# INVESTOR EDUCATION HANDBOOK

"Risk comes from not knowing what you are doing."
**Warren Buffet**

"Knowledge makes good men better."
**Ralph Waldo Emerson**

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Further, readers are advised to consult with any of the registered stockbrokers or investment banks whose names have been included in this publication in appendix one.

## MESSAGE FROM THE KASIB CHAIRMAN

The Kenya Association of Stockbrokers and Investment Banks (KASIB) is an association that represents the interests of Kenyan stockbrokerage and investment banking companies. The members of the Association are regulated by the Capital Markets Authority, the Nairobi Securities Exchange and by the KASIB Code of Ethics which each member is required to abide to.

KASIB was established with the goal of upholding good practice and promoting high professional and integrity standards in the Kenyan capital markets industry. KASIB plays its part towards the fast and orderly growth of the industry through constant consultations with other stakeholders and continuously assessing avenues through which the industry can be strengthened.

KASIB has been (and continues to be) a vocal advocate of a vibrant and rejuvenated capital market and has tirelessly and constantly sought ways of improving its membership and contributing to the betterment of the industry at large. Avenues like investor education, corporate governance and promoting good work ethics are some of the key areas that KASIB is keen on improving.

The investing Kenyan public has a great deal of interest in the stock market. This manual has been compiled to demystify the stock market and for investors to understand the terminologies, nature and operations of the stock market and have a basic knowledge of how the stock market works. This is as a response to the numerous requests from the investing public to initiate a program that will simplify and bring clarity to the otherwise complex capital markets industry.

Your investment advisor will be available to shed light on topics or areas where you may need more clarity. You can also look out for our trainers who will soon be making countrywide tours to towns and schools for face to face interactions with investors.

This is the first of a series of publications that KASIB in association with the NSE will roll out in the medium and long term. KASIB, in partnership with other stakeholders will continue to engage with investors within and outside our borders, the central government, county governments, and the regulators to inject vitality in the stock market.

**MR. JOHN E. KIRIMI**
**KASIB CHAIRMAN**

## MESSAGE FROM THE NSE CHIEF EXECUTIVE

The NSE believes that the world would be a better place if everyone owned their potential and exploited it. In 2012, the Board of Directors of the Nairobi Securities Exchange endorsed financial literacy as the focus of our Corporate Social Responsibility initiatives. The Exchange believes that informed investors are the best deterrent against corporate malfeasance. The Investor Education Handbook is one way in which we believe that we can strengthen financial literacy in our market.

This year as we at the NSE celebrate our sixtieth anniversary, we are delighted to be again collaborating with the Kenya Association of Stockbrokers and Investment Banks (KASIB) on this Investor Education Handbook.

It is our belief that by learning more on the capital market from this Booklet, you will be encouraged to discover opportunity.

**MR. PETER MWANGI**
**CHIEF EXECUTIVE**
**NAIROBI SECURITIES EXCHANGE**

# PART ONE: STOCK MARKET TERMS: KEY WORDS

### KASIB
***The Kenya Association of Stockbrokers and Investment Banks***

It is the umbrella association comprising of all stockbrokers and investment banks in Kenya. It has twenty members in total and its offices are located in the Nairobi Central Business District at City House along Standard Street.

### NSE
***The Nairobi Securities Exchange***

A Stock (Securities) Exchange is the physical location where the stock market in a country is traded, or the electronic platform used to effect such trade. In Kenya, the Nairobi Securities Exchange is currently the only licensed securities exchange. It was established in 1954.

### CMA
***Capital Markets Authority***

The Capital Markets Authority is the overall industry regulator in Kenya. It was established by an act of parliament to promote, regulate and facilitate the development of an orderly, fair and efficient capital markets in Kenya.

### CDSC
***The Central Depository and Settlement Corporation***

The Central Depository and Settlement Corporation operates and manages the Central Depository System (CDS) in Kenya for securities listed on the Nairobi Securities Exchange.

### STOCK MARKET
It is also known as the equity market. It is where the buying and selling of stocks takes place. It is the market in which shares are issued and traded either through exchanges or over-the-counter trading. It provides companies with access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance.

This market can be split into two main sections: the primary and secondary market. The primary market is where new issues are first offered (IPO's), with any subsequent trading going on in the secondary market.

### STOCK
It is also known as a share of stock. A stock is a small share that represents a partial ownership of a company. Stocks are issued by companies in order to raise capital and are bought by investors in order to acquire a portion of the company. If you own a share of a company's stock, you are a part owner of the company.

## CDS
### *The Central Depository System*

The Central Depository System can be compared to a bank where the records of all shareholding of listed companies are kept. It is a data base where investors can open accounts and debit them with shares for purposes of trading.

## CDA
### *A Central Depository Agent*

A Central Depository Agent can either be a stockbroker or a custodian bank that has been granted authority by the Central Depository and Settlement Corporation to open, close or transfer accounts in the Central Depository System on behalf of investors.

# PART TWO:
# STOCK MARKET TERMS: GLOSSARY

**Acquisition**
An acquisition is when one company makes a bid to acquire control of another (called the target). It can either be hostile or friendly.

**Active Shares**
These are shares which are most frequently traded (bought and sold) at the NSE, as distinguished from partly active shares in which trading is not as frequent. The shares of most leading companies are active.

**Agent**
An agent is an appointed representative (of a stockbroker or investment bank) who is authorized to transact the business of buying and selling shares for a commission through and on behalf of the stockbroker or investment bank.

**All or None (AON)**
This is a restriction placed on a buy or sell order that instructs the broker to fill the order completely by the close of the market or the order should not take place.

**Allotment Letter**
This is the document issued by a company to its investors showing the number and value of shares allotted to the applicant after successful subscription.

**Amalgamation**
This is when two companies, previously independent of one another, combine to form a new company.

**Annual Report**
A publication issued by a company to its shareholders at the company's fiscal year-end. The document typically includes financial statements, reports on operations, the auditor's report and other relevant information on the company. It is mandatory for all public companies.

**Annual General Meeting**
This is a mandatory meeting held once a year by all public companies. The directors of the company report to the shareholders on the year's performance and future of the company. All shareholders are invited and allowed to ask questions. Notice of such a meeting is mandatory.

**Articles of Association**
This is a document describing the purpose, place of business and details of a company. Every incorporated company in Kenya by law must have and submit this document to the registrar of companies and work by what it stipulates. The articles of association together with the memorandum of association form the constitution of a company.

**Ask**
It is also known as the offer price. It is the lowest price which a seller is willing to accept for a security. It also typically stipulates the amount of the security the seller is willing to sell.

**Assets**
This is anything owned by a company that has a market value. This includes land, buildings, equipment, furniture, cash, bank deposits, manufactured goods ready to be sold, goodwill, trademarks etc.

**At Best Order**
This is an instruction from a client to a broker authorizing the broker to use his discretion and try to execute an order at the best possible prize.

**Authorized Shares (Stock)**
This is the total number of shares that a company is permitted to issue according to its memorandum and articles of association. This number can only be increased if a resolution is passed to that effect by the majority of the shareholders and an application made to the registrar of companies.

**Authorized Share Capital**
The authorized share capital is calculated by multiplying the nominal share value with the total number of authorized shares. This is stated in the memorandum and articles of association as required by law.

**Automated Trading System (ATS)**
This is the online trading system software used at the Nairobi Securities Exchange to effect all trading transactions. It can be accessed through the NSE trading floor (through the Local Area Network) or from the stockbrokers' offices (through the Wide Area Network). It is completely controlled and managed by the NSE.

**Averaging Down**
Buying more shares in a company at a price that is lower than the price paid for the initial investment. The aim of averaging down is to reduce the average cost per share bought.

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**Back Office**
Refers to that segment of a stockbroker's office that has little or no direct relationship with the public but which is generally responsible for nearly all processes involved in effecting a transaction.

**Bad Delivery**
This is when the delivery of a share certificate, together with the deed of transfer is considered defective or if it is not delivered within a stipulated period. Defects may arise from mutilation, correction, overwriting, erasure, alterations, illegibility, inconsistencies in names, missing details etc.

**Basis Point**
One hundredth of a percentage point. Example; the difference between 4.50% and 4.75% is 25 basis points.

**Bear**
A stock market speculator who expects share prices to fall and therefore keeps selling in anticipation to buy the shares later at a lower price. All

individuals can be bearish at times although some are perennially so. The term is derived from the attacking posture of the bear; pushing downwards.

**Bear Market / Bear Cycle**
An extended period when share prices generally keep falling and the stock market index keeps going down.

**Bell**
Refers to the bell which is sounded to open and close trading at the Nairobi Securities Exchange Trading Floor, thus the Opening Bell and Closing Bell respectively. Since the NSE went fully electronic by automating trading on September 22 2006, the Bell is rang on special occasions such as during the listing and commencement in the trading of a new security.

**Beneficial Owner**
A beneficial owner is the true owner of a security who enjoys the benefits of ownership even though the title could be in another name.

**Bid**
The highest price a buyer is willing to pay for a stock. It stipulates both the price and the quantity that the buyer requires to purchase.

**Block Order**
An order placed for the transaction (purchase or sale) of a very large quantity of securities.

**Blue Chip Stocks**
Are the stocks of leading, well established, capitalized and nationally known companies that have a proven record of earnings and pay a reasonable dividend.

**Bonds**
Bonds are also referred to as fixed income securities. They are promissory notes issued by government and corporations that entitle the investor to a specific interest at specific intervals over a specified length of time and to receive the principal upon maturity. Unlike shares, bonds do not carry with them any sense of ownership but guarantee interest even when the issuer does not register a profit.

**Bonus Issue**
These are additional shares issued to existing shareholders in proportion to their holdings. They are issued free of cost.

**Book Closure**
This is when a company announces the issuance of a dividend or a bonus to its shareholders.

**Book Loss**
This is the perceived loss when the value of a stock falls but is not actually sustained as the investor has not sold when the price has fallen.

**Book Profit**
This is when the value of a stock appreciates in price but it is unrealized profit since the investor has not sold any.

