbabwe Stock Exchange

Securities Dealers (Stockbrokers) are agents who buy and or sell securities on behalf of the investors on the Securities Exchanges. In Zimbabwe Securities Dealers trade securities using Automated Trading Systems (ATS) provided by the two Securities Exchanges. In performing their duties, the Securities Dealers do not own the securities but charge a commission based on the gross value of the transaction. As at 31 May 2018 there were 16 licensed securities dealing firms in the country.

Lesson 6: **Securities Investment Advisers (Financial Advisors)**

Securities Investment Advisers are responsible for giving advice to both individuals and institutions on securities investments and on how to raise capital in the capital markets.

Lesson 7: **Securities Investment Management Companies (Asset Managers)**

Management Companies are responsible for managing pools of funds on behalf of investors, in accordance with the investment objectives and parameters defined by the investors. The funds are invested in a wide range of asset classes including listed securities, real estate, commodities and money market. Securities Investment Management Companies aim to maximise the return on all assets contained in the portfolio while keeping the level of risk associated with the investment process within the limits determined by the client

Lesson 8: **Securities Transfer secretaries**

These manage and maintain updated security registers on behalf of security issuers. They also perform corporate action duties on behalf of issuers, such as distribution of dividends, payment of coupon interest and handling rights issues and bonus issues processes.

Lesson 9: **Securities Custodians**

Roles of Securities Custodians

1. Manage and safe keep customer's securities e.g. shares, bonds etc;
2. Keep track and ensure the safety of investments under a custodial arrangement, preparing required disclosures, as well as regulatory filings, when applicable;
3. Provide information on the securities and their issuers such as annual general meetings and related proxies; and
4. Provide securities settlement of all trades done on the Securities Exchanges.

Chapter Two: Shares and Market Basics

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CHAPTER TWO: SHARES AND MARKET BASICS

Lesson 1: **Shares**

What is share?

A share is literally your share of a company or simply part ownership of a business. Imagine a company worth $1 000 000. You wish to invest in that company, but you don't have $1 000 000 to buy it, or maybe the sellers don't want to sell all of the company. Buying shares in that company lets you own some of the company, instead of all of it.

Lesson 2: **How shares work**

To make it possible for you to buy shares, the current owners of the company would agree to break the company into, say, 100 000 shares, each worth $10. The value of the company remains at $1 000 000 ($10 share price x $100 000 shares), but you can now buy one share in the company at $10, or five shares at $50.
A company can raise money to finance its business by 'going public'. Going public means being listed on a stock exchange and issuing shares to investors. By paying for

the shares, each investor buys part ownership of the company's business and becomes a shareholder in the company.
The money that a company raises in this way is called equity capital. Unlike debt capital which is borrowed money, equity capital does not need to be repaid as it represents continuous ownership of the company. In return for investing in the company, shareholders can receive dividends and other benefits. Shares that have been issued to investors by a listed company can be sold to other investors on the sharemarket. In this way, shareholders can realise capital gains if the share price has risen – in other words, make a profit by selling their shares for more than they paid for them

Lesson 3: **Different types of shares**

Ordinary share
The most popular type of share is called a common or ordinary share. Ordinary shareholders own a piece of the company and have certain rights.

Preference share
Preference shares are really debt instruments. These shareholders have lent money to the company. In return, they get the first bite of the profits in the form of preference share dividends (the rate is usually linked to the prime rate). If the company is going bankrupt, preference shareholders will be paid out ahead of ordinary shareholders.

Shareholder rights and benefits
As a shareholder, you often need to make decisions about taking up various rights and benefits offered by the companies you have invested in. In each case, you should keep your investment goals and strategy in mind and decide whether to consult an adviser.

Shareholder rights and benefits can include the following:
- Participating in annual general meetings
- Receiving reports and information
- Dividends and dividend reinvestment plans
- Further issues of shares
- Share buy-backs, and
- Other corporate actions

By becoming a shareholder one agrees to share in the risks associated with that company's performance. All shareholders should be aware that the value of a share can fall to zero.
Many people who decide they need shares as part of their investment portfolio often hesitate when it comes to actually buying the shares; usually because they're not sure if it is the best time to buy or they feel they still have a lot to learn about the sharemarket. You can learn about the sharemarket by observing it and keeping an eye on how your shares perform under different market conditions

Lesson 4: **Shares and Market Basics**

ZSE is one of the oldest stock exchanges, with its history dating back to 1894. ZSE's activities span primary and secondary market services.It oversees compliance with its Listing and membership rules, promotes standards of corporate governance among the listed companies and helps to educate retail investors.
The majority of industrialised countries have a sharemarket. You may have heard of share markets like the London Stock Exchange, Johannesburg Stock Exchange, or Australia Stock Exchange. These organisations each perform essentially the same role, providing capital raising services and trading facilities.

Chapter Three: Understanding the Primary and Secondary Market

Lesson 1: **The main functions of the sharemarket**

The share market may be thought of in terms of its two separate market functions:
- Operating the primary market, where companies raise money by issuing shares to investors
- Operating the secondary market, where investors buy and sell those shares at prices determined by market forces.

