EQUITY IN A NUTSHELL

LEVEL ★★★

NOMINATIVE
"How to hold it ? Hold it tight."

Only one share holding mode is the same worldwide: "to the bearer" (aka: "au porteur"). This is the common used mode; the one used when purchasing stocks via a private banker. The most common way is to make a market order which will result in the registration of the share in the portfolio alongside other holdings. Only the financial institution is aware which provides a high level of anonymity. The financial institution harbouring the portfolio is the sole contact and takes care of the administrative tasks required by the firm.

Depending on countries, there are various forms of equity holdings that could boost returns and reduce costs, thus boosting once more portfolio returns. It is interesting for investors but one could wonder what is in for companies? Firms are keen on gathering long-term investors because this breed shows interest for the firm and will use almost any opportunity they have to reinforce their positions, especially when shares are going South. Moreover, it is very convenient to know current investors in order to be able to address them personally via tailor-made services (shareholders' clubs, company visits…) that increase investors' loyalty and polishes brand name. There are common denominators in these plans; holding fees are paid by companies and very often transaction fees are either inexistent or at an attractive level. Investors can thus become shareholders at a low cost. However, and that is the same in almost every country, investors under "nominative administer" or with a "DRIP" can not consolidate their positions as they would do for a single portfolio; for each company the investor will receive one separate account summary which can make the process tedious and the tax registration even more so; the benefits from working with a private banker is thus largely forgone.

Because it is not possible to approach all 105 countries with at least one stock exchange, we focused on the ones that seemed most relevant. However, curious investors are always able to check these sometimes hidden informations for stocks they are interested in. However, we did not identify such method in the U.K. or in Asia. The simplest way to find relevant data and/or contact is to go on the company's website and to look for the Investor Relations page. This search depends on the country as the nomenclature of these plans are not the same; it can be cumbersome but can prove itself very rewarding.

FRENCH COMPANIES

In France, there are three ways to hold a share:

Au porteur	Au nominatif
(To the bearer) of which we talked above	That could be translated as : "in someone's name"

That method is declined in two sub-registrations sharing common characteristics; holding fees are very often void and transaction fees are set at an attractive rate. It is recommended to buy shares directly under nominative mode but it is possible to transfer them afterwards.

- "Au nominatif administré": Shares are held by a financial institution chosen by the company but the holder's contact is his usual financial intermediary; the company has no direct contact with the ivnestor and all the administrative tasks are handled by the institution.

- "Au nominatif pur": The company knows the holder and holds the shares (this task is often given to a third party). The investor receives the paperwork; this is the biggest drawback of this mode. When under this mode, companies provide you with a dedicated website to manage your holdings and fees are usually taken up by the firm.

It is to be noticed that once under this mode, transactions can take more time as the company holds your shares and buys them back itself; transactions can be executed at a price level that is not interesting anymore. This mode is not to be considered if not part of a "buy-and-hold" strategy.

More often than none, Air Liquide is taken as an example: After two years of holding a share in "nominatif pur" the company offers a 10% bonus on distributed dividend:

- If the dividend was 1€ per share, you will receive 1.10€ per share registered. Other firms only offer to double voting rights after a two-year period (sometimes 3 or 4 years depending on the firm). The table below encompasses all CAC 40 companies and the benefits pertaining to stocks held under this method.
But Air Liquide also offers a 10% increase of shares based on the number of shares registered.

- If you own 100 shares under this mode during a two-year period, the third year you will have 110 shares.

After 2 years : Voting Rights x 2

After 3 years : Voting Rights x 2

After 4 years : Voting Rights x 2

After 2 years: +10% on dividend and +10% shares

After 2 yrs: +10% on dividend and voting rights x 2

After 2 years: +10% on dividend

Some firms do not offer any service; we do not advise to register your shares for these companies as it would only imply an increasing amount of work (administrative tasks, consolidation for tax registration etc.).

Some companies offer shareholders' clubs. These clubs are dedicated to registered shareholders and offer discounts on various items/travels/services depending on the company's business.