**Bourse**
This is term is generally used to refer to the Nairobi Securities Exchange.

**Broker**
Broker is short for Stockbroker and refers to a member of the Nairobi Securities Exchange who is licensed to buy or sell securities on behalf of investors. Brokers are essentially the link between investors and the stock market. When acting on behalf of an investor for the purchase or sale of a listed stock, the broker does not own the securities but charges a commission on the gross value of the transaction.

**Bull**
A stock market speculator who expects share prices to rise and therefore keeps buying in anticipation to sell them later and make a profit.

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**Capital Gain**
A capital gain is an increase in the value of a capital asset. Stocks and other investments such as property are classified as capital assets. The gain is only realized after the asset is sold.

**Capital Loss**
This is a loss incurred when there is a decrease in the capital asset value as compared to its purchase price.

**Capital Market**
Refers to the sources from which long term capital is raised for the setting up of the sustained growth of companies. The stock exchange is a part of the capital market.

**Capital Reserves**
Capital Reserves comprise of a company's profits that are not normally distributed as cash dividends to shareholders. They can however be distributed as permanent share capital by way of bonus issues.

**Capital Structure**
The capital structure is how a company finances its overall operations and growth by using different sources of funds like long term debt, short term debt, common equity and preferred equity.

**Central Depository and Settlement Corporation**
(See part I)

**Certificate (Share Certificate)**
This is the physical document that shows ownership of a stock, bond or other security. However, after the introduction of the Central Depository System, paper certificates were rendered obsolete and through a process called immobilization, the movement of all paper certificates ceased.

**Closing Date of Offer**
This is the last date by which subscriptions for a new offering are

accepted.

**Closing Price**
It is the final price at which a security is traded at the Nairobi Securities Exchange. By comparing the closing price of a stock on any given day to its previous closing price, one can be able to measure the market sentiment for the stock.

**Code of Ethics**
This is a document drafted by the Kenya Association of Stockbrokers and Investment Banks as a self regulatory guide to the manner by which the members do business with the investing public.

**Collective Investment Schemes**
Collective Investment Schemes are pools of funds from investors that are managed on their behalf by professional money managers who buy a wide range of securities e.g. shares according to the specific investment objectives of the scheme.

**Mutual Fund**
A mutual fund is an investment vehicle built with funds collected from many small investors that invests in stocks, bonds and other securities. An open-ended mutual fund is one which keeps accepting new investors and redeems the funds of those who wish to opt out, while a close-ended mutual fund has a fixed number of investors.

**Unit Trust**
This is a collective investment scheme that pools funds together from small investors by issuing units and is constituted under a trust deed. The funds are invested in a wide range of securities and are managed by a professional manager.

**Consortium**
This is a temporary alliance of two or more companies for the purposes of bidding for a large project. Their combined financial, technical and human resources gives them a competitive edge over the other bidders.

**Contrarian Shares**
These are shares that perform in a fashion contrary to the general stock market trend. They fall when the market is rising, and rise when the market is falling.

**Controlling Interest**
This is holding a sufficiently large number of shares in a company to enact changes (or control) in its policies. Ownership of 50% plus one of the equity shares in a company can give an individual or group the voting power to influence a company's decision. If the shareholding is dispersed among people who do not bother to vote (usually small shareholders), controlling interest of the company can be achieved with shareholding of a lot less than 50%

**Convertible Security (Convertibles)**
This refers to a range of securities (usually bonds) that are convertible into other securities of the issuer (usually ordinary shares) in accordance to the specified terms of the conversion.

**Cooking the Books**
This is falsifying the financial accounts of a company to give the impression of high profits to attract investors and to keep the shareholders happy.

**Corporate Governance**
Corporate Governance is the set of processes, laws, and institutions that guide the way by which businesses are regulated, operated and controlled. It also describes the ways by which rights and responsibilities are shared between the various participants, especially the management and the shareholders.

**Corporate Social Responsibility (CSR)**
Corporate social responsibility is a company's commitment to behave ethically and contribute to economic development while improving the quality of life of its workforce and their families as well as the environment and local community at large.

**Corporation or Company**
A form of business organization created under the Companies Act of Kenya, which has a legal identity separate from its owners. The owners of the corporation are the shareholders and they are liable for the debts of the corporation only up to the amount of their investment. This is called limited liability.

**Correction**
This is the term used to explain a decline in a market which is seen to be generally in an upward move. It is said that the market never goes straight up or straight down.

**Coupon**
This is the interest rate on a fixed income security e.g. bond, determined upon the issuance of the bond. Coupon also refers to the actual interest payment of the bond to the holder which is normally twice a year for government bonds.

**Crash**
A drastic and sharp drop in share prices within a short period of time.

**Credit Rating**
This is the process of ascertaining the creditworthiness of a company or financial institution. Credit rating is not a recommendation to buy or sell but is an objective and independent assessment of the company so as to create risk awareness among investors.

**Cross Listing**
This is when a company lists its shares in a different exchange than its primary and original stock exchange.

**Cum Dividend**
This means with dividend. The owner of shares bought cum dividend is entitled to receive an upcoming already declared dividend.

**Cum Rights**
The buyer of a cum-rights share is entitled to subscribe to the forthcoming rights issue announced by the company.

**Custodian**
This is a financial institution with the legal responsibilities and mandate to manage and safe-keep a customer's securities.

**Cyclical Shares (Cyclical Stock)**
Cyclical Shares are the shares of a company which is particularly sensitive to changes in the economic conditions. Such shares will rise and fall in price depending on various factors like the state of the national economy e.g. cement, the international economy e.g. tourism or even natural phenomena e.g. fertilizers.

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**Debenture**
This is a long term debt instrument issued by companies for a fixed rate of interest over a stipulated period. They can be secured against assets held by the company or can be unsecured, backed only by the integrity of the borrowing company. Interest is paid at specified dates regardless of whether the company registered profits or not. Convertible debentures can be either fully or partly converted to ordinary shares after a stated period of time.

**Declaration Date**
The declaration date is also known as the announcement date. It is the date on which the next dividend payment is announced by the board of directors of a listed company.

**Decline**
This is when the price of a share drops in value on a given trading day, closing at a lower price than that which it opened at.

**Defensive Stock**
These are shares of companies that have maintained a record of stable earnings and continuous dividend payments even through periods of economic downturn. They tend to fall less in a bear market and therefore provide a safe return to an investor's money.

**Delisting**
This is the removal of a company's name from the official list at the Nairobi Securities Exchange so that it can no longer be traded. This happens when the company for which the stock is issued is not in compliance of the listing requirements at the exchange.

**Dematerialized Securities**
These are securities that have been prescribed by the central depository and the physical certificate is no longer recognized as all its transactions are computerized and entered into a ledger.

**Demutualization**
This is the process by which a member-owned mutual organization changes legal form to become a company owned by shareholders. The Nairobi Securities Exchange demutualized in June 2014.

**Derivative**
A derivative is a financial instrument which derives its value from an

underlying asset such as stocks, bonds, commodities or currencies.

### Dilution of Equity
This is a decrease in the ownership value of a share as a result of increasing the number of shares. An increase in the number of shares can be brought about by issuing new shares; when convertible bonds (or debentures or any other long term loans) are converted to shares; or after the issue of a bonus. Dilution lowers the book value and earnings per share.

### Discount
This is the difference between a bond's face value and its current market price, if lower.

### Discretionary Account
This is an account that an investor opens with a stockbroker that authorizes the stockbroker to buy or sell shares or any other securities he may select at his discretion on behalf of the investor.

### Diversification
This is limiting investment risk by purchasing different types of securities from different companies representing different sectors of the economy.

### Dividend
This is the portion of the listed company's profits that is paid directly to shareholders. The dividend is usually quoted in shillings per share and is declared and approved at the annual general meeting of the company. The board of directors decides the dividend to be paid out. A listed company is under no legal obligation to pay dividends. It is also referred to as Dividend per Share, DPS.

### Dividend Yield
This is the return on the money invested in a security. It is simply the dividend quoted in terms of a percentage of the current market price. For example, if the dividend declared is KES 1.00 and the closing price of the share is KES 20.00, then the dividend yield is 5%.

### Dollar Cost Averaging
This is investing a fixed amount of money in a specific security at regular set intervals over a period of time. The investor buys more shares when the price is low and buys fewer shares when the price is high. This results in a lower average cost per share.

### Dry Run Portfolio
It is also known as paper trade. It is an imaginary portfolio of shares, constructed and monitored regularly by an investor over a period of time without actually buying the shares. The investor acquires experience on the ups and downs of the stock market at no financial cost or risk. With time, the investor garners enough confidence to actually invest in the stock market.

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### Earnings per Share
This is the portion of a company's profit after tax that is allocated to each

ordinary share. It is calculated by dividing the net profit by the number of ordinary shares. It serves as an indicator of the company's profitability and is considered the single most important variable in determining a share's price.

**Earnings Yield**
This is the net profit after tax of a company divided by the total market price of its shares.

**Eating Stock**
Eating stock is when you purchase shares because you are forced to do so and not because you desire to purchase it.

**Eligible Securities**
These are shares, debentures and bonds which banks will accept as collateral for loans. Most of the shares listed at the Nairobi Securities Exchange are eligible securities.

**Employee Share Ownership Plan (ESOP)**
It is a program that facilitates the acquisition and distribution of a company's shares to its employees. The employees remain focused on company performance and share price appreciation. These plans are believed to encourage employees to do what's best for shareholders since they are themselves shareholders.

**Encumbered Securities**
These are the securities that are owned by one party but are subject to a legal claim by another party. This normally happens when the securities are used as collateral for borrowing.

**Equity Financing**
This is when a company raises money from the capital markets by issuing securities such as shares. The investors purchasing these shares become shareholders and receive ownership interests in the company.

**Equity Market**
It is also known as the stock market. It is the market in which shares are issued and traded either through the stock exchange or over the counter markets. It is vital in any market economy because it provides an avenue through which companies can raise capital and gives the investing public an opportunity to own a slice of these companies. It can be divided into two. There is the primary market where new issues are first offered e.g. the initial public offerings. And the secondary market where all subsequent trading takes place at the Nairobi Securities Exchange.