The primary market
When a company seeks to raise equity capital by offering new shares to the public, the process is referred to as a float or initial public offering (IPO). This process occurs on the primary market.

The secondary market
The secondary market role of a sharemarket is to help buyers and sellers come together, determine a price and then exchange shares for payment. Shares can only be bought and sold on the ZSE through a stockbroker. Share trading takes place during ZSE trading hours (10am-3pm) weekdays except on weekends and public holidays. Stockbrokers enter buy and sell orders on the ZSE Automated trading system (ATS) on behalf of investors.

Lesson 2: **Who sets the price in the stock market?**

The price of anything that can be bought or sold is unpredictable to some extent. Many factors can simultaneously affect values both positively and negatively over different periods of time. However, the impact of many individual factors is sometimes quite predictable so it can pay to consider them since that is what many other investors will be doing.

Factors that affect prices of shares

Supply and demand
The stock market is a marketplace like any other. The forces of supply and demand determine the price of shares. The more people want to get hold of a particular share, the higher its price will go. If people no longer want a share and few people are willing to buy it, people may have to offer it at a very low price in order to sell it.

Profitability of the Issuer
The more profits the company makes the greater the potential increase in value of that share in general.

Macroeconomic Factors
Changes in interest rates, inflation, economic growth and government expenditure have a bearing on company performance which may influence share prices.

Lesson 3: **What are market Indices**

Indices offer an easy way to determine the overall performance of the stock market, or a segment of the stock market, over a period of time.Indices are used as the underlying for various financial instruments and to benchmark the performance of portfolios designed to replicate the performance of a given asset class.
Key features of indices
Indices are designed to be broad measures of performance of an asset class or a subset of that asset class. So that indices are widely adopted, the methodology used to create an index is often published to give stakeholders an understanding of how decisions governing index calculation are made. Also, indices are sometimes designed to be investable. This means that constituent securities must be relatively easily tradeable so that index tracking portfolios can be created.

ZSE Indices

The ZSE has a number of indices which include;

1. **ZSE Top 15**

The ZSE Top 15 consists of the largest 15 Zimbabwean companies by full market capitalisation (i.e. before the application of any investability weightings) which qualify for inclusion in the index. The number of constituents in this index is maintained at a constant level.

2. **ZSE Top 25**

The ZSE Top 25 consists of the largest 25 Zimbabwean companies ranked by full market capitalisation before the application of any investability weightings). The number of constituents in this index is maintained at a constant level.

3. Small Cap Index

The Small Cap Index consists of the 41st to the 61st Zimbabwean companies ranked by full market capitalisation before the application of any investability weightings). The number of constituents in this index is maintained at a constant level.

4.Medium Cap Index

The Medium Cap Index consists of the 11th to the 40th Zimbabwean companies ranked by full market capitalisation before the application of any investability weightings). The number of constituents in this index is maintained at a constant level.

Lesson 4: **Sector Indices**

ZSE Financials Index

The ZSE Financials Index represents companies in the field of finance including banks, diversified financials, insurance and mortgage real estate investment trusts.

ZSE Consumer Discretionary Index

The ZSE Consumer Discretionary Index represents the performance of companies which offer goods and services which are considered non-essential by consumers but desirable if the available income is able to afford them.

ZSE Consumers Staples Index

The ZSE Consumer Staples index measures the performance of companies that deal in essentials products which consists of food, beverage companies, tobacco as well as household and personal products.

ZSE Industrials Index

The ZSE Industrials Index tracks the performance of companies which manufactures and distributes capital goods such as building products, electrical equipment and machinery. It also includes companies that offer transportation services.

ZSE Information, Communication and Technology Index

The ZSE Information, Communication and Technology Services Index tracks the performance of companies that facilitate communication and offer related content through various media as well as those companies which are in the technology and internet services

ZSE Materials Index

The ZSE Materials index measures the performance of Zimbabwean companies which manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, and metals, minerals and mining companies, including producers of steel

ZSE Real Estate Index
The ZSE Real Estate Index tracks the performance of companies engaged in a diverse spectrum of real estate activities including real estate development & sales, real estate management, or real estate services.

Top 10 Investable Index
The ZSE Top 10 Investable index represents 100% of the free float adjusted market capital value i.e. after the application of any investability weightings, of all ordinary securities listed on the main board of the ZSE. The number of constituents in this index is maintained at a constant level. Buffers will be applied at each quarterly review to provide stability.
These indices are updated daily and accessible on the ZSE website www.zse.co.zw

Chapter Four: Why and how to Invest

Lesson 1: **Why to Invest**

Why and how to invest
Investing and financial freedom means something different to everyone; being able to retire at 50, setting up your own business, buying a house or paying the mortgage.
To achieve your goals consider how much you will need, and then think about how you can invest your money to help you achieve these goals.

Investing for capital growth
Capital growth occurs when the value of your investment increases. Most people invest for capital growth to build their wealth over time and protect themselves against inflation.

Investing for income
People can seek an income stream from their investments in order to supplement their primary source of income.

