# MUTHAYAMMAL ENGINEERING COLLEGE

(An Autonomous Institution)

(Approved by AICTE, New Delhi, Accredited by NAAC & Affiliated to Anna University)
Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L01**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment** **Date of Lecture:**

**Topic of Lecture:** Overview & Investments

**Introduction : ( Maximum 5 sentences)**

An investment is an asset or item acquired with the goal of generating income or appreciation. Appreciation refers to an increase in the value of an asset over time.

**Prerequisite knowledge for Complete understanding and learning of Topic:**
**( Max. Four important topics)**

1.Nature of finance and its interaction with management functions
2. Give the meaning and definition
3.List out 7Ms of management
4.Aims of finance function

**Detailed content of the Lecture:**

- An investment is an asset or item that is purchased with the hope that it will generate income or appreciate in value at some point in the future.
- An investment always concerns the outlay of some asset today (time, money, effort, etc.) in hopes of a greater payoff in the future than what was originally put in.
- An investment can refer to any mechanism used for generating future income, including bonds, stocks, real estate property, or a business, among other examples.
- Understanding Investing
- The expectation of a return in the form of income or price appreciation with statistical significance is the core premise of investing. The spectrum of assets in which one can invest and earn a return is a very wide one.
- Risk and return go hand-in-hand in investing; low risk generally means low expected returns, while higher returns are usually accompanied by higher risk. At the low-risk end of the spectrum are basic investments such as Certificates of Deposit (CDs); bonds or fixed-income

instruments are higher up on the risk scale, while stocks or equities are regarded as riskier. Commodities and derivatives are generally considered to be among the riskiest investments. One can also invest in something practical, such as land or real estate, or delicate items, such as fine art and antiques.

- Risk and return expectations can vary widely within the same asset class. For example, a blue chip that trades on the New York Stock Exchange will have a very different risk-return profile from a micro-cap that trades on a small exchange.
- The returns generated by an asset depend on the type of asset. For instance, many stocks pay quarterly dividends, whereas bonds generally pay interest every quarter. In many jurisdictions, different types of income are taxed at different rates.
- In addition to regular income, such as a dividend or interest, price appreciation is an important component of return. Total return from an investment can thus be regarded as the sum of income and capital appreciation. As of March 2019, Standard & Poor's estimates that since 1926, dividends have contributed nearly a third of total equity return while capital gains have contributed two-thirds.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -1

**Course Faculty**

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**LECTURE HANDOUTS**

**L02**

**MBA**

**I/II**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment** **Date of Lecture:**

**Topic of Lecture:** Financial and Economical Meaning

**Introduction :**

Financial economics is a branch of economics that analyzes the use and distribution of resources in markets. Financial decisions must often take into account future events, whether those be related to individual stocks, portfolios, or the market as a whole.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Financial economics analyzes the use and distribution of resources in markets.
- It employs economic theory to evaluate how time, risk, opportunity costs, and information can create incentives or disincentives for a particular decision.
- Financial economics often involves the creation of sophisticated models to test the variables affecting a particular decision.

**Detailed content of the Lecture:**

Financial Economics Works

Making financial decisions is not always a straightforward process. Time, risk (uncertainty), opportunity costs, and information can create incentives or disincentives. Financial economics employs economic theory to evaluate how certain things impact decision making, providing investors with the instruments to make the right calls.

Financial economics usually involves the creation of sophisticated models to test the variables affecting a particular decision. Often, these models assume that individuals or institutions making decisions act rationally, though this is not necessarily the case. The irrational behavior of parties has to be taken into account in financial economics as a potential risk factor.

This branch of economics builds heavily on microeconomics and basic accounting concepts. It is a quantitative discipline that uses econometrics as well as other mathematical tools.

Financial Economics vs. Traditional Economics

Traditional economics focuses on exchanges in which money is one—but only one—of the items traded. In contrast, financial economics concentrates on exchanges in which money of one type or another is likely to appear on both sides of a trade.

The financial economist can be distinguished from traditional economists by their focus on monetary activities in which time, uncertainty, options and information play roles.

Financial Economics Methods
There are many angles to the concept of financial economics. Two of the most prominent are:

Discounting
Decision making over time recognizes the fact that the value of $1 in 10 years' time is less than the value of $1 now. Therefore, the $1 at 10 years must be discounted to allow for risk, inflation, and the simple fact that it is in the future. Failure to discount appropriately can lead to problems, such as underfunded pension schemes.

Risk Management and Diversification
Advertisements for stock market-based financial products must remind potential buyers that the value of investments may fall as well as rise.

Financial institutions are always looking for ways of insuring, or hedging, this risk. It is sometimes possible to hold two highly risky assets but for the overall risk to be low: if share A only performs badly when share B performs well (and vice versa) then the two shares perform a perfect hedge.

An important part of finance is working out the total risk of a portfolio of risky assets, since the total risk may be less than the risk of the individual components.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -1

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**LECTURE HANDOUTS**

**L03**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment** **Date of Lecture:**

**Topic of Lecture:** Investment Process, Characteristics and Objectives

**Introduction : ( Maximum 5 sentences)**

An investment is the purchase of an asset with an expectation to receive return or some other income on that asset in future.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Financial Statements Analysis:
- Investment Decisions & Capital Budgeting:
- Risk and Return.
- Corporate Financing and Capital Structure.
- Valuation.

**Detailed content of the Lecture:**

Investment Process

When we speak of investment, I am sure most of you would think of investing in some fixed deposit or a property or some of you would even buy gold. But there is much more to investing. An investment is the purchase of an asset with an expectation to receive return or some other income on that asset in future. The process of investment involves careful study and analysis of the various classes of assets and the risk-return ratio attached to it.

An investment process is a set of guidelines that govern the behaviour of investors in a way which allows them to remain faithful to the tenets of their investment strategy, that is the key principles which they hope to facilitate out-performance.

There are 5 investment process steps that help you in selecting and investing in the best asset class according to your needs and preferences. Read here is details every notes on investing process. payment upon delivery.

Step 1- Understanding the client

The first and the foremost step of investment process is to understand the client or the investor his/her needs, his risk taking capacity and his tax status. After getting an insight of the goals and restraints of the client, it is important to set a benchmark for the client's portfolio management process which will help in evaluating the performance and check whether the client's objectives are achieved.

Step 2- Asset allocation decision

This step involves decision on how to allocate the investment across different asset classes, i.e. fixed income securities, equity, real estate etc. It also involves decision of whether to invest in domestic assets or in foreign assets. The investor will make this decision after considering the macroeconomic conditions and overall market status.

Step 3- Portfolio strategy selection
Third step in the investment process is to select the proper strategy of portfolio creation. Choosing the right strategy for portfolio creation is very important as it forms the basis of selecting the assets that will be added in the portfolio management process. The strategy that conforms to the investment policies and investment objectives should be selected.
Characteristics and Objectives of Investment Management
Characteristics of investment

The features of economic and financial investments can be summarized as return, risk, safety, and liquidity.

1. Return

All investments are characterized by the expectation of a return. In fact, investments are made with the primary objective of deriving a return.
The return may be received in the form of yield plus capital appreciation.
The difference between the sale price and the purchase price is capital appreciation.
The dividend or interest received from the investment is theyield.
The return from an investment depends upon the nature of the investment, the maturity period and a host of other factors.
Return = Capital Gain + Yield (interest, dividend etc.)
2. Risk

Risk refers to the loss of principal amount of an investment. It is one of the major characteristics of an investment.

The risk depends on the following factors:

The investment maturity period is longer; in this case, investor will take larger risk.
Government or Semi Government bodies are issuing securities which have less risk.
In the case of the debt instrument or fixed deposit, the risk of above investment is less due to their secured and fixed interest payable on them. For instance debentures.
In the case of ownership instrument like equity or preference shares, the risk is more due to their unsecured nature and variability of their return and ownership character.
The risk of degree of variability of returns is more in the case of ownership capital compare to debt capital.
The tax provisions would influence the return of risk.
Safety:

Safety refers to the protection of investor principal amount and expected rate of return.

Safety is also one of the essential and crucial elements of investment. Investor prefers safety about his capital. Capital is the certainty of return without loss of money or it will take time to retain it. If investor prefers less risk securities, he chooses Government bonds. In the case, investor prefers high rate of return investor will choose private Securities and Safety of these securities is low.
Liquidity:

Liquidity refers to an investment ready to convert into cash position. In other words, it is available immediately in cash form. Liquidity means that investment is easily realizable, saleable or marketable. When the liquidity is high, then the return may be low. For example, UTI units.

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| An investor generally prefers liquidity for his investments, safety of funds through a minimum risk and maximization of return from an investment. |
| **Video Content / Details of website for further learning (if any):** |
| **Important Books/Journals for further learning including the page nos.:**<br>Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No: 3-5 |

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**LECTURE HANDOUTS**

**L04**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment** **Date of Lecture:**

**Topic of Lecture:** Investment Vs. Speculation, Investment categories

**Introduction : ( Maximum 5 sentences)**

Investment involves the allocation of money towards the purchase of an asset, which is not to be consumed in the present but hoping it will generate stable income or is expected to appreciate in the future.

Speculation does not have a precise definition but involves purchasing an asset to make profits from subsequent price change and possible sale. The speculators indulge in marketable assets that do not have a long life.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- The main difference between speculating and investing is the amount of risk involved.
- Investors try to generate a satisfactory return on their capital by taking on an average or below-average amount of risk.
- Speculators are seeking to make abnormally high returns from bets that can go one way or the other.
- Speculative traders often utilize futures, options, and short selling trading strategies.

**Detailed content of the Lecture:**

Investing

Investing can come in many different forms—through monetary, time, or energy-based methods. In the financial sense of the term, investing means the buying and selling of securities such as stocks, bonds, exchange traded funds (ETFs), mutual funds, and a variety of other financial products.

Investors hope to generate income or profit through a satisfactory return on their capital by taking on an average or below-average amount of risk. Income can be in the form of the underlying asset appreciating in value, in periodic dividends or interest payments, or in the full return of their spent capital.

Speculating

Speculating is the act of putting money into financial endeavors with a high probability of failure. Speculating seeks abnormally high returns from bets that can go one way or the other. While speculating is likened to gambling, it is not exactly the same, as speculators try to make an educated decision on the direction of their trades. However, the inherent speculative risk involved in the transaction tends to be significantly above average.

These traders buy securities with the understanding that they will be held for only a short period before selling. They may frequently move into and out of a position.
Types of Speculative Traders
Day trading is a form of speculation. Day traders don't necessarily have any specific qualifications, rather, they are labeled as such because they trade often. They generally hold their positions for a day, closing once the trading session is complete.

A swing trader, on the other hand, holds their position up to about several weeks hoping to capitalize on gains during that time. This is accomplished by trying to determine where a stock's price will move, taking a position, and then making a profit.

Trades and Strategies
Speculators can make many types of trades and some of these include:

Futures Contracts: Buyers and sellers agree to the sale of a specific asset at an agreeable price at a predetermined point in the future. The buyer agrees to buy the underlying asset once the contract expires. Futures contracts are traded on exchanges and are commonly used when trading commodities.

Put and Call Options: In a put option, the owner of the contract has the right, but not the obligation, to sell any part of security at an agreed-upon price at a specified period of time. A call option, on the other hand, allows the contract owner to buy the underlying asset prior to the contract expiration date at a specified price.

Short Selling: When a trader short sells, they speculate that the price of a security will drop in the future and then take a position.
Popular strategies speculators use range from stop-loss orders to pattern trading. With a stop-loss order, a trader tells a broker to buy or sell a stock when it reaches a specific price. By doing this, the investor is able to minimize their loss on the stock. Meanwhile, pattern trading uses trends in prices to identify opportunities.
Used in technical analysis, investors employ this strategy by looking at past market performance to make predictions about the future of an asset; a feat which is generally very challenging.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No:2

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**LECTURE HANDOUTS**

**L05**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I – Overview of Investment**

**Date of Lecture:**

**Topic of Lecture:** Risk and return Factors Influencing Risk

**Introduction : ( Maximum 5 sentences)**

There is a risk-return tradeoff with every asset – the higher the risk, the higher the volatility and return potential. For example, stocks are generally riskier and more volatile than bonds, but the rates of return on stocks have exceeded those of bonds over the long term.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

Estimating the Amount of Capital Required
Determining Capital Structure
Choice of Sources of Funds

**Detailed content of the Lecture:**

5 Investing Risk Factors and How to Avoid Them:

Investing comes with risks. Sometimes those risks are minimal, as is the case with treasury bonds, but other times, such as with stocks, options, and commodities, the risk can be substantial. The more risk the investor is willing to take, the more potential for high returns. But great investors know that managing risk is more important than making a profit, and proper risk management is what leads to profitable investing.

Each investment product has certain risks that come with it, while some risks are inherent in every investment. Here are a few to consider.

Business Risk

Business risk may be the best known and most feared investment risk. It's the risk that something will happen with the company, causing the investment to lose value. These risks could include a disappointing earnings report, changes in leadership, outdated products, or wrongdoing within the company. Because of the large amount of possible risks that come with owning stock in a company, investors know that forecasting these risks is nearly impossible.

Purchasing a put option to guard against a large decline or setting automatic stops are the best ways to guard against business risk.

Call Risk

Some bonds have a provision that allows the company to call back or repay a bond early. They will often exercise this right if they have to pay a higher coupon on an existing bond than what they would have to pay at today's interest rates. Although this will not represent a loss of

principal, for investors who rely on a certain coupon rate for their monthly living expenses, this can represent a substantial loss of income.

For those who rely on coupon income for immediate living expenses, investing in noncallable bonds, bond funds, or exchange-traded funds is a solid diversification strategy.

Allocation Risk

Have you looked at your 401(k) lately? You've likely heard that keeping the appropriate asset allocation is essential to managing risk as you move closer to retirement. Moreover, federal disclosure rules require 401(k) providers to disclose fees associated with investment products.1

The younger you are, the more of your portfolio should be allocated to stocks and as you age, bonds will slowly become the dominant investment type. Manage your allocation risk and fees related to investing in your retirement account by investing in a low-fee target date fund. Additionally, ask for the help of a trusted financial advisor if you don't have the knowledge or experience to manage your own portfolio.

Political Risk

Investors in commodities like oil understand political risk. When Iran threatened to block the Strait of Hormuz, investors were concerned that the price of oil would become more volatile, putting their investment at risk. The Haiti conflict and terrorist attacks on oil pipelines have caused artificial volatility to enter oil and other commodity markets. Moreover, issues arising in Southeast Asia pertaining to land claims, as well as the tensions between North and South Korea, have shaken markets in that region.

Socio-political risk is difficult to avoid since most events happen without warning, but having hard and fast exit points as well as hedges are the best way to weather socio-political storms.

Dividend Risk

Dividend risk is the risk that a company will cut or reduce its dividend. This is not only a problem for those who rely on stock dividends to live on during retirement, but when a company cuts its dividend, it often causes the stock to lose value, as those who were holding it for the dividend move to other dividend-paying names. Reduce the effects of dividend risk by holding a well-diversified portfolio with multiple dividend-paying stocks. If the dividend is the only reason you're holding the stock, sell as soon as is practical after the announcement of the change.

The Bottom Line

Every investing strategy will have risks and managing those risks is how to gain the best performance from your money. Don't reach for higher rewards without first evaluating the risks involved. Seasoned investors know that it's a lot easier to lose money than it is to gain it.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -3

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**LECTURE HANDOUTS**

**L06**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I – Overview of Investment**

**Date of Lecture:**

**Topic of Lecture:** Measuring Risk and Return,

**Introduction : ( Maximum 5 sentences)**

The arithmetic mean of the return may be same for two companies but the return may vary widely. Or Standard Deviation as a Measure of Risk. The standard deviation is often used by investors to measure the risk of a stock or a stock portfolio.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

Profit maximization
Wealth maximization.
Proper estimation of total financial requirements.
Proper mobilization.