**Equity Market Capitalization**
This is the total market value of an equity market. It is calculated by adding up the market capitalization of all the listed companies in the equity market. It is used to measure the increase or decrease of the size of the market as a whole.

**Equity Shareholders**
These are the owners of a company sharing in its risks, profits and loss. They are paid a share of the company's profits in proportion to their shareholding after all other claims have been met. In the event of the liquidation of a company they share whatever is left of the company after

all its creditors have been paid. Only equity shareholders are allowed to vote in the company's meetings.

**Ethical Investing**
This is investing that is guided by one's ethical principals and not by financial considerations. One may choose to invest heavily in companies that conform to his/her ethical guidelines and decline to invest in companies in certain industries like gambling, alcohol, tobacco.

**Ex Dividend**
This means without dividend. The holder of shares purchased ex dividend is not entitled to an upcoming already declared dividend, but is entitled to future dividends.

**Ex Right**
The holder of shares purchased ex rights is not entitled to an upcoming already declared rights issue, but is entitled to future rights issues.

**Exchange**
See **Stock Exchange**

**Extra Dividend**
An extra dividend is also referred to as a special dividend. It is a dividend paid out to shareholders in addition to the regularly established dividend they receive from the issuer.

**Extraordinary General Meeting**
This is any general meeting other than the annual general meeting called to seek shareholders' consent on urgent issues. These issues could be the removal of an executive, a takeover, amalgamation, induction of a new director into the board or even large scale borrowing.

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**Face Value**
This is the cash denomination of a debt instrument e.g. a bond. It is the amount of money that the holder of the debt instrument receives from the issuer upon its maturity. It is also referred to as par value or principal.

**Financial Institution**
A financial institution is a money management company e.g. a bank that collects cash deposits from the public and invests or lends to borrowers. Some of these institutions have very large funds and can influence the prices of securities in the stock market considerably.

**Financial Instrument**
A financial instrument is a contract that represents a legal agreement involving monetary value. Financial instruments are either equity based; representing ownership of an asset, or debt based representing a loan made by the investor to the owner of the asset; or foreign exchange instruments.

**Financial Markets**
A financial market is generally any market place where buyers and sellers

transact in assets such as equities, bonds, currencies and derivatives and include money markets and capital markets.

**Financial Pyramid**
This is a risk structure model used by investors who wish to spread their investments for safety and profits. At the base of the pyramid, its broadest span will be safe and liquid investments which will yield a decent return e.g. treasury bonds. The next segment will be debentures and shares which will yield a good return and at the top and narrowest segment with the least part of an investor's funds will be the high risk investments which if successful yield extraordinary returns.

**Fiscal Year**
A fiscal year is any 12 month period that a company uses for accounting purposes. It may or may not be the same as the calendar year or the government's financial year.

**Fixed Assets**
Fixed assets are entered into a company's balance sheet and include items like land, buildings, machinery and plants, fixtures and furniture which are not meant to be converted into cash in the normal course of events.

**Fixed Income Investments**
These are investments such as fixed deposits, non-convertible debentures, or government bonds that yield a fixed rate of interest.

**Flat**
This is a price that is neither rising nor declining. If the shares of a company have been trading at KES 12.00 over the last one month, they can be referred to as flat.

**Flexible Fund**
This term applies to pooled funds or collective investment schemes like mutual funds that may change their investment strategy as they see fit so as to maximize the total returns, as opposed to sticking to one type of investment vehicle.

**Float**
Also known as free float and is the total number of shares issued by a listed company that are publicly owned and available for trading. Floating stock is therefore the number of shares of a company that are traded at the Nairobi Securities Exchange.

**Front Running**
This is an illegal activity where a stockbroker buys or sells shares in his/her own name while taking advantage of advance knowledge of pending orders from his customers. Example; if a stockbroker buys himself 10,000 shares of a company just before he buys 1,000,000 shares of the same company for his client.

**Fund Manager**
This is a professional who runs and manages a portfolio of securities e.g. shares or bonds for and on behalf of investors.

**Futures Contract**
A futures contract is a contractual agreement to buy or sell a specified

quantity of a commodity, currency or shares at a specified price on a fixed date in the future. It is also referred to as forward dealing or forward trading.

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**Going Private**
This is a change from public ownership of a company to private ownership either by a company repurchasing all its shares or by a private buyer doing so. This may happen when the value of the shares is drastically low making it possible to acquire them cheaply. Companies may go private to restructure their businesses or to fend off takeover threats.

**Going Public**
A company is said to be going public when it offers to sell its shares to the public through an initial public offering (IPO). Companies mostly do this to expand their capital base and to finance their growth plans.

**Going Short**
See **Short Selling – Short Sale**

**Good Delivery**
A good delivery is when the delivery of a share certificate and the transfer form meet all the requirements of the transfer. They are delivered within the stipulated period and contain no defects like mutilation, erasure, correction, overwriting, alterations or inconsistencies and missing details.

**Government Paper**
This is debt security e.g. bonds that is issued by the government or guaranteed by it.

**Growth Shares**
These are the shares of a company which is registering higher than average earnings per share, faster than its industry or the overall market and is expected to continue with this climb. They are good for long term investment.

**Guaranteed Bond**
This is a bond in which both the interest and the principal on the bond are guaranteed to be paid either by the parent company of the issuing company or by a better known and more creditworthy institution.

**Guaranteed Stock (Shares)**
These are the shares in a listed company whose dividends are guaranteed by another company. Since the dividends are backed by a guarantee, investors are willing to pay more for the shares.

**Gun Jumping**
This is illegal. Gun jumping is trading in the shares of a company based on information before it is made public.

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**Hedge**
This is a strategy used to eliminate or reduce the risks of loss that could be brought about by adverse price movements of a security by making an investment in a related security. An example is if you owned a stock and then sold a futures contract stating that you will sell the stock at a set price thus avoiding market fluctuations. Investors use this strategy when they are unsure of the direction the market will take.

**Hedging Against Inflation**
This is protecting one's savings from the loss of value that is brought about by inflation by investing in such items whose price will go up with the general rise of prices e.g. equity shares.

**High**
This is the highest price that was paid for a stock during a certain time period. In a trading day, this price is not necessarily the same as the closing price.

**High Close**
This is a tactic used by stock manipulators. During the final minutes of trading, they execute several small orders of a given stock at high prices to give the impression that the stock is doing better than it actually is because the closing price is the most widely quoted and will attract potential investors to buy the stock.

**Historical Volatility (HV)**
This is the degree of price fluctuation of a stock over a given period of time e.g. a day. It is directly related to the level of risk associated with a stock; low HV means low risk while high HV means high risk.

**Holder of Record**
This is the name of an individual or entity who is the registered owner of a security. Dividends and other distributions are paid only to the holder of record.

**Holding Company**
This is a company that holds enough voting shares (not necessarily 51%) in another company to control management and operations by influencing or electing its board of directors. It is also referred to as the parent company.

**Hot Issue**
A hot issue is an initial public offering (IPO) that is in great demand. Hot issues are normally oversubscribed. An example is the Safaricom IPO in 2008.

**House Rules**
These are a stockbroker's internal policies and procedures that describe how customer accounts should be handled. They are intended to make sure that the stockbroker complies with regulatory requirements and are usually more stringent than external rules require.

**Hybrid Market**
A hybrid market is a stock exchange that allows for trading through the option of an automated electronic trading platform or the trading floor broker system. The Nairobi Securities Exchange is a hybrid market.

**Hypothecation**
This is when a stockbroker accepts an investor's shares as collateral for a loan to purchase more shares for the investor.

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**Imbalance of Orders**
This is when the buy orders for a particular stock greatly outnumber the sell orders or vice versa. This may result in a temporary trading halt for that stock if trading has already commenced for the day. If trading for the day has not commenced, it may be delayed. A surge in buy orders may result from unexpected good news and likewise, a surge in sell orders may result from unexpected bad news about the stock.

**Immobilization**
This is the process by which movement of paper certificates ceases as all the details previously on paper certificates have been entered into one computerized system, i.e. the Central Depository System managed by the Central Depository and Settlement Corporation.

**Inactive Stock**
An inactive stock is one that is traded relatively infrequently, either at the stock exchange or over the counter.

**Income Stock**
This is a stock with a solid record of paying consistently high dividends. The dividend yield is normally higher than the overall stock market.

**Indenture**
This is a contract between the issuer of a bond and the bond holders specifying interest rates, maturity date, rights, responsibilities and terms of both parties.

**Index**
A stock market index is a statistical measure of the state of the stock market, based on the performance of a number of representative stocks. Each index (from different stock markets across the world) has its own calculation methodology and is usually expressed in terms of a change from a base value. Thus, a percentage change of the index is more important than its numeric value. The index is usually considered to be reasonably representative of the performance of the stock market as a whole.

**The NSE 20 share index** is therefore a measure of the stock market based on the performance of selected 20 listed companies drawn from different industries.
(See Appendix 2)

**The NSE All Share Index (Nasi)** on the other hand is a measure of the stock market based on the performance of all the listed companies at the Nairobi Securities Exchange.
(See Appendix 3)

Similarly, the **AIG 27 Index** measures the stock market based on the performance of 27 listed companies at the Nairobi Securities Exchange.

**Indexing**
Indexing is an investment strategy in which a portfolio is designed to mirror the performance of a stock index.

**Indicated Dividend**
The total amounts of dividends that would be paid on a share throughout the next year if each dividend is the same amount as the previous payment.

**Initial Public Offering (IPO)**
This is the first sale of stock by a private company to the public. It is done via the stock exchange and is also referred to as going public, or flotation. An IPO allows the issuing company to tap a wide pool of investors to provide it with large volumes of capital for future growth.

**Inside Information**
Inside information is crucial and valuable information about a company which is known by the company's board of directors, management and/or employees but not by the public. Such information could affect the company's share price should it be made public.

**Insider**
An insider is any person who has access to crucial and valuable facts about a company which the public do not yet know (inside information). Information like expansion plans, financial results, contracts won, takeover bids etc., Insiders include owners, executives and consultants of a firm. A shareholder who owns more than 10% of a company is also considered an insider. It is illegal for an insider to engage in speculative trading in the company's shares based on such information.