US COMPANIES

In the United States, there are two plans from which one can benefit. Both methods can see stocks held in the company itself or "in a street name"; meaning that the shares are given to a financial institution. This last setup can be risky; the SIPC insurance on deposits is protecting up to $500K in case of bankruptcy from the intermediary (http://www.sec.gov/answers/sipc.htm).

DRIP (Dividend Reinvestment Plan)

When entering in a DRIP, all perceived dividends will automatically be reinvested in the company. As most American firms distribute a quarterly dividend, the investor will notice on his bank account an increase of the number of shares at that time. This method is convenient as it does not let the cash being idle on the account. Moreover, shares are bought at the average price over a set period which could be very interesting cost-wise. This method sometimes offers great advantages; if a stock price was trading at an average price of €10 but is on an upward trend, an investor would purchase it at a cheaper price thus making a profit instantly even though it would not be possible to sell the shares right away. It is also possible for investors to purchase fractions of shares thus building-up a position. It is to be noted that the shares are sold by the company and bought back, when decided by the investor, to the company. This method is thus subordinated to a certain level of treasury shares and is less liquid than the "to the bearer" method; execution of the trade and payment can take some days and sometimes, under extreme scenario, some weeks. This method is for long investors only and should not be used to make a quick buck.

DSP (Direct Stock Plan)

The DSP works like a savings account; one decides on the amount he wants to put in it and waits. The main idea is clearly to invest a certain amount of money (say $100) on a regular basis (say every month) in a stock. The broker will purchase shares, and fraction of shares, for this amount every month thus building a strong position in a stock over time. The main advantage of this method is that transaction costs and other fees are low, and sometimes null, as the company is paying for them. The cost, as in a DRIP, will not be the one available on markets but an average over a certain period. Moreover, it will not be possible to sell/buy shares when as fast as needed; the company is setting up a calendar stating the periods during which it is possible to transact.

Holding Foreign Stocks

Whatever the method, it is rather easy for an investor to hold stocks listed on well-known exchanges such as the NASDAQ, the FTSE100… Moreover, the recent move toward consolidation between exchanges such as NYSE Euronext, make transactions faster and easier. However, holding shares of a company in a country with little access can prove itself difficult if not impossible. A depository receipt corresponds to the possession of one or more corporate securities listed on a foreign stock exchange. A certificate is a perfect copy of the security listed on a stock market in a foreign country. The ADR ratio defines how many original shares are received per ADR; if a company has a ratio of 5 to 1, one will receive 5 shares per 1 ADR. Receipts are traded in the currency denominated on the receipt, and dividends are distributed in this same currency. The dividends empower account holders with the same rights as shareholders holding securities traded on the domestic market. The amount of dividends is thus identical. Special attention must nonetheless be paid to the securities/ADR ratio; if this ratio falls below 1, the investor will only receive a fraction of the distributed dividend.

There are various depository receipts available:

ADR (American Depository Receipt):

Available for non-American corporations.
The ADR will be traded in USD and dividends will also be distributed in USD

GDR (Global Depository Receipt):

Also known under the designation IDR (for International Depository Receipt). GDRs are receipts traded on several financial markets. Dividends are received in the GDR issue currency.

EDR (European Depository Receipt):

Enables non-European companies to attract investors from the rest of the world.
These receipts will be traded and their dividends received in EUR.

It should be noted that receipts fall under the authority of the originating country as well as the country where they are traded. Understanding how these securities are processed relative to both fiscal and legal aspects is vital in order to determine the risk inherent in these instruments prior to employing them.

IN A NUTSHELL

By knowing and using the various available ways to hold equities, one can positively alter the yield of a portfolio. These methods are different for each country and can reveal themselves cumbersome. One needs to weight the pros and cons before deciding to switch to a more sophisticated method. However, none of these methods should be used for short-term investments; these methods are for long-term investors only as it needs time for them to be triggered.

Coming soon : «Understand The Financial Communication !»
If you want to read the previous issues, please refer to your usual contact.

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