Before investing, it is important to analyze your investment objectives, income sources, constraints and risk tolerance. Ask yourself whether you are financially ready to invest in the stock market. Stock market investment is risky in that you could lose all the invested capital.

Lesson 2: **How to Invest**

How to invest
Learning how to invest is an important skill. By working through this online course you are developing a base of knowledge that will help you understand how to invest and determine what might be a suitable investment for you.

Buying shares
So as an investor there are two distinct points at which you can purchase shares:
- From the company itself in the very first instance of the shares being offered in the float.
- Following the float, shares are bought from other investors via the stock market. Shares can only be sold on the secondary market.

When buying shares, you need to decide which company shares you want to buy, how many shares you want and at what price.

Lesson 3: **Selling Shares**

Selling Shares
Knowing when to sell stocks is just as important as buying them. Most investors buy when the stock market is rising and sell when it's falling, but a wise investor follows a strategy based on his or her financial needs.
You should always keep an eye on the major market indices. The ZSE indices are updated daily and accessible on the ZSE website www.zse.co.zw

Lesson 4: **How to invest on the ZSE**

How to invest on the ZSE
The basic steps to investing on the ZSE include:

1. Open a Trading Account
Practically more than one account is required for you to invest in the stock market. Bundled under the term "trading account" comprises the following:

- A stockbroking trading account (with any of the current 18 stockbroking firms https://www.zse.co.zw/stock-brokers/)
- A Central Securities Depository ("CSD") (in this case, Chengetedzai Depository Company) account; and
- A custodial account (which could be provided by your stockbroker if they offer Broker controlled accounts or by one of the independent Custody companies)

2. How do you open a trading account?
You open a trading account by completing and signing account opening forms at your preferred stockbroking firm. The stockbroker will collect/capture all the KYC documents required by the CSD and Custodian, which include:

1. a) For individuals
- copy of ID (passport for foreign investors)
- proof of residence (utility bill within three month from date of processing in name of account holder or accompanied by affidavit from lessor, if renting); and
- 2 passport size photos.

1. b) For Companies/Trusts/Estates/NGOs

- registration certificate;
- list of directors/trustees (CR14 etc.)
- registered office details (CR6)
- directors/trustees' KYC (same as in Individuals)
-

3. Deposit investment funds with your custodian or stockbroker

If your stockbroker acts as your custodian (broker controlled account) you deposit funds into your stockbroker trust account and if you have an independent custodian from your stockbroker you deposit the funds into the custodian account.
NB – funds need to be deposited only when you intend to buy from the stock market.

4. Place orders with your stockbroker

Once you have made a decision to buy or sell securities in the stock market, you need to contact your stockbroker and convey your desire emphasizing the type, quantity and limit price (if any) of the securities to be transacted. Other information like the time period the order will be valid is also required.

Your stockbroker then sends your request to the ZSE, where it is entered on a central order book with all the other requests to buy or sell shares. If the price you want to pay is matched with a seller at the same price, the transaction takes place and you will become the owner of the shares you decided to buy.

Lesson 5: **Why you need a Stockbroker**

Why you need a stockbroker

ZSE provides a secure and regulated trading environment where only registered ZSE market participants have direct access to the market for trading shares. Registered ZSE market participants typically act in the capacity of a stockbroker, executing purchase and sale transactions on behalf of investors in return for a service fee (brokerage). Stockbrokers must comply with the ZSE Membership and trading rules.
You can choose whether to make your own decisions regarding what and when to buy and sell, or take advice from a professional, or both.

Lesson 6: **Transaction Fees**

Equities and ETF's

	Buying	Selling
Brokers Commission	0.92%	0.92%
VAT (14.5% of brokerage)	0.1334%	0.1334%
CSD Levy	0.10%	0.10%
Stamp Duty	0.25%	Nil
ZSE Levy	0.10%	0.10%
SECZ Levy	0.16%	0.16%
Investor Protection Levy	0.025%	0.025%
Capital Gains tax	Nil	1%
Total	1.6884%	2.4384%
Grand Total	**4.1268%**	

Equities and ETF's

	Buying	Selling
Brokers Commission	0.065%	0.065%
VAT (14.5% of brokerage)	0.009425%	0.009425%
CSD Levy	0.01%	0.01%
Stamp Duty	0.012%	0.012%
ZSE Levy	0.012%	0.012%
SECZ Levy	0.01%	0.01%
Investor Protection Levy	0.003%	0.003%
Total	0.109425%	0.109425%
Grand Total	**0.21885%**	

Lesson 7: **Settlement**

Settlement

When you buy or sell shares in a listed company, you must exchange the title or legal ownership of those shares for money. This exchange is called settlement. Shares purchased will be credited to your CSD account on settlement day which is transaction day plus three working days (T+3), that is, if you purchase shares on Monday, they will be credited to your account on Thursday, subject to payment being made for the same. If you sell shares, payment will be made to you on settlement date through your Stockbroker or Custodian.