**Insider Trading**
There are two types of insider trading. The first type occurs when someone trades shares at the stock exchange based on crucial information about the company which the public do not yet know. This is illegal regardless of whether you are a director, broker, friend or family member of an insider. The second is legal and occurs when an insider buys such shares but after the crucial information has been made public at which time there is no direct advantage over other investors.

**Institutional Investor**
This is an organization that invests sufficiently large amounts of money in shares and bonds. Examples of institutional investors include mutual funds, unit trusts, insurance companies and pension funds.

**Interest**
This is the fee charged by a lender to a borrower for the use of borrowed money, usually expressed as an annual percentage of the principal.

**Interest**
The amount of ownership a shareholder has in a company usually expressed as a percentage.

**Interested Shareholder**
This is a shareholder who owns or controls enough shares in a company

as to affect company decisions and policies.

**Interim Dividend**
This is a dividend that is declared and distributed before a company's annual general meeting and final financial statements.

**Intraday**
This means within the day. It is often used to refer to the price movements of a stock within a single trading session. Example; when a stock reaches a new intraday high, it means that it is trading at a new high price, relative of all other prices it has traded at during the day.

**Investment Advisor**
A person or organization employed by an individual, institution or mutual fund to provide investment advice or manage assets.

**Investment Bank**
An investment bank is an institution that deals with the creation of capital for other companies. They act as advisors and agents for a company on matters related to the issue and placement of a stock. Example; during an IPO, it is common to find the issuer engaging the services of an investment bank as the lead advisor on the entire transaction. They also provide stockbrokerage services and can trade in shares at the stock exchange in their own accounts.

**Investment Climate**
This generally refers to the prevailing outlook and mood of the investing public and institutions. It depends largely on the current and anticipated economic situation but is also influenced by political and social factors. Example; political instability creates a negative investment climate where investors shy away from investing in the capital market.

**Investment Club**
This is a voluntary association of individuals who pool their money together to build an investment portfolio which would have otherwise not been possible with the small sums at each one's disposal. A key advantage of an investment club is that more than one mind is engaged in making buy or sell decisions and that each member carries a relatively low risk. They help to build up investment consciousness among small investors.

**Investment Company**
This is a company that invests the pooled funds of a large number of retail investors to buy and sell shares. It gives individual investors access to a wider range of securities than the investors themselves would have been able to access. An open-ended investment company is one which keeps accepting new investors and redeems the funds of those who wish to opt out, whereas a close-ended investment company has a fixed number of investors.

**Investment Horizon**
When an investor buys shares, he/she normally does so with a future date in mind when they would like to cash in on their investment. The total length of time from the date of purchase of a share to the date when it is sold is the investment horizon, provided that it is planned. An investment horizon can be years, months, weeks or even days.

**Investor**
An investor is an individual or institution that commits money to buy securities with an expectation of a financial return. The primary objective of an investor is to minimize risk while maximizing returns.

**Investor Compensation Fund**
This is a special fund that is set aside to compensate investors at the stock exchange who may incur loss due to the inability of a licensed stockbroker to meet his contractual obligations towards them. A certain fraction of all equity transactions at the stock exchange is set aside for this fund.

**Issue**
An issue is a stock or bond which has been offered for sale to the public by a corporation or government entity. This is done for purposes of raising funds.

**Issue Price**
This is the price at which new shares are issued to the public. The price is decided in consultation with the lead transaction advisor, normally an investment bank.

**Issued Shares**
This is the total number of a company's shares that have been sold and are held by shareholders regardless of whether they are individuals, institutions or insiders. It is not mandatory for a company to issue the total number of its authorized shares.

**Issuer**
This is the company or government that is offering (or has already offered) stocks or bonds for sale to investors for the purpose of financing its operations.

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**Joint Bond**
This is a bond guaranteed by two or more guarantors, one of them being the issuer. The assets of all the guarantors can be called upon to pay the bond holders in the event that a default occurs. This commonly happens when a parent company is required to guarantee the bonds of a subsidiary company.

**Joint Holders**
This is when two people or more come together to apply for shares in a new issue. They hold the shares jointly. While signing the deed of transfer after a sale of shares, all shareholders must sign. It is also referred to as joint ownership.

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**Key Performance Indicators**
This is a set of quantifiable measures that a company uses to measure if it

is attaining its performance and operational goals. The indicators vary from one company to another and can be financial and/or non-financial.

**Know Your Customer (KYC)**
This is the requirement that a stockbroker (or agent) should find out about a client's financial needs, risk tolerance and investment knowledge before making recommendations. This knowledge enables the stockbroker to establish the most suitable securities for the investor.

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**Large Cap**
This is short for 'Large Market Capitalization' and is a term used to refer to companies with a very high market capitalization value.

**Last Day to Register**
This is the last day by which securities need to be registered with the issuer's office so as to qualify to receive dividends, rights or bonus shares. It is also known as the books closing date.

**Lien**
This is when a creditor or bank has legal claim against assets e.g. shares, which have been used as collateral to secure a loan. The lien terminates as soon as the loan is paid off.

**Limit Order**
A limit order is one placed by an investor with a stockbroker to buy a specified number of shares at or below a specified price or to sell a specified number of shares at or above a specified price. A limit order ensures that an investor will not pay more for the shares than the price they have set as the limit and neither will an investor receive less than they are willing to accept. It is a very common type of order.

**Liquidation**
This is the winding up of the business of a company either due to bankruptcy or through a resolution passed by its shareholders when the purpose of the company has been fulfilled. The company's assets are sold and the proceeds pay creditors. Any money remaining thereafter is distributed amongst the shareholders.

**Liquidity**
This is the ability of an asset e.g. shares, to be bought or sold without affecting its price. Liquid assets are those that can be easily bought or sold without any significant change in price. Such assets are normally characterized by a high level of trading activity. A company which has issued a large number of shares is said to have liquid stock in the market. Investors find it safer to buy such stock because it is easier to get their money out of the investment if they need to do so.

**Listed Shares (Listed Company)**
These are shares that have been registered by a recognized and regulated stock exchange to be traded on its trading floor. Shares can be listed on more than one stock exchange.

**Listing Requirements**
Listing requirements are a set of conditions and standards that are imposed by the stock exchange upon companies that want to be listed on that exchange. A company wishing to issue its stock on the exchange must therefore meet these requirements and continue to do so for as long as they are on the exchange. Examples of listing requirements include minimum number of shares outstanding, minimum market capitalization and minimum annual income.

**Locked Market**
This is a highly competitive stock market situation where the bid and ask prices of a share are the same.

**Long**
It is also referred to as long position. This is the state of actually owning stock with the expectation that the asset will rise in value. One is said to have a 'long position' in a company if he/she owns shares in that company.

**Long Squeeze**
A long squeeze occurs when the value of a stock drops in price thereby inciting further selling by more shareholders to avoid incurring dramatic loss. A long squeeze ends when the price falls to a point deemed to be too low then more investors come in to buy the stock and the price rises again.

**Low**
This is the lowest price that was paid for a stock during a certain time period, usually a single trading session.

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**Majority Shareholder**
This is a shareholder or group of shareholders who control more than half of a company's shares.

**Manipulation (Price Manipulation)**
This is the act of artificially rising or lowering the price of shares by creating an appearance of acting buying and selling. It is illegal.

**Margin Account**
This is an account in which the stockbroker lends the client money with which to purchase shares. It allows the investor to buy shares with money that he/she does not have by borrowing money from the stockbroker.

**Market Capitalization**
Market capitalization is the total market value of a company calculated by multiplying the number of shares by the current market price per share. Example; if a company has 10 million shares, and the current market price per share is KES 10.00 then the market capitalization for that company is KES 100 million.

**Market Indices**
See **Index**

**Market Order**
This is an order to buy or sell a stock immediately at the best possible price. It is sometimes referred to as an unrestricted order.

**Market Overhang**
This is a market situation where the sale of an IPO or stock is lessened because buyers are expecting its price to fall, and are therefore holding back from purchasing the stock, undecided whether to buy now or later.

**Market Price**
The last reported price at which a share was sold at the stock exchange. It is also referred to as the market value.

**Market Share**
This is the percentage of an industry's total sales that is earned by a particular company over a specified time period. It is a good indicator of the size of a company in comparison to its competitors.

**Matching Orders**
This is an illegal practice that involves simultaneously entering identical buy and sell orders for a stock so as to give the impression of active trading.

**Material Information**
This is information about a company that has not yet been made public but which would have an impact on the company's share price once released. Examples include expansion plans, financial results or takeover bids.

**Maturity Date**
The date on which the principal amount on a debt e.g. bond, is due and is repaid to the investor. The maturity date depends on the terms of the debt.

**Member**
This is short for 'member of the Nairobi Securities Exchange' and refers to the stockbrokers holding membership at the exchange. Membership is mandatory in order to fill in trades for clients on the exchange. It is also referred to as owning a seat at the NSE.

**Merger**
This is when two or more companies mutually and amicably come together to form a new company for increased overall efficiency. The shareholders of the merged companies are offered equivalent holdings in the new company and retain their powers, rights and benefits in the new firm.

**Minority Interest**
This is when an individual or company owns a significant but non-controlling shareholding of less than 50% of a company's shares. It is also known as minority ownership.

**Mixed Market**
This is when the stock market does not have a clear trend, with about the same number of advancing and declining stocks.

**Money Market**
The money market is a part of the capital market that is established to buy and sell short term financial obligations. Money market securities are generally very safe investments which return a relatively low interest rate and include short term treasury bills and certificates of deposit.

**Most Active**
The most active shares at the stock exchange are the ones that had the highest volume traded in a given period, usually a single trading day.

**Mutual Fund**
See **Collective Investment Schemes.**

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**Naked Position**
This is holding securities that are not hedged against market risk. Both the potential risk and reward is high. It is rarely a concern for smaller investors but is usually a major concern for large investors.