**Detailed content of the Lecture:**

**Measuring Return and Risk**

**Return**

Returns are always calculated as annual rates of return, or the percentage of return created for each unit (dollar) of original value. If an investment earns 5 percent, for example, that means that for every $100 invested, you would earn $5 per year .

Returns are created in two ways: the investment creates income or the investment gains (or loses) value. To calculate the annual rate of return for an investment, you need to know the income created, the gain (loss) in value, and the original value at the beginning of the year.

What risks are there? What would cause an investment to unexpectedly over- or underperform? Starting from the top (the big picture) and working down, there are

1. Economic risks,
2. Industry risks,
3. Company risks,
4. Asset class risks,
5. Market risks.

Economic risks are risks that something will upset the economy as a whole. The economic cycle may swing from expansion to recession, for example; inflation or deflation may increase, unemployment may increase, or interest rates may fluctuate. These macroeconomic factors affect everyone doing business in the economy. Most businesses are cyclical, growing when the economy grows and contracting when the economy contracts.

Consumers tend to spend more disposable income when they are more confident about economic

growth and the stability of their jobs and incomes. They tend to be more willing and able to finance purchases with debt or with credit, expanding their ability to purchase durable goods. So, demand for most goods and services increases as an economy expands, and businesses expand too. An exception is businesses that are countercyclical. Their growth accelerates when the economy is in a downturn and slows when the economy expands. For example, low-priced fast food chains typically have increased sales in an economic downturn because people substitute fast food for more expensive restaurant meals as they worry more about losing their jobs and incomes.

Industry risks usually involve economic factors that affect an entire industry or developments in technology that affect an industry's markets. An example is the effect of a sudden increase in the price of oil (a macroeconomic event) on the airline industry. Every airline is affected by such an event, as an increase in the price of airplane fuel increases airline costs and reduces profits. An industry such as real estate is vulnerable to changes in interest rates. A rise in interest rates, for example, makes it harder for people to borrow money to finance purchases, which depresses the value of real estate.

Company risk refers to the characteristics of specific businesses or firms that affect their performance, making them more or less vulnerable to economic and industry risks. These characteristics include how much debt financing the company uses, how well it creates economies of scale, how efficient its inventory management is, how flexible its labor relationships are, and so on.

The asset class that an investment belongs to can also bear on its performance and risk. Investments (assets) are categorized in terms of the markets they trade in. Broadly defined, asset classes include

1. Corporate stock or equities (shares in public corporations, domestic, or foreign);
2. Bonds or the public debts of corporation or governments;
3. Commodities or resources (e.g., oil, coffee, or gold);
4. Derivatives or contracts based on the performance of other underlying assets;
5. Real estate (both residential and commercial);
6. Fine art and collectibles (e.g., stamps, coins, baseball cards, or vintage cars).

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -3 -4

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**LECTURE HANDOUTS**

**L07**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment** **Date of Lecture:**

**Topic of Lecture:** Valuation of Equity: Dividend Models

**Introduction : ( Maximum 5 sentences)**
The dividend discount model (DDM) is a quantitative method used for predicting the price of a company's stock based on the theory that its present-day price is worth the sum of all of its future dividend payments when discounted back to their present value.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- A company produces goods or offers services to earn profits. The cash flow earned from such business activities determines its profits, which gets reflected in the company's stock prices. Companies also make dividend payments to stockholders, which usually originates from business profits. The DDM model is based on the theory that the value of a company is the present worth of the sum of all of its future dividend payments.

**Detailed content of the Lecture:**

Breaking Down the Dividend Discount Model

The dividend discount model was developed under the assumption that the intrinsic value of a stock reflects the present value of all future cash flows generated by a security. At the same time, dividends are essentially the positive cash flows generated by a company and distributed to the shareholders.

Generally, the dividend discount model provides an easy way to calculate a fair stock price from a mathematical perspective with minimum input variables required. However, the model relies on several assumptions that cannot be easily forecasted.

Depending on the variation of the dividend discount model, an analyst requires forecasting future dividend payments, the growth of dividend payments, and the cost of equity capital. Forecasting all the variables precisely is almost impossible. Thus, in many cases, the theoretical fair stock price is far from reality.

Formula for the Dividend Discount Model

The dividend discount model can take several variations depending on the stated assumptions. The variations include the following:

1. Gordon Growth Model

The Gordon Growth Model (GGM) is one of the most commonly used variations of the dividend discount model. The model is called after American economist Myron J. Gordon, who proposed the variation. The GGM assists an investor in evaluating a stock's intrinsic value based on the potential dividend's constant rate of growth.

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| The GGM is based on the assumption that the stream of future dividends will grow at some constant rate in the future for an infinite time. The model is helpful in assessing the value of stable businesses with strong cash flow and steady levels of dividend growth. It generally assumes that the company being evaluated possesses a constant and stable business model and that the growth of the company occurs at a constant rate over time. |
| **Video Content / Details of website for further learning (if any):** |
| **Important Books/Journals for further learning including the page nos.:**<br>Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -5 |

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**LECTURE HANDOUTS**

**L08**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment**

**Date of Lecture:**

**Topic of Lecture:** Valuation of Equity: Dividend Models

**Introduction : ( Maximum 5 sentences)**

The equity valuation models used to estimate intrinsic value—present value models, multiplier models, and asset-based valuation—are widely used and serve an important purpose.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

1. Valuate whether a security, given its current market price and a value estimate, is overvalued, fairly valued, or undervalued by the market;
2. Describe major categories of equity valuation models;
3. Describe regular cash dividends, extra dividends, stock dividends, stock splits, reverse stock splits, and share repurchases;
4. Describe dividend payment chronology;
5. Explain the rationale for using present value models to value equity and describe the dividend discount and free-cash-flow-to-equity models;

**Detailed content of the Lecture:**

**Present value calculations:**

One common time-value problem deals with expecting a specified sum of money at a point in the future. Because money earned in the future is worth less than money earned now, you have to apply a discount to the future payment in order to get its equivalent present value. Often, the discount rate used is equal to the prevailing risk-free rate for assets like Treasury securities without default risk. The further into the future the payment is, the greater the discount.

The math behind a present value calculation is a bit complicated but can be done with a basic calculator. To come up with present value, take 1 and add it to the discount rate used. Then raise that number to the power of the number of years in the future that you'll receive the payment. Save the resulting figure, and then divide the future payment amount by that figure. The final result will be the present value.

For instance, say you know that you'll receive $110.25 in two years and decide that a discount rate of 5% is appropriate. In that case, 1 plus 5% equals 1.05, and 1.05 raised to the second power is 1.1025. Divide $110.25 by 1.1025, and you get $100, which is the present value.

**Future value calculations:**

Future value calculations work in the opposite manner. You'll follow the same steps as you did for present value, adding 1 to the discount rate and then raising that number to the power of the

number of years in the future that you're measuring the future value. But then, you'll need to multiply the result by the value of the current payment. The final result is the future value.

For instance, if you want to know the future value of $100 in two years assuming a rate of 5%, then 1 + 5% is 1.05, 1.05 raised to the second power is 1.1025, and $100 multiplied by 1.1025 is $110.25. As you can see, this matches up with the present value calculation above.

**Recurring value techniques:**
The two methods discussed above work well for one-time payments, but other methods are better for recurring payments. You can always just calculate present or future value for each payment separately, but there are sometimes shortcuts available for common situations.

For instance, say you have an asset that pays a perpetual stream of income. You can't calculate each payment separately, but the equation for its present value turns out to be quite simple: take the amount of each regular payment and divide it by the discount rate. So if you receive $100 each year and use a discount rate of 5%, then its present value is $100 / 5% = $2,000.

Knowing how to deal with time-value problems can save a lot of time and make it easier to compare streams of future payments. That way, you can make smarter decisions about money.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -5

**Course Faculty**

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Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L09**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **I- Overview of Investment** **Date of Lecture:**

**Topic of Lecture:** Price/Earnings Approach.

**Introduction :**

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). ... P/E ratios are used by investors and analysts to determine the relative value of a company's shares in an apples-to-apples comparison.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- The price-earnings ratio (P/E ratio) relates a company's share price to its earnings per share.
- A high P/E ratio could mean that a company's stock is over-valued, or else that investors are expecting high growth rates in the future.
- Companies that have no earnings or that are losing money do not have a P/E ratio since there is nothing to put in the denominator.

Two kinds of P/E ratios - forward and trailing P/E - are used in practice.

Detailed content of the Lecture:

P/E Ratio Formula and Calculation

Analysts and investors review a company's P/E ratio when they determine if the share price accurately represents the projected earnings per share. The formula and calculation used for this process follow.

Earnings per share
Market value per share

To determine the P/E value, one simply must divide the current stock price by the earnings per share (EPS). The current stock price (P) can be gleaned by plugging a stock's ticker symbol into any finance website, and although this concrete value reflects what investors must currently pay for a stock, the EPS is a slightly more nebulous figure.

EPS comes in two main varieties. The first is a metric listed in the fundamentals section of most finance sites; with the notation "P/E (TTM)," where "TTM" is a Wall Street acronym for "trailing 12 months." This number signals the company's performance over the past 12 months. The second type of EPS is found in a company's earnings release, which often provides EPS guidance. This is the company's best-educated guess of what it expects to earn in the future.

Sometimes, analysts are interested in long term valuation trends and consider the P/E 10 or P/E 30 measures, which average the past 10 or past 30 years of earnings, respectively. These measures are often used when trying to gauge the overall value of a stock index, such as the S&P 500 since these longer term measures can compensate for changes in the business cycle. The P/E ratio of

the S&P 500 has fluctuated from a low of around 6x (in 1949) to over 120x (in 2009). The long-term average P/E for the S&P 500 is around 15x, meaning that the stocks that make up the index collectively command a premium 15 times greater than their weighted average earnings.1

Forward Price-To-Earnings

These two types of EPS metrics factor into the most common types of P/E ratios: the forward P/E and the trailing P/E. A third and less common variation uses the sum of the last two actual quarters and the estimates of the next two quarters.

The forward (or leading) P/E uses future earnings guidance rather than trailing figures. Sometimes called "estimated price to earnings," this forward-looking indicator is useful for comparing current earnings to future earnings and helps provide a clearer picture of what earnings will look like – without changes and other accounting adjustments.

However, there are inherent problems with the forward P/E metric – namely, companies could underestimate earnings in order to beat the estimate P/E when the next quarter's earnings are announced. Other companies may overstate the estimate and later adjust it going into their next earnings announcement. Furthermore, external analysts may also provide estimates, which may diverge from the company estimates, creating confusion.

Trailing Price-To-Earnings

The trailing P/E relies on past performance by dividing the current share price by the total EPS earnings over the past 12 months. It's the most popular P/E metric because it's the most objective – assuming the company reported earnings accurately. Some investors prefer to look at the trailing P/E because they don't trust another individual's earnings estimates. But the trailing P/E also has its share of shortcomings – namely, a company's past performance doesn't signal future behavior.

Investors should thus commit money based on future earnings power, not the past. The fact that the EPS number remains constant, while the stock prices fluctuate, is also a problem. If a major company event drives the stock price significantly higher or lower, the trailing P/E will be less reflective of those changes.

The trailing P/E ratio will change as the price of a company's stock moves, since earnings are only released each quarter while stocks trade day in and day out. As a result, some investors prefer the forward P/E. If the forward P/E ratio is lower than the trailing P/E ratio, it means analysts are expecting earnings to increase; if the forward P/E is higher than the current P/E ratio, analysts expect a decrease in earnings.

Valuation From P/E

The price-to-earnings ratio or P/E is one of the most widely-used stock analysis tools used by investors and analysts for determining stock valuation. In addition to showing whether a company's stock price is overvalued or undervalued, the P/E can reveal how a stock's valuation compares to its industry group or a benchmark like the S&P 500 Index.

In essence, the price-to-earnings ratio indicates the dollar amount an investor can expect to invest in a company in order to receive one dollar of that company's earnings. This is why the P/E is sometimes referred to as the price multiple because it shows how much investors are willing to pay per dollar of earnings. If a company was currently trading at a P/E multiple of 20x, the interpretation is that an investor is willing to pay $20 for $1 of current earnings.

The P/E ratio helps investors determine the market value of a stock as compared to the company's earnings. In short, the P/E ratio shows what the market is willing to pay today for a stock based on its past or future earnings. A high P/E could mean that a stock's price is high relative to earnings and possibly overvalued. Conversely, a low P/E might indicate that the

current stock price is low relative to earnings.

Example of the P/E Ratio
As a historical example, let's calculate the P/E ratio for Walmart Stores Inc. (WMT) as of November 14, 2017, when the company's stock price closed at $91.09.2 The company's profit for the fiscal year ending January 31, 2017, was US$13.64 billion, and its number of shares outstanding was 3.1 billion. Its EPS can be calculated as $13.64 billion / 3.1 billion = $4.40.3

Walmart's P/E ratio is, therefore, $91.09 / $4.40 = 20.70x.

Investor Expectations
In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. A low P/E can indicate either that a company may currently be undervalued or that the company is doing exceptionally well relative to its past trends. When a company has no earnings or is posting losses, in both cases P/E will be expressed as "N/A." Though it is possible to calculate a negative P/E, this is not the common convention.

The price-to-earnings ratio can also be seen as a means of standardizing the value of one dollar of earnings throughout the stock market. In theory, by taking the median of P/E ratios over a period of several years, one could formulate something of a standardized P/E ratio, which could then be seen as a benchmark and used to indicate whether or not a stock is worth buying.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -5-6

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**LECTURE HANDOUTS**

**L10**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II-Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Financial Market, Types

**Introduction :**

Financial Market refers to a marketplace, where creation and trading of financial assets, such as shares, debentures, bonds, derivatives, currencies, etc. take place.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Financial markets refer broadly to any marketplace where the trading of securities occurs.
- There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets.
- These markets may include assets or securities that are either listed on regulated exchanges or else trade over-the-counter (OTC).
- Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society.
- When financial markets fail, economic disruption including recession and unemployment can result.

**Detailed content of the Lecture:**

Understanding the Financial Markets

Financial markets play a vital role in facilitating the smooth operation of capitalist economies by allocating resources and creating liquidity for businesses and entrepreneurs. The markets make it easy for buyers and sellers to trade their financial holdings. Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers).

The stock market is just one type of financial market. Financial markets are made by buying and selling numerous types of financial instruments including equities, bonds, currencies, and derivatives. Financial markets rely heavily on informational transparency to ensure that the markets set prices that are efficient and appropriate. The market prices of securities may not be indicative of their intrinsic value because of macroeconomic forces like taxes.

Some financial markets are small with little activity, and others, like the New York Stock Exchange (NYSE), trade trillions of dollars of securities daily. The equities (stock) market is a financial market that enables investors to buy and sell shares of publicly traded companies. The primary stock market is where new issues of stocks, called initial public offerings (IPOs), are sold. Any subsequent trading of stocks occurs in the secondary market, where investors buy and sell securities that they already own.

**Types of Financial Markets**

Stock Markets

Perhaps the most ubiquitous of financial markets are stock markets. These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO), with shares subsequently traded among various buyers and sellers in what is known as a secondary market. Stocks may be traded on listed exchanges, such as the New York Stock Exchange (NYSE) or Nasdaq, or else over-the-counter (OTC). Most trading in stocks is done via regulated exchanges, and these play an important role in the economy as both a gauge of the overall health in the economy as well as providing capital gains and dividend income to investors, including those with retirement accounts such as IRAs and 401(k) plans.