Your Investment strategy

A strategy is simply a set of rules or guidelines that are adopted consistently over time. Having a strategy does not prevent you from having losses. A strategy may assist in investment success by providing benefits which can include:

Diversification
One of the most famous sayings about successful investing is 'don't put all your eggs in one basket'. Markets such as shares and property move in cycles. It is better to diversify, spread your risk, and enjoy the upturns in markets because you are already in them, rather than trying to 'time the market'. Diversification serves to protect overall investment returns. That is, while one element of the portfolio is performing poorly, some other investment may be doing well.

An objective and consistent approach
Investors form views about where they think the market is heading or about the value of individual shares. Some allow their emotions to override their rational analysis. Having a detailed strategy can help to counteract the chances of investing with the heart not the head. Having a documented strategy will also assist you in repeating your successes and avoiding repetition of your failures. Developing a strategy that incorporates adequate research, and monitoring elements will go a long way to providing a sound investment portfolio.

Chapter Five: Understanding Securities

Lesson 1: **Introduction**

Understanding Securities
Securities are defined in the Securities and Exchange Act (24:25) to include shares, debt securities, depository receipts, futures and contracts for differences.
The ZSE facilitates trading of securities such as ordinary shares, debentures, exchange traded funds,bonds and other fixed income instruments.

Lesson 2: **What is a bond?**

What is a bond
Bonds are long-term fixed interest securities issued by government and corporate bodies. In effect, they are promissory notes in which the issuer makes an obligation to pay interest at specified times and intervals and to pay back the principal at maturity of the Bond. The holders of bonds get interest even if the issuer does not make a profit. For example, an investor can buy a bond of 5 years and expect an interest of 14%. The interest is paid after every 3 or 6 months. Such an investor can sell the bond at any time of his or her choice at the current market price. The market price of a bond will depend on the number of other willing sellers and buyers in the market on that particular day. When there are many sellers in any market, prices go down and vice versa.

Lesson 3: **Why invest in bonds**

Why Invest in Bonds
Bonds appeal to investors looking for a regular and reliable income stream
Bonds offer investors;

- Offer to pay a defined income stream
- Offer to return their face value at maturity
- Enable you to diversify your investments
- Can be bought and sold through your stockbroker

Lesson 4: **How bonds work**

When a company seeks to raise money they can borrow from investors by issuing bonds. Investors who purchase a bond from an Issuer are lending them money for a fixed period of time. In return for this loan, bond holders typically receive;

- Defined interest payments at regular periods
- Payment of the bond's face value at maturity
-

Lesson 5: **Bond features**

Bond features
While all bonds share the same core structure – (being a loan from one party to another with the promise of interest payments and return of face value at maturity) – there are variations in some features. These differences can be broadly grouped under:

1. Type of interest:

- fixed,
- floating or
- indexed.

2. Type of issuer:

- government or
- corporate.

3. Level of risk:

- secured (there is an asset backing the debt)
- unsubordinated (not secured by an asset but rank ahead of unsecured creditors).

Lesson 6: **What is a debenture?**

A debenture is an acknowledgement of debt by a company. Debentures may be secured against certain specific properties of the company. However, debentures may also be unsecured or may be convertible to equity at a future date, to be exchanged for the company's ordinary shares at the holders' option depending on the agreement. Interest on debentures is payable on specified dates whether or not there are sufficient profits.

Example
If a company borrows money, it will give its creditor a document to evidence the existence and terms of the loan. This document is called a debenture. Under the debenture, the capital sum borrowed is repayable at a future date.
During the period of the loan, the company has to pay interest to the creditor. In order to improve their chances of recovering the debt from the company in the event of its collapse, a creditor may take a charge over some or all of the assets of the company. This increases the creditor's chance of being repaid on the insolvency of the company.

Lesson 7: **Types of debentures**

Types of Debentures

1. Secured and Unsecured:
Secured debenture creates a charge on the assets of the company, thereby mortgaging the assets of the company. Unsecured debenture does not carry any charge or security on the assets of the company.

2. Registered and Bearer:
A registered debenture is recorded in the register of debenture holders of the company. A regular instrument of transfer is required for their transfer. In contrast, the debenture which is transferable by mere delivery is called bearer debenture.

3.Convertible and Non-Convertible:
Convertible debenture can be converted into equity shares after the expiry of a specified period. On the other hand, a non-convertible debenture is those which cannot be converted into equity shares.

4.First and Second:
A debenture which is repaid before the other debenture is known as the first debenture. The second debenture is that which is paid after the first debenture has been paid back.

Lesson 8: **Depository receipts and ETPs**

What is a depository receipt?

A depositary receipt (DR) is a type of negotiable (transferable) financial security that is traded on a local stock exchange but represents a security, usually in the form of equity,

equity, which is issued by a foreign publicly listed company. The DR, which is a physical certificate, allows investors to hold shares in equity securities of companies in other countries.

What are Exchange Traded Products (ETPs)
ETPs are types of securities that track an underlying security, commodity, index, currency or financial instrument. ETPs mostly come in the form of Exchange Traded Funds ("ETFs") and Exchange Traded Notes ("ETNs").

