SECURITY ANALYSIS

&

PORTFOLIO MANAGEMENT

(14 XB F01)

UNIT I

Security Analysis

It is the process of analyzing individual securities and market as a whole and estimating risk and return expected from each of the investment with the view to identifying ***undervalued securities for buying and overvalued securities for selling***.

Security Analysis

- Fundamental Analysis (Theoretical Basis)
- Technical Analysis (Comparative Study)

Portfolio Management

- Refers to the ***professional management of securities***/ other assets.
- The ***process of making decisions about investment mix*** and policy, matching investment to objectives, asset allocation for individuals/institution and balancing risk against performance.

WHY YOUNGSTERS ARE NOT IN THE MOOD TO SAVE EARNINGS?

WHY SHOULD WE INVEST?

FINANCIAL PLAN

(Blue Print)

Investment

It is an ***employment of fund on assets with the aim of earning income or capital appreciation***.

Attributes:

- Time
- Risk

How investment is done?

Current Income > Current Consumption …Savings…Investment

Current Income < Current Consumption …Borrowings…Need to payback…Investment

Investment Constraints

- Time
- Age
- Risk Tolerance (Guaranteed Vs Non-Guaranteed Return)
- Tax Liability
- Income Fluctuations (Public, Private and self-employed)
- Economic Conditions

- **Investment in Finance** – It is an ***allocation of money on assets that are expected to yield some return or gain over a period of time***. (i.e.,) Exchange of financial claims for money.

- **Investment in Economics** – It is a ***net addition made to the nation's capital stock (***increase in buildings, equipment and machinery***) that are used in the production process***.

Speculation Vs Investment

- Speculation means taking up high business risk in the scope of getting short term gain. (investment in the Hope of gain with the risk of loss)

- **Ex:** Person

Buys a stock

Receiving Dividend

Investors

Person

Buys a stock

Anticipation of price rise in the future and hope of selling it at a gain price

Speculators

- When investors become speculators they are purchasing a stock with the ***sole purpose of selling it to someone else at a higher price***.
- ***Not concerned with underlying value*** (short-term price action).
- He *doesn't care about the inherent value* of the stock.

- According to Ben Graham in *The Intelligent Investor*, the defensive investor is "*one interested chiefly in safety plus freedom from bother*." He admits, however, that "*some speculation is necessary and unavoidable*, for in many common-stock situations, there are substantial possibilities of both profit and loss, and the risks therein must be assumed by someone."

Gambling

- It is like a bet.
- Taking risky action in the hope of getting a desired result.
- There is no risk-return trade-off.
- The return is uncertain so negative outcomes are expected.
- Short term than Investment and Speculation.

Investment Objectives

- Increasing Rate of Return
- Reducing the Risk (ER - RR or AR) – Variability in Return
- Safety
- Growth
- Liquidity (Marketability)
- Hedge against Inflation (Nominal Value of ROR and Real Value of ROR)
- Saving Tax

1. MAXIMIZING RETURN

Return = {[(End Period Value – Beginning Period value) + Dividend] / Beginning period value} *100

Return = [(Capital Appreciation + Dividend)/ Purchase Price] *100

2. MINIMIZING THE RISK

- Variability of return
- Probability of the actual return becoming less than the expected return
- Investors differs in their attitude towards risk

TWO Types of Investors

1. Aggressive Investor
2. Defensive Investor

And also classified as

- ✓ Risk Seeker / Risk Lover – Mr. Adventurous
- ✓ Risk Bearer / Risk Taker – Mr. Practical
- ✓ Risk Avoider / Risk Averse – Mr. Conservative

3. MAINTAINING LIQUIDITY

- It determines the ease, time and cost involved in converting the investment into cash.
- The marketability of investment
- Helps investors to meet emergencies

