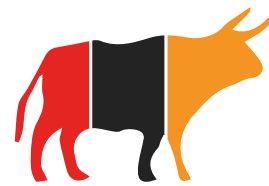


Broking Crash Course

Trading:
How Does it Work?



STOCKBROKERS ZAMBIA LIMITED

Corporate Finance Advisory
Brokerage Research
Share Trading
www.sbz.com.zm

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TRADING ON THE LUSE

1 - Trading, Clearing, and Settlement

There are four steps to obtaining shares for your trading account, namely; Placing your order, trading, clearing, and settlement. These steps are put in place to enable dispute resolution and trade corrections, as well as to enable efficient delivery versus payment of shares (DVP). These LuSE protocols allow us as investors to freely and safely buy and sell shares at our convenience with almost no “hiccups” whatsoever. This process occurs on a three day cycle (T+3).

Placing your order

This is the first step in buying or selling shares; It is when you leave your instruction to buy or sell shares with your broker, who diligently places it on the market. The LuSE follows a *first come first serve* queue in which factors to your position in a given queue are your *bid or ask price*, as well as the *time* your order was placed. A example would be if you placed your buy order for 100 ZNCO shares at a bid of K 3.10 whilst no one else is in the market, any available shares would cater to you first before anyone else, unless, the seller put their ask price higher than K 3.10, or you were not the first to bid for ZNCO at K 3.10, or there are bids in the market higher than K 3.10.



Trading

Trading is as it sounds, this is where the cycle truly begins counting down; This is when your shares are matched with those of a counterparty. If you are bidding, then it is when part of your order of your entire order is swapped with sellers' available shares or vice versa. Trading occurs at $T+0$, and the share whilst reserved can be recalled if disputed for reasons such as trading in the wrong account, or the seller/buyer offering/bidding for the incorrect number or shares or incorrect share price. Trading occurs between trading accounts of individuals and/or institutions as the exchange is a secondary market; There is no direct involvement of the company whose shares are being traded. *Symbols* are what is used to refer to the shares being traded (e.g Zambia Sugar's symbol is ZSUG).

Clearing

Clearing occurs on $T+1$ and is when the parties involved to a trade are locked in for finalising the transaction; Those due to pay are defined and those due to receive shares are defined. This is so that the shares and funds will be transferred to the correct parties in the accurate volumes (quantities).

Settlement

Settlement involves *delivery versus payment*; This is the act of nearly simultaneously moving the shares from one trading account (the seller) to another (the buyer) and transferring the funds from the buyer's broker to the seller's broker for subsequent payment. This occurs on $T+3$ after which the buyer receives the shares from their trade in their account and the seller's broker transfers the funds to the seller. This is also when contract notes (documents detailing the ownership or sale of shares) gain validity as there is no opportunity to dispute the transaction after settlement.