Lesson 9: **ETFs, Market price and NAV**

Exchange Traded Funds (ETFs)

An Exchange Traded Fund (ETF) is an investment vehicle traded on a stock exchange, much like shares. Most ETFs are passively managed index funds which normally track an index, with their main objective being to participate in the economic growth of an industry sector or commodity. ETFs are traded at prevailing market prices, which are approximately the same price as the net asset value (NAV) of their underlying assets over the course of the trading day.
ETFs generally provide the attraction of the returns of a traditional tracker fund (like unit trusts) with the liquidity of a listed security.

Market price vs. NAV
The market price of an ETF and its net asset value (NAV) are two different things. The market price is the price the ETF trades at on market.
The NAV is the total value of the assets in the ETF (adjusted for fees and expenses), divided by the number of issued units. However, an ETF's market price should be at or very close to the NAV. This ability to closely track the NAV is a fundamental feature of ETFs. We explain how this works in the following screens.

Lesson 10: **Benefits and Risks of ETFs**

Diversified Investment
ETFs give investors a straightforward and inexpensive way to obtain a broad exposure to a given index, sector or commodity.

Tradability
ETFs provide investors with the ability to gain exposure to a broad market in one transaction as they trade on a stock exchange throughout the trading day

Liquidity
The marker maker provides liquidity for the ETF by providing a firm bid or ask price at all times.

Transparency
As the holdings of an ETF closely mirror the underlying index it tracks as a benchmark, this provides investors with a greater degree of financial transparency.

Investor Protection
ETF securities are fully hedged by underlying assets. The physical assets are securely held in the vault of an independent custodian. Additionally, ETFs are fully regulated by the ZSE.

Lower Cost
Due to ETFs being passive in nature, they tend to have a low fee structure than actively managed funds

Risks associated with ETFs
The value of an investment in an ETF may go up as well as down as the market changes. ETFs are not capital protected and therefore investors may not get back the amount invested.

ETFs also have other investment embedded risks like other instruments which include general market risks, interest rate risks, exchange rate risks, inflationary risks, liquidity risks and legal and regulatory risks.

Lesson 11: **Market terminology**

Guarantor
A third party that provides a guarantee in favour of the investors that the guarantor will honour the obligations of the issuer in the event that the issuer fails to fulfil its obligations in accordance with the terms of the issue of the securities

Index
A statistical device which summarizes a collection of Data, usually related to the price or quantity of a basket of securities in a single base figure

Market maker
Is an entity authorised in terms of the Securities and Exchange (ZSE Market Making) Rules, 2019 to always be prepared to buy and sell securities for its own account, at prices it displays in the ZSE trading system, with the primary goal of profiting on the bid-ask spread;

Designated Security
Is any of the securities listed on the Exchange, which shall be in the list of securities eligible for market making.

Maximum Spread
The permitted difference between the offer or bid price and the reference price for each designated security
Index product securities
Is a security constructed to match or track the performance of an index;

Short Selling
Is selling the shares that you do not own. The broker lends the shares and holds the investment as collateral

Creation/Redemption of Units
To create ETF units

- The Authorized Participant ("AP") submits an application to the ETF issuer to purchase (i.e. 'Create') ETF units.
- The AP then delivers the underlying reference asset or the cash equivalent to the ETF issuer (e.g. If the ETF is tracking the ZSE top 10 share index, the AP will deliver shares of the ZSE top 10 constituent companies according to their weighting in the index or the cash value of the shares).
- In exchange, the ETF issuer transfers the same value in ETF units to the AP
- The AP holds onto the ETF units or sells them to other intermediaries and investors via the ZSE ATS.

The redemption process is the reverse.

Lesson 12: Real Estate Investment Trust (REIT)
What is a Real Estate Investment Trust (REIT)
A REIT is a regulated investment vehicle that enables the issuer to pool investors' funds for the purpose of investing in real estate. In exchange, the investors receive units in the trust, and as beneficiaries of the trust, share in the profits or income from the real estate assets owned by the trust.
REITs provide all types of investors (private individuals and institutions) the opportunity to invest in large scale, diversified portfolios of income producing real estate.

Lesson 13: **Types of REITs**

REITs are often classified as follows;
Mortgage REITs

Do not purchase, own or manage properties, One invests in mortgages or mortgage-backed securities (MBS) and generates interest income from the properties that they help to finance. Though these properties serve as collateral for the loans the mortgage REIT invests in, the REIT has no ownership position in the property itself.

Equity REITs
Purchase, hold and manage commercial and rental properties. Income is generated through the growth of equity in a property and the collection of rent on and from sale of the properties they own for the long-term.

Hybrid REITs
A REIT that combines the investment strategies of equity REITs and mortgage REITs by investing in both properties and mortgages.

Why invest in REITs?
REITs historically have delivered competitive total returns, based on high, steady dividend income and long-term capital appreciation. Their comparatively low correlation with other assets also makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.

