

Section 8: Equity Investment

By Watcharida Boonthaveepat

Today Agenda

- ▶ Common stocks in various perspective
- ▶ Evaluate a stock issue
- ▶ Numerical measures that influences your investment decision
- ▶ Stock selection: Fundamental VS Technical analysis

Common stocks in various perspective

What is common stock?

Definition of 'Common Stock'

A security that represents **ownership** in a corporation. Holders of common stock exercise control by electing a board of directors and voting on corporate policy. Common stockholders are on **the bottom of the priority ladder** for ownership structure. In the event of liquidation, common shareholders have rights to a company's assets only after bondholders, preferred shareholders and other debtholders have been paid in full.

In the U.K., these are called "ordinary shares."

Read more:

<http://www.investopedia.com/terms/c/commonstock.asp#ixzz2MNAjSVD4>

Common shareholders' four main rights

I. Voting power on major issues

- ▶ Electing directors and proposals for fundamental changes affecting the company such as M&A
- ▶ Voting normally takes place at the company's annual meeting (AGM)
- ▶ If you can't attend, you can do so by proxy and mail in your vote (mail documents of financial reports and other essential information before AGM date)

Common shareholders' four main rights (2)

2. Ownership in a portion of the company

- ▶ As these assets generate profits, and as the profits are reinvested in additional assets, shareholders see a return in the form of increased share value as stock price rises.

3. The right to transfer ownership

- ▶ Allowed to trade on the stock exchange
- ▶ Liquidity is a prime factor (what is liquidity?)

4. An entitlement to dividends

Dividend: Pros VS Cons

▶ Arguments against dividends

- ▶ The consideration of a dividend policy is irrelevant because investors have the ability to create “homemade” dividends.
- ▶ NO dividend payout is more favorable for investors since a firm that reinvests funds will increase the value of the firm and consequently increase the market value of a stock
- ▶ Taxation on a dividend is higher than on a capital gain.

▶ Arguments for dividends

- ▶ A high dividend payout is important for investors because dividends provide certainty about the company's financial well-being
- ▶ Attractive for investors looking to secure current income

Why corporation issue common stocks?

- ▶ To raise money for start-up costs and help pay for expansion and their ongoing business activities
- ▶ They don't have to repay the money a stockholder pays for stock
- ▶ The investor can sell a share of stock to another investor

Why corporation issue common stocks? (2)

- ▶ Dividends are not mandatory. Most corporations distribute 30-70% of their earnings to stockholders
- ▶ In return for investing in the company, stockholders have voting rights

Evaluate a stock issue

Sources of evaluating a stock

Most corporations have a Website, and the information is useful in the following ways

- ▶ The Website is easily accessible
- ▶ More up to date information than the printed material
- ▶ Websites like Yahoo and other search engines can also be used to obtain information about stock investments

Company website

http://www.cpall.co.th/Corporate

Inbox (890) - watcharida.b@g... The Stock Exchange of Thai... CP ALL PUBLIC COMPANY ...

cpall Search Share More >> Watcharida B

ผู้บริหาร ซีพี ออลล์ ถ่ายทอด
กลยุทธ์การปรับตัว "SME..."

เซเว่น อีเลฟเว่น สนับสนุนการประกวด "ร้านค้าปลีกไทยพัฒนา
ดีเด่น" 2556 นาร่องที่แรก จ.ชลบุรี

"เซเว่นแคตตาล็อก"
ก้าวสู่ปีที่ 14 ส่งเส
ร...

เคาน์เตอร์เซอร์วิส
จับมือ 5 ประกันภัย
ยัก...

Investor Updates Read More +

- Information Release FY12
- Presentation Slides FY12
- SET Notifications 2012
- Financial Highlights

Corporate Read More +

CPALL Analysts' Meeting - 4Q12 and FY13 Performance Review

Our Business

- 7-Eleven
- gosoftware
- cpviam
- มาม
- อื่นๆ

Sources of evaluating a stock (2)

STOCK ADVISORY SERVICES

- ▶ Prepare printed materials that are more detailed than information in newspapers
- ▶ Charge a fee
- ▶ As an investor, your job is to interpret the information provided

Stock advisory website

Browser: http://www.phatradirect.com/en/ | Tabs: Inbox (890) - watcharida.b@g... | The Stock Exchange of Thailan... | Phatra Direct

Search: cpall

Why is This Portal Unique?
Learn About Account Feature.