**Narrowing the Spread**
This is shortening the gap between the price that a buyer is offering to pay for a share (bid price), and the price a seller is quoting to sell it at (ask price). As the spread narrows, more buyers and sellers join in and the stock is traded more actively. It is also called price improvement.

**Narrow Market**
This is when the stock market has very few bid and ask offers resulting in low trading activity and low liquidity. It is also called a thin market.

**Negative Carry**
See **Positive Carry.**

**Negative Equity**
This is when the value of an asset e.g. shares is less than the loan that was taken to invest in the asset. Negative equity normally results from a decline in the value of an asset after it is purchased.

**Nervous Market**
This is a stock market that is reacting sharply to economic or political events e.g. change of government.

**Net Asset Value**
This is the value of one share of a mutual fund or unit trust. It is calculated by subtracting any liabilities from the market value of the assets and dividing by the number of outstanding shares.

**Net Change**
It is the change in the price of a security on one trading day and that of the previous day. It can be positive or negative.

**New Issue**
This is a stock or bond issue being offered for sale to the public for the first time.

**Noise**
Also known as market noise and refers to price and volume fluctuations of trade at the stock exchange that can confuse one's interpretation of market direction.

**Nominal Value**
See **Par Value**.

**Nominee**
A nominee is a person, bank or stockbroker in whose name securities are transferred in order to facilitate transactions.

**Nominee Account**
This is a type of account in which a stockbroker holds shares belonging to clients, making the buying and selling of those shares easier.

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**Odd Lot**
This is an amount of shares traded that is less than the stipulated unit. At the Nairobi Securities Exchange, this comprises a trade of 200 shares, or a trade of KES 3,000 in value. When a transaction is less than this it is called an odd lot.

**Offer**
This is the lowest price that an investor is willing to sell their shares for.

**Omitted Dividend**
This is a dividend which was expected, but which was not declared, usually due to financial difficulties. The company hereby opts to conserve its resources rather than to pay out cash.

**Open Ended Investment Company**
An open-ended investment company is one which keeps accepting new investors and redeems the funds of those who wish to opt out, as opposed to a close-ended investment company which has a fixed number of investors.

**Open Order**
This is an order to buy or sell securities that has not been executed or cancelled. This usually happens because some requirement e.g. specified price has not yet been met.

**Open Outcry**
This refers to a system of trading at the stock exchange floor where brokers shout their bids and offers of securities. A contract is made when one broker cries out that he wants to sell at a certain price and then another broker yells out that he will buy at that same price.

**Option**
This is the right but not the obligation to buy or sell a specific amount of shares at a specified price at a specified time. A call option gives the right to buy shares whereas a put option gives the right to sell shares. Each option has a buyer called the holder, and the seller called the writer.

**Order Imbalance**
This is a situation in which buy orders for a particular stock greatly outnumber the sell orders or vice versa, making it impossible to match the orders. It is also referred to as an imbalance of orders.

**Ordinary Shares**
See **Shares.**

**Over the Counter (OTC)**
This is a market where shares (or other securities) which are not listed in the main stock exchange are traded. These shares are traditionally those of small companies which do not meet the listing requirements of the exchange. For such transactions, brokers negotiate directly with one another through computer and telephony networks. It is also called off-board trading.

**Overheated Market**
This is a situation in which too much money is chasing too few shares leading to sharp price rises. This is said to be the last phase of a bull cycle and it usually portends an imminent onset of a bear cycle.

**Oversubscribed**
This is a situation in which the demand for shares in an initial public offering exceeds the number of shares issued. In a bull market, good public issues tend to get oversubscribed. See **Hot Issue.**

**Overvalued**
Shares are said to be overvalued when the current price is not justifiable when measured by such benchmarks like the price to earnings ratio (P/E ratio). These are usually shares which have caught the investors' fancy resulting in an emotional buying spree.

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**P/D Ratio**
This is the price-to-dividend ratio. It is calculated by dividing the price of the share by the last paid out dividend. It assists in measuring the value of an investment.

**P/E Ratio**
This is the price-to-earnings ratio. It is calculated by dividing the market price per share by the earnings registered in the last twelve months. It is the most common measure of how expensive a share is. Companies that are not profitable at all, i.e. those with negative earnings do not have a P/E ratio at all. Companies with very high P/E ratios are normally considered to be risky.

**Paid-up Capital**
This is the total amount of money paid in full by shareholders of a company for the purchase of their shares. It is calculated by multiplying the total number of shares issued by the par value of each share.

**Panic Selling**
This is a condition of the stock market where investors take fright and

start selling a particular share with little regard to the price they sell at thereby pushing down its price. This usually results in a vicious cycle in which investors see a declining price as a sign to sell off their shares which further depresses the price and prompts even more investors to sell their shares fearing to incur loss.

**Paper Loss**
This is when the market price of a share is less than its original purchase price giving rise to a loss in value which is not a realized loss until the shares are actually sold.

**Paper Profit**
This is when the market price of a share is greater than its original purchase price giving rise to a profit which is not a realized profit until the shares are actually sold.

**Paper Trading**
See **Dry Run Portfolio.**

**Par Value**
This is the face value of a bond and is the amount repaid back to the investor upon its maturity. It is also known as the principal or maturity value.

**Parent Company**
See **Holding Company.**

**Parking**
This is when an investor places his money in safe investments while alternative investment avenues are being considered or while the stock market is unfavourable for fresh investments.

**Partial Delivery**
This is when a broker fails to meet his/her part of the contractual obligation to deliver all securities at an agreed upon date. Example; if the investor has placed an order of 1,000 shares, a delivery of 800 shares is a partial delivery.

**Payment Date**
This is the date on which a declared share dividend is made or scheduled to be made. It is only payable to those shareholders who bought the shares before the ex-dividend date.

**Payout Ratio**
The payout ratio indicates how much of a company's earnings are actually paid out as dividends to shareholders. It is calculated by dividing the dividends per share by the earnings per share. Example; a very low payout ration may indicate that the company is keen to retaining its earnings rather than pay out dividends.

**Penny Stock**
These are shares with a very low price and market capitalization usually not traded in the main exchanges. They are generally considered to be highly speculative and high risk.

**Performance Stock**
See **Growth Shares.**

**Portfolio**
This is the diverse collection of investments owned by the same individual or organization. This collection may include shares (which is investing in companies) or bonds (which is investing in debt) or mutual funds (which is pooling your money together with others to make investments). One creates a portfolio by deciding which avenues to invest in depending on his/her investment objectives and risk tolerance.

**Positive Carry**
This is a condition in which the returns on an investment are greater than the cost of financing it. Example; if you were to borrow KES 100,000 at an interest rate of 10% and invest the same in a bond paying 12%, then there is a positive carry.

**Pivotal Shares**
Sometimes the shares of some blue chip companies act as a pivot on which the market is balanced; if the turn bearish, the market follows and if they turn bullish the market looks up. These are called pivotal shares.

**Premium**
This is the amount by which a share (or any other financial security) sells above its face value.

**Premium Raid**
This is an offer to purchase shares in a company from the current shareholders at a price greater than the market price so as to induce them to sell. The additional amount is the premium and normally the objective is to take control of the company.

**Price Weighted Index**
This is an index where each share affects the index in proportion to its price per share.

**Primary Market**
This is a market for new securities issues e.g. shares, debentures or bonds. In the primary market, the security is purchased directly from the issuer. Example; an IPO is conducted through the primary market. Any subsequent trading on the securities is done in the secondary market i.e. the stock exchange, through stockbrokers.

**Private Placement**
This is when a company raises capital via a private rather than public placement. It therefore sells shareholding to a selected few investors, mostly institutional investors.

**Privatization**
This is when government-owned shareholding in companies is sold off to the private sector. This can be done either through a public offering, or a tender or a private contract. Private ownership of companies tends to increase overall efficiency and this leads to a substantial increase in profits.

**Profit Warning**
This is an announcement made by a public company in advance before announcing its earnings indicating that its profits won't meet previously held expectations. Companies do this to soften the blow to investors.

**Prospectus**
A prospectus is a formal document offering to sell shares to the public that gives all relevant details of the company (or mutual fund) that an investor needs to know to make an investment decision.

**Proxy**
A proxy is an agent legally authorized to act on behalf of a shareholder during meetings of the company and to vote on his behalf.

**Public Company**
This is a limited liability company whose shares have been issued through an initial public offering and are traded at the stock exchange.

**Public Offering**
This is offering shares to the investing public. This is done through an initial public offering and any other subsequent offerings. It is different from a rights offering to existing shareholders or a private placement.

**Pullback**
This is the falling back of the price of a share from its peak. It could either be a brief reversal of the prevailing upward trend, or it may be a sign of a definite trend reversal.

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**Qualifying Shares**
These are the fully paid up shares that an individual must hold in order to qualify as a director in a company, usually according to the company's articles of association.

**Quorum**
This is the minimum number of shareholders in a company that are needed to make the proceedings of a meeting valid.

**Quote**
This is the price at which a share is currently traded at the stock exchange. It is also referred to as the quotation or quoted price.

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**Raider**
This is an individual or entity attempting to acquire enough equity in a target company to assume a controlling interest, usually through a hostile take-over bid.

**Rally**
A rally is a period of sustained increase in the price of stocks, bonds or indexes. It can happen during a bull or a bear market, called a bull market rally, or a bear market rally respectively.

**Ramping**
This is the large scale buying of shares in the stock exchange with the

objective of boosting the image of the stock and the company behind it to increase its demand and consequently its price.

**Rate of Return**
This is the dividend received calculated as a percentage of the total amount invested.

**Rating (Stock Rating)**
This is an analyst's recommendation on whether to buy, hold or sell a specific stock by evaluating its expected performance and/or risk level.

**Reaction**
This is a short-term reversal of the prevailing trend in the price movement of a share. Thus when in a falling market, the share registers a short term increment in price and in a rising market, the share registers a short term decline in price.

**Rebound**
A share is said to rebound when it registers a sustained increase in price, after a period of decline.

**Recapitalization**
This is a change in a company's capital structure by bringing in fresh capital, either by creating new shares through issues or by long term borrowing, or by converting debentures into shares. Recapitalization is normally undertaken with the aim of making the company's capital structure more stable, or when a company is in a state of bankruptcy.