Typical participants in a stock market include (both retail and institutional) investors and traders, as well as market makers (MMs) and specialists who maintain liquidity and provide two-sided markets. Brokers are third parties that facilitate trades between buyers and sellers but who do not take an actual position in a stock.

Over-the-Counter Markets

An over-the-counter (OTC) market is a decentralized market—meaning it does not have physical locations, and trading is conducted electronically—in which market participants trade securities directly between two parties without a broker. While OTC markets may handle trading in certain stocks (e.g., smaller or riskier companies that do not meet the listing criteria of exchanges), most stock trading is done via exchanges. Certain derivatives markets, however, are exclusively OTC, and so make up an important segment of the financial markets. Broadly speaking, OTC markets and the transactions that occur on them are far less regulated, less liquid, and more opaque.

Bond Markets

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. You may think of a bond as an agreement between the lender and borrower that contains the details of the loan and its payments. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the United States Treasury, for example. The bond market also is called the debt, credit, or fixed-income market.

Money Markets

Typically the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers. Individuals may also invest in the money markets by buying short-term certificates of deposit (CDs), municipal notes, or U.S. Treasury bills, among other examples.

Derivatives Markets

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. In and of itself a derivative is worthless. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products, that derive their value from underlying instruments like bonds, commodities, currencies, interest rates, market indexes, and stocks.

Futures markets are where futures contracts are listed and traded. Unlike forwards, which trade OTC, futures markets utilize standardized contract specifications, are well-regulated, and utilize

clearinghouses to settle and confirm trades. Options markets, such as the Chicago Board Options Exchange (CBOE), similarly list and regulate options contracts. Both futures and options exchanges may list contracts on various asset classes, such as equities, fixed-income securities, commodities, and so on.

Forex Market

The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than $5 trillion in daily transactions, which is more than the futures and equity markets combined. As with the OTC markets, the forex market is also decentralized and consists of a global network of computers and brokers from around the world. The forex market is made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors.

Commodities Markets

Commodities markets are venues where producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money. The bulk of trading in these commodities, however, takes place instead on derivatives markets that utilize spot commodities as the underlying assets. Forwards, futures, and options on commodities are exchanged both OTC and on listed exchanges around the world such as the Chicago Mercantile Exchange (CME) and the Intercontinental Exchange (ICE).

Cryptocurrency Markets

The past several years have seen the introduction and rise of cryptocurrencies such as Bitcoin and Ethereum, decentralized digital assets that are based on blockchain technology. Today, hundreds of cryptocurrency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another, or for fiat monies such as dollars or euros. Because the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud. Decentralized exchanges are also available that operate without any central authority. These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies.

Examples of Financial Markets

The above sections make clear that the "financial markets" are broad in scope and scale. Two give two more concrete examples, we will consider the role of stock markets in bringing a company to IPO, and the OTC derivatives market in contributing to the 2008-09 financial crisis.

Stock Markets and IPOs

When a company establishes itself, it will need access capital from investors. As the company grows it often finds itself in need of access to much larger amounts of capital than it can get from ongoing operations or a traditional bank loan. Firms can raise this size of capital by selling shares to the public through an initial public offering (IPO). This changes the status of the company from a "private" firm whose shares are held by a few shareholders to a publicly traded company whose shares will be subsequently held by numerous members of the general public. The IPO also offers early investors in the company an opportunity to cash out part of their stake, often reaping very handsome rewards in the process. Initially, the price of the IPO is usually set by the underwriters through their pre-marketing process.

Once the company's shares are listed on a stock exchange and trading in it commences, the price of these shares will fluctuate as investors and traders assess and reassess their intrinsic value and

the supply and demand for those shares at any moment in time.

OTC Derivatives and the 2008 Financial Crisis: MBS and CDOs
While the 2008-09 financial crisis was caused and made worse by several factors, one factor that has been widely identified is the market for mortgage-backed securities (MBS). These are a type of OTC derivatives where cash flows from individual mortgages are bundled, sliced up, and sold to investors. The crisis was the result of a sequence of events, each with its own trigger and culminating in the near collapse of the banking system. It has been argued that the seeds of the crisis were sown as far back as the 1970s with the Community Development Act, which required banks to loosen their credit requirements for lower-income consumers, creating a market for subprime mortgages.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -21-34

**Course Faculty**

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IQAC

**LECTURE HANDOUTS**

**L11**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II – Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Participants in financial Market

**Introduction :**

Financial markets refer to the network and structural facilities for the transfer of funds between the buyers and sellers of financial assets, services etc. It is financial marker where the funds-surpluses meet the funds-deficits. Financial market does not refer to any physical or geographical location or place, rather denote to the network of communication and dealings among the participants.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Decisions are based on cash flows and not on accounting concepts such as net income.
- The timing of cash flows is critical.
- Cash flows are based on opportunity costs.
- Cash flows are analyzed on an after-tax basis.
- The financing costs are ignored.

**Detailed content of the Lecture:**

**Organized Market and Unorganized market**

Organized Market

Organized market is that part of the financial markets, which operates under a defined set of rules, regulations and legal provisions and the statutory authorities such as the Central Government, the Central Bank the Exchange Commission (such as SEBI in India), etc. The organized market may also be called the official or formal market.

Unorganized market

Unorganized is that part of the financial markets, which is not standardized and is outside the preview of government control. In India, the rural money lenders and traders form the unorganized market. The basic feature of unorganized market are high interest rates, fluctuating and varying interest rates, absence of precise rules, upfront payment of interest, unsystematic arrangements etc.

Money Market & Capital Market

Money Market

The Money market refers to the market where borrowers and lenders exchange shortterm funds to solve their liquidity needs. Money market instruments are generally financial claims that have low default risk, maturities under one year and high marketability

Capital Market

The Capital market is a market for financial investments that are direct or indirect claims to capital. It is wider than the Securities Market and embraces all forms of lending and borrowing, whether or not evidenced by the creation of a negotiable financial instrument. The Capital Market comprises the complex of institutions and mechanisms through which intermediate term funds and long-term funds are pooled and made available to business, government and individuals. The Capital Market also encompasses the process by which securities already outstanding are transferred.

Participants in Financial Markets

Following are some of the Major Participants in Financial Markets

Insurance Companies
Finance Companies
Banks
Merchant Banks
Companies/Firms
The Individual
Government
Regulators
Financial Instruments

Following are the most traded financial Instrument in the Financial Markets

Equities: Equities are a type of security that represents the ownership in a company. Equities are traded (bought and sold) in stock markets.

Mutual funds: A mutual fund allows a group of people to pool their money together and have it professionally managed, in keeping with a predetermined investment objective. This investment avenue is popular because of its cost-efficiency, risk-diversification, professional management and sound regulation.

Bonds: Bonds are fixed income instruments which are issued for the purpose of raising capital. Both private entities, such as companies, financial institutions, and the central or state government and other government institutions use this instrument as a means of garnering funds.

Deposits: Investing in bank or post-office deposits is a very common way of securing surplus funds. These instruments are at the low end of the risk-return spectrum.

Cash equivalents: These are relatively safe and highly liquid investment options. Treasury bills and money market funds are cash equivalents.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

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**LECTURE HANDOUTS**

**L12**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Regulatory Environment, Primary Market

**Introduction :**

Securities and Exchange Board Of India [SEBI] is a regulator of securities market in India. Initially, it was formed for the purpose of observing the activities afterward in May 1992, Government of India granted legal status to SEBI.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Decisions are based on cash flows and not on accounting concepts such as net income.
- The timing of cash flows is critical.
- Cash flows are based on opportunity costs.
- Cash flows are analyzed on an after-tax basis.

The financing costs are ignored.

**Detailed content of the Lecture:**

**Functions Of Primary Market Under SEBI**

Primary Market facilitates capital growth by encouraging individuals to convert savings into investments.

Primary Market being the part of Capital market also issues new securities.

Government or Public sector institutions and companies can obtain funds in exchange of a new stock or bond issues via an investment Bank or financial Syndicate of securities dealers.

It encourages Initial Public Offerings [IPO]

**Role of SEBI**

Insider Trading has been a problem since the introduction of the Market dealing with buying and selling of securities, stock exchange, etc. An Insider is a person or a group of people having first- hand knowledge about the internal issues and Ups and downs of a company. The moment insider gets to know about the loss which is going to occur, the shares under insider's name are sold immediately. Hence, company suffers a huge amount of loss.

**Protecting the interest of investors**

- SEBI ensures that the investors do not get befooled by misleading and false advertisements. In return, SEBI issued guidelines so as to protect investors and also ensured that the advertisement is fair and concise.
- Regulation of price rigging: Price rigging refers to manipulation of prices by way of fluctuating the prices with the object of inflating and depressing the market price of securities.
- SEBI make efforts to educate investors so that they are able to make choices between the offerings of different companies and choose the most profitable securities.
- SEBI has issued guidelines to investigate cases of fraud and insider trading. Adding to this the provisions for fine and Imprisonment.
- To ensure Development activities in Stock Exchange
- E-Trading: Concept of E-trading have been introduced few years back by SEBI to eliminate the discomfort. It simplifies the process of buying and selling of securities.
- The initial public offering of Primary Market (which is a part of Capital market) permits through stock exchange.
- SEBI promotes training of intermediaries of securities market with the object of smooth functioning.
- Regulate the business of stock exchange and activities of stock exchange

SEBI introduced proper Code Of Conduct applicable to everyone who is a part of the process of buying and selling of securities, stock exchange, etc. Following are the areas of concern:

Rules and Regulations to regulate intermediaries such as Broker, underwriters, etc.

- Registers and Regulates the working of merchant Bankers, sub-brokers, stock-brokers, share transfer agent, trustees, etc.
- Registers the working of mutual Funds.
- SEBI regulates turnover of the companies.
- It also conducts inquiry and audits.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -21-34

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**LECTURE HANDOUTS**

**L13**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Methods of floating new issues

**Introduction :**

1. Public Issue 2. Private Placement 3. Rights Issue 4. Bonus Issue 5. Employees Stock Option Plan (ESOP).

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Collecting Data
- Growth of the Organization
- Risks
- Irreversibility of Investment Decisions.

**Detailed content of the Lecture:**

1. Public issue: Securities are issued to the all the members of the public who are eligible to participate in the issue.

2. Private placement: The sale of securities to a relatively small number of select investors as a way of raising capital. This is a wholesale issue of securities to institutional investors by an unlisted company.

3. Preferential issue: A private placement of securities by a listed company. Securities are issued to an identified set of investors which may include promoters, strategic investors, employees and such groups.

4. Qualified Institutional Placement (QIP): A private placement of securities by a listed company to a set of institutional investors termed as qualified institutional buyers is a QIP.

Method # 1. Public Issue:

A public issue is an issue where anybody and everybody can subscribe for the securities. When an issue or offer of securities is made to new investors for becoming part of shareholders' family of the issuer it is called a public issue.

Public issue can be further classified into:

(a) Initial Public Offer (IPO) and

(b) Further Public Offer (FPO).

Both IPO and FPO can be either a fresh issue or an offer for sale. In terms of companies Act 1956, an issue becomes public if it results in allotment to more than 50 persons.

(a) Initial Public Offer (IPO):

IPO means an offer of specified securities (i.e. equity shares and convertible securities) by an unlisted issuer to the public for subscription (including an offer for sale of its existing securities) for the first time. It is the first sale of stock by a company to the public. The Initial Public Offering can be made through the fixed price method, book building method or a combination of both. IPO enables listing and trading of the issuers securities in the securities market.

Allotments in public issues are not permitted in case the number of prospective allottees is less than 1000. An IPO cannot be made if there are outstanding convertible securities entitling any person to receive equity shares after the IPO. Every issuer must get IPO grading from at least one SEBI registered credit rating agency as on the date of registering the prospectus/red herring prospectus with the RoC (Registrar of Companies).

Convertible Security means a security which is convertible into or exchangeable with equity shares of the issuer at a later date, with or without the option of the holder of the security and includes convertible debt instrument and convertible preference shares.

(b) Further Public Offer (FPO):

When a listed company makes either a fresh issue of securities to the public or in offer for sale to the public, it is called a FPO. It is also called Follow on Public Offer.

It is the subsequent public offer of securities of a listed company. FPO is also known as Seasoned or Subsequent Public offer.

The methods of offering a public issue (IPO/FPO) can be of two:

(i) Offer through Prospectus

(ii) Offer of Sale.

(i) Offer through Prospectus:

**Video Content / Details of website for further learning (if any):**

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**LECTURE HANDOUTS**

**L14**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Role of primary market

**Introduction :**

The primary market organises offer of a new issue which had not been traded on any other exchange earlier. Due to this reason, it is also called a New Issue Market. Organising new issue offers involves a detailed assessment of project viability, among other factors.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

1. The securities that are issued in the primary market can be sold in the secondary market quite faster since it has a high rate of liquidity.
2. Primary market provides, specifically for potential investors, with an attractive issue which helps the company to raise capital at a relatively lower cost.
3. The primary market invites significant investment from many financial institutions and intermediaries. This reduces the risk level significantly as even if there is a failure in investment from one company, there are other investors available. The risk is significantly lowered owing to the diversification of investment

**Detailed content of the Lecture:**

Functions of Primary Market

The functions of such a market are manifold –

New issue offer

The primary market organises offer of a new issue which had not been traded on any other exchange earlier. Due to this reason, it is also called a New Issue Market. Organising new issue offers involves a detailed assessment of project viability, among other factors. The financial arrangements for the purpose include considerations of promoters' equity, liquidity ratio, debt-equity ratio and requirement of foreign exchange.

Underwriting services

Underwriting is an essential aspect while offering a new issue. An underwriter's role in a primary marketplace includes purchasing unsold shares if it cannot manage to sell the required number of shares to the public. A financial institution may act as an underwriter, earning a commission on underwriting.

Investors rely on underwriters for determining whether undertaking the risk would be worth its returns. It may so thus happen that an underwriter ends up buying all the IPO issue, and

subsequently selling it to investors.

Distribution of new issue
A new issue is also distributed in a primary marketing sphere. Such distribution is initiated with a new prospectus issue. It invites the public at large to buy a new issue and provides detailed information on the company, issue, and involved underwriters.

Basics
Stocks and bonds are two common capital-market securities. Stocks represent ownership interest in companies, while bonds represent slices of large loans to companies in exchange for regular interest payments. Other capital-market securities include preferred stocks and convertible bonds, which include features of both stocks and bonds. Futures and options are two common derivatives-market securities. Derivatives derive their properties from underlying assets, such as commodities, stocks, bonds and currencies.

Capital Markets
The capital markets consist of regulated stock exchanges, such as the New York Stock Exchange and the NASDAQ; over-the-counter markets for stocks that do not qualify for listing on the major exchanges; and bond markets for trading corporate and government bonds. Businesses use the capital markets to raise funds for various operational and strategic reasons. Governments also use the capital markets to issue short-term and long-term bonds to pay for services and operations. The United States Securities and Exchange Commission is in charge of enforcing governance and disclosure requirements for companies listed on U.S. exchanges. Investment banks facilitate the listing process for stocks and bonds, which typically includes regulatory filings and marketing efforts to generate investor demand. Research analysts use published financial reports and industry data to provide recommendations on which stocks to buy or sell and at what price.

Derivatives Markets
Derivatives trade on regulated exchanges, such as the Chicago Mercantile Exchange and the Chicago Board Options Exchange, and on over-the-counter markets. Over-the-counter derivatives include standardized contracts, which have features similar to the standard contracts trading on the regulated exchanges, and customized contracts between two parties. Businesses and financial institutions are the main users of the derivatives markets, which provide risk protection at minimal upfront cost. People can use derivatives to hedge their investments or to speculate on the future direction of asset prices. These risk factors include commodity price fluctuations and interest rate fluctuations.

