

## **SECURITY ANALYSIS AND INVESTMENT MANAGEMENT**

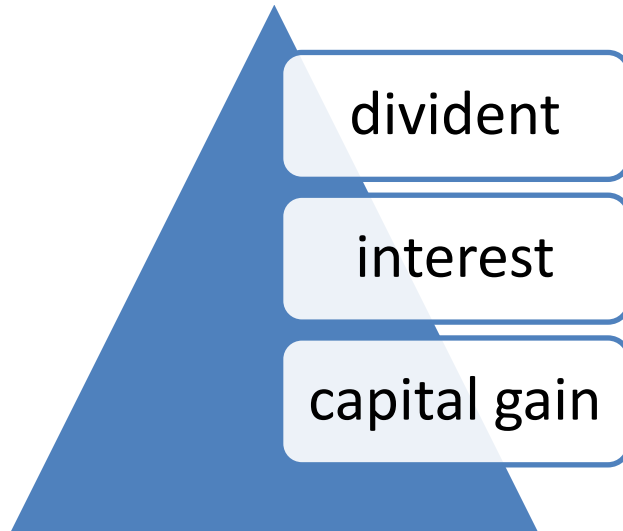
**Investment-** An investment is an asset or item that is purchased with the hope that it will generate income or will appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will be sold at a higher price for a gain.

Investment is generally done for long period of time.

