SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

REFERENCES:

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DEFINITION:

- Investment is the current commitment of money for a particular period of time in order to derive anticipated future benefits that will compensate for:

  a) The time for which funds are committed.

  b) The expected rate of Inflation.

  C) The uncertainty of future payment.

- Investments refers to sacrifice of current resources in anticipation of a future benefit.
- Investment involves commitment of certain current cash flow in anticipation of an uncertain future cash flows.

DEFINITION:

- Investment involves employment of own funds or borrowed funds on a real or financial asset for a certain period of time in anticipation of a return in future.
- Investment thus refers to postponement of current consumption in anticipation of a future benefit.
- The investor can be an Individual, Government, Pension fund, or a Corporation.

Nature and Scope of Investment Decision:

- Higher the Risk, Higher is the Expected Return.
- A well diversified Portfolio reduces Unsystematic risk by a large way.
- Higher the time period of investment, lesser is the uncertainties of Investment.
- Investor prefers among securities which yield higher return for the same risk or lower risk for the same return.
- Investment decisions are based on Investment objectives and Constraints.

INVESTMENT OBJECTIVES/GOALS:

Based on Time period and Priority, Investment Objectives can be classified into:

- Near term high priority goals.
- Long term high priority goals.
- Low priority goals.
- Entrepreneurial or Money making goals.

INVESTMENT OBJECTIVES/GOALS:

The primary objective of any Investment is to increase the rate of return and to reduce the risk. However the other objectives of Investment include:

- Return.
- Risk.
- Liquidity.
- Hedge against Inflation.
- Safety.

INVESTMENT Vs SPECULATION:

- Investments are carefully thought out decisions which involves calculated risk whereas speculation on the other hand is based on rumors, hearsay, tips etc.
- An investor has a relatively longer time horizon compare to that of a speculator.
- An investor is generally risk averse whereas a speculator is generally risk prone.
- An investors expected return is consistent with the underlying risk of the investment whereas risk assumed by a speculator and his anticipated return is disproportionate.

INVESTMENT Vs SPECULATION:

- Investments are generally made based on fundamentals whereas Speculations are done based on hearsay, technical's, rumors etc
- An Investor generally uses his own funds whereas a speculator normally goes for borrowed funds to leverage his investments.
- The volumes of trade of an investor is generally smaller than that of a speculator.
- Investor generally follows passive approach whereas speculator follows an active approach.

INVESTMENT Vs SPECULATION:

- Investor generally invests in a well diversified portfolio whereas speculator generally puts his money only in one or few stocks.

- Investor looks to profit from per unit return whereas Speculator looks to profit from bigger volumes of trade and gains from leverage effect.

- Investor expects regular income in the form of dividend whereas Speculator looks for Capital appreciation.

INVESTMENT Vs GAMBLING:

- Gambling is defined as an act of betting on an uncertain outcome.
- The outcome of gambling is largely a matter of luck.
- The risk that gamblers assume is highly disproportionate to that of their expected return.
- Gambling generally involves an entry fee.
- Gamblers show a sign of addiction and fun loving.

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INVESTMENT Vs GAMBLING:

- Gambling does not involve a bet on economic activity rather it is a bet on artificial risk.
- Results of gambling are known in quick time.
- The results of gambling are random in nature and it is not correlated with an past events.

INVESTMENT CONSTRAINTS:

- Risk levels.
- Liquidity.
- Need for regular income.
- Age.
- Time horizon.
- Tax liability.
- Other sources of income.
- Current status and level of need.

INVESTMENT CLASSIFICATION:

- Real Vs Financial.

- Security Vs Non Security.

Real Vs Financial assets:

- Real assets determine the productive wealth of the society where as financial assets determine the wealth of the individuals or firms holding them.
- Real assets includes assets like land, building, machinery, furniture, knowledge etc, where as Financial assets includes assets like cash, bonds, shares, derivative instruments etc.
- Financial asset determines the means by which individuals hold their claims on real assets.
- Real assets appear only on the asset side of the balance sheet where as Financial assets appear both on asset side and liability side of Balance Sheet. When we aggregate overall Balance Sheet, Financial asset will cancel out leaving only the sum of real assets as net wealth of aggregate economy.
- Real asset are destroyed only by accident or by wearing out over time where as Financial assets are created and destroyed in ordinary course of doing business.

Security Vs Non Security:

- Security investments are traded in the market and are transferable in nature. Ex: Shares, Debentures etc.

- Non Security investments are neither traded nor transferable. Ex: Post office savings deposits, Deposits with commercial banks, etc.

INVESTMENT AVENUES OR ALTERNATIVES OR CHANNELS

- Bank Deposits
- Post office Deposits
- Insurance
- Mutual Fund
- Equities.
- Preference shares.
- Debentures.