Considerations
Private equity funds pool money from high-net-worth individuals, charitable trusts and pension funds to invest in private or public companies with high upside potential. Unlike mutual funds, private equity funds have fewer disclosure requirements and limitations on investment securities and strategies. The money markets facilitate liquidity in the financial markets through the trading of short-term financial assets, such as U.S. Treasury bills and certificates of deposit.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
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# MUTHAYAMMAL ENGINEERING COLLEGE

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Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L15**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Stock Exchanges in India BSE,OTCEI,NSE

**Introduction :**

Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

1. Local bodies:
2. Subsidiaries of Indian financial institutions and banks:
3. Subsidiaries of Stock exchanges:

**Detailed content of the Lecture:**

Bombay Stock Exchange Limited

Bombay Stock Exchange Limited, established in 1875 as the "Native Share and Stock Brokers' Association" is one of the oldest stock exchanges in Asia. BSE provides an efficient market, upholding the interests of the investors.

The market capitalization as on December 31, 2007 stood at USD 1.79 trillion. An investor can choose from more than 4,700 listed companies, which for easy reference, are classified into A, B, S, T and Z groups.

4 The Bombay Stock Exchange is the largest of 22 exchanges in India, with over 6,000 listed companies. It is also the fifth largest exchange in the world, with market capitalization of $466 billion.
5 Bombay Stock Exchange Profile

6 Stock Exchange Members
Members information
Types of Brokers
Functions of Stock Exchange Members

7 Members information

Transactions in any stock Exchange are executed by member brokers who deal with investor. A member of a stock exchange is an individual or a corporate body who holds the right to trade in the stocks listed on the exchange.

An investor can buy or sell securities only through one of the members of the exchange.

The Bombay stock exchange has, at present (2004), 678 members, of whom 192 are individual members and 486 are corporate members.

8 Functions of Stock Exchange Members
Broker/Dealer
All stock exchange members are brokers/dealers though not all firms in practice at in this down capacity.
Opening a securities account with a broker involves establishing the clients identify and depositing the requisite amount to cover the initial security purchase.

**The Features of OTCEI are :-**

OTCEI is a floorless exchange where all the activities are fully computerised.
Its promoters have been designated as sponsor members and they alone are entitled to sponsor a company for listing there.
Trading on the OTCEI takes place through a network of computers or OTC dealers located at different places within the same city and even across the cities. These computers allow dealers to quote, query & transact through a central OTC computer using the telecommunication links.
A Company which is listed on any other recognised stock exchange in India is not permitted simultaneously for listing on OTCEI.
OTCEI deals in equity shares, preference shares, bonds, debentures and warrants.
The Participants of OTCEI are :-
Members and dealers appointed by OTCEI,
Companies whose securities are listed,
Investors who trade in the OTCEI,
Registrar who keeps custody of scrip certificates,
Settlement Bank which clears the payment between counters, and
SEBI and Government who supervise and regulate the working.

NSE:
The NSE boasts of screen based trading system. In the NSE, the available system provides complete market transparency of trading operations to both trading members and the participates and finds a suitable match. The NSE does not have trading floors as in conventional stock exchanges. The trading is entirely screen based with automated order machine. The screen provides entire market information at the press of a button. At the same time, the system provides for concealment of the identify of market operations. The screen gives all information which is dynamically updated. As the market participants sit in their own offices, they have all the advantages of back office support, and facility to get in touch with their constituents.

Wholesale debt market segment,
Capital market segment, and
Futures & options trading.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
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**LECTURE HANDOUTS**

**L16**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** ISE, and Regulations of stock exchanges

**Introduction :**

Inter-connected Stock Exchange of India ... Inter-connected Stock Exchange of India Ltd. Inter-connected Stock Exchange Ltd. (ISE) is an Indian national-level

**Prerequisite knowledge for Complete understanding and learning of Topic:**

The Irish Stock Exchange plc, now trading as Euronext Dublin, joined the Euronext Group in March 2018 ... European directives drive markets and securities regulation. ... First member firm outside UK and Ireland (Deutsche Bank) joins the ISE.

**Detailed content of the Lecture:**

Listing means admission of securities to dealings / trading on a Stock Exchange through an agreement. The objective of listing is to create liquidity and marketability to securities.
ICEL will provide a nation-wide trading facility for the companies listed on its Exchange, which will provide easy access to investors, easy access to capital, market depth and liquidity for the benefit of the investing public.
Companies desirous of listing their securities on the Exchange are required to fulfill the eligibility criteria for listing and shall comply with the SEBI (Issue of Capital & Disclosures Requirement) Regulations 2009.

**Inter-connected Enterprises Limited** is a national-level stock exchange, providing trading, clearing, settlement, risk management and surveillance support to its Trading Members.ICEL incorporated as a company limited by guarantee in January - 1998. It has 791 Trading Members, who are located in 84 cities spread across 18 states. These intermediaries are administratively supported through the regional offices at Delhi, Kolkata, Patna, Ahmedabad, Coimbatore and Nagpur, besides Mumbai.

ICEL aims to address the needs of small companies and retail investors by harnessing the potential of regional markets, so as to transform them into a liquid and vibrant market using state-of-the art technology and networking.

ICEL has floated ISS Enterprise Limited as a wholly-owned subsidiary under the policy formulated by the Securities and Exchange Board of India (SEBI) for "Revival of Small Stock Exchanges". The policy enunciated by SEBI permits a stock exchange to float a subsidiary, which can take up membership of larger stock exchanges, such as the National Stock Exchange of India Limited (NSE), and Bombay Stock Exchange Limited (BSE). ISS has been registered by SEBI as a Trading-cum-Clearing Member in the Capital Market segment and Futures & Options segment of NSE and Capital Market segment of BSE. Trading Members of ICEL can access NSE and BSE by registering themselves as Sub-brokers of ISS. Thus, the trading intermediaries of ISS can access other markets in addition to the ICEL market. ISS, thus provides the investors in smaller cities, a one-stop solution for cost-effective and efficient trading and settlement services in securities.

The Research Cell has been established with the objective of carrying out quality research on various facets of the Indian financial system in general and the capital market in particular.

It brings out a monthly newsletter titled "Capital Market at a Glance" and a monthly publication titled "V share". Apart from monthly reports, it also circulates daily Newsletter named "I Financial Markets in Motions" and Techni-Trade. The Research Cell plans to expand its activities by publishing a host of value based research publications, covering a number of areas, such as equities, derivatives, bonds, mutual funds, risk management, pension funds, money markets and commodities. The ICEL Training Centre conducts class-room training programmes on different subjects related to the capital market, such as equities trading and settlement, derivatives trading, day trading, arbitrage operations, technical analysis, financial planning, compliance requirement, etc. Through these courses, the training centre provides knowledge to stock brokers, sub-brokers, professionals and investors to also appear for the certificate courses conducted by the stock exchanges.

It also aims to make and build the professional careers of MBAs, post graduates and graduates, with a view to enabling them to work effectively in securities trading, risk management, financial management, corporate finance disciplines or function as intermediaries (viz. stock brokers, sub-brokers, merchant bankers, clearing bankers, etc.)

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**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** ISE, and Regulations of stock exchanges

**Introduction :**

Inter-connected Stock Exchange of India ... Inter-connected Stock Exchange of India Ltd. Inter-connected Stock Exchange Ltd. (ISE) is an Indian national-level

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The Irish Stock Exchange plc, now trading as Euronext Dublin, joined the Euronext Group in March 2018 ... European directives drive markets and securities regulation. ... First member firm outside UK and Ireland (Deutsche Bank) joins the ISE.

**Detailed content of the Lecture:**

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**LECTURE HANDOUTS**

**L18**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **II- Stock Markets** **Date of Lecture:**

**Topic of Lecture:** Trading system in stock exchanges

**Introduction :**

The system of trading in stock exchanges for many years was known as floor trading. In the new electronic stock exchanges which have fully automated computerized mode of trading, floor trading is replaced with a new system of trading known as screen-based trading

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Understand the concept
- Understand the factors
- Understand arbitrage

**Detailed content of the Lecture:**

Types of Trading Systems

The following points highlight the three main types of trading systems in a stock exchange. The systems are: 1. Screen Based Trading System 2. Scripless Trading 3. Demat Trading.

Type # 1. Screen Based Trading System:
The stock exchanges now provide an on-line fully automated 'screen based trading system (SBTS)'.

The Important Features of SBTS:
1. A member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching order from a counter party.
2. SBTS electronically matches orders on a strict price/time priority.
3. It cuts down on time, cost and risk of error, as well as fraud resulting in improved operational efficiency.
4. It allows faster incorporation of price sensitive information into prevailing prices, and enables increasing the informational efficiency of markets.
5. It enables market participants to see the full market on real time, making the market transparent.
6. It allows a large number of participants, irrespective of geographical location, to trade with one another simultaneously, improving the depth and liquidity of the market.
7. It provides full anonymity by accepting orders of small, from members without revealing their identity, thus providing equal access to everybody.
8. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety.

Type # 2. Scripless Trading:

1. Scripless trading is a method of securities trading in which the settlement of transactions take place via book entry instead of physical exchange and delivery of securities certificates.
2. The major objective of introducing scripless trading is to ensure the safety of securities certificates and to improve the liquidity position of the stock markets both in primary and secondary markets.
3. The major advantages of the scripless trading system are as follows:

(i) Reduction in paper work of stock brokers and stock exchanges.

(ii) Ensure safety of certificates from theft, fake certificates, mutilation etc.

(iii) Reduction in cumbersome share transfer procedures.

(iv) Greater speed in exchange and delivery of securities certificates.

(v) Improves liquidity of both the individual scrips and stock market position.

Type # 3. Demat Trading:

1. In a demat trading, the depositories maintain and transfer ownership records in electronic form for the wide range of corporate securities and money market instruments, in dematerialized form.
2. The investors are allowed to hold securities either in physical form or demat form.
3. When an investor intend to keep his securities in demat form, he is required to hold the securities in depositories.
4. Now all active securities are traded and settled in demat form. At present, nearly 99% of turnover on stock exchanges are traded and settled in demat form.
5. All new IPOs are required to be traded only in demat form. All stock exchange listed securities are asked to be in demat form. Stamp duty on transfer of demat securities have been abolished.
6. Demat securities are preferred as collateral in providing security to a debt.
7. The demat trading is made compulsory for money market instruments like government note issuance, treasury bills, etc.

**Video Content / Details of website for further learning (if any):**

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**LECTURE HANDOUTS**

**L19**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III-Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Economic analysis: Key Macroeconomic Factors.

**Introduction :**

A macroeconomic factor is a phenomenon, pattern, or condition that emanates from, or relates to, a large aspect of an economy rather than to a particular population. Inflation, gross domestic product (GDP), national income, and unemployment levels are examples of macroeconomic factors.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

Methods of recapitalization include:

- Issue debt and repurchase equity
- Issue debt and pay a large dividend to equity investors
- Issue equity and repay debt

**Detailed content of the Lecture:**

A macroeconomic factor can include something that affects the course or direction of a given large-scale economy. Monetary policies and other regulations, for example, can affect national and state economies, while also coming with potentially great global consequences.

Inflation, gross domestic product (GDP), national income, and unemployment levels are examples of macroeconomic factors. Such economic performance metrics are closely tracked by states, companies, and consumers alike. The correlation between various macroeconomic factors is extensively researched in the field of macroeconomics.

Understanding Macroeconomics

Macroeconomics is a field of economics that studies broader economic trends, such as inflation, economic growth rates, price levels, gross domestic product (GDP), national income, and changes in levels of unemployment.

Inflation

Inflation is a progressive increase in the average cost of goods and services in the economy over time.

Economic Growth Rate

The economic growth rate is the percent change in the cost of the output of goods and services in a country across a specific period of time, relative to a previous period.

Price Level

A price level is the variation of existing prices for economically produced goods and services. In broader terms, the level of prices refers to the costs of a good, service, or security.

Gross Domestic Product (GDP)

The gross domestic product (GDP) is a quantitative measure of the market value of all finished goods and services produced over a given time period.

National Income
National income is the aggregate amount of money generated within a nation.

Unemployment Level
The level or rate of unemployment is the unemployed share of the labor force in a given country, calculated and stated as a percentage.

Types of Macroeconomic Factors

Macroeconomic Factor - Types
1. Positive
Positive macroeconomic factors are comprised of events that ultimately stimulate economic stability and expansion within a country or a group of countries.

2. Negative
Negative macroeconomic factors include events that may threaten the national or global economy. Negative macroeconomic factors also include global pandemics (e.g., Covid-19) or natural disasters, such as hurricanes, earthquakes, flooding, wildfires, etc.

3. Neutral
Some economic changes are neither positive nor negative. Instead, the exact consequences are assessed based on the purpose of the action, such as the control of trade across regional or national borders.

The nature of a particular action, such as the implementation or discontinuance of a trade embargo, would come with a variety of consequences that are dependent on the country being impacted and the objectives behind the action taken.

Importance of Macroeconomic Factors
Economic experts and researchers frequently refer to macroeconomic factor trends as they try to find ways to clarify economic policy objectives and strive to achieve economic prosperity. They also attempt to forecast future rates of employment, inflation, and other main macroeconomic factors. Such forecasts affect the decisions taken by states, individuals, and businesses.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
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**LECTURE HANDOUTS**

**L20**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III-Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Industry analysis: Industry Life Cycle Analysis.

**Introduction :**

Industry life cycle analysis is part of fundamental analysis of a company involving the examination of the stage an industry is in at a given point in time. There are four stages in an industry life cycle:

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Industry life cycle refers to the stages of growth, consolidation, and eventual extinction of an industry.
- It mirrors an economic cycle and consists of four main stages: expansion, peak, contraction, and trough.
- It is used to analyze a company's stock, depending on the stage that it is in during a life cycle.

**Detailed content of the Lecture:**

**Industry Life Cycle Analysis**

Though not necessarily the case, the life cycle of a particular industry will follow the general economic cycle. Moreover, an industry life cycle may lead or lag an economic cycle, and can vary from an economic cycle's phases in terms of expansion or contraction percentages or duration of peak and trough stages.

Industry Life Cycle Phases

Introduction Phase

The introduction, or startup, phase involves the development and early marketing of a new product or service. Innovators often create new businesses to enable the production and proliferation of the new offering. Information on the products and industry participants are often limited, so demand tends to be unclear. Consumers of the goods and services need to learn more about them, while the new providers are still developing and honing the offering. The industry tends to be highly fragmented in this stage. Participants tend to be unprofitable because expenses are incurred to develop and market the offering while revenues are still low.

Growth Phase

Consumers in the new industry have come to understand the value of the new offering, and demand grows rapidly. A handful of important players usually become apparent, and they compete to establish a share of the new market. Immediate profits usually are not a top priority as companies spend on research and development or marketing. Business processes are improved, and geographical expansion is common. Once the new product has demonstrated viability, larger companies in adjacent industries tend to enter the market through acquisitions or

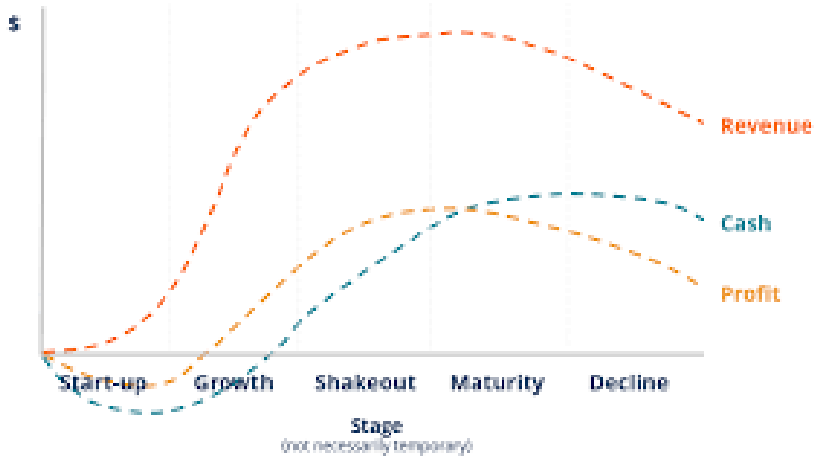
internal development.

