Investing

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Inflation makes you poor
compounding makes you rich.

- **Stocks** ownership in a company through certification

- **Shares**
  stock certification are known as shares.

- Private companies or any company (100% owner.) → when registered & in need of money. →

IPO: Initial public offering — Offers IPO → stockes.
→ we purchase stocks and claim ownership.

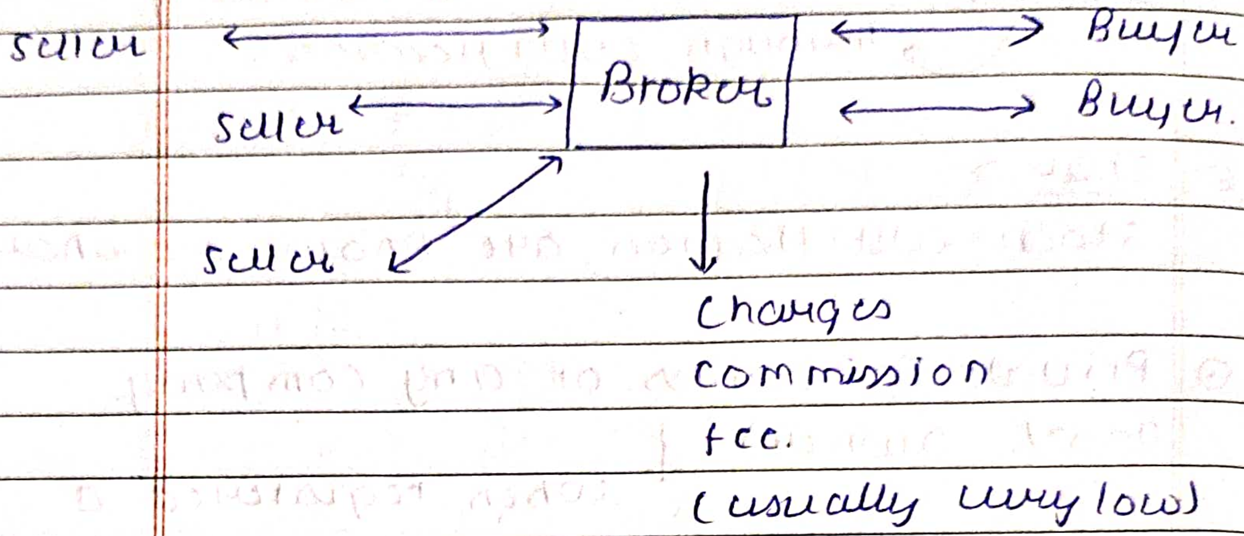
- Stock ≈ Shares ≈ Securities

- **Stock Exchange**
  Place where stock brokers, sellers and buyers come together to buy and sell securities.

- **Stock Market** → collection of stock Exchanges.

Good Write

- **Broker** can be a person or a software
  middle man
  ↓
  facilitates transaction between sellers and buyers.



- **Earnings**
  net profit made by company

- **Earnings per share. (EPS)**
  net profit divided by total no. of shares.

- **Price to Earning (PE)** tells company over valued or under valued.
  - company's share price divided by EPS.
  - estimation that
    How much you are paying for each dollar / Ruppee of earning.
    i.e. जब comp. 1 रु earn करेगी तो आप के कितने रु लगे हैं।। obviously yeh baad मे recover होता है।।

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Eg: PE : 1.5

means you pay ₹1.5 to earn ₹1

फिर तो मेरा loss हुआ ना ?

NO, suppose you bought 2 shares for ₹3 in nod 3 months you got your invested ₹3 back and further on you will be earning profit. :)

- Growth C → eg. Tesla (2022)
  - not generating as much income but expected to earn high in future.
  - High PE, PB ratio's
  - don't give dividends.

- Value C → eg. Walmart (2022)
  - comp. that are mature and generating good income
  - not expected to grow.
  - low PE ratio, PB ratio and give away dividends.

Asset

item, property or resources and services owned by a company or a person which can be used to meet debts and commitments.

Eg. cash, inventory etc.

Good Write

liablities

financial obligation which company owe & had to pay.

Eg:

Bank debt

taxes etc.

⊙ **Book value**

company's net worth when all assets are sold and all liablities are paid.

⊙ **BV per share**

- How much each share holder will get
- BV divided by no. of shares.