Lesson 14: **Financial benefits of REITs**

REITs offer investors the benefits of real estate investment along with the ease and advantages of investing in publicly traded stock;

Liquidity
A benefit of investing in REITs is the reduction of the liquidity risk associated with holding physical properties. Through a REIT, the individual investor has access to invest in commercial real estate without the normally associated large capital of purchasing buildings directly

Diversification
REITs offer portfolio diversification given the underlying assets are actual buildings, rather than an equity or fixed-income security. Also, REITs typically own multi property portfolios with diversified tenant pools. This reduces the risk of relying on a single property and tenant in the case of directly owning a real estate asset.

Total Return
REITs typically provide high dividends plus the potential for moderate, long-term capital appreciation. They also have regular cash flows since most of the revenues are derived from rental payments under lease agreements with specific tenure.

Competitive Yield
REITs typically have a competitive yield compared with other types of investments.

Chapter Six: Understanding Financial Statements

Lesson 1: Introduction

Financial statements might seem incredibly complicated but they are relatively simple, one just needs to understand the overall structure and some of the complicated words used.

Financial reporting provides much-needed information to capital market participants. The information in the financial statements reflect the company's performance and can also reflect the general direction of the company when it is added with other company statements. Therefore, reading the quarterly financial statements provides an investor with useful information that helps in evaluating the company's performance for the past three months and compare it with other companies that have the same business.

What information will a typical annual report include?
The results will include information such as the income statement, cash flow statement and balance sheet. It will also include profit (or loss) statements, dividend announcements and commentary on how the company is doing as well as how it views the future.

Financial results of ZSE-listed companies
As per the ZSE's Listing Requirements, a company has to publish financial statements on a quarterly basis (1st and 3rd quarter are published on the ZSE website and Issuer website only)

The quarterly financial statements are usually divided into the following parts :
1. Statement of Financial Position (The Balance sheet).
2. The Income Statement.
3. Cash Flow Statement.

Lesson 2: Statement of Financial Position (The Balance Sheet)
Balance sheets show what a company owns and what it owes at a fixed point in time. The balance sheet represents a detailed image of the company's financial status when published. The balance sheet includes the company's assets, liabilities and shareholders' equity which gives a clear idea on its book value. The term balance sheet literally means that the balance sheet must balance. Asset values must equal the sum of liabilities and owner's interest (or equity).

The following formula summarizes what a balance sheet shows:

ASSETS= LIABILITIES +EQUITY

Assets

Companies can own assets, just as the individual has assets of value. One of the differences between an individual and a company's assets is the company's obligation to publish what it owns to the public.

Assets are things that a company owns that have value. This typically means they can either be sold or used by the company to make products or provide services that can be sold. Assets can be tangible which include physical property, such as plants, trucks, equipment and inventory. Assets can also be intangible which includes things that can't be touched but nevertheless exist and have value, such as trademarks and patents.

Assets are generally listed based on how quickly they will be converted into cash. Generally a company's assets are categorized according to the ability to change it into cash in two types:

1. Current Assets

Cash and other properties owned by the company and could be easily converted into cash in one year. It is an important indicator of the company's financial status because it is used to cover short term commitment of the company's operations.

Some of the important current assets for companies:

- Cash and its equivalents
- Short term investments
- Payable sales
- Inventory

Non-current Assets

These are assets that the company owns and needs more than a year to convert to cash or it is the asset that the company does not have a plan to convert to cash during the next year. Noncurrent assets include fixed assets. Fixed assets are those assets used to operate the business but that are not available for sale such as lands, buildings, machinery, other property and office furniture and all come under non-current assets.

Take for example ABC Limited has the following Assets;

Assets	**2019**	• **2018**
• **Current Assets**		
Cash	100,000	50,000

Assets	**2019**	• **2018**
• Marketable Securities	• 0	50,000
Inventories	200,000	300,000
Non-Current Assets		
Land, Buildings and equipment	200,000	200,000
Other Assets		
Goodwill	0	0
Total Assets	**500,000**	**600,000**

Liabilities
All companies, even those which are profitable have debts. In the balance sheet, debts are called liabilities and they are generally listed based on their due dates. Liabilities are amounts of money that a company owes to others. This can include all kinds of obligations, like money borrowed from a bank to launch a new product, rent for use of a building, money owed to suppliers for materials, payroll a company owes to its employees, environmental cleanup costs, or taxes owed to the government. Liabilities also include obligations to provide goods or services to customers in the future. A company's liabilities in the balance sheet is divided into two parts:

Current Liabilities
The commitments the company should pay in no more than one year. The company usually refers to liquidating some of its current assets to cover these expenses. Some of the important types of current liabilities are:
- Payables.
- Undistributed dividends.
- Installments of long-term loans.

Long-term Liabilities
The commitments the company is not restricted to pay within at least one year such as Long- term loans. Although these debts are not to be paid through the next financial year, at the end it should be paid. It is important to keep that in mind when evaluating the company.

Liabilities	**2019**	• **2018**
Current Liabilities		
Accounts Payable	10,000	5,000
Payroll	50,000	50,000
Taxes	5,000	5,000
Long-Term Liabilities		
Deferred Income Taxes	100,000	100,000
Total Assets	**165,000**	**160,000**

It is a known fact that it is not a good sign if a company's liabilities outperformed its assets. This means that its losses are more than its capital which could lead the company to be unable to practice its business and maybe bankrupt.

