Tips for Investing Wisely

When trading in the Stock Market, one should avoid,

1. Greed; being greedy can be a problem as it corrupts wisdom,
2. Making the same mistake twice,
3. Following the crowd, as the loss at the end is of the individual and not the crowd itself,
4. Putting all your 'eggs in one basket'. You should diversify and spread your investment,
5. Using rumors as tips, as this can result in losses. A tip can end up as a 'pit',
6. Emotions; being emotional can effect reasoning. Traders should use research backed by fundamental reasoning.
7. Impatience; patience pays, perseverance gains,
8. Over borrowing; loan repayment is not an investment.

When trading in the Stock Market, one should remember,

1. Information; it must be checked. Opinion, facts or fiction? Act accordingly,
2. Knowledge; Stock Market principles and practices are unique. Master its cycles, its ups and downs,
3. Wisdom; success depends on your discipline and self-improvement,
4. Action plans; plan a scheme, act and follow through. Have options and tactics to win the Stock Market game,
5. Shrewd and Thrifty; be prudent with your money. Avoid stocks that are overvalued but keep the cash or save for other investments,
6. Stock Value; be aware of stock's true value, despite its ups and downs,
7. Risk Vs. Reward; minimize your risk, maximize your returns,
8. Investment protection; safety of your portfolio and Share Capital is more important.

A good example of understanding the above can be in the case of Hershey's. Just because the chocolate tastes good does not mean that the position of the company is strong. A point should be made that the product of a company does not provide merit to its strength in the index.

Investor's Protection

- For security reasons, Fortune Trade insists that all users, existing and new, should not show their Passwords to other individuals. The same is said for the PIN Code.
- Investors should also not enter into transactions that involve financing and irregular Badla amounts that are not stated within the rules and regulations of the Karachi Stock Exchange.
- All payments made to brokers and/or company staff should be crossed cheques (Payee's Account Only) and obtain proper receipts of the payments made duly signed by the authorized persons.

Ownership of Shares

Each share represents a small stake in the equity of a company. You can buy large or small lots to match the amount of money you want to invest. A company's share price can rise or fall as a result of its own performance or market conditions.

Once the shares are brought and transferred in your name your name will be entered in the company's share register, which will entitle you to receive all the benefits of share ownership including the rights to receive dividends, to vote at the company's general meetings and to receive the company's reports.

If you decide to sell your shares you will need to deliver share certificates to the broker in time for the transaction to be completed.

With the introduction of the Central Depository System (CDS), an investor can have shares in paper form or can own shares in an electronic book- entry form at the Central Depository Company (CDC).

Why do Investors Buy Shares?

Studies have shown that over a twenty-year span, investment in shares has provided greater returns than most other forms of savings. Shares can provide you with a regular stream of income through dividends as well as the potential for your investments to grow in value. If the prices of shares go up, you can sell them for more than you paid. This is called capital gain.

What are Dividends?

Dividends are returns paid to shareholders out of the profits of the company. Returns can be in the form of cash or additional shares of the company called bonus shares. Dividends are usually paid once or twice a year depending upon the company's profit distribution policy.

What is Capital Growth?

This is one of the ways in which shares differ from deposit accounts. The principal amount of money you put in a bank or any fixed income savings scheme always stays the same e.g. if you start with Rs.100,000 you will always have Rs.100,000 (other than any interest earned).changes in value according to the performance of the company. With good management, the value of your investment in shares of a company can grow over time so that your shares are worth more than you paid for them. This is capital growth.

Risks and Rewards

Buying shares can offer advantages over saving in deposit accounts: your investment may increase in value besides paying you dividends. You share the rewards when the company does well and the price of the shares goes up. But if the company performs badly, the share price may go down and the value of your investment will be reduced. Other factors, such as the performance of the stock market as a whole and the general economic climate, may also affect the price of your shares. Investment in shares is therefore investment in 'risk capital'. The shareholders can be rewarded for taking this risk and the potential return on your money can be higher than that on other investments. You can reduce your risks with careful planning.

Things You Should Know Before You Buy a Stock

- What Does the Company Do?
- Is the Company Profitable?
- What Is the Company's Earnings History and Outlook?
- How Richly Is the Company's Stock Valued?
- Who Are the Company's Competitors?
- Who Runs the Company?
- Have You Read the Company's Annual Reports?