⊙ **PB i.e., Price to Book.**

- It tells us How much we are paying for each dollar of company.
- ~~(BVPS)~~

It is share's price / BVPS

must be ~~greater~~ lesser than 1 when company is sold otherwise it denotes ~~[illegible]~~ you are in loss.

(not complete profit
some portion)

- **Dividends.**

distribution of profit among share holders.

depends company to company.

if slope of growth.	if no slope of growth.
× dividends. instead invest on itself.	✓ dividends distributed.

- **Record Date.**

इस date तक जो registered होंगे company मे उनको ही dividend मिलेगा ॥

- **Ex dividend date.**

candidates registered on this date or after this will not receive any dividend.

- If going for investment in Dividend based company then always invest in PSU (Govt.) based companies with high cash amount and low Enterprise value.

↓

In panic / crash time it will help.

Investment Vehicles

जिसमे invest कर रहे है ॥

Eg.

Bonds
Commodities : Gold, Diamond
Futures
Mutual funds etc.

Index in Stock Market

overview of market
- statistical source that measure financial Market fluctuation.

Eg: S&P 500 - Top 500 Comp. US

Benchmark
Nifty 50 - NSE top 50 comp.
Sensex 30 - BSE top 30 comp.

- Include only those which have high market / public value excluding owner shares.

- kind of direction of market whether market growing or falling.

Calculation overview.

Nifty 50 index value = (Current Market Value) / Base value (1995) x1000

* to estimate current M.V.

total available (non-owner) shares x share's price

Index Funds & Mutual Funds & ETF's

Passive investment
long term
ज्यादा नहीं सोचना
स्थानिय अच्छी place
पर लगाओ ।।।

लगाओ और भूल
जाओ ।।।

Active investment
medium term.
थोड़ा बहुत सोचना
पड़ेगा / growing comp.
में investment ✓

time to time track
करते रहो ।।।

⊙ Index Funds

- kind of passive mutual funds.
- copy a particular index

like Nifty की top 50 comp. में invest
कर दिया

∴ Market ↑ Money ↑ & vice versa

⊙ ETF (Exchange Traded Funds)

- also kind of passive mutual funds
- also copy a particular index.

then what's the main point of
difference?

↓

ETf's can be traded at exchanges
like BSE and NSE.

Good Write

① Index funds

↓

you invested money

↓

money distributed among all index company depending upon their percentage.

↓

if you want to sell, you request to AMC (asset management comp.)

↓

you sell and get your money.

your money decides percentage

② ETF's

↓

you buy ETF's which are the funds constituting of investments based on particular index.

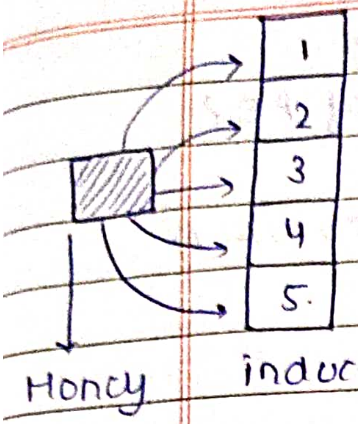
↓

thus, each stock of ETF is investment in all index company

↓

you can buy and sell stocks at exchanges by yourself or through brocker.

your amount of ETF stocks decide percentage proportion of index comp. 310 cos.



1 ETF = | 1 | 2 | 3 | 4 | 5 |

2 ETF

:

N ETF

stocks.

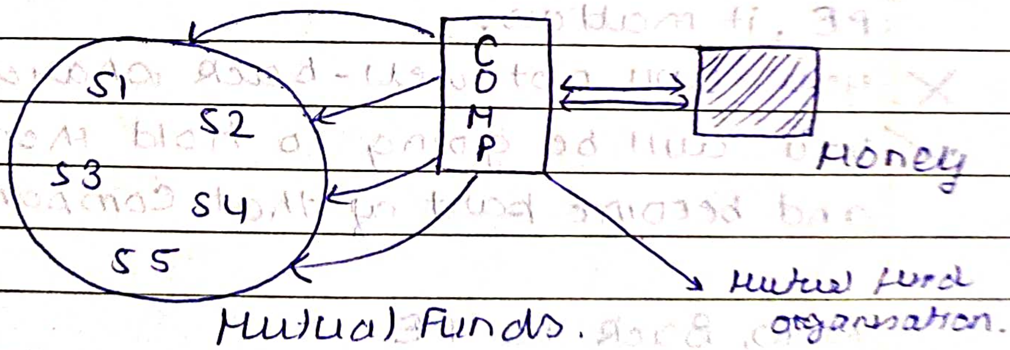
you buy these ETF stocks, which are constitute of all index comp. stock in proportion

Mutual Funds.

can be active or passive

do not based on indexes.

specialised analytics group some funds / stocks and invest in them and earn profit



Mutual Funds.