**Receivership**
This is a form of bankruptcy where an independent party, the receiver-manager is appointed to run the company to recoup as much of the unpaid loans as possible. A receiver must try to save the firm and if unable to do so it is sold or liquidated.

**Record Date**
An issuer of shares establishes a record date by which the shareholders must officially own shares so as to qualify for dividend distribution or entitlements to bonus or rights issues.

**Record High**
This is the highest historical price level reached by a security e.g. shares, or index during trading. The record high is measured from when the share started trading and is updated whenever the last record high is exceeded.

**Record Low**
This is the lowest historical price level reached by a security e.g. shares, or index during trading. The record low is recorded regardless of whether it is the closing price.

**Registrar**
A registrar is responsible for share transfers and consolidation of shares on behalf of a company.

**Registration**
This is when a listed company draws a register of the names and

addresses of all its shareholders and directors. It is a requirement, although it's usually done for purposes of future correspondence with the shareholders.

**Reinvestment**
This is when an investor uses the dividends, interest or profit from an investment to buy more of that investment, rather than receiving a cash pay-out.

**Renunciation**
This is the act of giving up the right to subscribe to allotted shares in a rights issue.

**Retail Investor**
A retail investor is an individual who buys or sells small amounts of shares for his/her individual account. A retail investor is also called an individual investor or a small investor.

**Retained Earnings**
These are earnings not paid out as dividends but instead are reinvested in the core business or used to pay off debt.

**Revenue Reserves**
Revenue reserves are part of a company's earnings that are distributable to shareholders as bonus or dividends or may be used for the company's expansion.

**Reverse Stock Split**
This is a reduction in the number of shares that increases the par value of its shares and its earnings per share. The market capitalization of the company does not change at all. Example; in a one-for-two reverse split, a person who previously held 100 shares valued at KES 10, will now have 50 shares valued at KES 20.

**Rights Issue**
This is a privilege to existing shareholders to subscribe for a new issue, shortly before it's offered to the public, at a specified and usually discounted price, in proportion to the number of shares owned. They are also known as subscription rights or share purchase rights.

**Risk**
Risk is a future probability of loss. It is inherent in any investment and therefore advisable that one puts it in serious consideration while comparing alternative investment prospects.

**Running Ahead**
See **Front Running.**

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**Sales per Share**
This is the total revenue earned by a company over a one year period divided by the number of shares. This ratio is used to evaluate a company's business activities. It is also known as the revenue per share.

**Scrip**
Scrip is a piece of paper acknowledging value, such as a receipt or certificate. The term scrip is sometimes used to refer to share certificates.

**Screening Shares**
This is the process of looking for shares which meet a certain predetermined financial and investment criteria, such as P/E ratio, yield etc.

**Seat**
This is the traditional term for membership at the Nairobi Securities Exchange and is a requirement for one to transact business at the exchange.

**Secondary Market**
A secondary market is one where investors purchase securities e.g. shares from other investors rather than from the issuing company. The Nairobi Securities Exchange is the secondary market in Kenya for trading of such securities. Purchasing shares through an IPO is called the primary market, and any subsequent trading in those shares is called the secondary market.

**Secondary Offering**
This is the issuance of new shares to the public by a company that has already made its initial public offering (IPO). Usually, such offerings are made by companies seeking to refinance or raise capital for growth.

**Sector**
A sector is a group of securities e.g. shares, traded within the stock market that share similar characteristics. Example; Kenya Airways and Uchumi Supermarket are both in the Commercial and Services Sector while Athi River Mining and Bamburi Cement are both in the Construction and Allied Sector.

**Securities**
These are essentially shares, bonds, debentures, rights or any other such legal documents issued by a corporation or government.

**Sell Off**
This is the rapid and widespread selling of a security e.g. shares, leading to a sudden drop in their prices. A sell off may occur when a company issues disappointing end of year results.

**Sentiment**
This is the measurement of the mood of the investing public. It's mostly described as bullish or bearish.

**Settlement Period**
This is the period within which a buyer must pay for the purchase and a seller must deliver the shares sold. It is prescribed with reference to the date of trade i.e. T+4 means four days after the trade transaction the process must be completed.

**Shares**
A share is one unit of ownership of a company. If you own a share of a

company, you are a part owner of the company and are entitled to an equal distribution of all profits. There are different types of shares;

**Ordinary Shares**
These are by far the most common types of share class. They are standard shares with no special rights or restrictions that give the shareholder part ownership of the company in proportion to the number of shares held. They also entitle him/her to dividends, the right to attend the company's annual general meeting, the right to participate in the policy decisions of the company, the right to vote on issues affecting the company and the right to receive the annual report and audited accounts of the company.

**Preference Shares**
These are shares that bear a fixed annual dividend and bear a right that any annual dividends available for distribution will be paid preferentially on these shares before ordinary shares. If the company is wound up, they are the first to be paid the par value of their shares ahead of ordinary shareholders.

**Redeemable Preference Shares**
These are preference shares that come with an agreement that the company can buy them back at a future fixed date and price, or on certain specific terms at the discretion of the board.

**Convertible Preference Shares**
These are preference shares that give the holder the additional right to convert them into a specified number of ordinary shares under specified conditions.

**Share Capital**
See **Authorized Share Capital.**

**Share Certificate**
A share certificate is a document that shows proof of ownership of shares. It contains the face value of the share, the number of shares represented in the certificate, the certificate number and the holder's name.

**Shareholder**
A shareholder is a person, company or institution that owns at least one share in a company, and is therefore a part owner of the company. A shareholder is also referred to as stockholder.

**Share Repurchase Plan**
This is a program through which a company buys back its own shares from the open market. This is normally because the management believes that the shares are undervalued, or wants to reduce the shares outstanding (i.e. supply) so as to increase the earnings per share. A share repurchase plan tends to elevate the market value of the shares.

**Shares Outstanding**
This is the quantity of a company's shares that have been issued and are in the hands of the public.

**Short Sale (or Short Position)**
This is the sale of securities e.g. shares which one does not own, or has borrowed. Short sellers assume the risk that they will be able to buy back the shares at a later date and at a lower price, thereby making a profit.

**Spread**
The difference between the bid and offer prices of a share. The spread is generally determined by the demand and supply of the share. Example; if a share is bid at KES 10 and offered at KES 12, the spread is KES 2.

**Statutory Voting**
This is a system of voting for a company's directors whereby each shareholder is entitled to one vote per share. Example: if you own 200 shares, you have 200 votes.

**Stock**
See **Part One.**

**Stock Exchange**
A Stock Exchange is the physical location where the stock market in a country is traded or the electronic platform used to effect such trade. In Kenya, the Nairobi Securities Exchange is currently the only licensed exchange.

**Stock Market**
See **Part One.**

**Stock Market Index**
See **Index.**

**Stock Split**
This is a corporate action in which a company's existing shares are divided into multiple shares whereby each shareholder receives more shares in direct proportion to the amount of shares they own on the record date. Stock splits normally happen when the price of a share is so high that many investors can not afford to buy it. Example; in a 10 for 1 split, each shareholder receives an additional 9 shares for each share he holds.

**Stockbroker**
A stockbroker is a market professional who buys or sells shares on behalf of clients at a stock exchange for a brokerage commission. But a good stockbroker's job is not limited to that. He/She advises the client on what a good investment is, warning him of risky or poor investments. He gives advice on the proper timing of a purchase, or a sale and at the right price and any other problems of stock market investment.

**Stock Symbol**
Also known as a ticker symbol, it is a unique series of letters assigned to a security for trading purposes. Example; while ARM represents Athi River Mining, STC represents Sasini Tea and Coffee.

**Stop Order**
A stop order is one placed by an investor with a stockbroker to buy or sell shares at a particular price (stop price) or better.

**Stop-Limit Order**
This is a combination of a Stop Order and a Limit Order.

**Story Stock**
This is a stock whose price is a reflection of some important company

news rather than its assets or earnings. Example; the price of shares in an agricultural company may increase after press coverage of an expected bumper harvest.

**Strong Buy**
This is a strong recommendation by an analyst or stockbroker to an investor to buy shares in a particular company which he believes will soon be experiencing positive financial performance.

**Strong Sell**
This is a strong recommendation by an analyst or stockbroker to an investor to sell shares in a particular company which he believes will soon be experiencing unfavourable financial performance or market conditions.

**Staying Power**
**This** is the ability of the investor to hold on to a share, even when its price has fallen, for an eventual recovery and is crucial in any investment strategy. One of the golden rules of investment in the stock market therefore is: Do not invest in shares money which you may need.

**Subprime**
Subprime is a classification of borrowers with a tarnished or limited credit history. This is a terminology that gained popularity in the 2007/2008 credit crunch.

**Subscribe**
To subscribe is to apply for the purchase of shares in a new issue.

**Subsequent Offering**
See **Secondary Offering.**

**Suspended Issue (Suspended Trading)**
This is when the trading of shares of a particular company is stopped because the trading privileges have been revoked by the exchange. Such shares can not be traded until the suspension is lifted.

**Systematic Risk**
This is a risk that is inherent in an entire market or an entire market segment. Economic, social or political factors constitute systematic risk as they affect the entire market.

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**Takeover**
This is when one company makes a bid to acquire control over another company. It can either be hostile or friendly.

**Target Price**
When an investor has bought a share, usually he has a higher price in mind which he expects the share to reach in order to sell. This is the target price.

**Term to Maturity**
This is the time between when a bond is issued and when it matures, at which time the issuer must redeem the bond and pay the principal (face

value). Typically, a longer term to maturity has a greater yield and vice versa.

**Thin Market**
A thin market is when there are comparatively few bids to buy or offers to sell, or both. Since only a few transactions take place in a thin market, the prices tend to be more volatile.

**Trade Volume**
This is the total number of shares of a company that are traded during a given period, usually a day. The term is also used to refer to the total number of shares transacted in a stock exchange during a given period, usually a day.

**Trading Floor**
This is the arena in a stock exchange where trading activities are conducted. It is also referred to as the pit of the exchange.