Why Stocks are Vital for Superior Growth

Equities are mainly growth investments, and can include things like real estate, art, and gold. However the most popular equity investments that people rely on for growth are stocks. But stocks can also serve purposes other than growth.

In addition to potential capital gains, stocks also have the potential to pay dividends. If you have equity in a business you are an owner, and if your company makes money, you are rewarded with dividend.

Expert Opinion

Financial experts have many opinions on many things, but there is one fact on which they will all agree. You need to have stocks in your portfolio to provide the growth you need to stay ahead and have a secure future over the long-term.

They also agree on the best way to invest in stocks is with a long-term view in mind. Over the long run, equities do go up and have proven to be the most profitable investment by far. But the key phrase here, the vital strategy for success is "over the long run".

When you hold stocks for the long run you get good days and bad days. If you are a short-term trader, unless you have a crystal ball working for you, you are going to miss most of those good days. The simple secret to success is to stay invested.

How Do you Decide when a Stock is Attractive to Purchase?

There are two general ways of determining a stock's potential as an investment. You can look at the “fundamentals” or you can look at “technical analysis” and of course you can look at both.

Fundamental analysis looks at factors such as earnings, cash flow, debt, strength in its industry, outlook for the industry, general economic factors, interest rates, and so on. If these factors are good, then even if there are short-term setbacks, over the long run, the stock should do well.

Technical analysis looks at factors like volume of trading, cyclical behavior, trends, moving averages and many others.

Some investors use both approaches. They use fundamentals to determine the long-term potential of a company and technical analysis to decide when to buy. For example, you may believe that a certain company has great potential over the long-term and will be worth much more in years to come.

However, it could be that the current market for this company’s product is temporarily weak and that as a result, the stock price could fall. Technical analysis could be helpful in determining how far the price might fall and could provide help in indicating a good time to buy.

How to Become a Shareholder

Shares of a particular company are offered by the following methods.

Initial Public Offering

An initial public offering (IPO) is the sale of equity in a company, generally in the form of shares of common stock. These shares trade on a recognized stock market. A company goes public; to raise capital for project funding, business planning and implementation; for marketing purposes.

Right Issues

A rights issue gives the existing shareholders the right to subscribe for new ordinary shares at an issue price lower than the prevailing market price and at a ratio equivalent to their existing shareholding. Companies carry out a rights issue when they want to raise additional funds to finance their capital requirements.

The Stock Market

Stocks in publicly traded companies are bought and sold at a stock market also known as a stock exchange. This is the most common way of buying and selling shares.

Things you should know about Equities

Stocks and shares are the most volatile asset class in terms of price movements and thus, the most risky. Hence, do not invest directly in the stock market unless you can bear a fall in price without it having any impact on your day-to-day living standard. Remember the saying: “the greater the reward, the higher the risk”.

The aim of investing in stocks and shares is to buy at a low and sell at a high, but knowing when, is the problem. Many investors attempt to time the market: they try to figure out when the market is going up and buy into it before it does, and then figure out when it is going to crash and sell everything just before it does. Unfortunately such spot on accuracy is usually impossible to achieve, so what you can do is try to catch a portion of each big swing. You buy when the upswing has begun, and sell as the downswing starts. But for this to work, you must be able to control your greed, as you do not know exactly when the top or bottom is reached.

The stock market can be said to be driven by two emotions: greed and fear. People get caught up in the boom fever and pay silly prices for unworthy shares - this is greed driving bull markets. In bear markets, people get carried away with the ruling negativity and are overeager to believe the worst rumors - this is fear dominating bear markets. You must step away from the crowd and not let them take over your rational reasoning and action.

How to spot Scams

Minimize the risk of losing your savings to scams by recognizing the different types of illegal investment schemes that are plaguing our society. Here are some typical characteristics and promises made by scams:

- For every investment that you make, you will receive a high return, for instance, 20-30% per month, every month.
- You are told that the offer is for a limited time and that you MUST join or buy today.
- You receive unsolicited phone calls offering investment opportunities and you have no idea how the company has obtained your phone number.
- You receive unsolicited e-mails asking you for your bank account number because they want to send you money.
- You are offered an investment product that guarantees large profits with no financial risk.
- It is hard to find any information about the company’s license or physical existence in any regulator or authority’s website.