Busted

Myth Invest in Low PE/PB

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ans:- How to read to PE ratio and PB ratio? what is mentality of PE?

suppose, you invested ₹100 in comp. A which earns ₹10 profit per month.

what doesn't comes under PE?

you invested 100 after 1 month you earn 10 & sell the share ∴ you take back 110 with you

This will not work as investment is long term.

∴

consider PE like you are going to be the part of that company. Now, you are like owner of that company. Now, How you look PE, it matters.

X you will not sell-back shares

✓ you will be going to hold them and become part of that company.

Now, Back to PE

suppose, if you are owner of company and you invested some amount. This amount will be

* returned to you as profit.

* Not by selling shares and leaving

Good Write

* It might be the case that higher PE = High Risk but it is not the hard truth.

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So, PE can be seen as you invested money. you become part of company. Now, How company repay you via profit is altered or impacted by PE.

is PE/PB Hard truth?

NO

It just tells about scenario at that moment.

Most of people will say invest in low PE company but this may or may not return you high profit.

suppose,

A	B
PE 5	PE 1
↓	↓
you paying 5 Rs for 1 Rs.	you paying 1 for 1

But it may be the case, that A maybe growing company and will take lower PE than B in future

∴

Don't Blindly use PE for Investing.

PB runs an analogy with PE

as most Tech companies have Higher PB then Real state companies but give you higher profit.

as PB decided by Infrastructure.

Don't Blindly use PB for Investing.

Diversification.

spread investments both among within and different asset of class.
It will give equal or more profit by reducing the risk by huge margin.

There are 2 different stocks how will you invest in both of them. How will you choose?

1. High Returns
2. Low standard deviation.
3. Both stocks of different class and low correlation i.e. not related.

As correlation ↓ Profit ↑ Trust ↑ Risk ↓

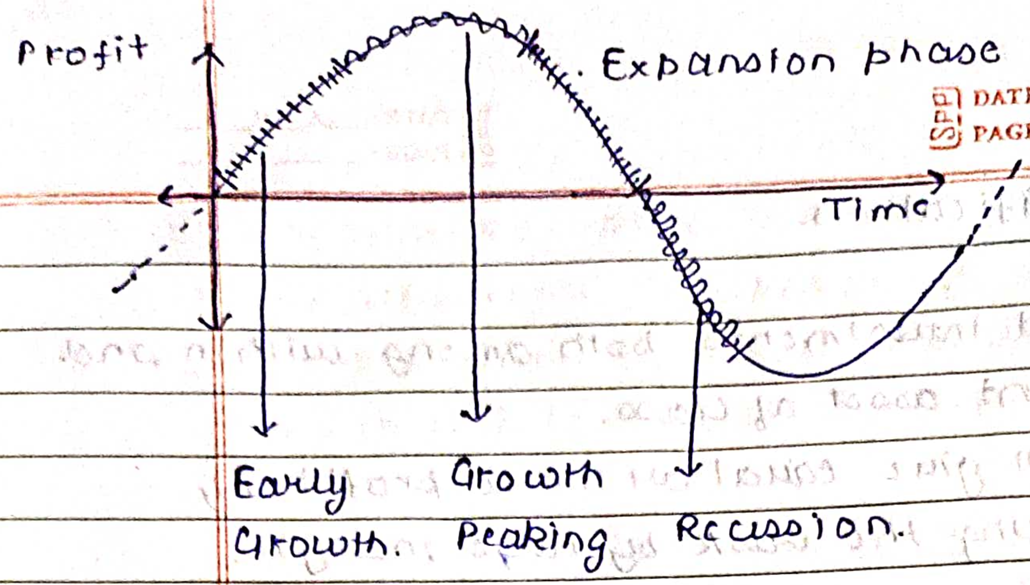
if diversified among different asset classes.

Business cycle

directly applied to

1. Business of a particular asset.
2. stock market
3. Sometimes applied to GDP or a country and its services.

$\boxed{\text{Early Phase}}$ (1) → $\boxed{\text{Mid phase}}$ (2) → $\boxed{\text{late phase}}$ (3) → $\boxed{\text{Recession phase}}$ (4)



Thus, all business have following the cycle and perform differently in different phases.