Maturity Phase

The maturity phase begins with a shakeout period, during which growth slows, focus shifts toward expense reduction, and consolidation occurs. Some firms achieve economies of scale, hampering the sustainability of smaller competitors. As maturity is achieved, barriers to entry become higher, and the competitive landscape becomes more clear. Market share, cash flow, and profitability become the primary goals of the remaining companies now that growth is relatively less important. Price competition becomes much more relevant as product differentiation declines with consolidation.

Decline Phase

The decline phase marks the end of an industry's ability to support growth. Obsolescence and evolving end markets negatively impact demand, leading to declining revenues. This creates margin pressure, forcing weaker competitors out of the industry. Further consolidation is common as participants seek synergies and further gains from scale. Decline often signals the end of viability for the incumbent business model, pushing industry participants into adjacent markets. The decline phase can be delayed with large-scale product improvements or repurposing, but these tend to prolong the same process.

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**LECTURE HANDOUTS**

**L21**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III-Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Analyzing the Structure and Characteristics of an Industry

**Introduction :**

Industry analysis—also known as Porter's Five Forces Analysis—is a very useful tool for business strategists. It is based on the observation that profit margins vary between industries, which can be explained by the structure of an industry.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Highlight the company's critical strengths and weaknesses (SWOT analysis)
- Animate its position in the industry
- Clarify areas where strategic changes will result in the greatest payoffs
- Emphasize areas where industry trends indicate the greatest significance as either opportunities or threats

**Detailed content of the Lecture:**

Industry analysis and competition: Porter's five forces

Researching a market? Our free online course Introduction to Market Sizing offers a practical 30-minute primer on market research and calculating market size.

Industry analysis—also known as Porter's Five Forces Analysis—is a very useful tool for business strategists. It is based on the observation that profit margins vary between industries, which can be explained by the structure of an industry.

The Five Forces primary purpose is to determine the attractiveness of an industry. However, the analysis also provides a starting point for formulating strategy and understanding the competitive landscape in which a company operates.

Porter's Five Forces Analysis

The framework for the Five Forces Analysis consists of these competitive forces:

Industry rivalry (degree of competition among existing firms)—intense competition leads to reduced profit potential for companies in the same industry

Threat of substitutes (products or services)—availability of substitute products will limit your ability to raise prices

Bargaining power of buyers—powerful buyers have a significant impact on prices
Bargaining power of suppliers—powerful suppliers can demand premium prices and limit your profit
Barriers to entry (threat of new entrants)—act as a deterrent against new competitors
Industry analysis and competition
Competition within an industry is grounded in its underlying economic structure. It goes beyond the behaviour of current competitors.

The state of competition in an industry depends upon five basic competitive forces. The collective strength of these forces determines profit potential in the industry. Profit potential is measured in terms of long-term return on invested capital. Different industries have different profit potential—just as the collective strength of the five forces differs between industries.

Industry analysis as a tool to develop a competitive strategy
Industry analysis enables a company to develop a competitive strategy that best defends against the competitive forces or influences them in its favour. The key to developing a competitive strategy is to understand the sources of the competitive forces. By developing an understanding of these competitive forces, the company can:

Highlight the company's critical strengths and weaknesses (SWOT analysis)
Animate its position in the industry
Clarify areas where strategic changes will result in the greatest payoffs
Emphasize areas where industry trends indicate the greatest significance as either opportunities or threats

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -219-20

**Course Faculty**

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Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L22**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III-Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Profit Potential of Industries, Company Analysis:

**Introduction :**

It is also known as Porter's Five Forces Analysis—is a very useful tool for business strategists. It is based on the observation that profit margins vary between industries, which can be explained by the structure of an company.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- That is the similarities and differences among industry classification systems?
- How does an analyst go about choosing a peer group of companies?
- What are the key factors to consider when analyzing an industry?
- What advantages are enjoyed by companies in strategically well-positioned industries?

**Detailed content of the Lecture:**

Company analysis takes place after the analyst has gained an understanding of the company's external environment and includes answering questions about how the company will respond to the threats and opportunities presented by the external environment. This intended response is the individual company's competitive strategy. The analyst should seek to determine whether the strategy is primarily defensive or offensive in its nature and how the company intends to implement it.

Porter identifies two chief competitive strategies:

A low-cost strategy (cost leadership) is one in which companies strive to become the low-cost producers and to gain market share by offering their products and services at lower prices than their competition while still making a profit margin sufficient to generate a superior rate of return based on the higher revenues achieved.

A product/service differentiation strategy is one in which companies attempt to establish themselves as the suppliers or producers of products and services that are unique either in quality, type, or means of distribution. To be successful, the companies' price premiums must be above their costs of differentiation and the differentiation must be appealing to customers and sustainable over time.

A checklist for company analysis includes a thorough investigation of:

- Corporate profile;
- Industry characteristics;
- Demand for products/services;
- Supply of products/services;
- Pricing; and
- Financial ratios.

Spreadsheet modeling of financial statements to analyze and forecast revenues, operating and net income, and cash flows has become one of the most widely used tools in company analysis. Spreadsheet modeling can be used to quantify the effects of the changes in certain swing factors on the various financial statements. The analyst should be aware that the output of the model will depend significantly on the assumptions that are made.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -225

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**LECTURE HANDOUTS**

**L23**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III- Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Analyzing the Financial Statements,

**Introduction :**

Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes. External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value. Internal constituents use it as a monitoring tool for managing the finances.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

1. The structure of the financial statements
2. The economic characteristics of the industry in which the firm operates and
3. The strategies the firm pursues to differentiate itself from its competitors.

**Detailed content of the Lecture:**

Analyzing Financial Statements

The financial statements of a company record important financial data on every aspect of a business's activities. As such they can be evaluated on the basis of past, current, and projected performance.

Financial Statements

As mentioned, there are three main financial statements that every company creates and monitors: the balance sheet, income statement, and cash flow statement. Companies use these financial statements to manage the operations of their business and also to provide reporting transparency to their stakeholders. All three statements are interconnected and create different views of a company's activities and performance.

Balance Sheet

The balance sheet is a report of a company's financial worth in terms of book value. It is broken into three parts to include a company's assets, liabilities, and shareholders' equity. Short-term assets such as cash and accounts receivable can tell a lot about a company's operational efficiency. Liabilities include its expense arrangements and the debt capital it is paying off. Shareholder's equity includes details on equity capital investments and retained earnings from periodic net income. The balance sheet must balance with assets minus liabilities equaling shareholder's equity. The resulting shareholder's equity is considered a company's book value. This value is an important performance metric that increases or decreases with the financial activities of a company.

Income Statement

The income statement breaks down the revenue a company earns against the expenses involved in its business to provide a bottom line, net income profit or loss. The income statement is broken into three parts which help to analyze business efficiency at three different points. It begins with revenue and the direct costs associated with revenue to identify gross profit. It then moves to operating profit which subtracts indirect expenses such as marketing costs, general costs, and depreciation. Finally it ends with net profit which deducts interest and taxes.

Basic analysis of the income statement usually involves the calculation of gross profit margin, operating profit margin, and net profit margin which each divide profit by revenue. Profit margin helps to show where company costs are low or high at different points of the operations.

Cash Flow Statement

The cash flow statement provides an overview of the company's cash flows from operating activities, investing activities, and financing activities. Net income is carried over to the cash flow statement where it is included as the top line item for operating activities. Like its title, investing activities include cash flows involved with firmwide investments. The financing activities section includes cash flow from both debt and equity financing. The bottom line shows how much cash a company has available.

Free Cash Flow and Other Valuation Statements

Companies and analysts also use free cash flow statements and other valuation statements to analyze the value of a company. Free cash flow statements arrive at a net present value by discounting the free cash flow a company is estimated to generate over time. Private companies may keep a valuation statement as they progress toward potentially going public.
Financial Performance
Financial statements are maintained by companies daily and used internally for business management. In general both internal and external stakeholders use the same corporate finance methodologies for maintaining business activities and evaluating overall financial performance.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -230

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**LECTURE HANDOUTS**

**L24**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III- Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** The Chemistry of Earnings,Market Share/Profit Margin Approach

**Introduction :**

Company's earnings are its after-tax net income, meaning its profits. ... Earnings per share (EPS) is a commonly cited ratio used to show the company's ... divided by the current market price per share, is another way of measuring earnings. ... Share buybacks or other methods of changing the number of shares outstanding.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Earnings refer to a company's profits in a given quarter or fiscal year.
- Earnings are a key figure used to determine a stock's value.
- A company's earnings are used in many common ratios.Earnings have a big impact on
- stock price, and as a result, the numbers are subject to potential manipulation.

**Detailed content of the Lecture:**

- **Earnings**

Earnings are the profit that a company produces in a specific period, usually defined as a quarter or a year. After the end of each quarter, analysts wait for the earnings of the companies they follow to be released. Earnings are studied because they represent a direct link to company performance.

A company that beats analysts' earnings estimates is looked on favorably by investors. A company that consistently misses earnings estimates may be considered an unattractive and risky investment.

easures of Earnings

There are many measures and uses of earnings. Some analysts like to calculate earnings before taxes (EBT), also known as pre-tax income. Some analysts prefer to see earnings before interest and taxes (EBIT). Still other analysts, mainly in industries with a high level of fixed assets, prefer to see earnings before interest, taxes, depreciation, and amortization, also known as EBITDA.

All three figures provide varying degrees of measuring profitability.

Earnings per Share

Earnings per share (EPS) is a commonly cited ratio used to show the company's profitability on a per-share basis. It is calculated by dividing the company's total earnings by the number of shares outstanding.

Price-to-Earnings

Earnings are also used to determine a key indicator known as the price-to-earnings (P/E) ratio.

The price-to-earnings ratio, calculated as share price divided by earnings per share, is used by investors and analysts to compare the relative values of companies in the same industry or sector.

The stock of a company with a high P/E ratio relative to its industry peers may be considered overvalued. A company with a low price compared with its earnings might appear to be undervalued.

Earnings Yield

The earnings yield, or the earnings per share for the most recent 12-month period divided by the current market price per share, is another way of measuring earnings. It is in fact simply the inverse of the P/E ratio.

Criticism of Earnings

Since corporate earnings are such an important metric and have a direct impact on share price, managers may be tempted to manipulate earnings figures. This is both illegal and unethical.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -227

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**LECTURE HANDOUTS**

**L25**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III-Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Forecasting Earnings

**Introduction :**

The forecasting of a company's earnings is important to a firm, its creditors, and its investors. The business usually prepares its annual earnings forecast as part of its budget process.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Internal Information: Relating to enterprise
- External Information: Out side the company

**Detailed content of the Lecture:**

**Forecasting Earnings**

1. **Identification of variables:**

a. **Operations and Earnings**

Operating cycle of a firm starts with cash converted into inventory

**ROI= EBIT / Investment**

**b. Financing& Earnings**

**Debt financing:** Provide leverage to common share holders

**Equity financing:** Equal shares

**2. Selecting a Forecasting method:**

a. **Traditional method**

**Earnings model:** Analysis EAt & EBT

**Market share:** Consists of tracking historical record and net income

**Projected Financial statements:** Projection of earnings

**b. Modern methods:**

**Regression analysis**

It s the measure of the average relationship between two or more variable in terms of the original units of the data

**Correlation analysis**

Its to reduce the range of uncertainty of our prediction

**Trend analysis**

It refers to collecting information and attempting to spot a pattern

**Decision trees**

It used to forecast earnings as security values.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -243

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**LECTURE HANDOUTS**

**L26**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **III – Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Applied Valuation Techniques

**Introduction :**

When valuing a company as a going concern, there are three main valuation methods used by industry practitioners: (1) DCF analysis, (2) comparable company analysis, and (3) precedent transactions. These are the most common methods of valuation used in investment banking, equity research, private equity, corporate development, mergers & acquisitions (M&A), leveraged buyouts (LBO), and most areas of finance.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- There are no taxes.
- Transaction cost for buying and selling securities, as well as the bankruptcy cost, is nil.
- There is a symmetry of information. This means that an investor will have access to the same information that a corporation would and investors will thus behave rationally.

**Detailed content of the Lecture:**

**APPLIED VALUATION TECHNIQUES:**

Although the raw data of the Financial Statement has some useful information, much more can be understood about the value of a stock by applying a variety of tools to the financial data.

1. **Earnings per Share EPS**
2. **Price to Earnings Ratio P/E**
3. **Projected Earnings Growth PEG**
4. **Price to Sales P/S**
5. **Price to Book P/B**
6. **Dividend Payout Ratio**
7. **Dividend Yield**
8. **Book Value per share**

## 9. Return on Equity

***1. Earnings per Share***

The overall earnings of a company is not in itself a useful indicator of a stock's worth. Low earnings coupled with low outstanding shares can be more valuable than high earnings with a high number of outstanding shares. Earnings per share is much more useful information than earnings by itself. Earnings per share (EPS) is calculated by dividing the net earnings by the number of outstanding shares.

**EPS = Net Earnings / Outstanding Shares**

For example: ABC company had net earnings of $1 million and 100,000 outstanding shares for an EPS of 10 (1,000,000 / 100,000 = 10). This information is useful for comparing two companies in a certain industry but should not be the deciding factor when choosing stocks.

***2.Price to Earnings Ratio***

The Price to Earnings Ratio (P/E) shows the relationship between stock price and company earnings. It is calculated by dividing the share price by the Earnings per Share.

**P/E = Stock Price / EPS**

In our example above of ABC company the EPS is 10 so if it has a price per share of $50 the P/E is 5 (50 / 10 = 5). The P/E tells you how many investors are willing to pay for that particular company's earnings. P/E's can be read in a variety of ways. A high P/E could mean that the company is overpriced or it could mean that investors expect the company to continue to grow and generate profits. A low P/E could mean that investors are wary of the company or it could indicate a company that most investors have overlooked.

Either way, further analysis is needed to determine the true value of a particular stock.

3. ***Projected Earnings Growth Rate-PEG Ratio***

A ratio used to determine a stock's value while taking into account earnings growth. The calculation is as follows:

$$\text{PEG Ratio} = \frac{\text{Price/Earnings Ratio}}{\text{Annual EPS Growth}}$$

PEG is a widely used indicator of a stock's potential value. It is favoured by many over the price/earnings ratio because it also accounts for growth. Similar to the P/E ratio, a lower PEG means that the stock is more undervalued.

***4. Price to Sales Ratio***

When a company has no earnings, there are other tools available to help investors judge its worth. New companies in particular often have no earnings, but that does not mean they are bad investments. The Price to Sales ratio (P/S) is a useful tool for judging new companies. It is calculated by dividing the market cap (stock price times number of outstanding shares) by

total revenues. An alternate method is to divide current share price by sales per share. P/S indicates the value the market places on sales. The lower the P/S the better the value.

$$PSR = \frac{\text{Share Price}}{\text{Revenue Per Share}}$$

***5.Price to Book Ratio***

Book value is determined by subtracting liabilities from assets. The value of a growing company will always be more than book value because of the potential for future revenue. The price to book ratio (P/B) is the value the market places on the book value of the company. It is calculated by dividing the current price per share by the book value per share (book value / number of outstanding shares). It is also known as the "price-equity ratio".