INVESTMENT AVENUES OR ALTERNATIVES

- Real estate.
- Provident fund.
- Derivative market.
- Commodity market.
- Currency market.
- Gold.
- Money market instruments.
- Precious and Aesthetic articles.

INVESTMENT ATTRIBUTES:

- Expected Return.
- Risk.
- Marketability.
- Tax benefit.
- Convenience.

INVESTMENT PROCESS

- Setting up of Investment Objectives.
- Choice of Asset mix.
- Formulation of Portfolio strategy.
- Selection of securities.
- Portfolio Execution.
- Portfolio Revision.
- Portfolio Evaluation.

CAPITAL MARKETS :

- It comprises of both New issue markets and Secondary markets.
- The number of stock exchanges have raised to 23 till date.
- All of these exchanges are regulated by SEBI.
- New issue market also known as Primary market supplies fresh or additional capital to the companies.
- The securities already issued on the new issue market are traded on the secondary market.

BOMBAY STOCK EXCHANGE (BSE):

- Apex Stock exchange of India.
- Established in 1857.
- BSE introduced BOLT (Bombay Online Trading) system on 19th Jan 1995.
- It provides for a quote driven automated trading platform with an order book functioning as an auxiliary jobber.

NATIONAL STOCK EXCHANGE OF INDIA (NSEI):

- NSEI is a fully automated, electronic, screen based trading system sponsored by IDBI and co-sponsored by other term lending institutions such as LIC, GIC and other insurance companies, commercial banks and other financial institutions.
- NSEI has 2 separate segments namely:

a) The whole sale debt market segment. (WDMS)

b) The Capital market segment. (CMS)

OBJECTIVES OF NSEI:

- To provide national wide equal access and fair, efficient, completely transparent securities trading system to investors.
- To provide for shorter settlement cycles.
- To bring Indian stock markets in line with international markets.
- To promote secondary markets even in debt instruments. (Both Government and Corporate Bonds)

OVER THE COUNTER EXCHANGE OF INDIA (OTCEI):

- It was set up in 1992.
- First stock exchange of India to introduce screen based automated ringless trading system.
- It is promoted by UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI Caps and CANBANK as a Company under Sec 25 of Companies act with headquarters at MUMBAI.
- The major players in OTCEI markets include Members and Dealers (Instead of Brokers).

OBJECTIVE OF OTCEI:

- To help companies raise capital from the market at the cheapest cost and on optimal terms.
- To help investors to access capital markets safely and conveniently.
- To cater to the needs of the companies which cannot be listed on the other official exchanges.
- To eliminate the problems of illiquid securities, delayed settlements and unfair prices faced by the investors.

LISTING, TRADING AND SETTLEMENT:

- In case of offer for sale, there should be atleast 10 public shareholders for every Rs.1 lakh equity offered to public.
- Minimum capital of Company seeking listing should be Rs.10 crore.
- Non manufacturing companies cannot make a public issue unless they have track record of dividend payments for at least 3years out of 5 preceding years.

LISTING, TRADING AND SETTLEMENT:

- Securities are grouped as Specified or Group A securities and Unspecified or Group B securities.
- Transactions on stock exchanges are carried out either on Cash Basis or on Clearing Basis.
- At the end of settlement period the investors in specified shares has 3options:

a) Square of the transaction on the same date.

b) Delivery or payment.

c) Carry over the contract for the next settlement.

LISTING, TRADING AND SETTLEMENT:

- Margins are required to cover defaults in the event of adverse price movements.
- Margins are stipulated on the basis of risk involved in the securities. They also restrain and regulate overtrading, unhealthy trading, reckless trading, excessive speculation etc.

CAPITAL MARKETS:

- Capital markets instruments include:

a) Equity Shares.

b) Preference Shares.

c) Debentures.

ORDINARY SHARES:

- These shares are ownership shares of the company which carry fluctuating dividend.
- They enjoy voting power, dividend and Capital appreciation if any.
- They are highly liquid due to the availability of secondary market.
- Ordinary shares without voting power are also popular now a days.

PREFERENCE SHARES:

- These shares carry a fixed return in the form of dividend.
- They have preference over equity shareholders on payment of dividend and on repayment of Capital.
- Cumulative Vs Non Cumulative PS.
- Convertible Vs Non Convertible PS.
- Redeemable Vs Irredeemable PS.
- Participating Vs Non Participating PS.

DEBENTURES:

- Debenture or Bond is a creditor ship security with a fixed rate of return, fixed maturity period, perfect income certainty and low capital uncertainty.
- Types of Debentures include: Registered, Bearer, Redeemable, Perpetual, Convertible, Non Convertible, Partially Convertible, Callable etc.

NEW ISSUE MARKET:

- It is the direct method of raising capital available for the company from the public.
- The various methods of New issue market include:

a) Issue through Prospectus.

b) Offer for Sale.

c) Private Placing.

d) Right Issue.