

# BUYING AND SELLING STOCKS



**BOVESPA**

Brazil's Stock Exchange



# **ATTENTION**

THIS BROCHURE REFERS TO THE OPEN OUTCRY SYSTEM THAT WAS USED TILL 9/30/2005.

AS FROM THAT DATE, BOVESPA CENTRALIZED ALL TRADES IN THE ELECTRONIC SYSTEM, PIONEERLY INSTALLED BY BOVESPA IN BRAZIL IN 1972.

## **ATTENTION**

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This text is not a recommendation of investment.

For further clarification we suggest the reading of other leaflets published by BOVESPA. Contact your Brokerage Firm. It can help you to evaluate the potential risks and benefits related to securities trading.

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## **WHAT IS A CASH TRANSACTION?**

It is the cash purchase or sale of a given number of shares, at a price set on trading floor sessions. Thus, when a deal is closed, the buyer pays the agreed price of the deal and the seller delivers the underlying stock, within the time limits set by the São Paulo Stock Exchange - BOVESPA and CBLC - the Brazilian Clearing and Depository Corporation.



## **THE CASH MARKET**

### **UNDERLYING STOCK**

All the shares issued by companies listed on BOVESPA.

### **PRICING**

Prices are set in trading sessions, by the interaction of the forces of supply and demand for each stock, which makes the price quoted a reliable indicator of the value the market attributes to different shares. The higher or the lower supply or demand for a given stock is directly related to the historical behavior of prices and, above all, to the future prospects of the issuing company, including its dividend policy, forecasts of market expansion and of the company's profits, the influence of the economic policy on the activities of the company, etc.

### **TRADING**

Trading on the cash market requires the intermediation of a brokerage firm, whose representatives (traders) carry out the client's buying and selling instructions. The brokerage firm also authorizes its client to register orders in the Electronic Trading System, by using the brokerage firm's Home Broker system (which allows the investor to buy and sell stocks through the Internet).

It is possible to follow the progress of cash transactions during the whole trading session, through BOVESPA's network terminal, the vendor's terminal, and also through the Disque Bovespa (Call Bovespa). In addition, clients can keep track of relevant information on cash market trading by visiting BOVESPA's web site ([www.bovespa.com.br](http://www.bovespa.com.br)). After the closing of the trading session clients can obtain information from BOVESPA's Daily Information Bulletin (Boletim Diário de Informações - BDI) and from newspapers of wide circulation.



## **TYPES OF TRADING**

There are two alternative forms of trading with stocks on BOVESPA:

◆ **Open-outcry** - Representatives of brokerage firms call out their offers, specifying the issuing company, the type of stock, the number of stocks and the bid/offer price. Only the most liquid stocks are traded on open-outcry trading sessions.

◆ **Electronic Trading System** - It is a system through which brokerage firms may execute the customers' orders directly from their offices. The computer trading system allows purchase or selling orders to be registered via computer terminals. The matching of offers and the closing of business is automatically carried out by BOVESPA's computers.

The Home Broker, a new client service concept and stock market trading system, has been available since March 29, 1999 (only for Brazilian market). The Home Broker has established a modern relationship between investors and brokerage firms and has made stock trading even simpler and speedier. Buy and sell orders can be sent via the Internet, which also provides access to stock quotations and allows investors to keep track of stock portfolios, among other resources.

## **TRADING HOURS**

◆ **Open-Outcry:** as established by BOVESPA.

◆ **Electronic Trading System:** as established by BOVESPA.

The trading hours are disclosed in BOVESPA's site [www.bovespa.com.br](http://www.bovespa.com.br) (at the menu "Market", item "Trading Hours").



## **TYPES OF BUYING AND SELLING ORDERS**

**Market Order** - the investor specifies only the amount and the characteristics of the securities or rights he wishes to buy or sell. The brokerage firm should carry out the order the moment it is received.

**Managed Order** - the investor specifies only the amount and the characteristics of the securities or rights he wishes to buy or sell. The execution of the order will depend on the criteria of the brokerage firm.

**Discretionary Order** - the individual or corporate body that manages the portfolio and the securities or a representative of more than one client establish the conditions under which the order is to be executed. Once executed, the person who gave the order will indicate:

- ◆ the name of the investor (or investors);
- ◆ the amount of stocks and/or securities to be attributed to each of them;
- ◆ the price.

**Limit Order** - the transaction will be executed at an equal or a better price than the one indicated by the investor.

**Matched Order** - the investor defines an order of selling a security and an order of buying another, which can only be executed if both transactions are carried out. The investor can specify which transaction he wishes to see executed first.

**Financing Order** - the investor specifies an order of buying or selling a security or a right on a certain market and, simultaneously, the selling or buying of the same security or right on the same market or on another market, with a different settlement date.