**P/B = Share Price / Book Value per Share**

**P/B = Share Price / Book Value per Share**

$$P/B\,Ratio = \frac{\text{Stock Price}}{\text{Total Assets - Intangible Assets and Liabilities}}$$

***6. Dividend Yield***

Some investors are looking for stocks that can maximize dividend income. Dividend yield is useful for determining the percentage return a company pays in the form of dividends. It is calculated by dividing the annual dividend per share by the stock's price per share. Usually it is the older, well-established companies that pay a higher percentage, and these companies also usually have a more consistent dividend history than younger companies. Dividend yield is calculated as follows:

$$= \frac{\text{Annual Dividends Per Share}}{\text{Price Per Share}}$$

***7. Dividend payout ratio***

**Dividend payout ratio** is the fraction of net income a firm pays to its stockholders in dividends:

$$\text{Dividend payout ratio} = \frac{\text{Dividends}}{\text{Net Income for the same period}}$$

The part of the earnings not paid to investors is left for investment to provide for future earnings growth. Investors seeking high current income and limited capital growth prefer companies with high Dividend payout ratio. However investors seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to return more of the earnings back to investors. Note that dividend payout ratio is calculated as EPS/DPS.

Calculated as:

$$= \frac{\text{Yearly Dividend per Share}}{\text{Earnings per Share}}$$

or equivalently:

$$= \frac{\text{Dividends}}{\text{Net Income}}$$

The payout ratio provides an idea of how well earnings support the dividend payments. More mature companies tend to have a higher payout ratio. In the U.K. there is a similar ratio, which is known as dividend cover. It is calculated as earnings per share divided by dividends per share.

*8. Return on Equity*

**Return on equity** (ROE) is a measure of how much, in earnings a company generates in a time period compared to its shareholders' equity. It is typically calculated on a full-year basis (either the last fiscal year or the last four quarters).

**Expanded Definition**

When capital is tied up in a business, the owners of the capital want to see a good return on that capital. Looking at profit by itself is meaningless. I mean, if a company earns $1 million in net income, that's okay. But its great if the capital invested to earn that is only $2.5 million (40% return) and terrible if the capital invested is $25 million (4% return).

Return on investment measures how profitable the company is for the owner of the investment. In this case, **return on equity** measures how profitable the company is for the equity owners, a.k.a. the shareholders.

$$ROE = \frac{Net\ Income}{Average\ Shareholders\ Equity}$$

The "average" is taken over the time period being calculated and is equal to "the sum of the beginning equity balance and the ending equity balance, divided by two."

*9.Book Value per Share*

A measure used by owners of common shares in a firm to determine the level of safety associated with each individual share after all debts are paid accordingly.

$$\text{Book Value Per Share} = \frac{\text{Total Shareholder Equity - Preferred Equity}}{\text{Total Outstanding Shares}}$$

Should the company decide to dissolve, the book value per common indicates the dollar value remaining for common shareholders after all assets are liquidated and all debtors are paid. In simple terms it would be the amount of money that a holder of a common share would get if a company were to liquidate.

| **Video Content / Details of website for further learning (if any):** |
| --- |
| **Important Books/Journals for further learning including the page nos.:**<br>Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -243 |

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**LECTURE HANDOUTS**

**L27**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** :**III- Fundamental Analysis** **Date of Lecture:**

**Topic of Lecture:** Graham and Dodds investor ratios.

**Introduction :**

The Graham & Dodds 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 price divided by the average of ten years of earnings.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Distress Investing
- Control Investing
- Credit Analysis
- First and Second Stage Venture Capital Investments

**Detailed content of the Lecture:**

tockopedia explains CAPE

The Graham & Dodds 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 price divided by the average of ten years of earnings.

Value investors Benjamin Graham and David Dodd argued for smoothing a firm's earnings over the past five to ten years in their classic text Security Analysis. Graham and Dodd noted one-year earnings were too volatile to offer a good idea of a firm's true earning power.

Decades later, Yale economist Robert Shiller popularised the 10-year version of Graham and Dodd's P/E as a way to value the stock market. Robert Shiller maintains a time-series of US CAPE here.

A high PE ratio means that investors are paying more for each unit of Earnings, so the stock is more expensive compared to one with a lower ratio. Investors have a tendency to overreact becoming enamoured with glamour stocks (pushing their PE too high) while becoming disenchanted with value stocks (pushing their PE too low).

Research has shown that low PE ratio stocks tend to outperform high PE stocks in the long run. Unlike the EV/EBITDA multiple which is capital structure-neutral, the price-to-earnings ratio reflects the capital structure of the company in question. The reciprocal of the PE ratio is known as the Earnings Yield.

Earnings are measured on a normalised and diluted basis.
In a G&D primacy of the income account approach (or any other primacy of the income account approach) managements are appraised almost solely as operators. For FF, managements are appraised using a three-pronged approach:

- Management as operators
- Management as investors
- Management as financiers

Both G&D and MCT focus on the investment process from the points of view of the OPMI. Little, or no, attention is paid to other points of view; and the particular factors needed to understand the dynamics driving individual companies, particular industries, control persons and putative control persons, as well as creditors. This emphasis on the OPMI is in sharp contrast to other areas of FF – control investing, distress investing and first and second stage Venture Capital. Here, the analysis does not focus on OPMI needs and decisions, but is rather a four-legged stool:

- Understanding the OPMI's needs and desires.
- Understanding the company in some depth.
- Understanding the needs and desires of control persons and entities, present and future.
- Understanding the needs and desires of creditors.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -243

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**LECTURE HANDOUTS**

**L28**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV – Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Technical Analysis

**Introduction :**

Technical analysis is a means of examining and predicting price movements in the financial markets, by using historical price charts and market statistics. It is based on the idea that if a trader can identify previous market patterns, they can form a fairly accurate prediction of future price trajectories.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Technical analysis is a trading discipline employed to evaluate investments and identify trading opportunities in price trends and patterns seen on charts.
- Technical analysts believe past trading activity and price changes of a security can be valuable indicators of the security's future price movements.
- Technical analysis may be contrasted with fundamental analysis, which focuses on a company's financials rather than historical price patterns or stock trends.

**Detailed content of the Lecture:**

Basics Of Technical Analysis

Technical analysis as we know it today was first introduced by Charles Dow and the Dow Theory in the late 1800s. Several noteworthy researchers including William P. Hamilton, Robert Rhea, Edson Gould, and John Magee further contributed to Dow Theory concepts helping to form its basis. In modern day, technical analysis has evolved to included hundreds of patterns and signals developed through years of research.

Assumptions of Technical Analysis

There are two primary methods used to analyze securities and make investment decisions: fundamental analysis and technical analysis. Fundamental analysis involves analyzing a company’s financial statements to determine the fair value of the business, while technical analysis assumes that a security's price already reflects all publicly-available information and instead focuses on the statistical analysis of price movements. Technical analysis attempts to understand the market sentiment behind price trends by looking for patterns and trends rather than analyzing a security's fundamental attributes.

Charles Dow released a series of editorials discussing technical analysis theory. His writings included two basic assumptions that have continued to form the framework for technical analysis trading.

Markets are efficient with values representing factors that influence a security's price, but
Even random market price movements appear to move in identifiable patterns and trends that

tend to repeat over time.
Today the field of technical analysis builds on Dow's work. Professional analysts typically accept three general assumptions for the discipline:

1: The market discounts everything
Technical analysts believe that everything from a company's fundamentals to broad market factors to market psychology are already priced into the stock. This point of view is congruent with the Efficient Markets Hypothesis (EMH) which assumes a similar conclusion about prices. The only thing remaining is the analysis of price movements, which technical analysts view as the product of supply and demand for a particular stock in the market.

2: Price moves in trends
Technical analysts expect that prices, even in random market movements, will exhibit trends regardless of the time frame being observed. In other words, a stock price is more likely to continue a past trend than move erratically. Most technical trading strategies are based on this assumption.

3: History tends to repeat itself
Technical analysts believe that history tends to repeat itself. The repetitive nature of price movements is often attributed to market psychology, which tends to be very predictable based on emotions like fear or excitement. Technical analysis uses chart patterns to analyze these emotions and subsequent market movements to understand trends. While many forms of technical analysis have been used for more than 100 years, they are still believed to be relevant because they illustrate patterns in price movements that often repeat themselves.
In general, technical analysts look at the following broad types of indicators:

- Price trends
- Chart patterns
- Volume and momentum indicators
- Oscillators
- Moving averages
- Support and resistance levels

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -257

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**LECTURE HANDOUTS**

**L29**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Charting methods

**Introduction :**

A chart is a visual representation of data, in which the data are represented by in form of symbols, line etc.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

Here are three major chart types to learn in this section: Line, Bar and Candlestick Charts. As mentioned above, there are certain benefits to using each – specifically Candlesticks, which contain the same data as Bar Charts but can be visually more efficient at presenting price patterns. Keep in mind that more complex charts do not necessarily offer greater accuracy. Using the appropriate chart type can be essential to correctly evaluating price patterns.

**Detailed content of the Lecture:**

Computer Based Charting:- While computerized type of charting is certainly not a new system of charting in today's scenario. If we look around, in today's situation, there are plenty of charting software vendors and options from whom to choose. All of the charting software vendors almost provide the same basic tools with common objective of making the analyst aware of the price movement and helps them to project its future course of action.

Charting platforms are mainly of two type's i.e. web based charting system and technical software. Though, both of the computer based charting system depicts the same basic chart that is time volume and price action.

With advancement of technology there are many types of charting system is used in technical analysis beyond convention approach of OHLC, Candlestick or Line chart.

- Line Chart
- Bar Chart
- Candlestick Chart
- OHLC Chart.
- Points & Figure etc…

A chart pattern is an indication of successive variable stock values over time. In context of stock market a simple line chart draws a line from one closing price to the next closing price. A line graph is generally used to show a change over a period of time. A line graph represents two set of data i.e. Price and Time in context with technical analysis.

Software:- Metastock, Amibroker, Spider Iris, Falcon, Advance Get etc. All these types of software come in two formats i.e. Online Mode and Offline Mode. In an online mode if a trader buys this kind of software, he will get data also along with the software and it is very expensive for a small or retail trader. In offline mode, if a trader chooses this option, the trader will get a software platform and for data feed he is required to contact third part data feeder vendors.

Categorically there are two types of data feed one is Real time data feed and the other is EOD historical data feed. Real time data feed is used to capture the current market trading price and the historical EOD data feed is used to find out the end of the day activity.

Below are the few quick points for using charting software for technical analysis.

Advantages:-

- Device Strategies
- Back Testing
- Data Backup
- Easy Implementation

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -269 -276

**Course Faculty**

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# MUTHAYAMMAL ENGINEERING COLLEGE

(An Autonomous Institution)

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Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L30**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** :**IV- Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Market Indicators Trend

**Introduction :**

Trend indicators attempt to provide an objective measure of the direction of the trend. Price data is smoothed and the trend is represented by a single line, as in the case of a moving average. Because of the smoothing process the indicators tend to lag price changes and are often called trend following indicators.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Trend trading attempts to capture gains through the analysis of an asset's momentum in a particular direction.
- While no single technical indicator will punch your ticket to market riches, certain strategies have stood the test of time and remain popular tools for trend traders.
- Moving average is a technical analysis tool that smooths out price data by creating a constantly updated average price.
- The moving average convergence divergence (MACD) is a kind of oscillating indicator that can help traders quickly spot increasing short-term momentum.
- The relative strength index (RSI) is a momentum indicator that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock.
- The on-balance volume (OBV) indicator measures cumulative buying and selling pressure by adding the volume on "up" days and subtracting volume on "down" days.

**Detailed content of the Lecture:**

Moving Averages

Moving average is a technical analysis tool that smooths out price data by creating a constantly updated average price. On a price chart, a moving average creates a single, flat line that effectively eliminates any variations due to random price fluctuations.

The moving average convergence divergence (MACD) is a kind of oscillating indicator. An oscillating indicator is a technical analysis indicator that varies over time within a band (above and below a centerline; the MACD fluctuates above and below zero. It is both a trend-following and momentum indicator.

**TRADING TRADING STRATEGIES**

Moving Averages

Moving Average Convergence Divergence (MACD)

Relative Strength Index (RSI)

On-Balance Volume (OBV)

The Bottom Line

Trend traders attempt to isolate and extract profit from trends. The method of trend trading tries to capture gains through the analysis of an asset's momentum in a particular direction; there are multiple ways to do this. Of course, no single technical indicator will punch your ticket to market riches; in addition to analysis, traders also need to be well-versed in risk management and trading psychology. But certain strategies have stood the test of time and remain popular tools for trend traders who are interested in analyzing certain market indicators.

KEY TAKEAWAYS

Trend trading attempts to capture gains through the analysis of an asset's momentum in a particular direction.

While no single technical indicator will punch your ticket to market riches, certain strategies have stood the test of time and remain popular tools for trend traders.

Moving average is a technical analysis tool that smooths out price data by creating a constantly updated average price.

The moving average convergence divergence (MACD) is a kind of oscillating indicator that can help traders quickly spot increasing short-term momentum.

The relative strength index (RSI) is a momentum indicator that measures the magnitude of recent price changes to evaluate overbought or oversold conditions in the price of a stock.

The on-balance volume (OBV) indicator measures cumulative buying and selling pressure by adding the volume on "up" days and subtracting volume on "down" days.

Moving Averages

Moving average is a technical analysis tool that smooths out price data by creating a constantly updated average price. On a price chart, a moving average creates a single, flat line that effectively eliminates any variations due to random price fluctuations.

The average is taken over a specific period of time–10 days, 20 minutes, 30 weeks, or any time period the trader chooses. For investors and long-term trend followers, the 200-day, 100-day, and 50-day simple moving average are popular choices.

There are several ways to utilize the moving average. The first is to look at the angle of the moving average. If it is mostly moving horizontally for an extended amount of time, then the price isn't trending, it is ranging. A trading range occurs when a security trades between consistent high and low prices for a period of time.

If the moving average line is angled up, an uptrend is underway. However, moving averages don't make predictions about the future value of a stock; they simply reveal what the price is doing, on average, over a period of time.

Crossovers are another way to utilize moving averages. By plotting a 200-day and 50-day moving average on your chart, a buy signal occurs when the 50-day crosses above the 200-day. A sell signal occurs when the 50-day drops below the 200-day.1 The time frames can be altered to suit your individual trading timeframe.

Image

Image by Sabrina Jiang © Investopedia 2020

When the price crosses above a moving average, it can also be used as a buy signal, and when the price crosses below a moving average, it can be used as a sell signal.

However, since the price is more volatile than the moving average, this method is prone to more false signals, as the chart above shows.

Moving averages can also provide support or resistance to the price.1 The chart below shows a 100-day moving average acting as support (i.e., the price bounces off of it).

Image
Image by Sabrina Jiang © Investopedia 2020
Moving Average Convergence Divergence (MACD)

The moving average convergence divergence (MACD) is a kind of oscillating indicator. An oscillating indicator is a technical analysis indicator that varies over time within a band (above and below a centerline; the MACD fluctuates above and below zero. It is both a trend-following and momentum indicator.

One basic MACD strategy is to look at which side of zero the MACD lines are on in the histogram below the chart. If the MACD lines are above zero for a sustained period of time, the stock is likely trending upwards. Conversely, if the MACD lines are below zero for a sustained period of time, the trend is likely down.2 Using this strategy, potential buy signals occur when the MACD moves above zero, and potential sell signals when it crosses below zero.