4. HEDGING AGAINST INFLATION

- To protect against a rise in prices and fall in the purchasing value of money

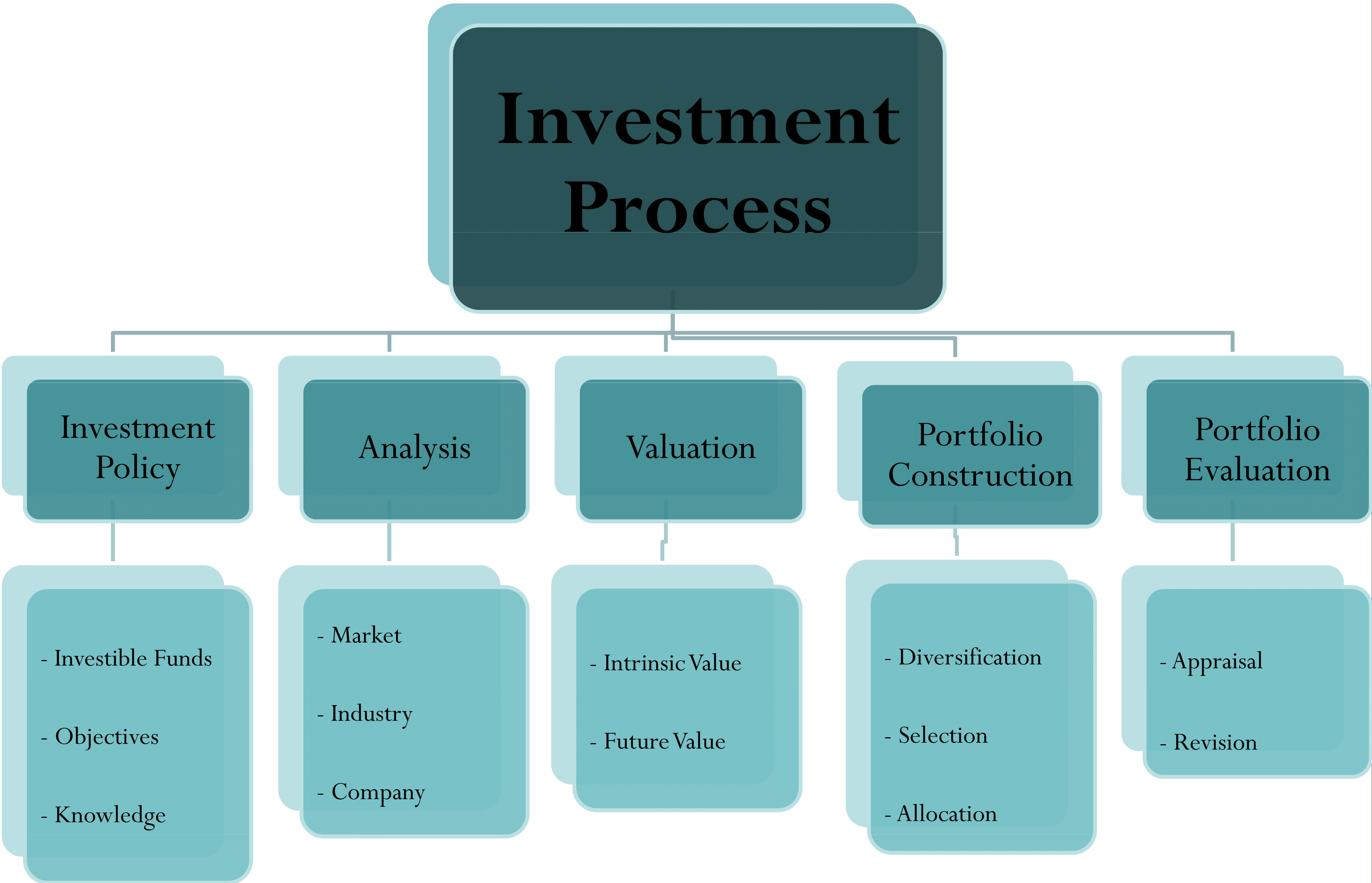
5. INCREASING SAFETY

- Selected investment avenue should be under the legal and regulatory framework

6. SAVING TAX

- Different investment options attract different tax rates

RANK THE INVESTMENT AVENUES FROM THE SAFETY POINT OF VIEW


Investment Process
Investment Policy
Analysis
Valuation
Portfolio Construction
Portfolio Evaluation
- Investible Funds
- Objectives
- Knowledge
- Market
- Industry
- Company
- Intrinsic Value
- Future Value
- Diversification
- Selection
- Allocation
- Appraisal
- Revision

Securities Market

1. Money Market (Short-Term Securities)
2. Capital Market (Long-Term Securities) - Gilt-edged market and the Industrial securities market
   i. *Primary Market*
   ii. *Secondary Market*

Players in the Securities Market

1. The Issuer
2. The Buyer
3. Market Intermediaries
4. The Regulators

Securities

- Represent evidence to property right.
- Provides a claim on an asset and any future cash flows the asset may generate.
- According to Securities Contracts Regulation Act (SCRA) 1956, Securities include shares, scrips, stocks, bonds, debentures and other marketable securities.

Securities

On the basis of return/ income

- Fixed Income Securities

  (The income is fixed at the time of issue itself.)

  Ex: Bonds, Debentures, Preference Shares

- Variable income vary from year to year.

  Ex: Dividends of Equity Shares

On the basis of the source of issue

- Government, Semi-Government and Corporate Securities

Types of Securities

1. Equity Shares

- Common Stock (One fund-a set of shares put together in a bundle-Expressed in terms of money)/Ordinary Shares(Share capital is divided into a number of small units of equal value)

2. Sweat Equity

-Shares issued at a discount / as value addition to the employees and directors out of equity shares already issued by the company

3. Non-Voting Rights

-Carry additional dividends instead of the voting rights.

4. Right Shares

- Offered to the existing shareholders(in proportion to the capital paid on the shares held by them at the date of offer) at a price by the company. The shareholders can renounce the shares in favor of his nominee.

5. Bonus Share

- Issued in addition to the cash dividends to the existing shareholders without any payment of cash. They can sell the shares for capital gain while retaining their original shares.

6. Preferred Stock

- They receive fixed dividend and no voting rights.

7. Debentures

- Issued by the private sector company as a long term promissory note for raising loan capital. The company promises to pay interest as stipulated.

8. Bonds

- A Long term debt instrument that promises to pay a fixed annual sum as interest for specified period of time.

9. Warrants

- A bearer document of title to buy specified number of equity shares at a specified price.
- The investor can sell the warrants separately and they are traded in the market.