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Hold on tight, it’s no time for faint hearts

Diving into the volatile world of stocks and shares should come with a strict list of dos and don’ts

Gabrielle Monaghan Published: 27 September 2015

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Investing is not always a smooth ride, as Mulcahy, inset, discovered to her cost (John Lund/Getty Images)

FITZGERALD, a 31-year-old who works for a software company in Limerick, had been “blissfully unaware” of the ways of financial markets until last January.

Recuperating from an operation, he began reading about investing in books, blogs and websites. His appetite whetted, he took a course at the Institute of Investing & Financial Trading (IIFT).

Fitzgerald had built up some extra disposable income through moving into his parents’ house for a spell, and started to spread bet and build an investment portfolio. He initially deposited €4,000 into a new account with the IG Index trading platform and now puts €1,000 a month into the account.

Fitzgerald, who spends about an hour and a half a day researching the markets, focused his long-term investments on blue-chip shares that consistently pay out dividends, betting they will yield him a stable income

"They have 53 years of annual dividend growth," he said. "At the start of the month, I usually have a shortlist of three or four stocks that I like and I put money into them when I get paid. A lot of this comes from me deciding I want to take my financial future into my own hands and not rely on a company pension."

For novices, the prospect of dabbling in the stock market can be daunting, especially after a horrific financial crash still vivid in the memory. More recently, the financial markets have just come through a summer of turmoil, when a meltdown in the Chinese stock market led to trillions of euro being wiped off the value of equities around the world.

Yet with deposit rates on the floor, there is a growing cadre of people looking for higher returns, and no shortage of people offering help along the way. Here we look at the prizes and pitfalls of dealing in shares.

Risky business

Accendo Markets, a London-based brokerage, earlier this month linked up with Evergreen Wealth Management in Dublin to set up its first operation in Ireland. It offers an online service for trading in shares, currencies, contracts for difference (CFDs), and spread betting, and is confident that 20% of the €92bn in cash currently sitting on deposit in Irish bank accounts will eventually be ploughed into the stock market.

It believes Ireland, like the rest of Europe, is poised to catch up with the US, where half of all households own shares.

Ben Vartia, a trader at Accendo, says people here "are trying to make their money work for them".

If you have a sum of money to invest, you must first decide how much risk you can afford to assume and how long you are planning to stay invested. If a 10% dip in your portfolio's value would give you sleepless nights, then you might be better off putting your money elsewhere.

If you have a greater appetite for risk, yet still don't want to buy individual shares in publicly listed companies, you can invest in a basket of shares through an exchange traded fund (ETF), or pooled investments, where some of your money is invested in shares or stock indexes.

If you opt to invest in shares directly, the minimum amount required to buy shares is largely dictated by the costs of dealing. If you are happy to deal through a low-cost online stockbroker, you can get away with a minimum initial investment of €1,200.

Trading options

Stockbrokers typically offer three types of accounts. With a discretionary account, the stockbroker makes investment decisions on your behalf, within agreed guidelines. With an advisory account, the stockbroker advises on what shares to buy or sell. The final type of account, execution only, is where the stockbroker buys or sells shares without offering any advice.

If you opt for an advisory or discretionary service from a traditional stockbroker, there will be a minimum annual management fee which is generally suited to larger portfolios, according to Ross McEvoy, a portfolio manager at Goodbody's wealth management division.

Educate yourself

Novice traders and investors can learn more about the markets by attending one-day seminars, such as those run by GillenMarkets or by the IIFT. The latter runs trading and investing boot camps for beginners, as well as eight-week diploma courses.

Peter Brown, director of education at the IIFT and a former chief dealer at Barclays Bank, said that technology such as the IG Index has helped small investors compete better with professionals at a lower cost.

He and his team initially set up IIFT as an investing and trading club in 2010, but realised people were buying financial products that they didn't understand.

One alternative to punting is spread betting. The main advantage of this strategy is that you don't incur the capital gains tax of 33% on profits, because rather than physically owning the shares, you are merely betting on the price going up or down.

For seasoned market figures, including Rory Gillen of GillenMarkets, this kind of activity is speculating — not investing. In addition, spread betters do not earn income from their stock picks.

In the wrong hands, these platforms can become a gambling tool, McEvoy warns. "I think courses for these platforms do try to teach risk management, but that can go out the window after the first month, when the person is at home and feeling the temptation to take risks," he said. "That's where the pitfalls arise."