Signal line crossovers can also provide additional buy and sell signals. A MACD has two lines—a fast line and a slow line. A buy signal occurs when the fast line crosses through and above the slow line. A sell signal occurs when the fast line crosses through and below the slow line.

Relative Strength Index (RSI)
The relative strength index (RSI) is another oscillating indicator but its movement is contained between zero and 100 so it provides different information than the MACD.

On-Balance Volume (OBV)
Volume itself is a valuable indicator, and on-balance volume (OBV) takes a significant amount of volume information and compiles it into a single one-line indicator. The indicator measures cumulative buying and selling pressure by adding the volume on "up" days and subtracting volume on "down" days.

The Bottom Line
Indicators can simplify price information, in addition to providing trend trade signals and providing warnings about reversals. Indicators can be used on all time frames, and for the most part, they have variables that can be adjusted to suit each trader's specific preferences. Traders can combine indicator strategies–or come up with their own guidelines–so entry and exit criteria are clearly established for trades.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
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**LECTURE HANDOUTS**

**L31**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis**

**Date of Lecture:**

**Topic of Lecture:** Trend reversals Pattern

**Introduction :**

When a price pattern signals a change in trend direction, it is known as a reversal pattern; a continuation pattern occurs when the trend continues in its existing direction following a brief pause. Technical analysts have long used price patterns to examine current movements and forecast future market movements.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Patterns are the distinctive formations created by the movements of security prices on a chart and are the foundation of technical analysis.
- A pattern is identified by a line that connects common price points, such as closing prices or highs or lows, during a specific period of time.
- Technical analysts and chartists seek to identify patterns as a way to anticipate the future direction of a security's price.
- These patterns can be as simple as trendlines and as complex as double head-and-shoulders formations.

**Detailed content of the Lecture:**

Market Reversals and the Sushi Roll Technique

Capturing trending movements in a stock or other type of asset can be lucrative. However, getting caught in a reversal is what most traders who pursue trendings stock fear. A reversal is anytime the trend direction of a stock or other type of asset changes. Being able to spot the potential of a reversal signals to a trader that they should consider exiting their trade when conditions no longer look favorable. Reversal signals can also be used to trigger new trades, since the reversal may cause a new trend to start.

Sushi Roll Reversal Pattern

Fisher defines the sushi roll reversal pattern as a period of 10 bars in which the first five (inside bars) are confined within a narrow range of highs and lows and the second five (outside bars) engulf the first five with both a higher high and lower low.

Testing the Sushi Roll Reversal

A test was conducted on the NASDAQ Composite Index to see if the sushi roll pattern could have helped identify turning points over a 14-year period between 1990 and 2004. In the doubling of the period of the outside reversal week to two 10-daily bar sequences, signals were less frequent but proved more reliable. Constructing the chart consisted of using two trading weeks back-to-back, so that the pattern started on a Monday and took an average of

four weeks to complete. This pattern was deemed the rolling inside/outside reversal (RIOR).

Using Weekly Data

The same test was conducted on the NASDAQ Composite Index using weekly data: using 10 weeks of data instead of the 10 days (or two weeks) used above. This time, the first or inside rectangle was set to 10 weeks, and the second or outside rectangle to eight weeks, because this combination was found to be better at generating sell signals than two five-week rectangles or two 10-week rectangles.

Trend Reversal Confirmation

Regardless of whether a 10-minute bar or weekly bars were used, the trend reversal trading system worked well in the tests, at least over the test period, which included both a substantial uptrend and downtrend.

The Bottom Line

Timing trades to enter at market bottoms and exit at tops will always involve risk. Techniques such as the sushi roll, outside reversal week, or rolling inside/outside reversal—when used in conjunction with a confirmation indicator–can be very useful trading strategies to help the trader maximize and protect their hard-earned money.

How to identify trend reversal — a break of Support/ Resistance area

As a trend matures, it will move into a distribution stage where both buyers and sellers are in equilibrium (thus looking like a range market).

At this point, it's clear the area of Support is an important level as it's the last line of defense for the buyers. If it breaks, it's pretty much game over for the bulls.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

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**LECTURE HANDOUTS**

**L32**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Moving Average

**Introduction :**

The moving average (MA) is a simple technical analysis tool that smooths out price data by creating a constantly updated average price. The average is taken over a specific period of time, like 10 days, 20 minutes, 30 weeks or any time period the trader chooses.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- A moving average (MA) is a widely used technical indicator that smooths out price trends by filtering out the "noise" from random short-term price fluctuations.
- Moving averages can be constructed in several different ways, and employ different numbers of days for the averaging interval.
- The most common applications of moving averages are to identify trend direction and to determine support and resistance levels.
- When asset prices cross over their moving averages, it may generate a trading signal for technical traders.
- While moving averages are useful enough on their own, they also form the basis for other technical indicators such as the moving average convergence divergence (MACD).

**Detailed content of the Lecture:**

**Moving Average**

A moving average helps cut down the amount of "noise" on a price chart. Look at the direction of the moving average to get a basic idea of which way the price is moving. If it is angled up, the price is moving up (or was recently) overall; angled down, and the price is moving down overall; moving sideways, and the price is likely in a range.

Types of Moving Averages

A moving average can be calculated in different ways. A five-day simple moving average (SMA) adds up the five most recent daily closing prices and divides it by five to create a new average each day. Each average is connected to the next, creating the singular flowing line.

Moving Average Length

Common moving average lengths are 10, 20, 50, 100 and 200. These lengths can be applied to any chart time frame (one minute, daily, weekly, etc.), depending on the trader's time horizon.

Trading Strategies—Crossovers

Crossovers are one of the main moving average strategies. The first type is a price crossover, which is when the price crosses above or below a moving average to signal a potential change in trend.

MA Disadvantages

Moving averages are calculated based on historical data, and nothing about the calculation is predictive in nature. Therefore, results using moving averages can be random. At times, the

market seems to respect MA support/resistance and trade signals, and at other times, it shows these indicators no respect.

The Bottom Line

A moving average simplifies price data by smoothing it out and creating one flowing line. This makes seeing the trend easier. Exponential moving averages react quicker to price changes than simple moving averages. In some cases, this may be good, and in others, it may cause false signals. Moving averages with a shorter look back period (20 days, for example) will also respond quicker to price changes than an average with a longer look back period (200 days).

Moving average crossovers are a popular strategy for both entries and exits. MAs can also highlight areas of potential support or resistance. While this may appear predictive, moving averages are always based on historical data and simply show the average price over a certain time period.

Investing using moving average, or any technique requires an investment account with a stockbroker. Investopedia's list of the best online brokers is a great place to start your research on the broker that fits your needs the most.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

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IQAC

**LECTURE HANDOUTS**

**L33**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Exponential moving Average

**Introduction :**

The exponential moving average (EMA) is a technical chart indicator that tracks the price of an investment (like a stock or commodity) over time. The EMA is a type of weighted moving average (WMA) that gives more weighting or importance to recent price data.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- All the financing is done through the retained earnings; no external financing is used.
- The rate of return (r) and the cost of capital (K) remain constant irrespective of any changes in the investments.
- All the earnings are either retained or distributed completely among the shareholders.
- The earnings per share (EPS) and Dividend per share (DPS) remains constant.
- The firm has a perpetual life.

**Detailed content of the Lecture:**

How Is the Exponential Moving Average (EMA) Formula Calculated?

The exponential moving average (EMA) is a technical chart indicator that tracks the price of an investment (like a stock or commodity) over time. The EMA is a type of weighted moving average (WMA) that gives more weighting or importance to recent price data. Like the simple moving average, the exponential moving average is used to see price trends over time, and watching several EMAs at the same time is easy to do with moving average ribbons.

Calculating SMA and EMA

The exponential moving average is designed to improve on the idea of a simple moving average (SMA) by giving more weight to the most recent price data, which is considered to be more relevant than older data. Since new data carries greater weight, the EMA responds more quickly to price changes than the SMA.

The formula for calculating the EMA is a matter of using a multiplier and starting with the SMA. There are three steps in the calculation (although chart applications do the math for you):

Compute the SMA

Calculate the multiplier for weighting the EMA

Calculate the current EMA

The calculation for the simple moving average is the same as computing an average or mean. That is, the SMA for any given number of time periods is simply the sum of closing prices for that number of time periods, divided by that same number. So, for example, a 10-day SMA is just the sum of the closing prices for the past 10 days, divided by 10.

The mathematical formula looks like this:

Simple moving average=
N(N−period sum)

where:
N=number of days in a given period
period sum=sum of stock closing prices in that period

The formula for calculating the weighting multiplier looks like this:
=2÷(selected time period+1)
=2÷(10+1)
=0.1818
=18.18%

So, when it comes to calculating the EMA of a stock:
where:
t=today
y=yesterday
N=number of days in EMA
k=2÷(N+1)

The weighting given to the most recent price is greater for a shorter-period EMA than for a longer-period EMA. For example, an 18.18% multiplier is applied to the most recent price data for a 10-day EMA, as we did above, whereas for a 20-day EMA, only a 9.52% multiplier weighting is used. There are also slight variations of the EMA arrived at by using the open, high, low, or median price instead of using the closing price.

Using the EMA: Moving Average Ribbons
Traders sometimes watch moving average ribbons, which plot a large number of moving averages onto a price chart,rather than just one moving average. Though seemingly complex based on the sheer volume of concurrent lines, ribbons are easy to see on charting applications and offer a simple way of visualizing the dynamic relationship between trends in the short, intermediate, and long term.

Traders and analysts rely on moving averages and ribbons to identify turning points, continuations, overbought/oversold conditions, to define areas of support and resistance, and to measure price trend strengths.

Defined by their characteristic three-dimensional shape that seems to flow and twist across a price chart, moving average ribbons are easy to interpret. The indicators trigger buy and sell signals whenever the moving average lines all converge at one point. Traders look to buy on occasions when shorter-term moving averages cross above the longer-term moving averages from below and look to sell when shorter moving averages cross below from above.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -264-268

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**LECTURE HANDOUTS**

**L34**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Oscillators, Market Indicators

**Introduction :**

An oscillator is a technical analysis tool that constructs high and low bands between two extreme values, and then builds a trend indicator that fluctuates within these bounds. Traders use the trend indicator to discover short-term overbought or oversold conditions.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Oscillators are momentum indicators used in technical analysis, whose fluctuations are bounded by some upper and lower band.
- When oscillator values approach these bands, they provide overbought or oversold signals to traders.
- Oscillators are often combined with moving average indicators to signal trend breakouts or reversals.

**Detailed content of the Lecture:**

How Oscillators Work

Oscillators are typically used in conjunction with other technical analysis indicators to make trading decisions. Analysts find oscillators most advantageous when they cannot find a clear trend in a company's stock price easily, for example when a stock trades horizontally or sideways. The most common oscillators are the stochastic oscillator, relative strength (RSI), rate of change (ROC), and money flow (MFI). In technical analysis, investors find oscillators to be one of the most important technical tools to understand, but there are also other technical tools that analysts find helpful in enhancing their trading, such as chart reading skills and the technical indicators.

Mechanics of an Oscillator

In technical analysis, an investor measures oscillators on a percentage scale from 0 to 100, where the closing price is relative to the total price range for a specified number of bars in a given bar chart. In order to achieve this, one deploys various techniques of manipulating and smoothing out multiple moving averages. When the market trades in a specific range, the oscillator follows the price fluctuations and indicates an overbought condition when it exceeds 70 to 80% of the specified total price range, signifying a sell opportunity. An oversold condition exists when the oscillator falls below 30 to 20%, which signifies a buy opportunity.

Oscillator Example - Relative Strength Index (RSI)

The relative strength index (RSI) is a popular oscillator that measures the extent of recent price changes to determine overbought or oversold conditions in an instruments price. J. Welles Wilder

Jr. developed the RSI and first shared it with the technical community in his book "New Concepts in Technical Trading Systems."1 It has become one of the most trusted indicators for anyone planning to use oscillators to determine buy and sell points.

Technical analysis comprises of two components-

1) Chart patterns-

They are used to analyse historical price action to predict prices in the future. The direction of a trend can be categorised as

(i) Bullish trend- Higher tops and higher bottoms

(ii) Bearish trend- Lower tops and lower bottoms

(iii) Range-bound- Narrow price movements

Chart patterns can be categorised as bullish, bearish, reversals, continuation and candlestick formations.

2) Technical Indicators-

Technical indicators on the other hand add value to chart patterns by confirming the direction of a trend either by way of volumes, momentum, overbought/ oversold levels, crossovers and convergence/ divergence.

Technical indicators are developed by analysing past and present data such as open, high, low, close and volumes and are derived into formulas, they are represented graphically and are placed above, below or merged with the price data of a forex pair.

Before looking at some of the popular indicators, let's understand the two basic functions of technical indicators.

a) Leading indicators-

Indicate price direction before it actually occurs. These indicators send out buy signals ahead of the beginning of a new trend and sell signals when prices look overstretched.

Some of the popular indicators are

b) Lagging indicators-

These indicators follow price action and confirm the trend only after it actually occurs. They are referred to as trend following indicators.

Some of the popular ones are

Moving average crossovers

Moving average convergence divergence (MACD)

Both these indicators have their advantages and disadvantages and are employed under diverse market conditions

Trading strategies using oscillators-

Oscillators are technical indicators that vary between ranges set at predefined values. They are popular because of their ability to identify trends even before they occur and are therefore used as leading indicators.

Oscillators vary in the way they predict trends. While some of them spend extended periods of time in overbought/ oversold areas and trend only when large price action takes place, others behave differently and trend more often.

As leading indicators, oscillators identify if the price has rallied rapidly or depreciated sufficiently and are due to correct when they enter the overbought/ oversold areas.

Oscillators also generate signals as leading indicators by suggesting a trend reversal in the form of divergence. A positive divergence occurs when the exchange rate declines and the indicator rises while a negative divergence is observed when the exchange rate rises and the indicator declines.

In some oscillators, centreline crossovers are also interpreted as buy/ sell signals. A crossover above the centreline from below is an indicative signal to buy while a cross-under the centreline from above is considered to be a sell signal.

Based on the types of signals, oscillators are segregated into

Frequently used oscillators-

1) Relative Strength Index (RSI)-

The relative strength index is a highly popular indicator. As an oscillator, it calculates current price strength to the previous day's closing prices. RSI can be used to verify overbought/oversold levels, general entry/ exit points and indicate potential price reversals by displaying divergences. By default, RSI is calculated across a 14- day period.

2) Price oscillator (POSC)-

POSC charts the relationship between two moving averages (default: 14- day and 24 day). Buy signals are generated when the indicator moves above the zero line from below and the sell signals when the indicator moves below the zero line from above.

POSC also indicates positive and negative divergences

3) Moving average convergence divergence (MACD)-

MACD is employed to identify bullish/ bearish trends. The indicator is plotted as two trend lines based on two moving averages; 12- days and 26- days.

When a new trend occurs, the 12- day reacts first and crosses the 26- day moving average, signalling a cross- over. The 12- day then begins to diverge from the 26- day, often indicating that a new trend has formed.

4) Ultimate Oscillator (UOS)-

UOS is a momentum oscillator which captures momentum across three different timeframes; short, medium and long- term. This oscillator reduces the drawbacks of commonly used oscillators that rise at the beginning of a new trend but begin to form bearish signals even when prices continue to advance.

UOS generates buy/ sell signals, indicates overbought/ oversold levels and acts as a leading indicator by signalling divergences.

