



# Fisher Funds

## Investor Education Centre

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### How to read a Prospectus

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Participating in a new share issue is very different than buying shares in a company that is already listed on the stock exchange. For a start, a new share issue is required to have a prospectus, which is a very important document.

When you are considering buying shares in an already listed company, you can complete extensive research by reading annual reports and becoming familiar with the company's history. But, with a new share issue, you have to rely on information contained in the prospectus.

The problem is that reading long and tedious financial documents such as a prospectus is not very exciting. They are legal documents, and much of the information contained in them is common to every prospectus.

To read a prospectus properly, you need to distinguish between the generic statements and those that tell you specific things about the company you are considering. The other problem is that virtually every new company coming to the market for the first time has a good story to tell investors (otherwise they wouldn't do it). Sometimes the good story is justified, sometimes it isn't. And sometimes the price of the issue already reflects all the company's growth prospects, so you can end up paying too much.

So what should you look for in a prospectus? First, you need to find answers to all the fundamental questions that you would ask when investing in any company.

What is the company's competitive advantage? Who are the people involved in the company and what is their history with the business? What is the history and track record of the business (even though a company may be new to the share market, it should still have a profit history) and how expensive are the shares relative to the company's earnings?

You should also look in the prospectus for a discussion as to why the vendors are selling shares in the company, and what their involvement will be after the shares are listed. If the owners are selling most of their shares, you'd have to question their commitment to the business, and you'd also wonder whether the price is too good for them to resist!

There is a knack to understanding the language of a prospectus. Be careful to spot forward-looking statements. Such statements will probably contain words such as "anticipate", "believe", "plan", "expect" and "intend".

These statements cannot be relied on and are not guarantees that the company will meet its objectives.

While we all like to be involved with exciting new opportunities, there are times when it pays to be a little more sceptical than usual. When reading the prospectus, a good discipline is to start by saying no, and then be convinced otherwise. That is not to say that new share issues are bad. On the contrary, I have enjoyed participating in many new issues where companies have sailed through their prospectus forecasts and been very successful businesses. It is just important to pay attention to the prospectus, even if its length and language bores you.

The devil can be in the detail.

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