What is the CDC

Central Depository Company of Pakistan Limited (CDC) started in 1993 to manage and operate the Central Depository System. CDS is an electronic book entry system to record and transfer securities. Electronic book entry means that the securities do not physically change hands and the transfer from one client account to another takes place electronically. CDC is to operate as a central securities depository on behalf of the financial services industry to support an effective capital market system that will attract institutional and retail level investors from Pakistan and abroad. Its basic purpose is to operate and maintain an electronic book entry settlement system for equity, debt and other financial instruments.

Capital Markets prior to CDS

The capital markets of Pakistan have witnessed a rapid growth resulting in increased trading volume. This in turn has led to difficulty in handling the share certificates. The custody and safe keeping of physical certificates required maintenance of huge vaults by the individuals and institutions and the physical settlement of certificates were no longer feasible. Moreover, the manual system was also plagued by long delays, risks of damage and considerable time delays. Following are some highlighted problems faced before CDS was in place,

- Increased volume of book keeping and paper work.
- Problems in settlement due to increased volume.
- Maintenance of huge vaults for safe keeping of certificates.
- Long share transfer procedure taking up to 45 days.
- Payment of stamp duty on share transfers which ranged from 0.1% to 1.5% of the face value.
- In case of new issues the issuers would take more than 2 months for the dispatch of certificates.
- Risks of damaged, lost, forged and duplicate certificates.
- Capital and time investment required for issue and dispatch of share certificates, cash dividend, bonus and right issues.

Benefits after CDS was Incorporated

Following are some of the benefits of electronic settlement of securities through CDS:

- Reduced workload due to paperless settlement environment.
- Reduced manpower requirements.
- Instantaneous transfers of ownership.
- No stamp duty on transfers in CDS.
- No risk of damaged, lost, forged or duplicate certificates.
- No impact in case of sudden increase of settlement volumes.
- Instant credit of bonus, rights and new issues.
- Substantial reduction of paperwork during book closure.
- Convenient pledging of securities.
- Substantial reduction in time & capital investments.

Tracking stocks

To track how your stocks are doing, you have to look at stock listings. Stock listings are published in most of the newspaper (e.g. Dawn). The listings look confusing at first, since they look like a mixture of numbers, but can be a very useful tool when tracking your stock's progress. The listings are organized into many columns, including the following information:

Company name: This field is usually abbreviated in the listings, and listed alphabetically.

Symbol: This field is a one to five character symbol used as a sort of nickname for the company.

Volume: The volume is the amount of stocks that were traded the day before.

High, Low and Close: These are the highest and lowest price of the stock the day before, and the closing price for the day before. This is an indicator of how much the price of the stock fluctuated throughout the previous day.

Net change: This is the change of the price of the stock from the previous day. This gives you an idea whether the price is dropping or rising.

In addition to the stock listings, other useful information about companies is available in the Annual Reports that reflects the balance sheet, income statement and cash flows and states the reasons for changes in these financial statements during the year.

Key considerations for investment in equities

- **Goals**

  Understanding why you are investing is the first step in structuring a portfolio. There are few questions investors need to ask themselves and review with their broker before starting to invest.

  Specifically, What are my investment objectives? What is this money for? What kind of risk am I willing to take? What is my time horizon? It is important that you work closely with your advisor so you both have a clear understanding of your specific needs and goals.

- **Risks**

  Understanding risk is an integral factor that is required to be evaluated before making any investment. You can view risk as portfolio volatility, as the risk of not achieving your goals, or as the risk of permanent capital loss. When you are assessing risk, questions to ask yourself include:
  How much volatility am I willing to accept? What are the consequences if I do not achieve my investment objectives? How large a loss can I sustain? Do I want to use leverage?

Risk and returns are generally related. Over the long term, increasing your risk typically leads to higher expected returns, while lowering your risk leads to lower expected returns. However, this is not always so. For some occasions, which may occur for an extended period of time, higher levels of risk may lead to lower returns, and vice versa.

