Often than not a number of investors have either burnt their fingers while investing within the stock market from an ignorance point of view, or chosen to avoid the capital markets all together. This is primarily due to some myths that have held currency with most Kenyans to date. In this article we attempt to highlight and dispel some of these myths.

- **The stock market is a place to make quick short-term gains (speculate)**

  This is a total misconception. Speculator will only effectively thrive in an inefficient market. In the short run the stock market is highly volatile in an unpredictable manner. Stock markets do not therefore have their strength in short term intermediation but rather in their ability to; mobilize long term savings for financing long term ventures, provide risk capital (equity to entrepreneurs), encourage broader ownership of firms and improve efficiency of resource allocation through competitive pricing mechanism. One needs a lot of expertise and close tracking of the market to make any gains by speculating. Moreover the more efficient a market becomes the less the opportunities for short-term gains. Proper investment in the market and especially in shares must be guided by the research findings that equities out-perform all the other investments in the long-run.

- **Investing in shares is just like gambling.**
  Nothing could be more untrue than this myth, yet it's a big reason why many people shy away from the stock market. To understand why investing in shares is inherently different from gambling, we need to review what it means to buy a share. A share is ownership in a company. It entitles the holder to a claim on assets as well as a fraction of the profits that the company generates. Too often, people think of shares as a way to test their luck, and they forget that stock represents the ownership of a company. In the stock market, investors are constantly trying to assess the profit that will be left over for the shareholders. This is why stock prices fluctuate. The outlook for business conditions is always changing, and thus so are the future earnings of a company. Assessing the value of a company isn't an easy practice. There are so many variables involved that the short-term price movements appear to be random (the random walk theory); however, over the long-term, a company is only worth the present value of the profits it will make. In the short term a company can survive without profits because of the expectations of future earnings, but no company can fool investors forever. Eventually a company's stock price will show the true value of the firm. Gambling, contrary to investing, is a zero-sum game. It merely takes money from a loser and gives it to a winner. No value is ever created. In contrast, by investing we increase the potential to increase the overall wealth of society. As companies compete, they increase productivity and develop products that make our lives better. Don't confuse investing for wealth creation with gambling's zero-sum game. In investing the seller could be selling because they have made substantial returns with the share; this does not stop the buyer from making additional returns if it is a share from a well-grounded company. The cardinal rule then becomes ascertaining the solidity of the company before investing in it as opposed to testing ones luck.

- **The stock market is an exclusive club in which only brokers and rich people make money**
  Many market advisors claim to be able to call the markets' every turn. The fact is that almost every study done on this topic has proven that these claims are false. Most market forecasts are notoriously inaccurate; furthermore, the advent of the Internet has made the market much more

open to the public than ever before. All the data and research tools previously available only to financial intermediaries are now there for individuals to use. Actually, individuals have an advantage over institutional investors because they can afford to be long-term oriented. The big money managers are under extreme pressure to get high returns every other quarter. Their performance is often so scrutinized that they can't invest in opportunities that take some time to develop. Individuals have the ability to look beyond temporary downturns in favour of a long-term outlook. Again the stock market by its very nature provides opportunities for investing very small amount of money. In Kenya today the Capital Markets Authority has licensed collective investment schemes that require as little as Kshs. 2,000 per month to invest. Moreover buying shares is relatively inexpensive compared to other investment. At the end of March 2005 a number of shares were retailing at prices in the neighbourhood of Kshs 10.00, with the lowest just below Kshs 5.00. The most expensive share was retailing at Kshs 360.00. Given that the minimum amount that one can buy from the stock exchange is 100 it would then require between as little as kshs. 500 to Kshs. 36,000 to start investing in shares of companies listed at the Nairobi stock exchange. Any Kenyan with some form of income can therefore participate effectively.

- **Fallen shares eventually go up**
  Whatever the reason for this myth's appeal, nothing is more destructive to amateur investors than thinking that a share trading near an annual low is a good buy. Suppose you are looking at two stocks: XYZ made an all time high last year around Kshs.50 but has since fallen to Kshs.10 per share. On the other hand ABC is a smaller company but has recently gone from Kshs.5 to Kshs.10 per share. Which share would you buy? It’s interesting to note that all things being equal, a majority of investors will choose the share that has fallen from Kshs.50 because they believe that it will eventually make it back up to those levels again. Thinking this way is a cardinal mistake in investing. A cardinal principal while tracking share prices is to note that there is no known bottom for a falling share prices. When you are tempted to think that a share can only rise, the fundamentals may be so bad that it will fall further; examples abound in our market. If you are an investor, price should only be one part of the investing equation. The goal is to buy good companies at a reasonable price. Don't confuse value investing with buying companies solely because their market price has fallen; value investing is about buying high quality companies that are undervalued by the market.

- **Stocks that go up must come down.**
  The laws of physics do not apply in the stock market. There is no gravitational force that pulls stocks back to evening up. The message here is not that stocks never correct. The point is that the stock price is a reflection of the company. If a good company is run by excellent managers, there is no reason as to why its shares won't keep on going up. 6. Having just a little knowledge, because it is better than none, is enough to invest in the stock market. Knowing something is generally better than nothing, but it is crucial in the stock market that individual investors have a clear understanding of what they are doing with their money. It's those investors who really do their homework that succeed. One should not fret, if one does not have the time to fully understand what to do with their money, then having an advisor is inevitably critical. The cost of investing in something that you do not fully understand far outweighs the cost of using an investment advisor.

- **Dividend should be evaluated in absolute terms**
  Nothing could be further from the truth. Dividend should never be evaluated in absolute terms.

Suppose you are looking at two stocks: XYZ that whose price is Kshs. 200 which gives a dividend of Kshs. 10 per share; ABC whose price is Kshs. 20 which gives a dividend of Kshs. 2 per share. Which share would you buy? It's interesting to note that those investors whose interest focus is dividend will 'obviously' choose XYZ. On the contrary the share to choose is ABC. Let's say you had Kshs. 100, 000; you would have either bought 500 shares of XYZ or 5, 000 share of ABC. It then follows that you would have gotten a dividend of Kshs. 5, 000 (500 * 10) from XYZ or Kshs.10, 000 (5, 000 * 2) from ABC. It is therefore the case that ABC is the better company in dividend paying. The cardinal principle while evaluating dividend therefore is that, it must be done as a percentage of the share price. It would then appear that XYZ was offering 5% while ABC was offering a superior dividend of 10%. In conclusion, "what is obvious is obviously wrong." This means that knowing a little bit will only have you in following the crowd. Successful investing takes information, hard work and effort. partially informed investors investing without counsel will only hurt themselves and those around them. (This articles has borrowed heavily from Investopedia)