Correlation with Stock Market

Sector	E	M	L	R
Finance	+	+		
Real Est.	++	+	--	---
Tech.	++	++	+--	--
Industry	++			--
Material	++	-	+	-
Consumer staple	--		++	++
Health	--		++	+++
Energy	--		++	
Comm.	--	++		

\+ outperform market

\- underperform market

Bottom Up Approach.

- you have blind trust own any stock and you invest and then further categorize them.

Not so used & Not profitable.

Top Down Approach.

Most used & profitable

why Invest?

↓

choose sector or different asset classes

↓

Diversify your stocks

↓

Analyse

↓

Invest into stocks.

Policy used by Govt. during Recession or crash or pandemics.

① Fiscal	② Monetary.
- increase flow of money by decreasing taxes.	- increase money flow by reducing loan rates.
- Increase construction to inc. Jobs.	- Bank to Bank Bank to Consumer tax rate decrease.
Eg. India (mostly)	Eg: Fed Bank (USA).

Trends: ↑ Follow Economy
⊘ stable
↓ Defense / against Eco.

Consumer staples

Q Sensitive to : Nothing
- stable during whole Economy. ↓ & ⊘

Q what comes:
Beverages
Food products
Household product & Personal Products.

Energy & utility

Q Sensitive to :
Health of Economy, GDP, Emp. rate
Price of oil & gas
Political events
- cyclic to Business cycle ↑ & ⊘

Q what comes:
Energy & Equipment services
oil, Gas and Consumable fuel

Materials

Q Sensitive to:
Health of Economy, GDP
Demands for consumer
- cyclic to Business cycle ↑

Q what comes:
chemicals
construction Material
Metal and Mining
Paper and forest products.

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Industrial

Q Sensitive to:
Health of Economy, GDP
Demand of consumer.
- Follow the business cycle

Q What comes:
commercial services
Air line, Marine, Rail and Roadways
Transportation
Aerospace and defense
Machinery

Consumer Discretionary

Q Sensitive to:
Health of Economy; GDP
Disposable income
Consumer confidence

Q What comes:
Automobiles
Leisure products, Textile
apparel luxury goods
Hotels
Marketing.

Health care

Q Sensitive to:
only govt. policies

Q What comes:
Biotech, Pharmaceuticals
Life science, Health service
~~Sup~~ etc.

• we need to diversify our portfolio.

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Financial

Q Sensitive to: Interest Rate

Q What comes:

Banks

Thrifts and Mortgage

Consumer finance

REITS

Insurance

IT & Telecom or Communication services

Q Sensitive to:

Economic Health.

Highly follow Eco cycle

outperform in Early

underperform in Recession.

Q What comes:

IT software & service

Tech hardware storage

Semiconductor Equipment

Instruments

Media, Entertainment

Services

wireless telecom service

Real Estate

Q Sensitive to: GDP, Interest Rate

Q What comes:

REITS

RS Management & development.

• Market follow semi strong form.

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Efficient Market Hypothesis [EMH]

Theory in finance that states that stock markets are generally efficient, means all available information is already reflected in stock prices.
In short, you can't consistently make money by trying to outsmart stock market

3 Forms:

① Weak form

All past trading information and history is already reflected back.

you can't use past information to outperform market.

★ ② Semi strong form

All publically available information, past history, news and earning report is already reflected back.

you can't use this information to outperform market.

③ Strong form.

All information public or private fully reflected in stock prices

you can't outperform market even using private information

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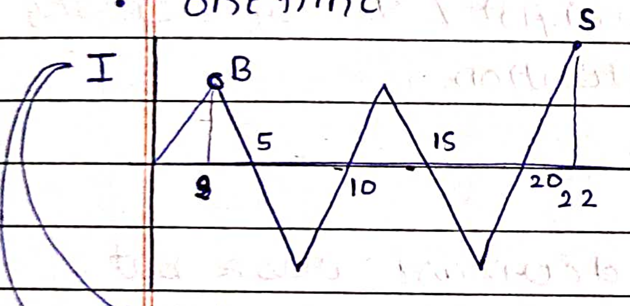
- Prices of stocks are reflection of Expectations

Expectation	Actual price	price
2% gain	1% gain	↓
2% gain	3% gain	↑
2% loss	1% loss	↑

- Investment works on averaging (not trading) if market is down buy more to compensate the lowering prices and in future yield more.

