WELCOME

SECURITY ANALYSIS

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AGENDA

* Meaning and need of Security Analysis
* Basic formulae for investment in securities
* Approaches to Security Analysis
* Fundamental analysis and its Components
* Factors affecting Economic analysis
* Techniques used in Economic Analysis
* Industry analysis
* Factors affecting Industry analysis
* Techniques used in industry analysis
* Company Analysis
* Techniques Used in Company Analysis
* Graham and Dodd's investor ratio

BASIC CONSIDERATION FOR INVESTMENT IN SECURITIES

* Highest return per unit of risk or

   Lowest risk per unit of return
* Risk more returns more
* Risk less returns less
* Risk moderate returns moderate
* Risk is highly unpredictable and unavoidable
* Complex analysis is required for investment
* Higher return and avoid huge losses.

TWO APPROACHES TO SECURITY ANALYSIS

1. Fundamental analysis

Present value of future returns both capital appreciation and dividend.

2. Technical analysis

Demand and supply of securities and market price.

FUNDAMENTAL ANALYSIS

Economic analysis

Macro analysis

Economy analysis

Industry analysis

Micro analysis

Company analysis

FACTORS AFFECTING ECONOMY ANALYSIS

1. Growth rate of National Income
2. Growth rate of GDP
3. Growth rates of industrial sector
4. Inflation rate (WPI, CPI)
5. Monsoon

TECHNIQUES USED IN ECONOMY ANALYSIS

1. Anticipatory surveys

2. Barometer/ indicators

❖ Leading indicators

❖ Roughly coincidental indicators

❖ Lagging indicators

❖ Composite index

3. ECONOMY MODEL BUILDING APPROACH

❖ Identify Dependent and independent variables

❖ Measuring GNP through components

o Political stability

o Rate of inflation

o Consumption

o Expenditure

o Savings

o Private investments

o Govt purchase of goods and services

o Net exports

INDUSTRY ANALYSIS

- Inconsistent relationship with economic growth
- Industry specific factors
- Economy wide factors
- Demand of the product or service
- Cost structure
- Govt constraints

FACTORS AFFECTING INDUSTRY ANALYSIS

* Life cycle stage
* Demand supply gap
* Barriers to entry
* Government attitude
* State of competition
* Cost Condition And Profitability

a. Cost allocation to different elements

b. Product price

c. Production capacity

d. Level of capital and revenue expenditure

TECHNOLOGY AND RESEARCH FACTORS

* Nature and type of Technology
* Expected changes in technology
* Relationship with capital expenditure and sales
* Money spent in research
* Term wise sales and profitability analysis

TECHNIQUES USED IN INDUSTRY ANALYSIS

- Correction and Regression analysis

  GNP

  Disposable income

  Per Capita Consumption

  Per Capita Income

  Price elasticity of demand

- Input–output analysis

  Raw material cost, quality

  Production process analysis

  Output level and factors

COMPANY ANALYSIS

source of information –financial statements

* Net worth and intrinsic value

* Sources and uses of funds

  Fund flow and cash flow statements

* Cross-sectional analysis

  Comparative

  Common size

  Ratio analysis

* Size of business

* Ranking of business

- Growth records in percentage
    - Growth of sales
    - Growth of earnings
    - Growth of net worth
- Technical know-how
- Research and development
- Price leadership
- Financial analysis
    - Liquidity
    - Profitability
    - Operating efficiency
    - Leverage
    - EPS
    - PE ratio
    - Book value

- Competitive advantage
- Quality of management
- Corporate governance and Regulation
- **The Ministry of Finance (MoF)**

  SEBI act 1992 Regulation 2015

  RBI

  Companies Act 2013

  Securities contract and regulation act 1956

  Commodity Futures Modernization Act of 2000 (CFMA)

  FEMA 1999

  Stake holders
- Location and labour-management relations
- Pattern of Existing stock holding
- Marketability of the shares.

TECHNIQUES USED IN COMPANY ANALYSIS

* Correlation
* Regression Analysis
* Trend analysis
* Decision Tree Analysis

GRAHAM DODD INVESTOR RATIO

* value investors select stocks

  Lower-than-average price-to-book or

  Price-to- earnings ratios and/or

  High dividend yields

* The Price to Earnings Ratio (PE ratio) is the primary valuation ratio used by most equity investors.

- The Graham & Dodd's price-to-earnings ratio, commonly known as CAPE or Shiller P/E, is a valuation measure usually applied to stocks or equity markets.

- It is defined as market price divided by the average of ten years of earnings.

- Compare prices with average earnings across multiple years (taking into account inflation) to derive a cyclically-adjusted P/E ratio (also known as CAPE).