**Trading Halt**
This is a temporary suspension of trading in the shares of a particular company at the stock exchange. Order imbalances or unusual activity related to a share's price or regulatory reasons can bring about a trading halt.

**Trading Session**
This is one day of business trading at the stock exchange, from the opening bell to the closing bell.

**Treasury Bill (T-Bill)**
A treasury bill is a short term debt obligation with a maturity of one year or less, issued and fully guaranteed by the Kenyan Government, payable to the bearer. Treasury bills are sold on a discount basis so that the yield is the difference between the purchase price and the face value. Example; you may buy a treasury bill with a face value of KES 100,000 at a discounted price of KES 95,000. The yield to you is the KES 5,000 difference. T-bills offer the government short term financing.

**Treasury Bond (T-Bond)**
A treasury bond is a fixed interest debt obligation with a maturity of one year or more issued and fully guaranteed by the Kenyan Government, payable to the bearer. Treasury bonds pay a fixed interest every six months called the coupon.

**Triple Bottom Line (TBL)**
This is an accounting framework that expands the traditional reporting framework and has three dimensions: social, environmental (or ecological) and financial.

**Trust**
This is a legal arrangement where an individual (the trustor) gives fiduciary control of property to a person or institution (the trustee) for the benefit of beneficiaries. A living trust is one that is in effect during the trustor's lifetime whereas a testamentary trust is created through the will of a deceased person.

**Turnover**
This is the total number of shares sold in the stock market during a given

period of time, usually a day. It is also referred to as the market turnover.

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**Undersubscribed**
This is when there are not enough applications for the purchase of a new issue of shares. There are various possible reasons for undersubscription including doubtful prospects of the company, wrong timing for the issue and wrong pricing of the issue.
It is also known as underbooking.

**Undervalued Shares**
These are shares that are trading below their true value. There are many reasons for this; the industry could be out of favour, or the company is not well known, or it has not yet caught the fancy of investors.

**Underwriters**
Underwriters are specialized companies that administer the public issuance and distribution of new shares of a company. They undertake the risk of failure or success of the issue.

**Unit Trust**
See **Collective Investment Schemes.**

**Unlisted Share**
These are shares of companies that are not listed at the Stock Exchange, usually because of their inability to meet listing requirements. They are traded in over-the-counter markets between brokers directly.

**Unpaid Dividend**
This is a dividend that has been declared but not yet paid.

**Unrealized Loss**
See **Paper Loss.**

**Unrealized Profit**
See **Paper Profit.**

***

**Value Investing**
This is a strategy of investing in companies whose shares are trading at less than their true worth.

**Venture Capital**
This is money raised by companies to finance new ventures.

**Venture Capital Fund**
This is an investment fund that manages money from investors seeking private equity stakes in start-up businesses and small to medium sized enterprises with strong growth potential.

**Volatile Shares**
These are shares that are prone to sharp and dramatic prize changes over relatively short periods of time.

**Voting Right**
This is the right of an ordinary shareholder to vote either in person or by proxy for the members of the board of directors and on other matters of corporate policy. The number of shares an individual owns corresponds to the number of votes he has. So an investor with 1,000 shares has 1,000 votes while an investor with 10 shares only has 10 votes.

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**Warehousing**
This is a process by which a company gradually builds up a holding of shares in another company it wishes to take over in the future, usually under the name of a nominee.

**Warrant**
This is a certificate usually issued together with a bond or preferred shares that gives the holder the right, but not the obligation to subscribe for new ordinary shares at a specific price and within a specific time period. It is used to entice investors to buy the bond. It is worthless after the expiry period.

**Wide Area Network**
This is the trading system software through which stockbrokers are able to access the Nairobi Securities Exchange from their offices to effect trading transactions.

**Window Dressing**
This is a deceptive practice employed by some mutual funds managers in which recently weak stocks are sold and recently strong stocks are bought just before the funds holdings are made public in order to give the impression that they have been holding good stocks all along.

***

**Yield**
This is the measure of the return on the investment and is shown as a percentage. It is calculated by dividing the annual dividend by the stock's current market price. Example; a share selling at KES 50 and with an annual dividend of KES 5 per share yields 10%

# PART THREE
# MORE ABOUT THE STOCK MARKET

**The Process of Opening a CDS Account**

- It is mandatory to open a CDS account in order to buy or sell shares of companies listed in the Nairobi Securities Exchange.
- You will need to identify the Central Depository Agent (CDA) of choice e.g. a stockbroker or investment bank.
- Complete and sign a securities account opening/maintenance form (CDS1) with your Central Depository Agent. He will assist you with this.
- Provide two (2) recent passport size photographs.
- Provide your original national identity card or passport together with a photocopy.
- If you are a company you will need to provide an original certificate of incorporation together with a photocopy.
- If you are an organization registered in any other way e.g. society, you will need to provide the original certificate of registration and a photocopy.
- You will hand in and sign the form in the presence of your Central Depository Agent.
- You will be left with the duplicate of the account opening form for your records.
- Your CDA will provide you with your own CDS account number. Keep it confidential.
- You are free to open several CDS accounts with different stockbrokers.
- You can migrate from one broker to another simply by completing and signing the securities transfer form. This form is available from your broker and must be signed by your current CDA and your new CDA.

**The Advantages of Opening a CDS Account**

- It is a faster, easier and safer way of trading in your securities. Unlike the old system where one needed to wait to be issued with paper certificates, the CDS credits your account with your shares five (5) days after date of trade. (T+4)
- The reduction in the number of transaction days means that you receive your money (if you are selling shares) or shares (if you are buying shares) a lot faster than before.
- The extra paperwork that was associated with paper certificates was eliminated.
- The CDS has eliminated problems that were traditionally associated with paper certificates like mutilation, loss.
- The CDS has boosted market efficiency and reduced the costs of transactions. In the old system, a new certificate was issued and the old one cancelled each time a sale was made. This was inefficient and time consuming.

The Central Depository System is managed by the Central Depository and Settlement Corporation (CDSC) and was commissioned on 10$^{th}$ November 2004.

Through a process called Immobilization, the movement of paper certificates has ceased as all the details previously on paper certificates have been entered into one computerized system, the Central Depository System.

## Advantages of Investing at the Nairobi Securities Exchange

- The Nairobi Securities Exchange is a fair market place.
- Shares bought or sold at the securities exchange are liquid. This means that it is easy for an investor to quickly convert his investment into cash if the need arises.
- The price of the shares is determined fairly through the forces of demand and supply.
- Easy access and exit. There are minimal restrictions if any, to investing at the NSE. You can be a shareholder of a listed company in seconds and exit just as fast.
- There is continuous reporting of their prices so an investor is always up to date with the status of his/her investment.
- There is a variety of companies in which one can invest. This allows the investor to diversify his investment in industries that he is attracted to.
- The shares of most companies at the securities exchange pay regular dividends. This way, you make your money work for you.
- Full and accurate information is available on the listed companies that one is interested in investing in. This enables the investor to make informed decisions on where to invest.
- The Nairobi Securities Exchange provides an avenue through which companies can access capital for growth and expansion.
- There are strict regulations for the protection of those who buy and sell shares at the Securities exchange.
- A vibrant capital market is integral to the overall economic development of Kenya.

## Getting Started on the Stock Market

Stocks can be bought and sold by anybody who has money. Knowing the basics will help you understand how stock trading works. People who have knowledge about stock trading are the ones who are most likely to be successful in the investment industry.

Most stock trading activities are done through an intermediary (stockbroker). Brokers take and execute orders from the investors, and can also offer investment advice and analyses for their clients.

### *1. Finding a stock.*

This is the most obvious and most difficult step in stock trading. With a wide variety of stocks to trade in, a good guideline is to consider first in which sector you wish to trade in.

Once you have decided in which sector you want to invest in, you can then commence to start researching for a stock.

### *2. Fundamental Analysis.*

A lot of short term traders might argue with the need to do any Fundamental Analysis at all, however knowing the stocks past history and the latest up to date news regarding the stock can be very crucial.

### *3. Technical Analysis.*

This is the part where the indicators play a part; volume, moving averages, relative strength index, support levels, resistance levels and all the rest. Whichever batch of indicators you choose, whether they are lagging or leading, may entirely hinge on where you get your information from. Your stockbroker will guide you on the technical analysis data.

### *4. Follow your choices.*

Once you have committed to a couple of trades you should then start to manage them properly. For instance if the stock is meant to be a short term trade you would then obviously be watching it more closely for your exit signals. If it's a longer term trade you then need to set up different time frames such as weekly or monthly checkups on the stock. This effectively frees you up and gives you more time to do other things.

You can use this time wisely for keeping up to date with the news, determining your price targets, set stop losses, and keeping an eye on other stocks that you may want to purchase in the future.

### *5. Keeping an eye on the bigger picture.*

This is best achieved by following the particular sector in which you bought your shares .For instance, if you are expecting a share price to go up on an agricultural stock you purchased and nearly all of the other stocks in the agricultural sector are also rising, then this is confirmation that you may have made the right decision.

But of course the reverse holds true as well. If the agricultural sector is starting to show a decline then it might be a good idea to take your profits and run. By knowing in advance and being aware which sectors are heating up or cooling off stacks the odds in your favour.

## How Stocks Are Priced

Many people are still confused about the pricing of stocks and the movements of prices when they read through the list of stock prices in the newspapers. There is a wide variety of stock prices and there are many people who kept on wondering why some well-known companies are being traded for relatively low prices while some lesser known companies are being traded for excessively high prices.

Stock prices, to a certain extent, are determined by the confidence of an investor that is based on either a real or a perceived performance. The financial status of companies is reported on a quarterly basis when their cash flow, sales, and earnings are disclosed. The worth of a company is based on its financial status but it can be overrode or undermined by the speculation of the investors.

Rumors spreading in the stock market usually affect the fate of the stocks. For example, an ongoing rumor stating that a particular company is planning to make a strategic move will cause investors to come flocking just to buy stocks from that company. The principle of supply and demand applies in the stock market. A sudden upsurge in the interest of investors will cause the stock prices to rise while a fear among investors will cause the prices to plummet. The worth and the performance of a company are still considered to be the biggest factors in the

determination of stock prices.
Stock prices can be found in the daily newspapers or your stockbroker.