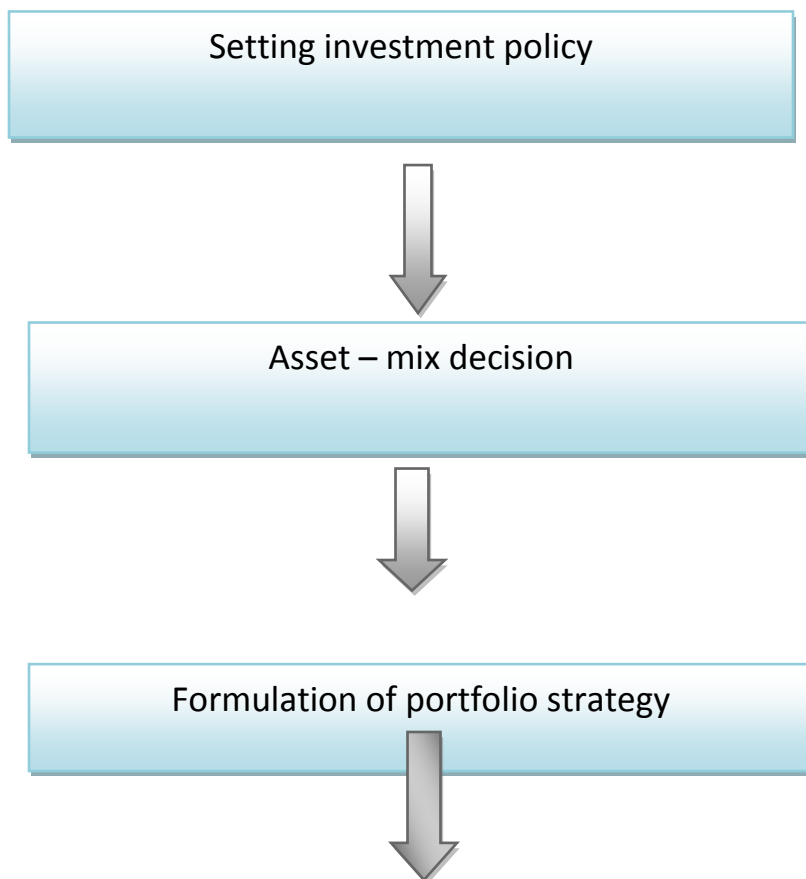
### **Principles of investment-**

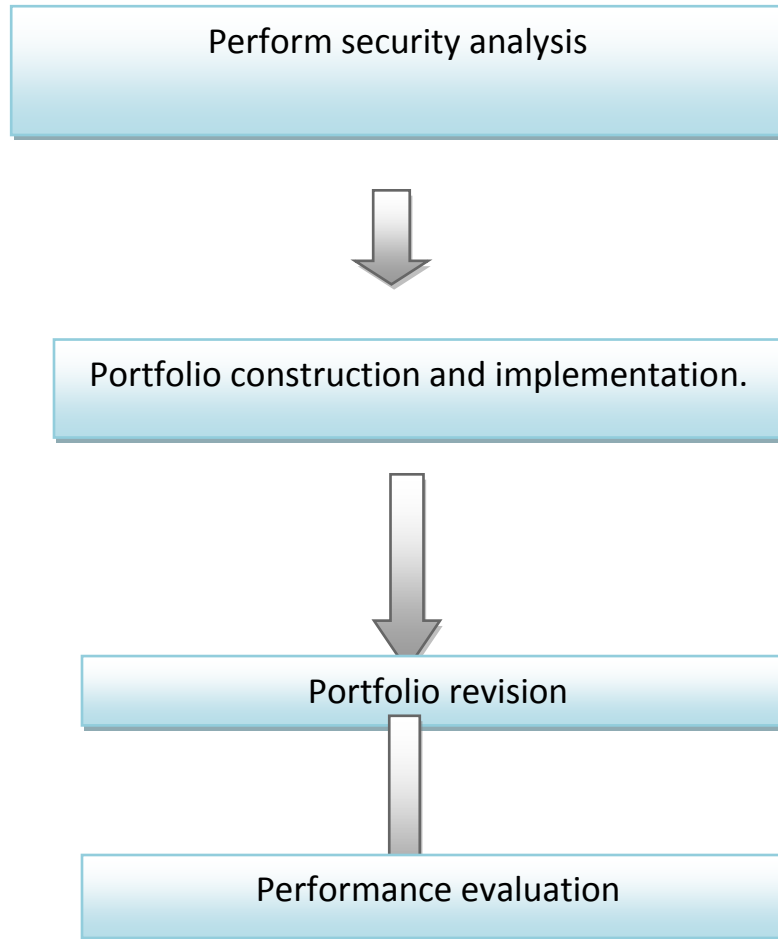
- Safety of principle.
- Liquidity value.
- Stability of income
- Purchasing power stability
- Adequacy of income after tax
- Capital growth
- Legality.
- Possible appreciation
- Freedom from care
- Tangibility

**RETURN-**



**PROCESS OF INVESTMENT-**





## **Risk and Return**

- Risk and uncertainty is unchangeable.
- Variation is risk
- Return is numerical measure of investment performance.
- Relationship of risk and return is unique for every investor.
- Total risk= systematic risk + unsystematic risk.

## **Systematic risk-**

Society is dynamic; changes take place in the dynamic, economic, political, and social system constantly. These changes have an influence on performance of company and thereby on the stock price.

For eg- economic and political instability adversely affect the prices of securities and market conditions.

Systematic risk is divided into three parts-

1. Interest rate risk
2. Market risk
3. Purchasing power risk.

**Interest rate risk-** It is the risk that affects the securities like bond and debentures. Even variation in interest rate is associated to banks and financial institution.

**Market risk-** it is the systematic risk affecting shares. Market price of shares moves up and down consistently for some period. If the price of shares rises, it is called bullish market whereas if prices fall it is called bearish market.

**Purchasing power risk-** It is associated with variation in investor's return caused by inflation. Inflation results in lowering the purchasing power of money.

## **Unsystematic risk-**

The return from a security may sometimes vary because of certain factors affecting the company issuing such security. Unsystematic risks are controlled risks. Unsystematic risks are also called diversified risks.

Eg- materials scarcity, labour pride, management inefficiency etc.

The unsystematic risks are of two types-

1. Business risk
2. Financial risk

**Business risk**- Every company operates within a particular operating environment. This operating environment comprises of both external and internal environment.

The business risk is a function of operating conditions faced by the company and its variability in operating income caused by operating conditions of the company.