CFDs are a big leap up the risk ladder. Seán Quinn famously used them to increase his stake in Anglo Irish Bank, to disastrous effect. Despite the calamity, when ETX Capital acquired Shelbourne Markets, a Dublin-based spread-betting and CFD firm, in 2014, it reckoned 50,000 people in Ireland were trading CFDs.

Spreading risk

If you are keen to buy individual shares, you can spread the risk by buying at least five dividend-paying stocks for your portfolio. But make sure you do your homework first. Study each company's accounts, its annual and quarterly statements, search online for news stories about the company, and get to grips with the sector in which the company operates.

An alternative starting point is to get broad exposure to the market through a fund that mirrors the performance of an asset. ETFs, which track the performance of an index, sector or commodity anywhere in the world, have experienced "phenomenal growth" in recent years, McEvoy says.

If your ETF is tied to the value of an index and the index rises in value, your investment will also rise in value. Similarly, if the index your ETF invests in falls spectacularly, your investment falls too. Unlike unit-linked funds, you can buy and sell ETFs the same way you would buy and sell shares on the stock exchange. Management fees for ETFs are usually lower than standard charges for managing pooled funds, according to the Competition and Consumer Protection Commission.

Taxing times

If you buy shares directly, you will have to pay capital gains on profits from the sale of shares, though you can access loss relief, by offsetting any losses from other shares against any profits to reduce the amount of tax paid.

Retail investors are also liable for stamp duty on the value of the shares they buy, at rates of 1% for Irish shares and 0.5% for UK shares, according to Goodbody.

Be wary, too, of the extra cost of buying shares denominated in currencies other than the euro. Goodbody charges up to 1% to cover its risk if it conducts a transaction in a foreign currency for a client.

The taxes levied on ETFs depends on their domicile. ETFs that are domiciled and regulated in the EU should be taxed in the same way as unit-linked funds with dividends and gains taxed at the gains tax rate of 41% and no loss relief. However, ETFs domiciled outside the EU are treated as shares.

Share trading at home — what you need to know

Davy Select
Minimum transaction fee: €14.99 or 0.5% of the trade.
Quarterly account maintenance fee:€20
You will need €500 to open an account.

Goodbody
Minimum commission fee:€32 per trade
Commission on the first €25,000:1.25%
Commission on €25,000+ balance: 0.5%
Annual account maintenance charge, excluding VAT: €21.49

TD Waterhouse
Commission fee for frequent traders, for trades less than €100,000:€15
Commission fee for standard traders: €20
Management fee for inactive accounts: €30 excluding VAT every six months for portfolio balances of less than €5,000

Accendo Markets

Minimum transaction fee: 0.25% per trade
Annual management charge:None

IG.com

Commission per trade: 0.1% or a minimum charge of €10

Why I gave up on shares

Áine Mulcahy has had her fill of the stock market, having been burned by it several times.

She is managing director of the Cannon/OCS Group Ireland, a facilities management company with turnover of more than €40m. It counts Irish Rail and Tesco among its clients, screens baggage for illicit goods at Dublin airport and cleans the Apple offices in Cork. She is also a board member of the Irish branch of the British Institute of Facilities Management (BIFM), which will hold a summit in Dublin on November 20.

In the 1990s, Mulcahy, worked for a freight business and received share options in lieu of a pay increase which lapsed when she left the company.

During the mid-Noughties, Mulcahy was chief executive of the Federal Group, part of the quoted Newcourt Group, and began buying stocks such as Ryanair as part of an office investment club.

"It was like monopoly money: you bought shares on the market and by lunchtime they were worth significantly more. I listened to an awful lot of people who I thought were older and wiser than me."

She admits to being "always a little bit reticent about the stock market" and by 2006 started to put any spare income into property.

In 2008, when Lehman Brothers collapsed, Mulcahy's shares tanked. She sold everything. Newcourt collapsed in 2009 and her share options were "worthless".

"I made some bad choices based on ignorance and someone else's say so," she said. "I'm not a financial expert and I didn't have a huge history of trading on the markets."

These days, Mulcahy eschews individual stocks completely, preferring to pay off her investment and residential property portfolio. Now in her forties, she plans to switch to a personal lifestyle strategy in her fifties to protect her pension fund from market fluctuations as she gets closer to retirement age.

"At least I didn't buy a half a dozen properties in Bulgaria," she said.