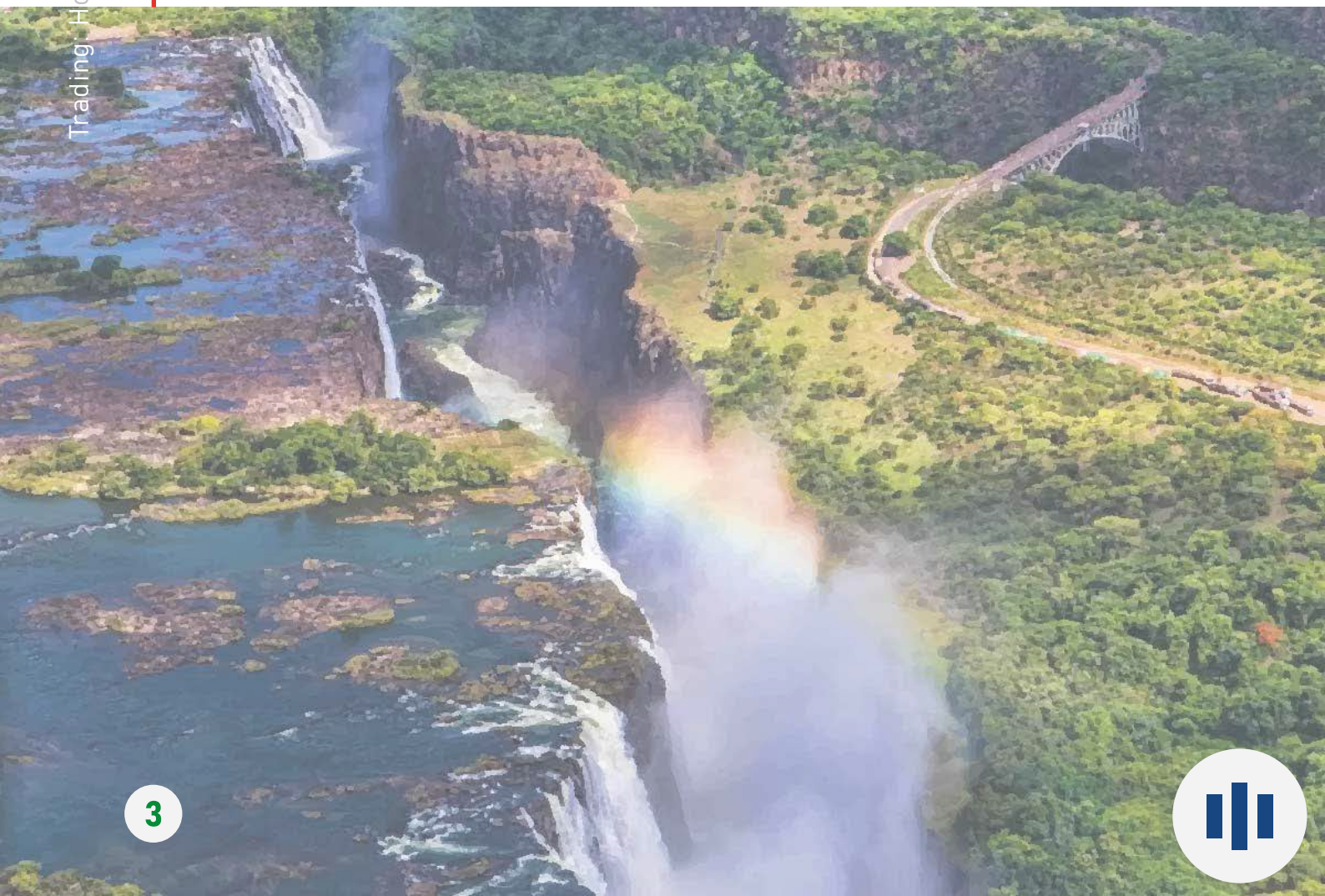


2 - Latitude

Given the nature of the securities markets being influenced by a multitude of factors such as news, sentiment, and strategy, shares may be volatile in the sense that their price and availability may alter over an immeasurable time period (e.g 1 second or 5 years). Given that, there exists the concept of *latitude*; This is the consent of an investor to their broker to alter their bid/ask price up or down to a specific number or percentage to facilitate the purchase or sale of shares.

Latitude is especially important for orders that have *odd lots*; Odd lots are shares that are less than multiples of 100 shares. Odd lots have a separate board where they are traded and can remain in the market for weeks. Given this, it is possible that the ask price may increase leaving odd lots at lower prices unattended to therefore requiring the shareholder to give further instruction to increase their price if they wish. With latitude however, the broker may immediately increase the price to match the ask price if it is within the price range or percentage of latitude given, enabling the shareholder to obtain their shares.

Trading: How Does It Work?





HOW DO YOU TRADE?

1 - Shares Buys and Sells

To buy or sell shares you must submit an [instruction form](#) to us physically at our Lusaka or Kitwe premises, or via email at trading@sbz.com.zm. Kindly note that we have a *minimum investment of K 500 per symbol per order*, and a *1.5% commission* on every order (1% is a broker fee, 0.375% is a LuSE fee, and 0.125% is a SEC Zambia fee as of April 2023).

Buy Order

To place a buy order, fill out the instruction form with the *symbol(s)*, *volume(s)*, and *bid price(s)* you would like to submit, as well as your details such as *trading account ID*, *contact details*, and *latitude*. Further more [make a payment](#) and provide us with a *proof of payment*; if done via bank transfer or direct deposit then the bank receipt will suffice, if done via mobile money then we need the transaction reference. Once received we will put your order on the market. You may use the below formulae to calculate the number of shares (always round down) or deposit value.

$$\text{Volume} = \frac{\text{Deposit}}{(\text{Bid Price} * 1.015)}$$

$$\text{Deposit} = \text{Volume} * \text{Bid Price} * 1.015$$





Sell Order

To place a sell order, fill out the instruction form with the *symbol(s)*, *volume(s)*, and *bid price(s)* you would like to submit, as well as your details such as *trading account ID*, *contact details*, *latitude*, and *bank details* for payment. To determine the value of funds you'll receive or how many shares to sell to receive a certain amount of funds use the formula below (always round up). Note that payments are subject to bank transfer fees.

$$\text{Volume} = \frac{\text{Funds}}{(\text{Bid Price} * 0.985)}$$

$$\text{Funds} = \text{Volume} * \text{Bid Price} * 0.985$$



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Useful Links:

Market Structure - <https://www.sbz.com.zm/luse-market-structure/>

Instruction Form - <https://www.sbz.com.zm/download/instruction-to-buy-sell-form/>

Payment Details - <https://www.sbz.com.zm/download/payment-details/>

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INVESTMENT CAUTION

Share price prices may rise and fall – investors should always seek professional advice before investing in shares.

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