

Selecting a Stock Broker Firm

Who is a Stock Broker?

A Stock Broker is a firm/agent that acts as an intermediary for stock market transactions, offering investors a variety of services in addition to investment advice and executing buy and sell orders on behalf of investors. The stock broker charges the customer a commission for its services.

What services do they provide?

- Opening of CDS Accounts, deposit and withdrawal of Securities
- Settlement of transactions
- Investment Advice
- Assistance and information dissemination with regard to new issues
- Research and reports on the performance of listed companies, sectors and their securities

These are some of the services provided by stock brokers.

It is **mandatory** for you to obtain the services of a stockbroker in transacting in the secondary market. Stockbroker firms employ Investment Advisors to deal with investors.

How do you select a Stockbroker Firm?

The SEC has licensed 28 Firms to trade in both equity and debt securities in Sri Lanka. Here are some factors you should consider when selecting a Stockbroker Firm:

- The level of service you require from a stockbroker
- The distance to the Stockbroker Office from your home and the availability of branch offices
- Access to research services
- Provision of Internet Trading facilities
- The number of Certified Investment Advisors

How do you select your Investment Advisor?

The Stockbroker should act in the client's best interest. Therefore, he should possess the following qualities.

Competence

He should be qualified and experienced and have a thorough knowledge of market behaviour. Any person dealing with investors should be certified by the CSE.

Integrity

The stockbroker should give fair treatment to his clients, and not for his personal gain. He must account for all transactions properly.

Knowledge about "what's happening around"

The Broker should possess knowledge on the needs of the client, market behaviour and Political, Economic, Social & Technological factors.

Forecasting

This is the process of analyzing current and historical data to determine future trends. Stock analysts use various forecasting methods to determine future stock price movements, earnings, etc.

-What research services are offered by Stockbroker Firms?

Most Stockbroker Firms have a research unit that studies the market in general and specific companies in particular. With this research they are able to recommend shares for you to purchase. They publish research in the form of

- Sector reports
- Daily & Weekly reports
- Company specific reports

The broker should make recommendations to the best of his ability and should not be liable in case the recommendation is found to be incorrect.

What are the Transactions Costs?

Transactions up to Rs. 50 Million - 1.12%

Divided as follows:

Brokerage Fees - 0.640%
CSE Fees - 0.084%
CDS Fees - 0.024%
SEC Cess - 0.072%
Share Transaction Levy - 0.300%

Transactions over Rs. 50 Million

Divided as follows:

Minimum brokerage (floor) - 0.200%
CSE Fees - 0.0525%
CDS Fees - 0.0150%
SEC Fees - 0.0450%
Share Transaction Levy - 0.300%

How do you place an order with a Stockbroker?

You can place an order through your Stockbroker by:

- Visiting them: at CSE Branches or their respective offices
- By calling your broker
- Internet Trading - 18 Stockbroker Firms of the CSE offer this facility

How to buy/sell shares from Listed Companies on the Secondary Market?

- You need to provide your Stockbroker with the name of the company, price and amount of shares you want to buy/sell.

- The broker will place your order.
- Once the order is processed, he will inform you of the shares you were able to purchase at the price you required.
- Once the order is executed, you will receive a Bought/Sold Note from the broker. This document confirms the transactions that have taken place with your approval.

Bought/Sold notes are dispatched by the Broker to the clients, before commencement of the next trading session.

How does an investor act in case of a wrong-doing?

If you have a complaint, first inform the Compliance Officer of your broker firm. The Compliance Officer should be able to help you resolve the issue. If you are not satisfied with the actions taken, you can forward your complaint to the CSE.

Ensure you have given the CDS your correct correspondence address and be mindful that you receive all Bought/Sold Notes and the CDS statement. If you have not received the said documents, please inform your broker and make a note of your complaint.