Lesson 3: **Shareholders' Equity**

Shareholders' equity is sometimes called capital or net worth. It is the money that would be left if a company sold all of its assets and paid off all of its liabilities. This leftover money belongs to the shareholders, or the owners, of the company. The more equity the shareholders have, the size of the company's own operational money increases. Sometimes companies distribute earnings, instead of retaining them. These distributions are called dividends.
Shareholders' equity is calculated in the balance sheet by subtracting total liabilities from total assets. For example, in 2019 ABC Limited's total assets was $500,000 while its liabilities was $165,000 therefore the shareholders' equity equals

$335,000 (500,000-165,000)

SHAREHOLDERS' EQUITY = TOTAL ASSETS – TOTAL LIABILITIES

Summary of Balance Sheet

A balance sheet shows a snapshot of a company's assets, liabilities and shareholders' equity at the end of the reporting period. It does not show the flows into and out of the accounts during the period.

Lesson 4: **Income Statements**

The income statement is easier to understand and less complicated than the balance sheet. But still, it is the most analyzed part of the quarterly financial statements.

An income statement is a report that shows how much revenue a company earned over a specific time period (usually for a year or some portion of a year). An income statement also shows the costs and expenses associated with earning that revenue. The literal "bottom line" of the statement usually shows the company's net earnings or losses. This tells you how much the company earned or lost over the period.

Reading the Income Statement

Reading the income statement is not only about deducting the total income expenses. In general, the company has more than one source for income and several different kinds of expenses. The company details the different sources for its income and expenses in the income statement and that reflects a clear image of the company's performance. Here are some of the main points in an income statement:

- Income or sales
- Expenses
- Gross profit
- Net profit
- Operating profit "income from the company's major operations"
- Gains and losses from other than the major operations
- Earnings per share

The investor can, when he understands what these numbers refer to and the relationship between them, determine the company's strengths and weaknesses. For instance, a troubled company – which is obviously not a good investment- suffers from increasing expenses and decreasing income which leads to a decrease in its total net profit.

Understanding the Income Statement

Income: it is the company's total funds which are gained from its major activity that

includes selling goods or the services it produces.
Gross Revenue or sales: Is the total amount of money brought in from sales of products or services. It's called "gross" because expenses have not been deducted from it yet. So the number is "gross" or unrefined.

Total Profit (or loss): Is a deduction of direct expenses from income

Net Revenue: Is the subtraction of the returns and allowances from the gross revenues. It 's called "net" because, if you can imagine a net, these revenues are left in the net after the deductions for returns and allowances have come out.

Cost of sales: Is the amount of money the company spent to produce the goods or services it sold during the accounting period.
Gross Margin (or profit): Is the subtraction of the costs of sales from the net revenues. It's considered "gross" because there are certain expenses that haven't been deducted from it yet.

Operating Expenses:
These are expenses that go toward supporting a company's operations for a given period – for example, salaries of administrative personnel and costs of researching new products. Marketing expenses are another example. Operating expenses are different from "costs of sales," because operating expenses cannot be linked directly to the production of the products or services being sold.

Depreciation
Depreciation is also deducted from gross profit. Depreciation takes into account the wear and tear on some assets, such as machinery, tools and furniture, which are used over the long term.
Companies spread the cost of these assets over the periods they are used. This process of spreading these costs is called depreciation or amortization. The "charge" for using these assets during the period is a fraction of the original cost of the assets.

Operating Profit (or loss): Is a deduction of all the operating expenses from the profits' total.

Income from operations: After all operating expenses are deducted from gross profit, you arrive at operating profit before interest and income tax expenses. This is often called "income from operations."

Interest income: Is the money companies make from keeping their cash in interest-bearing savings accounts, money market funds and the like.

Interest expense: Is the money companies are paid in interest for money they borrow. Some income statements show interest income and interest expense separately. Some income statements combine the two numbers.

Operating Profit before Income Tax:
The interest income and expense are then added or subtracted from the operating profits to arrive at operating profit before income tax.

Net Profit: (Net profit is also called net income or net earnings.) This tells you how much the company actually earned or lost during the accounting period. Did the company make a profit or did it lose money?
One of the clear indicators that the company's performance is doing good is the increase in the net profit from one quarter to the next.

Earnings Per Share or EPS
It is not a secret that most shareholders if not all want to invest in the companies that gain more profit than its major activity or the ones that have the ability to do that in the future.
Most income statements include a calculation of earnings per share or EPS. This calculation tells you how much money shareholders would receive for each share of stock they own if the company distributed all of its net income for the period.

To calculate EPS;

For example, assume that ABC Limited's net profit is $200,000 and it has 100,000 outstanding shares, then the earnings per share is $2 (200,000÷ 100,000)
The investor should keep in mind that the earnings per share does not take into account the current stock price. So the interest rate would be limited if taken separately. An Investor should also examine the operating profits that focus on gains from the company's main activity. That is because the net profit includes in addition to operating profits, the gains and losses.