SET | **mai** | **Investor Type**

Index	Value	Change
SET	1,539.60	-1.98 ▼
SET 50	1,013.15	-0.88 ▼
SET 100	2,270.21	-1.76 ▼
Value (M.Baht)	64,515 M	
As of 05:03 PM 02-Mar-13		

World Indices	Exchange Rates	Commodity Prices
Markets	Last	%Chg.
DOWJONES	14,089.66	0.25% ▲
NIKKEI	11,606.38	0.41% ▲
HANGSENG	22,880.22	-0.61% ▼
STRAITSTIMES	3,269.50	-0.01% ▼
China	2,359.51	-0.26% ▼
Last Update: 2 Mar 13 04:37		

Research

01 Mar 2013
[Thailand Macro Watch: February...](#)

28 Feb 2013

Thailand's Best Private Bank

Sources of evaluating a stock (3)

HOW TO READ THE FINANCIAL SECTION OF THE NEWSPAPER

- ▶ Stock quotes are still available in most metropolitan newspapers such and *The Wall Street Journal*
- ▶ Basic information is provided
 - ▶ Name of company
 - ▶ Stock symbol
 - ▶ Price

Newspaper website

WSJ http://online.wsj.com/public/page/0_0_WAP_26 Inbox (890) - watcharida.b@g... The Stock Exchange of Thai

cpall Search Share More >>

SCENE SEA

Heard on the Street >

The Spin on Emerging Asia Stocks

The potential for a "Great Rotation" into equities is a matter of debate. In Southeast Asia, though, strong economic fundamentals have already driven some stock market valuations to levels that will be tough to sustain.



Philippe Starck Interiors in Thailand

This Phuket villa's interiors were handled by the influential designer Philippe Starck.



Sources of evaluating a stock (4)

Corporate News

- ▶ The government requires companies to disclose information to the public.
- ▶ Use of annual report
 - ▶ learn about the company
 - ▶ learn about management
 - ▶ learn about past performance
 - ▶ learn about goals
 - ▶ footnotes have important information
- ▶ www.set.or.th
- ▶ www.sec.co.th
- ▶ www.settrade.com

SET website

stt http://www.settrade.com/login.jsp?txtBrokerId= ... Inbox (890) - watcharida.b@g... The Stock Exchange of Thailand... stt SETTRADE.COM - Leading ...

www.settrade.com

เวลา 18.00-20.30 น. ณ ห้องประชุม 1101 อาคารตลาดหลักทรัพย์แห่งประเทศไทย

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MARKET DATA NEWS AND RESERCH PRODUCTS AND SERVICES BEGINNER ZONE

Get Quote GO SYMBOL

fil.Baht SET50 INDEX 1,013.15 -0.88 -0.09% SET100 INDEX 2,270.21 -1.76 -0.08% SETHD INDEX 1,290.23 -7.10 -0.55% AGRO 452.25 -1.24 -0.27%

SET mai TFEX BEX AFET 01/03/2013 18:14:56

Market Overview | Trading Summary | Top Ranking

SET SET50 SET100 SETHD 1 Day



	Last	Change
SET	1,539.60	-1.98 ↓
SET50	1,013.15	-0.88 ↓
SET100	2,270.21	-1.76 ↓
SETHD	1,290.23	-7.10 ↓
Large Cap - FSTHL*	-	-
Shariah - FSTSH*	-	-

Mkt Status Closed Gainers 319

Value (M) 64 514 94 Unchanges 138

BEGINNER ZONE เริ่มต้นสำหรับมือใหม่

OPEN ACCOUNT รู้ก่อนเปิดบัญชี

VIDEO CENTER

เปิดบัญชีเทรดหุ้นออนไลน์ ... สมบูรณ์แบบ !!