Goals and risk tolerance should be the basis for establishing investment guidelines for your portfolio. These guidelines will enable you to structure your portfolio and provide you with a framework that allows you to review and understand your investment performance.

- **Investment Climate**

Whenever you hire a broker to invest in the stocks it's not necessary that your results would be same as the market movements. In some cases brokers advise to invest in stocks that are not highly correlated with stock index due to the small capitalization of that particular scrip in the market.

- **Maximization of Returns**

The goal of the investor, in most cases, is to maximize return. Higher returns are often related with higher degree of risk. Investor should not take unnecessary risk to earn higher profits because it posts a great deal of threat to its basic equity and investments. Investors could avoid risk by diversifying its portfolio in different sectors, which usually pays off in terms of better returns.

- **Company profile**

Information regarding companies invested in and their economic profile should be exposed to the investor. Investor should be well aware of the financial background, management style and the nature of business of the company to make an adequate investment. Investing in the stock market requires looking ahead to anticipate future events in the company's life and changes in its business environment, to minimize risk and maximize return on investment.

- **How much Money Can You Afford to Invest?**

Investors should be aware of the fact that investments in the stock usually do not result in immediate profits. A sound investment strategy avoids speculative moves. An investor should have excess reserves with its broker to protect himself against frequent fluctuations in stock.

- **Investment Avenues**

Investors can invest in their money in stock in following ways: Shares: It is the direct mode of investment in which investor directly sell and purchase stocks of various companies through the brokers or dealers.

- **Own Investment Strategy vs. Professional's Advice**

  Sound strategy for investment in stock market requires either professional’s advice or own stock dealing decisions, which are often, time consuming. Despite the time consideration it is advisable to pursue own investment strategy because it is more rewarding than seeking broker’s opinion.

Costs

Costs that are associated with stock dealing usually fall under the following heads:

- Daily trade charges cost incurred by the investor for intra day transactions.
- Delivery charges cost incurred by the investor for delivery transactions.

It is highly recommended that the investors should have a proper understanding of the commission structure of the brokerage service. The structure varies from broker to broker in most cases. It is advisable that the investor should ask his broker about all the cost associated with stock dealings to arrive at his net profit position

Information Tools Make All the Difference

While you sense the promise and enjoy the excitement of modern technology, like so many others, you probably feel overwhelmed, frustrated, even lost at the prospect of putting your savings online and on the line. Certainly none of the skills crucial to sizing up the market are intuitive; therefore, in order to see what is really going on, and to become a successful investor, you are going to have to learn about the market's state-of-the-art trading techniques and strategies.

Investing Styles

Different people trade in different styles. There are long-term investors who buy stocks and hold for a year or two. Mid-term investors may buy and hold stocks from thirty days to six months. Short-term traders trade frequently, on a weekly basis. And finally, day traders buy and sell every day. Now, assuming you make good decisions, the more frequently you trade, the more profit you gain. But what style is right for you? Which stocks should you choose and how long should you hold them? Some investors like companies with strongest earnings. Other players examine company financial statements and balance sheets, picking only those with low debt ratio, high cash flow, and high profit margin.

Finding your style

Your investing style comes from a variety of things: your age, personality, personal experience, and financial circumstances to name a few. For instance, if you are approaching retirement, have financial responsibilities, chances are you may be more risk-averse, or a conservative investor.

On the other hand, if you're young, earning a high income, have few financial responsibilities, and have seen little in the way of economic hardship, you might be inclined to take more risk.

While there are as many investing styles as there are investors, most people fall more or less into one of three broad categories: conservative, moderate, and aggressive.

Conservative Investors

Generally, conservative investors feel that safeguarding what they have is their top priority. These investors want to avoid risk particularly the risk of losing any principal even if that means they will have to settle for very modest returns.

Moderate Investors

Moderate investors want to increase the value of their portfolios while protecting their assets from the risk of major losses. They usually buffer the volatility of growth investments, such as stock, with a substantial portion of their portfolio allocated to produce regular income and preserve principal.

Aggressive Investors

Aggressive investors concentrate on investments that have the potential for significant growth. They are willing to take the risk of losing some of their principal, with the expectation that they will realize greater returns.