Why everyone should care about shares

Did you know we are all investing in the stock market through our super funds? Shares are much cheaper and more accessible than a property because you don't need a large deposit to be involved. Do you know the three main ways that you can invest in shares?

Direct shares

This is where you own shares in a company listed on the stockmarket yourself. So for example you own shares directly in BHP, Telstra, Commonwealth Bank or others.

Pros	Cons
Only requires a small amount to invest with and there's small one-off brokerage fees when you buy and sell.	If you're relying on hot tips and not doing your research it can be an easy way to lose money (as with any investment).
It's easy to buy - you can buy direct shares online using what's called a brokerage platform. Most major banks have brokerage platforms as well as independents.	There is potentially lower diversification (which can potentially mean higher risk). That's because you may only be holding a few different shares instead of holding a couple of hundred shares in say an ETF or a Managed Fund.
You have loads of choice and it's your choice. You can choose which specific shares you want to buy and how much of each share you want to buy. You can choose whether you receive dividends or whether you participate in DRPs (dividend reinvestment plans), when you sell your shares and whether to buy more.	You have loads of choice – which can be overwhelming, particularly for first-time investors. This may mean you make poor choices or you opt out because there's too much choice.

Managed funds

Also known as 'active investing'. This is where a fund manager trades daily on behalf of the owners of the fund of which there could be tens or hundreds of thousands of owners. You don't directly own any shares or asset classes yourself, instead you own 'units' in the fund.

Pros	Cons
The timing of the shares being bought and sold is handled by professionals who (hopefully) will make more of a return than you would on your own.	Depending on the managed fund type, you may need an upfront deposit. This may be as low as $1,000 or as high as $250,000. With the emergence of more and more fintech options (apps) such as Raiz and Spaceship for example, you may only need a $10 deposit.
The Fund can provide diversification across a wide range of asset classes. That's because, depending on your risk profile, the fund will not only invest in Australian shares but potentially also in bonds, cash, foreign shares and other investments.	There are higher fees as the fund is being professionally and actively managed. There may also be unknown tax impacts. As shares are sold daily, there may be capital gains or losses and dividends that need to be declared in tax returns unexpectedly.
Allows you to make small, regular contributions at a low cost. You can set up regular monthly contributions to the fund to purchase additional units.	If a large amount of investors want to cash-out at the same time there may be liquidity issues in the fund.

ETFs (Exchange Traded Funds)

Also known as 'passive investing'. This is where the ETF holds assets in a basket of stocks such as the Top 200 Shares in the ASX (Australian Stock Exchange) or the Top 300 Shares in the ASX or other commodity or share classes. Again, you don't directly own any shares or asset classes yourself, instead you own 'units' or 'shares' in the ETF.

Pros	Cons
Low ongoing costs compared to traditional managed funds.	Tracking a market index (such as top 200 ASX shares) means ETFs don't have the potential to minimise the effects of market downturns. That's because they're passively investing in this asset and not proactively adjusting to perceived risks.
ETFs are highly transparent. It's really easy to see what the ETFs underlying stockholdings are – the shares they're investing in.	Many of the Australian ETFs are currently relatively narrow in their focus (they track a single country or region's sharemarket).
It's a low-turnover investment which means less unknown tax impacts. The basket of stocks the ETF tracks only changes when companies are added or removed from the underlying index. Such as if a company moves out of the ASX 200 and that's the index the fund is tracking.	ETFs potentially don't come with the added bells and whistles of a managed fund such as financial planning services, telephone or website access or regular newsletters.
There's no need for ETFs to hold cash therefore funds can be fully invested in shares.	While it's great that all the investment is with the particular index and not cash, this can potentially cause a liquidity issue if a large group of investors want to withdraw funds.
Warren Buffet once famously said if he was to die, to pop all his funds in an ETF. It's hard to find a better recommendation than that!	Historical trading volumes are lower as Australian investors are still getting familiar with this type of investment.

The simplest way to invest in shares is by owning Direct Shares yourself however if you're not quite sure what you would pick, you might consider either a Managed Fund or an ETF instead.