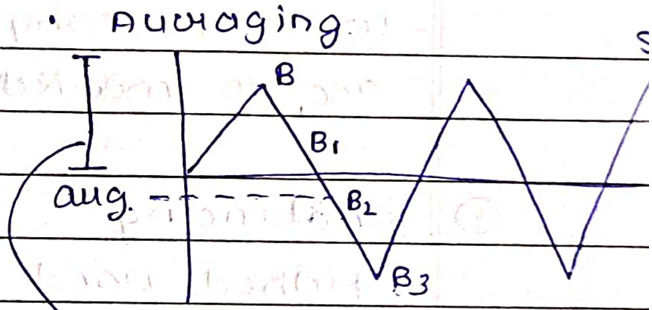
Buying on falling market is more useful than buying on growing market. depending upon company.

- one time



After 20 years
low gain.

- Averaging



after 20 years
High gain.

Note: अगर अच्छा share है तो falling पर भी continuously invest करो, to gain benefits of averaging.

Things to keep in mind while Investing?

① Asset Allocation.
- Different sectors choosen for investing.
- personal percentage distribution of portfolio among different sectors.
- regular change of percentage of asset allocation. acc. to market situation. time is long duration.

② Security Selection.
- For a particular sector, weight of different securities will be choosen by you
- Do a detailed analysis before overweighting a particular security.
- you can change weight / % of security acc. to market situation.

③ Rebalancing
- Method used to decrease risk but can lead lower profit yields.
- suppose,
  A is growing, B is falling.
  so you sell some stocks of A to buy some stocks of B
  So that final weight will be equally distributed.

Pros: if Market crashes low casualities
Cons: if A is really good stock then you wasting it for degrading stock like B

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- Although most of time rebalancing is useful.
- you can decide by your personal preference that when should you really rebalance stocks.

④ Tactical selection.

- It is more on active investing side and preference based and trust on sector or security.
- Making decision on short term market cond
- Some examples.

① on market crash, pull out money from market and invest in bonds or gold

② Behave like a trader.
Buy on low sell at high but duration is longer than from a trader.

③ Personal knowledge or influence based biased investing in sector.

④ use some tactical techniques to select securities.

Thus, ①,②,③ are more on general basis but ④ tactical selection is more on personal side. investing.

Flow

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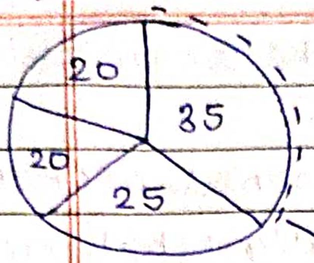
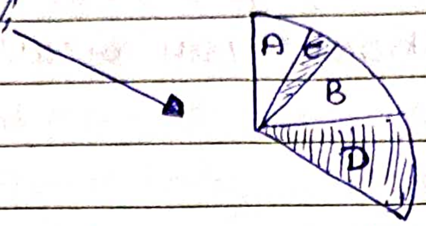
Portfolio



① Assets Allocation.



② security selection.

③ Rebalancing % in portfolio acc to market conditions.

④ if you gain some Tactical information or admire some security use that to manipulate your % or distribution

(Personal Preference Based)

Formula to Invest in Bonds

% in Bonds : (Age - 40) * 2

Invest in Bonds when you have a stable passive/active income
and for mostly below age 40 avoid Bonds.
But if still want a fixed income or security you can go for bonds

As Bond outperform market when market crashes and it opposes market cycle, it can be a very good rebalancing tool.

How to use bonds:

1. Invest in market when market is down by selling bonds Hence, Rebalancing by using bonds.

2. Buy Bonds By selling stocks when market is High.

Thus, Bonds can be used for diversification.

Gold & other Commodities.

These things negatively correlated to market
Hence, opposes the market
∴ a good diversification option.

Now,

How to choose Portfolio

① visit various websites.
② Choose standard portfolio which fulfills your demands like all weather portfolio or no brainer portfolio etc

③ As a beginner stick to standard portfolio
④ As you gain knowledge diversify your portfolio by yourself and choose right % of vehicles.

⑤ Most important thing is rebalancing.
with Regular duration 1yr, 2yr, 6mo rebalance your portfolio and redistribute percentage of investment vehicles.

⑥ After having right amount, or regular salary or at right time, go for multiple portfolios.

Good Write