A share (or equity) is a title of ownership representing a fraction of the capital in a company.
Generally the share gives its holder (the shareholder) certain rights: a right to vote at meetings, a right to information, a right to the net assets if the company goes into liquidation and a right to any distribution of profits (dividend).

THE MAIN TYPES OF SHARES

Bearer or registered shares

- "Bearer" shares form the great majority of shares traded on the stock exchange because they can be sold freely. A bearer share does not require its holder to be listed in the company's share register.

- The identity of the holders of registered shares is entered in the company's register. In return for the advantages they offer (reduced fees…) their assignability is subject to specific formalities.

Ordinary or preferred shares

- An ordinary share carries the usual shareholder rights (right to vote, dividend…). This is the most widely found type of share.

- A preferred share gives its holder a right of priority over the holder of an ordinary share. The right of priority generally operates when paying dividends or if the company goes into liquidation. However, a preferred share does not usually confer voting rights.

ADVANTAGES OF SHARES

Investing in shares in a company allows you to take part in its development. By becoming a shareholder, the investor provides the company with capital to finance its activities.

The company's development may be reflected in a rise in the share price on the stock exchange (synonymous with capital gains for the shareholder) and possibly lead to a distribution of net profits to the shareholders (in the form of a dividend). In this way the capital that the shareholder has provided for the company is remunerated.

On the other hand, a company in trouble may decide not distribute a dividend to its shareholders (risk of non-remuneration). They may be affected by a fall in the company's share price (risk of capital loss). The extreme case of the company's insolvency could lead to a total loss of the capital invested by the shareholders.

The evolution of the price of a share depends on numerous factors linked to the markets (publication of macroeconomic statistics…) and the company itself (publication of results…). The price of a share can therefore be particularly volatile and difficult to anticipate in the short term.

Investing in the shares of a company requires the identification – with the help of your private banker – of its strengths and weaknesses as well as the external factors to which it is sensitive in order to verify that it is adapted to your investor profile, investment horizon and your objectives (recurring dividends, capital gains…).

DIVIDENDS

The dividend is a remuneration paid by a company to its shareholders. Payment of a dividend generally corresponds to a distribution of company profits. The latter may also decide to draw on its reserves to continue paying a dividend despite not making a profit.

NB: a dividend is not paid automatically (even if the company makes a profit).

Main types of dividends

- **The cash dividend** is by far the most traditional and widespread. It is paid by a cash transfer to the share-holder's account.
- **The dividend** in shares takes the form of an allocation of new shares to the shareholder. This method leads to an increase in the number of company shares and consequently reduces (or slows the growth of) the dividend per share (dilution). For this reason, dividend payment in shares is becoming increasingly rare.

Other types of dividends

- **The interim dividend** is when a company distributes a part of the dividend to shareholders in advance (before the dividend has been calculated for the year). This practice provides a better division of income for the shareholder and of payments for the company. The interim dividend is very widespread in the USA and the UK and is becoming more common.
- **The preferred dividend** (often higher than an ordinary dividend) is paid to shareholders holding preferred shares. However, the holder of preferred shares does not have the right to vote.
- **An exceptional dividend** may be paid by the company when its liquid assets are clearly greater than its needs (in particular after an exceptional event such as a sale which generates significant income).
- **A dividend premium** may be paid by the company to reward the loyalty of certain shareholders (holders of registered shares for at least two years). The premium is limited by law to 10%.

THERE ARE SEVERAL FAMILIES OF SHARES

- **Defensive stocks**
  Characterised by less vulnerability to fluctuations on financial markets and in a more global sense to the evolution of the economic situation, and generally coming from sectors such as foodstuffs, utilities and pharmaceuticals, these stocks offer better resistance in periods when the market is falling.
- **Cyclical stocks**
  Unlike defensive stocks, cyclical ones are vulnerable to the economic situation and to long-term trends specific to economic cycles. Active in sectors such as construction, the car industry and infrastructure, these stocks are particularly buoyant in periods of growth.
- **High-yield stocks**
  These stocks have a high dividend. These are generally mature companies paying a major part of their profits to their shareholders (mainly because of their limited needs in terms of investment). These stocks are particularly seen in the bancassurance and real-estate sectors.

- **Growth stocks**

  Unlike high-yield stocks, growth stocks are representative of rapidly growing companies with strong growth in both turnover and profits. Because of major investment needs, growth stocks pay little or no dividend. However, the capital gains potential is much higher. These stocks are also the most exposed when the market falls.