พิเศษ รับสิทธิจองหุ้น IPO สูงสุด 70,000 บาท* สำหรับ 888 คนแรก ที่ได้รับอนุมัติบัญชี

KS ACCESS

สอบถามข้อมูลเพิ่มเติม

Numerical measures that
influences your decision

Numerical measures that influences your investment decision – stock's perspective

- ▶ Stock variables
- ▶ Stock return
- ▶ Market return
- ▶ Risk
- ▶ Active return/risk
- ▶ Sharpe ratio and Information ratio
- ▶ Stock liquidity
- ▶ Dividend yield
- ▶ Beta

Stock's variables

- ▶ Recall the law of demand and supply
- ▶ The primary variables are Price (P) and Quantity (Q). In the stock market, we called stock price and volume in number of shares for every trading day.
- ▶ During the market hour, there will be multiple prices and trading volume. The most important variables are:
 - ▶ Open/Closing price
 - ▶ Daily traded volume in number of shares unit
 - ▶ Daily traded value in currency unit
 - ▶ High/Low

An illustration

SCB : THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED

Company/Securities Search

Profile

F/S & Highlights

Major Shareholder

Rights & Benefits

News

Daily Quote

Historical Trading

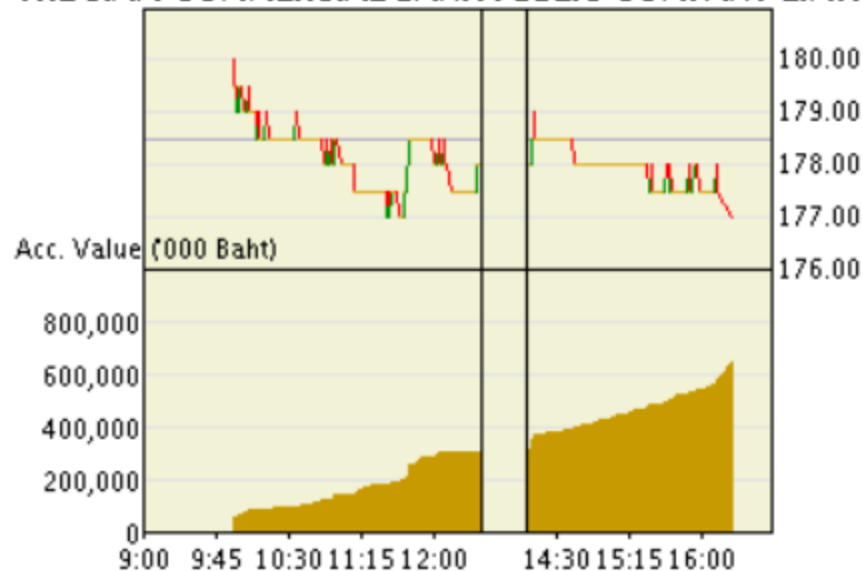
Choose Symbol SCB

Last Update 05 Mar 2013 18:29:23

Market Status : Closed

Acc. Value

THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED



Sign	
Last	▼ 177.00
Change	-1.50
%Change	-0.84
Prior	178.50
Open	180.00
High	180.00
Low	177.00
Volume (Shares)	3,724,296
Value ('000 Baht)	663,479
Average Price*	178.15

* Only Auto Matching

Par (Baht)	10.00
Ceiling	232.00
Floor	125.00

Stock's return

- ▶ On each trading day, there will be OPEN price and CLOSING price.
- ▶ In order to calculate for an individual's stock return, we use the CLOSING price of TODAY price and PREV price.
- ▶ Stock's return of day t :

$$r_t = \ln \left(\frac{P_t}{P_{t-1}} \right)$$

- ▶ Is this always held true?

Stock's return (2)

- ▶ Of course NOT, there are two components of an individual stock's return
- ▶ Stock's return of day t = dividend yield(t) + capital gain(t)
- ▶ Dividend yield(t) = Dividend/Price($t-1$) where day t is Xdate
- ▶ What is Xdate?

Market return

- ▶ What is market return?
- ▶ Why do we need market return as the benchmark?
- ▶ What would be our appropriate benchmark?
- ▶ Suppose that market index = SET

$$r_t = \ln \left(\frac{I_t}{I_{t-1}} \right)$$

Market return (2)

- ▶ However, since the market index should represent the entire basket of underlying stocks, where is the return from dividend of those stocks?
- ▶ What is total return index?
- ▶ Where could we find it?