**On-Stop Order** - the investor specifies the price level as from which the order is to be executed.

◆ **on-stop order of buying** - will be executed when, at a rise, trading at an equal or a better price than the one specified occurs.

◆ **on-stop order of selling** - will be executed when, in the event of a price drop, an instrument trades at or below the stop price.



## SETTLEMENT

The settlement of operations carried out on BOVESPA is executed by the *Companhia Brasileira de Liquidação e Custódia - CBLC* (the Brazilian Clearing and Depository Corporation), which also keeps assets in custody and is in charge of updating and passing on the benefits distributed by publicly-held companies.

The entire process involving the transfer of securities title and the payment/receipt of the related financial amounts is intermediated by CBLC and comprises two stages:

**1) Physical settlement:** implies making securities available by the intermediating brokerage firm or by the institution responsible for holding the seller's securities in custody, to CBLC. This takes place on the third business day (T3) after the deal was closed (T0). Stocks are made available for the buyer after the respective financial settlement.

**2) Financial settlement:** the payment of the total amount of the transaction, by the buyer, comprises the respective receipt by the seller and the effective transfer of the stocks to the buyer. This takes place on the third business day (T3) after the deal is closed.

## RIGHTS AND RECEIPTS

Companies grant privileges to their stockholders in the form of payments (dividends, bonuses) or of preemptive rights in the acquisition of new shares (subscription).

**Dividend** - the amount of the company's profits paid to shareholders, in cash, for each share held. By law, companies must distribute a minimum of 25% of the net profit of the period to shareholders.

**Interest on own capital** - remuneration paid in cash by the company to its stockholders. The main advantage for the company that distributes benefits in the form of interest on own capital rather than in the form of dividends is that the amount paid to stockholders is accounted for as costs and this, in turn, reduces the income tax paid by the company.

**Bonus** - new share, proceeding from the raising of capital through the incorporation of reserves. It is allocated free to shareholders in proportion to the number of shares originally held. The company may, eventually, opt to distribute these reserves, or part of them, in cash, in the form of what is called a cash bonus.





**Subscription right** - privilege granted to the shareholder to acquire new shares – issued by the company for selling, with the purpose of raising new capital – in proportion to their current share-holding. The shareholder may transfer his subscription right to third parties, by selling this right in trading sessions.

## **“CUM RIGHTS” AND “EX RIGHTS” SHARES**

**“Cum rights”** – are shares which give the holder the right to the benefits distributed by the companies.

**“Ex rights”** – are shares whose right to receive benefits has already been exercised by the shareholder.

Only shares that do not have the right to receive previous benefits can be traded on the stock exchange. Thus, when a company’s general meeting approves the distribution of a benefit, the shares are thereafter traded “Ex”.

## **TRANSACTION COSTS**

Transaction costs related to cash operations involve: a **fee for brokerage services** – freely established by the client and the brokerage firm and levied on the total financial turnover (purchases plus sales) of the orders executed by one brokerage firm, in the name of the investor, at one trading session – as well as **emoluments** and the settlement fees.

## **TAXES**

The net profit obtained by the investor on the cash market is subject to the income tax in force, as profit from Variable Income. The profit from Variable Income is calculated as follows: the selling price less the buying price less transaction costs (brokerage, emoluments and other transaction fees). Losses incurred in the cash market and in other markets (e.g. options) can be offset, except for losses on transactions initiated and closed on the same day (day-trade) which can only be settled off against profits on operations of the same type (day-trade).



# **TRADING STRATEGIES**

## **WHY BUY SHARES?**

An investor acquires shares with the objective of obtaining gain, profit. This return derives from the rights and benefits – dividends, bonuses and subscription rights – granted to shareholders by the company and the possible increase in value of the share price. These factors, in turn, depend on the performance of the company and its future prospects.

## **WHY SELL SHARES?**

An investor normally sells a share when he judges that its prospects are relatively less favorable than those of other shares or even other forms of investment, or when he needs to obtain cash at that moment.



## **COMBINED TRANSACTIONS**

The simultaneous carrying out of an operation on the cash market and another on a derivatives market – forward, options, futures (on stocks or indices) – allows a series of strategies to be set up, both conventional or aggressive, depending on their greater or lesser degree of risk.

## **HOW TO INVEST IN THE STOCK MARKET**

There are basically two ways of investing in the stock market:

- 1) **Individually** - the interested party conveys his intention to a brokerage firm which will be the intermediary in the transactions. The list of member brokerage firms can be obtained at BOVESPA;
- 2) **Jointly** - interested parties purchase quotas from investment clubs or from stock funds.

These forms of collective investment, managed by brokerage firms and other accredited institutions are associations of investors with a common objective: investment in a diversified stock portfolio.



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