

Learning Objectives :

1. Importance of data gathering before investment.
2. How management of a company decides its future.
3. Tips – how to gather & use them
4. Choosing a market leader for investment.
5. Industry risk & overseas risk

Structure :

- 11.1 Importance of information
- 11.2 How to collect information
- 12.1 Importance of management
- 13.1 Hot tips
- 14.1 Spotting leaders
- 15.1 Industry risks
- 16.1 Cross country exposure

Importance of information collecting before investment.

Successful investor invests in a company whose performance and strengths have been evaluated and there is evidence to believe that its share price would rise.

For such evaluation one needs info about

- i] company's performance, its sales, profits, products etc.
- ii] how does it stand vis-à-vis others in the industry

Importance of information collecting before investment.

For evaluation one needs info about- contd.

iii] status of industry in which it operates

iv] conditions of the economy

v] relevant government policies

vi] consumer outlook & long term demand for its products

Part 04 Chapter 11

How one should collect information ?

Information is available from various sources .

- i] The media
- ii] Insiders
- iii] Stock Brokers
- iv] Tips from market
- v] Professional investment consultants
- vi] The internet
- vii] The annual reports.

Information is available from various sources-contd.

i] The media

- ▶ News papers.
- ▶ Magazines- Business India, Fortune, Capital Markets
- ▶ Television business channels -CNBC, NDTV Profit, Zee Business.

These offer data on new issues, bonus/rights issues, dividends, company analysis etc., investment strategies, discussions among CEOs, analysts, government authorities.

Information is available from various sources – contd.

ii] Insiders

Insiders are persons working for or having direct dealings with the company. They have with them information about

- a] current performance
- b] timing of bonus issues
- c] major events that can result in losses
- d] other data that affects share prices

This data is not usually available to the market.

Information is available from various sources – contd..

iii] Stock Brokers

It is a valuable source as brokers are always there in the market, in touch with company managements, latest news about industry & economy.

The info be used with a pinch of salt as they may have their own motives behind their advice.

Information is available from various sources – contd..

iv] Tips from colleagues, friends & acquaintances

Keep your ears open to receive data, but use it only after your own review and re-checks.

Valuable info is also there in & around markets, hotels, taxi stands etc. which must be verified before acceptance.

Information is available from various sources - contd..

v] Professional investment consultants

Good consultants are expensive , but they provide data after a lot of research. They also bring about periodic reports which vary in contents & quality.

Investors with over say three lacs to invest can have them manage their portfolio.

Information is available from various sources – contd..

vi] The internet

There is no end to data that you can get from portals like 'equity master', 'myiris', 'walletwatch' etc.

vii] The annual reports.

Provide most authentic financial data about a company for the past. The data needs to be properly analyzed for use.

Importance of Management

“Management of a company holds its present & plans its future. Hence importance of management cannot be ignored.”

Family Management

♪ Family managed companies are controlled & sometimes owned by members of a family and the mantle of leadership is transferred from one member to other. Tata, Mahindra, Birla Godrej etc. are major successful family managed companies in India.

Importance of Management Family Management – contd.

♪ Family managed companies are typically rigid, orthodox, traditional and focused on family interests. Funds in the group companies are used for acquisitions for the family.

♪ There are quite a few family managed companies mentioned earlier that are run professionally with astounding results.

Importance of Management Professional Management

♪ Professionally managed companies are run by experts who do not normally have financial stake in the company.

♪ They set them goals for profitability & growth of the company and passionately pursue them.

♪ These companies seek technological innovation, diversify and try to be leaders in their industry.

Importance of Management Professional Management

Prior to investment one should see

- ❖ competence of management
- ❖ reputation management has the business community
- ❖ their depth of knowledge
- ❖ their ability to face adversity
- ❖ integrity of the management
- ❖ management's innovation

Importance of Management Professional Management

Before investing investor need to

- ⇒ Management has already professionalized
- ⇒ Study promoters & their ability to raise funds & manage share prices.
- ⇒ There is no infighting.
- ⇒ Business house is well known.
- ⇒ Management has adequate dynamism.

Hot Tips

Tips and purchasing of shares

⇒ Investors who do not or cannot arrange for a prudent investment decision, often base their decisions on tips that are freely flowing in the market.

⇒ Since quite a few investors buy shares based on some tip, there is a temporary rise in price which leads them to believe in accuracy of the tip.

⇒ But soon prices fall back to their original levels.

Part 04 Chapter 13

What happens when shares are bought on tips-

- ⚡ Often large investors wanting to offload their holdings, spread rumours in the market to artificially raise the share price.
- ⚡ Similarly, newspapers or magazines too offer tips. But they become stale by the time they reach readers.
- ⚡ There are very few genuine tips, and they normally come from insiders. But trading on insider information is illegal.

Action on receiving tips -

- ☐ Check how long it has been a "hot tip."
- ☐ If it is stale, do not act.
- ☐ Check its reliability.
- ☐ Is the source trustworthy, has he acted on the tip and bought the shares?
- ☐ What is past experience with this source?.
- ☐ How did the source get the tip?
- ☐ How many others are privy to the tip?
- ☐ What is the logic behind the tip?

Spotting Leaders

Instead of following the crowd, investor should spot a leader and bet on it.

One can identify leaders by looking for :

- a good, superior product that has a potential.
- above average performance in sales growth, profitability
- competent progressive management
- a successful monopoly
- companies in boom cycle

Industry Risks

After checking strengths of a company it is necessary to check the state of the industry in which it operates.

If the industry itself is in doldrums, even a strong company in it can't survive.

There are several aspects of the industry that need to be checked before investing. These are enumerated in the next slide.

Industry aspects to be checked -

- Is it easy to enter industry?
- Are there many competitors?
- Is the industry high growth one?
- Is there product differentiation?
- Does the company have fixed cost structure?
- Cost of capacity additions.
- Size of the exit costs.

Industry aspects to be checked -

- Motivation of competitors.
- Availability of substitutes.
- Strengths of buyers & suppliers.
- Threat of obsolescence.
- Government policy.
- International price arrangements.

Cross country exposures.

While determining financial strengths of a company prior to investment, it is also necessary to examine the country in which it is operating.

Political stability of the country is of prime importance.

Next comes current and expected rate of inflation.

Cross country exposures.

Strength of the local currency and balance of payment position assume importance if company has to either import raw materials or export finished products.

Threat of nationalization or government control and local restrictive practices impact company's profitability.

Cross country exposures.

Economic / business cycle of a country can drastically affect the performance of a company.

If there is a recession, expected duration, severity, and company's ability to survive as demonstrated by its performance in the last cycle have to be studied.

The end !

Next , Part 05, Chapters 17 to 20

***“Time to buy, sell, long term
investment & speculation”***

Good Luck !