The screenshot shows the SET website interface. At the top, there is a banner with the SET logo and the text "The Stock Exchange of Thailand". To the right, there is a blue banner with the text "I'm Online Investor" and Thai text "มั่นใจ ทนใจ รู้ใจ ให้คุณลงทุนได้". Below the banner, there is a navigation menu with items: "Home", "About SET", "Rules / Regulations", "Products / Services", "Market Data", and "Companies / Securities Info". The "Market Data" menu is expanded, showing a list of options: "Indices", "Equities", "Derivatives", "Bonds", and "Market Statistics". The "Indices" option is selected, and a sub-menu is displayed with the following items: "SET Index Series", "FTSE SET Index Series", "Historical Chart", "FTSE/ASEAN Index", "Constituents", and "Total Return Index". The "Total Return Index" option is highlighted. Below the navigation menu, there is a section titled "Companies / Securities Info" with a search bar and a list of companies. The first company listed is "SCB : THE SIAM COMMERCIAL BANK PUBLIC COMPANY LIMITED".

Risk

- ▶ What is risk?
- ▶ An uncertainty of return
- ▶ Risk = the standard deviation of daily stock's return in a given period (e.g., 30, 60, 90 days)
- ▶ How can we calculate an annualized return and risk unit?

Active return/risk

- ▶ An active return, also known as ALPHA, is an excess return of an individual's stock from its benchmark index (mostly market index).
- ▶ An active risk is calculated from the standard deviation from alpha.
- ▶ Why do we need to calculate active return and risk?

Sharpe/information ratio

- ▶ Sharpe ratio, also known as the reward-to-variability ratio, measures the return per unit of deviation (stock return divided by risk)
- ▶ Information ratio measures the excess return per unit of deviation (active return divided by active risk)
- ▶ What is the rationale of these ratios? How investors would use them?

Stock liquidity

- ▶ The liquidity of stocks can be measured in various ways:
 - ▶ Turnover
 - ▶ Turnover ratio
 - ▶ Average daily traded value (ADV)
- ▶ Why do investors need to know about this?

Stock's beta

- ▶ Beta is a measure of volatility compared to the benchmark (market) index.
- ▶ What is the implication of beta toward stock price movement?
- ▶ What is the range of beta value?
- ▶ How can we use beta in equity investment?

Spreadsheet calculation

- ▶ After I give you a lecture about most frequently numerical variables in stock's perspective, let's practice 😊
- ▶ Step by step calculation will be shown.
- ▶ Important questions:
 - ▶ How can I calculate each variable?
 - ▶ What is it for?
 - ▶ What is the implication?
 - ▶ How can I draw a conclusion on the stock investment?

Numerical measures that influences your investment decision – firm's perspective

- ▶ Profitability ratios
- ▶ Liquidity ratios
- ▶ Activity ratios
- ▶ Market ratios
- ▶ Debt ratios

Numerical measures that influences your investment decision – mixed perspective

- ▶ Price-to-earnings
- ▶ Price-to-book value (also known as market value to book value)
- ▶ Dividend payout ratio

Stock selection

Investment style

▶ Fundamental style

- ▶ Based on the assumption that a stock's intrinsic or real value is determined by the company's future earnings
- ▶ Fundamentalists consider the...
 - ▶ Financial strength of the company
 - ▶ Type of industry company is in
 - ▶ New-product development
 - ▶ Economic growth of the overall economy

Investment style (2)

▶ Technical style

- ▶ Based on the assumption that a stock's value is determined by the forces of supply and demand in the stock market as a whole
- ▶ Not based on expected earnings or the intrinsic value of a stock but rather on factors found in the market as a whole
- ▶ Chartists plot past price movements and other market averages to observe trends they use to predict a stock's future value

6th Class assignment

- ▶ Due Mar 16, 2013 IN CLASS
- ▶ Individual task
- ▶ Please write a one-page summary of your analysis on selecting ONE particular stock listed in SET:
 - ▶ What is stock ticker? The name of the company?
 - ▶ Background information: industry group, current price, market capitalization
 - ▶ One paragraph on company summary
 - ▶ 3-4 reasons why you pick this stock
 - ▶ Reference of source of your information is required