- **Value stocks**

  Unlike growth stocks with their dynamism and high capital gains potential, a value stock is considered to be undervalued compared to its intrinsic value, its balance sheet and more generally to other stocks in its sector. When markets fall, value stocks usually resist well, like defensive ones.

- **Gilt-edged securities**

  Often associated with large listed companies (see "big caps" below), these stocks are very well known in their sectors. They are marked by several years' regular growth and a good outlook.

- **Small caps**

  As their name indicates, these stocks have a modest stock market capitalisation. Often related to growth stocks, small caps generally offer greater capital gains potential than big caps, but they are also more fragile when markets fall. This type of stock may have low liquidity since the number of shares in circulation is limited.

- **Big caps**

  Unlike small caps, these stocks are marked by significant stock market capitalisation which could be several hundred billion euro. Also known as "blue chips", these stocks may be bought as gilts.

- **Within the framework of investment strategies proposed by the bank, the following products are also considered as shares :**

– investment funds or UCI as defined in paragraph 4, page 21, which only hold equites

– real-estate shares (the right of the share is on a property: for example, real-estate rental management on behalf of the shareholder

– real-estate funds composed exclusively of real-estate shares

– funds composed exclusively of shares and real-estate shares

– funds of funds, the latter being invested in shares as defined above

OVERVIEW OF THE ADVANTAGES, DISADVANTAGES AND RISK OF INVESTING IN SHARES

ADVANTAGES	
POTENTIALLY HIGH RETURN	Over the long term it has been found that shares generally perform better than bonds. A share's global performance is mainly due to the increase in its price on the stock exchange (potential capital gain) and, to a lesser extent, the dividends it has generated.
POTENTIALLY RAPID APPRECIATION	Generally characterised by high volatility, the share price may rise rapidly, allowing shareholders to make a profit in the (very) short term.
SHARE DIVERSITY	The great diversity in listed companies (in terms of sector, business, country) means there is a choice from a wide range of shares. The share selected may therefore be adapted to the strategy (investor profile, yield target…) and market trends (defensive stock when markets fall, cyclical stock when markets rise…).

DISADVANTAGES	
POTENTIALLY HIGH RISK	In compensation for a potentially higher return than for bonds, shares are a riskier investment. There are many factors, difficult to predict, which may cause a share's price to fall. Since its payment is not certain, the dividend may not offset a depreciation.
COMPANY RISK	The shareholder is the owner of a fraction of the capital and not a holder of a debt (cf. bond). He must take the risk of the company's insolvency into account, which means a capital loss.
DIVIDEND UNCERTAINTY	The payment of the dividend depends on the company's distribution policy, its results and future investments. It may stop or be reduced if the results are bad or the profits insufficient. The uncertainty around the payment of the dividend carries a risk of non-remuneration.

RISKS SPECIFIC TO SHARES	
CAPITAL LOSS	Capital may be lost if the company issuing the shares goes bankrupt (extreme case) or there is depreciation (the resale value of the shares is less than the purchase price). NB: the depreciation remains 'latent' as long as the shares have not been sold. The risk of capital loss is inherent to any investment in shares but it can be partially limited with defensive stocks.
EXCHANGE	There is no exchange risk for shares held and denominated in the shareholder's benchmark currency. However, a company issuing shares may be subject to an exchange risk depending on the geographical division of its activities. The exchange risk at corporate level may have an impact firstly on results and secondly on shareholders (through the stock exchange price and possible payment of a dividend).
RATE	The impact of the rate risk on a company's shares is only indirect (like the exchange risk). A rate rise can in particular increase the company's financing costs if it takes a loan.
VOLATILITY	The fluctuations in a share's price are the results of many factors which may impact the market in its totality (economic, political, diplomatic, social developments…) or more specifically the company or its sector of activity (publication of results, legal changes…). Furthermore, these fluctuations are sometimes increased upwards or downwards by irrational psychological factors (market rumours, nervousness or euphoria…). All these factors give shares a volatility level which is generally higher than other asset classes, making anticipating price fluctuations particularly hazardous (especially in the short term).
LIQUIDITY	In difficult market conditions or, more generally, for small caps, there may a lack of liquidity. This is characterised by weak supply or demand for a given price. Consequently, buy or sell orders may not be executed under the conditions wished for (partial execution, selling price lower than expected…) and may increase the risk for the investor.