Lesson 5: **Cash Flow Statements**

The cash flow statement is considered one of the important financial statements to any corporation. Cash flow statements show the exchange of money between a company and the outside world also over a period of time. A Cash flow statement explains in detail a company's inflows and outflows of cash. This is important because a company needs to have enough cash on hand to pay its expenses and purchase assets. While an income statement can tell you whether a company made a profit, a cash flow statement can tell you whether the company generated cash.
A cash flow statement shows changes over time rather than absolute dollar

amounts at a point in time. It uses and reorders the information from a company's balance sheet and income statement.The bottom line of the cash flow statement shows the net increase or decrease in cash for the period. Generally, cash flow statements are divided into three main parts. Each part reviews the cash flow from one of three types of activities:

Operating activities:
The first part of a cash flow statement analyzes a company's cash flow from net income or losses.

1. **Investing activities;** and
The second part of a cash flow statement shows the cash flow from all investing activities, which generally include purchases or sales of long-term assets, such as property, plant and equipment, as well as investment securities.

Financing activities.
The third part of a cash flow statement shows the cash flow from all financing activities. Typical sources of cash flow include cash raised by selling stocks and bonds or borrowing from banks.

It is important to note that the company's high profits does not necessarily mean a positive cash flow. It is possible that there are some terms in the cash flow statement that raise the profits when it is not cash. It is possible that there are negative cash flows sometimes which does not give a bad impression on the company's performance if the company used its cash in buying investment assets that supports the expansion in its area to achieve a good future performance.

What to look for in the cash flow statement?
- The three important things that should be looked for in the cash flow statement are that the flow should be positive, large and increases with time.
- The investor should also know the activities that bring the largest cash flows to the company and the modality in which these cash flows would be used
- Usually the company that has a large cash reserve, would be able to pay its obligations, distribute its profits and to go beyond emergency financial problems without the need to borrow or sell its assets.

Lesson 6: **Understanding Accounting Ratios**

Financial accounting ratios give the investor a quick and easy way to judge the company's financial performance in a specific period of time. These ratios could also be used in comparison between companies' performance in the same sector or compare it with the average of the companies' performance in the market.

So you have probably heard people talk about "P/E ratio," "current ratio" and "operating margin." But what do these terms mean especially to an investor.

Price to Earnings Ratio (P/E Ratio)

- P/E Ratio is sometimes called the multiplier.
- The P/E refers to the price level that investors want to pay for each real profits of the company. It also refers to the time required to cover the amount paid by the investor to buy the stock on the assumption that the company would deliver the same returns in the coming years.
- ·The higher the company's Price-to-Earnings ratio the more indication there is for the share's market value inflation.

To calculate the P/E ratio, the share's market value is divided by the earnings per share.

If Apple Limited's stock is selling at $30 per share and the company is earning $3 per share, then the company's P/E Ratio is 10 to 1. The company's stock is selling at 10 times its earnings.

Price to Sales Ratio (PSR)
The price to sales ratio is a way to evaluate the company's value based on its revenue. This ratio is presented as a multiplier and is calculated by dividing the company's current capital value by the per share revenue in the past year

For example, if Apple Limited's capital value in the current market price is 100,000 (20,000 shares x 5 per share) and its last twelve months sales is 300,000 then the PSR equals (100,000 ÷ 300,000 = 0.33).

This ratio is most miniful for large-cap companies considering their market values tend to be much closer to their sales. The ratio is less appropriate for service companies like insurers or banks that do not have much sales.

Price to Book Ratio (P/B)
Is used to compare a company's book value to its current market price (Book value is a company's assets minus its liabilities). The P/B ratio measures what the market is paying for a company's net assets.

Return on Equity (ROE)
The ROE measures the percentage of the company's profit to shareholders' equity in it. For example, if Apple Limited's net income for the past year was $400, 000

and total shareholders' equity was $800,000, then the ROE is 0.5 (400,000 ÷ 800,000 = 0.5)

Rate of return on assets

The rate of return on assets gives the investor an idea on how a company manages and invests its assets. In general, whenever the rate of return on assets is increased it indicates an efficiency in the company's management and assets investment.

Current Ratio

It measures the company's available cash at the current period. In general, if the company's current ratio is greater than 1 and less than 2 then that means that the company is ready to cover its obligations and short term operating expenses. But if the current ratio exceeds this, it might indicate the management's failure in reinvesting the assets in order to develop its work and that could negatively reflect on the company's long term revenue.

Quick Ratio

Also referred to as the Acid test ratio, and is a more severe measure of the short-term liability paying ability of a business. It excludes inventory and prepaid expenses.
1.0 or more quick ratio is considered a good indicator that the company could cover any immediate expenses and that it is running smoothly in its area.

Debt to Equity Ratio

Debt to equity ratio compares a company's total debt to shareholders' equity. For example, if Apple Limited has a debt-to-equity ratio of 2 to 1, it means that Apple Limited has two dollars of debt to every one dollar shareholders invest in the company. In other words, Apple Limited is taking on debt at twice the rate that its owners are investing in the company.