**Financial risk**- It is the function of financial leverage.

- Use of debts in capital structure – which face fixed payments.
- Fixed interest payments trades more variability in earning per share.
- It may be avoidable as better planning may be helpful.

## **FUNDAMENTAL ANALYSIS**

- Economy wide factor or Economic Analysis.
- Industry wide factor or Industry Analysis.
- Companywide factor or Company Analysis.

### **ECONOMIC ANALYSIS**

For analyzing the economy the following economic indicators are taken into consideration:

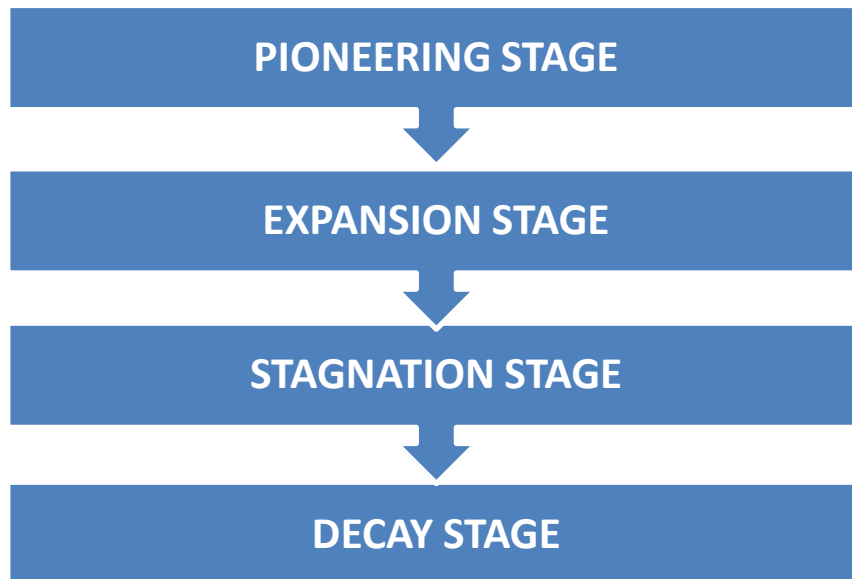
GDP, Per capita income, National income, Interest rate, Exchange rate, Inflation rate, Current account, Deficit/Surplus, Foreign Exchange, Reserve, BOP, etc.

There are certain forecasting techniques to judge the economy.

- ❖ Anticipatory survey.
- ❖ Indicator survey.
- ❖ Econometric model building.
- ❖ Opportunistic model building.

### **INDUSTRIAL ANALYSIS**

An investor ultimately invests his money in securities of one or more specific companies. Each company is belonging to a particular industry to understand an industry we should know about industry life cycle.



### ***INDUSTRY CHARACTERSTICS:***

- Demand supply gap.
- Competitive condition in industry.
- Sustainability and growth prospectus.
- Labour conditions.
- Attitude of government.
- Supply of raw material.
- Cost structure.

### **COMPANY ANALYSIS**

It is the final stage of fundamental analysis. Economic analysis provide that the investor have broad outline of growth of economy- industry analysis provides the concept of industrial growth but the company analysis deals with estimation of growth of an individual company. It also explains the risk and return possibilities of an individual security. Financial statements of the company are important parameter to judge the condition of the company.

Analysis of financial statement is a necessary step to calculate the accuracy measurement of growth of a company like ratio analysis

1. Liquidity ratio.
2. Leverage ratio.
  - Debt equity ratio.
  - Proprietary ratio.
3. Profitability ratio.
  - Gross profit ratio.
  - Selling expenses ratio.
  - Net profit ratio.
4. Activity & efficiency ratio.
  - Current asset ratio.
  - Fixed asset ratio.
  - Inventory turnover ratio.
  - Total asset turnover ratio.
  - Debtor turnover ratio.

Other variables-

- Company market share variant.
- EPS
- Availability of raw material.
- Capacity utilization.
- Modernization & expansion plan.