### A Comparison between Bull Markets and Bear Markets

There are two ways to describe the general conditions of the stock market: it can be a bull market or a bear market. A bear market indicates the continuous downward movement of the stock market. Conversely, a bull market indicates the constant upward movement of the stock market. A particular stock that seems to be increasing in value is described to be bullish while a stock that seems to be decreasing in value is described to be bearish.

The bull and bear terms do not refer to the short term fluctuations in the stock market. Prices, even during a bear market, may temporarily increase. Bull markets, being the opposite of bear markets, indicate a rise in the prices of the key stocks over a certain period of time.

The economical state of a country is usually reflected through the stock market conditions. The stock market of an economy with reasonable interest rates and low unemployment rates is considered to be bullish since it is doing just well. Bear markets, on the other hand, usually occur during a slowdown in an economy. The investors tend to lose their confidence and the companies begin to lay off their workers. An exaggerated bear market may eventually lead to a crash that is brought on by panic selling while an exaggerated bull market will actually result to a market bubble that is brought on by investor over-enthusiasm.

Even if most money can be made during bull markets, bear markets also present a lot of financial opportunities. It is expected that a bullish market will generate a huge number of investors who wish to buy some stocks. Because a bullish market could also mean that the economy is doing well, there will be a lot of people interested in buying stocks since they have the extra money to spend. This kind of situation will cause an increase in the prices of the stocks because there will be a shortage in the supply of stocks. During bear markets, it is expected that a lot of investors will have the desire to unload their stocks and put their money in fixed-return instruments like bonds due to the continuous decrease in the prices of the stocks. Supply tends to exceed demand as money is withdrawn from the stock market. This causes the prices of the stocks to lower even further. Bear markets are considered to be opportunities of picking up stocks at bargain prices. Approaching the end of a bear market will offer the greatest chance to generate some profit. Since the prices will most likely fall before they recover, the investors have to be prepared for some short-term loss. During bear markets, fixed-return investments such bonds can also be used to generate income.

### A Comparison of Stocks and Mutual Funds

Mutual funds are diverse stock holdings which are managed on behalf of the investors who buy into the fund. Mutual funds allow investors to take advantage of a diversified portfolio without the need of investing a large sum of money.

A diversified portfolio carries the advantage of offering protection against the rapid market losses of any particular stock. If stocks lose their value, the effect will be less if they belong to a portfolio that is spread across twenty stocks than if they belong to a portfolio that consists of a single stock. Diversification is always a good idea in making investments. The problem for small investors is that they usually don't have enough funds to buy a variety of stocks. Despite their limited funds, small investors benefit from diversification through mutual funds.

Mutual funds, aside from stocks, can be consisted of a variety of holdings that include bonds and money market instruments. Mutual funds also carry some downsides. Aside from paying some fees no matter what the performance of the funds is, individual investors also have little say in which securities have to be included in the funds or not. In addition to this, the actual value of a mutual fund share is not as precise as that of the stocks on the stock market. Those with limited funds or investment experiences may consider investing on mutual funds. When choosing the right fund, investors have to consider how much risk they are willing to take against their expected investment returns.

## More about Investing

***Why should you invest?***

Simply put, you should invest so that your money grows and shields you against rising inflation. The rate of **return on investments** should be greater than the rate of inflation, leaving you with a nice surplus over a period of time. Whether your money is invested in stocks, bonds or mutual funds, the end result is to create wealth for retirement, marriage, college fees, vacations or better standard of living.

***When should you invest?***

The sooner you start investing, the better. By investing into the market right away you allow your investments more time to grow, whereby the concept of compounding interest swells your income by accumulating your earnings and dividends. Considering the unpredictability of the markets, research and history indicates these three golden rules for all investors; Invest early, Invest regularly and Invest for long term and not short term.

While it's tempting to wait for the "best time" to invest, especially in a rising market, remember that the risk of waiting may be much greater than the potential rewards of participating. The earlier you start investing and continue to do so consistently the more money you will make. That's why stocks are the best long-term investment tool. The general upward momentum of the economy mitigates the stock market volatility and the risk of losses. That's the reasoning behind investing for long term rather than short term.

***How much should you invest?***

There is no standard amount that an investor needs to invest in order to generate adequate returns from his savings. The amount that you invest will eventually depend on factors such as; your risk profile, your time horizon and the savings made.

Remember that no amount is too small to make a beginning. Whatever amount of money you can spare to begin with is good enough. You can keep increasing the amount you invest over a period of time as you keep growing in confidence and understanding more of the investment options available. So, instead of just dreaming and waiting for the 'right time', do something concrete about it and start investing as soon as you can with whatever amount of money you can spare.

# APPENDIX 1

**Members of the Nairobi Securities Exchange (NSE) and the Kenya Association of Stockbrokers and Investment Banks (KASIB)**
**(As at September 2014)**

1. ABC Capital Limited
2. African Alliance Kenya Investment Bank Limited
3. AIB Capital Limited
4. ApexAfrica Capital Limited
5. CBA Capital Limited
6. CfC Stanbic Financial Services Limited
7. Dyer & Blair Investment Bank Limited
8. Equity Investment Bank Limited
9. Faida Investment Bank Limited
10. Francis Drummond & Co. Limited
11. Genghis Capital Limited
12. Kestrel Capital (EA) Limited
13. Kingdom Securities Limited
14. NIC Capital Securities Limited
15. Old Mutual Securities Limited
16. Renaissance Capital (K) Limited
17. Standard Investment Bank Limited
18. Sterling Capital Limited
19. Suntra Investment Bank Limited
20. Shah Munge & Partners Limited
21. Ngenye Kariuki & Co Ltd (Suspended)
22. Discount Securities Limited (Under statutory management)
23. Nyaga Stockbrokers Limited (Under statutory management)

# APPENDIX 2

**COMPANIES COMPRISING THE NSE 20 SHARE INDEX**
**(As at September 2014)**

Companies listed on the NSE 20 share index (not in any particular order)

| | | |
|---|---|---|
| 1. | Kenya Airways | Commercial and Services |
| 2. | Nation Media Group | Commercial and Services |
| 3. | Express Kenya | Commercial and Services |
| 4. | Rea Vipingo | Agricultural |
| 5. | Sasini Tea & Coffee | Agricultural |
| 6. | CMC Holdings | Automobiles & Accessories |
| 7. | Safaricom Ltd | Telecomm & Technology |
| 8. | Barclays Bank of Kenya | Banking |
| 9. | Equity Bank | Banking |
| 10. | Kenya Commercial Bank | Banking |
| 11. | Standard Chartered Bank | Banking |
| 12. | East African Breweries | Manufacturing and Allied |
| 13. | Mumias Sugar | Manufacturing and Allied |
| 14. | British American Tobacco | Manufacturing and Allied |
| 15. | Kenya Power & Lighting Co | Energy and Petroleum |
| 16. | Kengen | Energy and Petroleum |
| 17. | Centum Investment Co. | Investment |
| 18. | East African Cables | Construction and Allied |
| 19. | Bamburi Cement | Construction and Allied |
| 20. | Athi River Mining | Construction and Allied |

# APPENDIX 3

## ALL THE COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE (THE NSE ALL SHARE INDEX) (As at September 2014)

### AGRICULTURAL

1. Eaagads Ltd
2. Kapchorua Tea
3. Kakuzi Ltd
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

### COMMERCIAL AND SERVICES

1. Express Ltd
2. Kenya Airways Ltd
3. Nation Media Group
4. Standard Group Ltd
5. TPS Eastern Africa (Serena) Ltd
6. Scangroup ltd
7. Uchumi Supermarket Ltd
8. Hutchings Biemer Ltd
9. Longhorn Kenya Ltd

### TELECOMMUNICATION AND TECHNOLOGY

1. AccessKenya Group Ltd
2. Safaricom Ltd

### AUTOMOBILES AND ACCESSORIES

1. Car and General (K) Ltd
2. CMC Holdings Ltd
3. Sameer Africa Ltd
4. Marshalls (E.A.) Ltd

### BANKING

1. Barclays Bank Ltd
2. CFC Stanbic Holdings Ltd
3. I&M Holdings Ltd
4. Diamond Trust Bank Kenya Ltd
5. Housing Finance Co Ltd
6. Kenya Commercial Bank Ltd
7. National Bank of Kenya Ltd
8. NIC Bank Ltd
9. Standard Chartered Bank Ltd
10. Equity Bank Ltd
11. The Co-operative Bank of Kenya Ltd

### INSURANCE

1. Jubilee Holdings Ltd
2. Pan Africa Insurance Holdings Ltd
3. Kenya Re-Insurance Corporation Ltd
4. CFC Insurance Holdings
5. British-American Investments Company (Kenya) Ltd
6. CIC Insurance Group Ltd

**INVESTMENT**

1. Olympia Capital Holdings Ltd
2. Centum Investment Co Ltd
3. Trans-Century Ltd
4. Nairobi Securities Exchange Ltd

**MANURACTURING AND ALLIED**

1. B.O.C Kenya Ltd
2. British American Tobacco Kenya Ltd
3. Carbacid Investments Ltd
4. East African Breweries Ltd
5. Mumias Sugar Co
6. Unga Group Ltd
7. Eveready East Africa Ltd
8. Kenya Orchards Ltd
9. A. Baumann Co. Ltd

**CONSTRUCTION AND ALLIED**

1. Athi River Mining Ltd
2. Bamburi Cement Ltd
3. Crown Berger Ltd
4. E.A. Cables Ltd
5. E.A. Portland Cement Ltd

**ENERGY AND PETROLEUM**

1. KenolKobil Ltd
2. Total Kenya Ltd
3. KenGen Ltd
4. Kenya Power & Lighting Co. Ltd

**GROWTH ENTERPRISE MARKET SEGMENT**

1. Home Afrika Ltd

# APPENDIX 4

**Market Segments**

1. Main Investment Market Segment (MIMS)
2. Alternative Investment Market Segment (AIMS)
3. Growth Enterprise Market Segment (GEMS)