Why invest in Stocks?

Stocks represent a significant source of wealth in the world today. Based on research conducted by Morgan Stanley, as of 31 March 2011, the aggregate market value of world equities market exceeded USD 34 trillion, of which more than half represented markets outside the United States and over 10 percent represented emerging markets such as China, India, Brazil, South Africa and Africa.

This vast majority of stocks are held by individuals and institutions (i.e pension funds, insurance companies and banks). On average, international investors hold 47 percent of their portfolio allocations in stocks, which is a larger allocation than that for bonds, cash, or real estate.

Investors often worry about inflation, and most stocks offer a good degree of insurance against this. Companies can generally increase their prices in line with inflation causing their earnings and profits to trend upwards with inflation. Nevertheless, companies still face challenges in coping with inflation.

Historically, stocks have achieved high long-term real rates of return, which have been important in establishing the widely held opinion that they play an important part in growing an investor's portfolio over time. The graph shows the cumulative return on the S&P 500, a broad based US stock index (blue) and the Barclays 7-10 year Treasury bond index (red). As indicated by the graph, although stock are subject to more risk and volatility in the short term, over the long run stocks historically out performed bonds.

Finally, other benefits of stocks include greater liquidity. This relates to the idea the market has many people buying and selling stocks which means that investor can easily buy or sell a particular stock as there are always people looking to both buy and sell. Given the number of buyers and sellers it also means that the market has transparent pricing which is easily available. Finally, other advantages of ownership include sharing in the company's profits and the ability to participate in company decisions.

How do you gain from stocks?

As discussed above, investors receive a share of a company's profits and growth in the form of dividends and capital appreciation.

Most stocks pay dividends. The majority of the time, dividends are declared annually although large companies may pay them out as often as four times a year. The amount and timing of dividend payments are at the discretion of the company’s board of directors. Most profitable companies share their profits with their investors by paying them a cash dividend. Companies also have the option to pay stock dividend by give existing shareholders new shares. However this is not as popular as cash dividends.

It is important to note that the the law does not require a company to pay a dividend on its shares, even if the company is profitable. Dividends on stocks can vary, but companies generally attempt to maintain a consistent dividend policy.

Stocks that pay out a fairly generous dividend are known as income stocks. These are generally popular with individuals or institutions that are satisfied with the stock's rate of return on dividend pay-outs, i.e. dividend yield.

When a stock is purchased at a given price and then sold at a higher price, the resulting profit is known as a capital appreciation. The stocks of companies that are expected to grow over time are known as growth stocks. Many growth stocks pay out very little dividends or none at all. Investors often buy such stocks with the anticipation that their share value will increase over time as the company grows.

It should be noted that whilst stocks provide a multitude of benefits, there are risks associated with investing in stocks, for instance prices are subject to short term volatility. However the benefits of stocks have historically outweighed their drawbacks.

The establishment of the Securities Exchange, Trop-X means that Seychellois investors will for the first time be able to have access to a liquid stock market and all the benefits that it brings. Existing shareholders of public companies can look forward to significant increases in the value of their shares once that particular company is listed on Trop-X. This is due to the fact that investors prefer listed invested companies for the higher standards they adhere to and the ease with which they can sell their stocks.