5) Trix oscillator-

Trix is a momentum oscillator that displays the rate of change of a triple exponentially smoothed M.A. The oscillator filters insignificant price movements that can often result in poor trading decisions. Buy signals are generated when the indicator crosses the horizontal line from below and sell if the indicator drops below the horizontal line from above.

6) Commodity Channel Index (CCI)-

CCI measures price in relation to its moving average. This indicator is similar to Bollinger bands without the upside and downside limits.

CCI determines overbought/ oversold levels in addition to divergences

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

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**LECTURE HANDOUTS**

**L35**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Forecasting Individual Stock Performance

**Introduction :**

Individual Performance means the performance objectives specifically attributable to each Participant reflective of his/her functional area and responsibilities, taking into consideration top Executive's evaluation of performance in that regard.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

Individual Performance means each Employee's work performance during the Performance Period which may be assessed by the Administrator based on one or more criteria, including, but not limited to: personal or team performance and measures such as teamwork, interpersonal skills, communication skills, employee development, project management skills, and leadership, or individual or team business objectives such as performance versus budget and attainment of safety, operational incident and environmental standards.

**Detailed content of the Lecture:**

**changing your performance appraisal process**

Measuring performance is a pivotal move for any organization, especially for those companies who have collaborative and self-managed teams. However, assessing individual performance in a dynamic organization like these isn't the same as the stereotypical 9-5 supervisor-managed style of company. Performance reviews can be strenuous enough as it is for many employees and those who conduct the performance appraisal, but it gets a bit more complicated when there's no true supervisor in a self-guided team. How, then, do you evaluate the performance of your employees in a dynamic organization?

Measuring Capability vs. Ability

Not frequently discussed when professionals talk about performance reviews, the differences between capability and ability are crucial to accurately assessing an individual's performance… They are very different. According to John Clifford, Senior Fellow/ Agile Practices Lead at Construx Software and instructor for University of Washington's PCE Program, ability is defined as the innate talent, aptitude and intelligence an employee has. Simply put, this is your team's capacity for growth and professional development in their position. Capability, on the other hand as Clifford explains, is the culmination of knowledge, gathered skill and experience accrued over their career.

"We should hire employees with great ability and then endeavor to continually increase their capability so they they can grow in their careers while increasingly contributing to the organization's success over time. A good performance appraisal process should identify whether performance issues are related to ability or capability, to guide us in terms of effective corrective actions."

When evaluating your individual's performance, determine whether it's an ability deficiency or capability shortfall. If it's a lack of ability, then a change of role is ideal; a capability deficit would best be addressed with additional training.

Team Performance Relies on the Individual

Measuring individual performance is difficult, yes, but it's vital to understanding team dynamics and collaboration. It's organizational psychology's and organizational behavior's most crucial dependent variable. So measuring individual performance is the fundamental building block – a necessary piece of the performance puzzle – to determining if you need to rearrange teams, reassign tasks, or assess training programs.

These metrics should be the building block of the performance reviews so you can improve performance:

- Quality of Work
- Employee Efficiency
- Training Program Effectiveness
- Individual Employee Goals
-

Individual-level performance draws upon those things you have to do in your job, or in-role performance, and those things that add value but which aren't part of your formal job description. These "extras" are called extra-role performance or organizational citizenship behaviors (OCBs). At this point, it is probably simplest to consider an in-role performance as having productivity and quality dimensions associated with certain standards that you must meet to do your job. In contrast, OCBs can be understood as individual behaviors that are beneficial to the organization and are discretionary, not directly or explicitly recognized by the formal reward system (Organ, 1988).

# Group-Level Performance

A group is a collection of individuals. Group-level performance focuses on both the outcomes and process of collections of individuals, or groups. Individuals can work on their own agendas in the context of a group. Groups might consist of project-related groups, such as a product group or an entire store or branch of a company. The performance of a group consists of the inputs of the group minus any process loss that result in the final output, such as the quality of a product and the ramp-up time to production or the sales for a given month. Process loss is any aspect of group interaction that inhibits good problem solving.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -265

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Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L36**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **IV-Technical Analysis** **Date of Lecture:**

**Topic of Lecture:** Random Walk Efficient Market theory.

**Introduction :**

Random walk theory suggests that changes in stock prices have the same distribution and are independent of each other. Random walk theory infers that the past movement or trend of a stock price or market cannot be used to predict its future movement.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Random walk theory suggests that changes in stock prices have the same distribution and are independent of each other.
- Random walk theory infers that the past movement or trend of a stock price or market cannot be used to predict its future movement.
- Random walk theory believes it's impossible to outperform the market without assuming additional risk.
- Random walk theory considers technical analysis undependable because it results in chartists only buying or selling a security after a move has occurred.
- Random walk theory considers fundamental analysis undependable due to the often-poor quality of information collected and its ability to be misinterpreted.
- Random walk theory claims that investment advisors add little or no value to an investor's portfolio.

**Detailed content of the Lecture:**

Understanding Random Walk Theory

Random walk theory believes it's impossible to outperform the market without assuming additional risk. It considers technical analysis undependable because chartists only buy or sell a security after an established trend has developed. Likewise, the theory finds fundamental analysis undependable due to the often-poor quality of information collected and its ability to be misinterpreted. Critics of the theory contend that stocks do maintain price trends over time – in other words, that it is possible to outperform the market by carefully selecting entry and exit points for equity investments.

Efficient Markets are Random

The random walk theory raised many eyebrows in 1973 when author Burton Malkiel coined the term in his book "A Random Walk Down Wall Street."1 The book popularized the efficient market hypothesis (EMH), an earlier theory posed by University of Chicago professor William Sharp. The efficient market hypothesis states that stock prices fully reflect all available information and expectations, so current prices are the best approximation of a company's intrinsic value. This would preclude anyone from exploiting mispriced stocks consistently because price movements are mostly random and driven by unforeseen events.

Sharp and Malkiel concluded that, due to the short-term randomness of returns, investors would be better off investing in a passively managed, well-diversified fund. A controversial aspect of Malkiel's book theorized that "a blindfolded monkey throwing darts at a newspaper's financial pages could select a portfolio that would do just as well as one carefully selected by experts."

Random Walk Theory in Action
The most well-known practical example of random walk theory occurred in 1988 when the Wall Street Journal sought to test Malkiel's theory by creating the annual Wall Street Journal Dartboard Contest, pitting professional investors against darts for stock-picking supremacy. Wall Street Journal staff members played the role of the dart-throwing monkeys.3

After more than 140 contests, the Wall Street Journal presented the results, which showed the experts won 87 of the contests and the dart throwers won 55. However, the experts were only able to beat the Dow Jones Industrial Average (DJIA) in 76 contests. Malkiel commented that the experts' picks benefited from the publicity jump in the price of a stock that tends to occur when stock experts make a recommendation. Passive management proponents contend that, because the experts could only beat the market half the time, investors would be better off investing in a passive fund that charges far lower management fees.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -283-290

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IQAC

**LECTURE HANDOUTS**

**L37**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V-Portfolio Management** **Date of Lecture:**

**Topic of Lecture:** Portfolio Construction

**Introduction :**

Portfolio construction is a process of selecting securities optimally by taking minimum risk to achieve maximum returns. The portfolio consists of various securities such as bonds, stocks, and money market instruments.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Income needs – Investors need for current income (to meet living expenses) and constant income (to offset the effect of inflation)
- Liquidity needs – Investors preference for liquid assets
- Safety of Principal – Safety of principal value at the time of liquidation
- Time Horizon – Life cycle stage and investment planning period of the investor
- Tax Consideration – Tax benefits of investing in a particular asset
- Temperament – Risk bearing capacity of the investor

**Detailed content of the Lecture:**

What is Portfolio Construction?

To plan for the portfolio investment, you must take an in-depth look at all current assets, investments, and debts if any. Now, you can define your financial goals for the short and long terms. To establish a risk-return profile, you have to decide on the extent of risk and volatility you're willing to take, and what returns you want to generate. Now, the benchmarks can be set in place to track portfolio performance.

With a risk-return profile in place, the next step is to create an asset allocation strategy that is diversified and structured for maximum returns. Now, adjust the plan to consider significant life changes, like buying a home or retiring. The investor has to choose whether to opt active management, which might include professionally-managed mutual funds, or passive management, which might consist of ETFs that track specific indexes.

Once a portfolio is in place, it's crucial to monitor the investment and ideally reevaluate goals annually, making changes as needed.

Conclusion

When the investor is investing for a lifelong goal, the portfolio planning process never stops.With advance in time, there may be changes in the goals. Events such as job change, childbirth, divorce, death, or shrinking time horizons may require adjustments to their portfolio plans. As changes occur, or as market/economic conditions dictate, the portfolio planning process begins afresh.

What is the current situation?
Portfolio analysis has been the latest trend in the field where investment opportunities are identified, portfolios are aligned with investment objectives, and portfolio risk and performance are monitored. The technology lets investment managers filter information quickly, take advantage of statistical arbitrage opportunities, and deal with inefficiencies, such as transaction costs incurred during trading and tax consequences of investment decisions.

How to implement Financial Planning in different scenarios?
The management of the portfolio begins once the portfolio plan is implemented. Portfolio management is carried out by monitoring the investments and measuring the portfolio's performance relative to the benchmarks. It is essential to report investment performance at regular intervals. The reporting will be done quarterly and the portfolio plan will be reviewed annually.

Once a year, the investor's goals get reviewed because there might be significant changes. The review then determines if the allocation is still on track with the investor's risk-reward profile. If it is not, the investor should rebalance his portfolio. Rebalancing includes selling investments that have reached their goals and buying investments that offer more significant upside potential.

Related Terms
Financial Advisor Careers
While exploring career choices, most of the students tend to take the popular career paths such as MBA or engineering.

Financial Planning
It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for quotes Robert Kiyosaki.

Continuing Education
Continuing education is a broad term which refers to students pursuing their post-secondary or university-level education after some gap.

Practice Management
Practice management is about allowing the business owner to deal with the challenges of running an advisory business and achieve optimal results that is applicable to, both, now and future.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -319

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IQAC

**LECTURE HANDOUTS**

**L38**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V-Portfolio Management**

**Date of Lecture:**

**Topic of Lecture:** Portfolio Analysis: Effects of combining securities

**Introduction :**

Portfolio Analysis is the process of reviewing or assessing the elements of the entire portfolio of securities or products in a business. The review is done for careful analysis of risk and return. Portfolio analysis conducted at regular intervals helps the investor to make changes in the portfolio allocation and change them according to the changing market and different circumstances. The analysis also helps in proper resource / asset allocation to different elements in the portfolio.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

1. Where to Invest?
2. When to Invest?
3. How much to Invest?

**Detailed content of the Lecture:**

Portfolio Management : Portfolio Management is the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance. The art of selecting the right investment policy for the individuals in terms of minimum risk and maximum return is called as portfolio management. It also refers to managing an individual's investments in the form of bonds, shares, cash, mutual funds, etc. so that he earns the maximum profits within the specific time frame. Portfolio management refers to managing money of an individual under the expert guidance of portfolio managers. It is done by analyzing the strengths, weaknesses, opportunities and threats in different investment alternatives to have a risk return trade off. Portfolio management is all about strengths, weaknesses, opportunities and threats in the choice of debt v/s. equity, domestic v/s. international, growth v/s. safety, and many other tradeoffs encountered in the attempt to maximize return at a given appetite for risk. Portfolio is nothing but the combination of various stocks in it. Understanding the dynamics of market is the essence of Portfolio Management.

Types of Portfolio : There are two types of portfolio – a) Market Portfolio : The market portfolio is a theoretical bundle of investments that includes every type of asset available in the investment universe, with each asset weighted in proportion to its total presence in the market. The expected return of a market portfolio is identical to the expected return of the market as whole. b) Zero Investment Portfolios : A portfolio of assets formed where the group of investments collectively forms a zero net value. Such an investment portfolios can be achieved by simultaneously purchasing securities and selling equivalent securities resulting to a net zero. Need for Portfolio Management : Portfolio management presents the best investment plan to the individuals as per their income, budget, age and ability to undertake risks. Portfolio management minimizes the risks involved in investing and also increases the chance of making profits. Portfolio managers understand the client's financial needs and suggest the best and unique investment policy for them with minimum risks involved. Portfolio management enables the portfolio managers to provide customized investment solutions to clients as

per their needs and requirements.

Modern Portfolio Management : There are differences between Traditional and Modern Security Analysis. In traditional form of security analysis greater emphasis is placed on analyzing risk return relationship and in modern security analysis the intrinsic (Central) value is given more significance. Another point of difference is the effect of personal needs, desires and wants forming the basis of portfolio selection but in modern security analysis, greater emphasis is laid on scientific approach to security analysis in terms of estimating risk and return of portfolio and the risk return trade off estimated by the investors.

Types of Portfolio Management :

Portfolio Management is further of the following types –

a) Active Portfolio Management: As the name suggests, in an active portfolio management service, the portfolio managers are actively involved in buying and selling of securities to ensure maximum profits to individuals. The aim of active portfolio management is to outperform the benchmark. (For example, BSESENSEX, NSE-NIFTY50, etc.).

b) Passive Portfolio Management: In a passive portfolio management, the portfolio manager deals with a fixed portfolio designed to match the current market scenario. Discretionary Portfolio management services an individual authorizes a portfolio manager to take care of his/her financial needs on his/her behalf

Elements of Portfolio Management :

a) Proper Asset Allocation: The key to effective portfolio management is the long-term mix of assets. Asset allocation is based on the understanding that different types of assets do not move in concert, and some are more volatile than others. Asset allocation seeks to optimize the risk/return profile of an investor by investing in a mix of assets that have low correlation to each other. Investors with a more aggressive profile can weight their portfolio toward more volatile investments. Investors with a more conservative profile can weight their portfolio toward more stable investments.

b) Diversification: The only certainty in investing it is impossible to consistently predict the winners and losers, so the prudent approach is to create a basket of investments that provide broad exposure within an asset class. Diversification is the spreading of risk and reward within an asset class. Because it is difficult to know which particular subset of an asset class or sector is likely to outperform another, diversification seeks to capture the returns of all of the sectors over time but with less volatility at any one time. Proper diversification takes place across different classes of securities, sectors of the economy and geographical regions.

c) Rebalancing and Restructuring: It is used to return a portfolio to its original target allocation at annual intervals. It is important for retaining the asset mix that best reflects an investor's risk/return profile. Otherwise, the movements of the markets could expose the portfolio to greater risk or reduced return opportunities. For example, a portfolio that starts out with a 70% equity and 30% fixed-income allocation could, through an extended market rally, shift to an 80/20 allocation that exposes the portfolio to more risk than the investor can tolerate. Rebalancing almost always results in the sale of high-priced/low-value securities and the redeployment of the proceeds into low-priced/highvalue or out-of-favor securities. This annual exercise enables investors to capture gains and expand the opportunity for growth in high potential sectors while keeping the portfolio aligned with the investor's risk/return profile

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -322

**Course Faculty**

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Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L39**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V-Portfolio Management**

**Date of Lecture:**

**Topic of Lecture:** Markowitz's Mean-Variance model.

**Introduction :**

The Markowitz mean-variance analysis is modified by introducing into the analysis the concept of risk-free asset. ... The combination of risk-free investment and risky investments in portfolio which may be achieved by points between these two limits are termed 'lending' portfolios.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Mean-variance analysis is a tool used by investors to weigh investment decisions.
- The analysis helps investors determine the biggest reward at a given level of risk or the least risk at a given level of return.
- The variance shows how spread out the returns of a specific security are on a daily or weekly basis.
- The expected return is a probability expressing the estimated return of the investment in the security.
- If two different securities have the same expected return, but one has lower variance, the one with lower variance is preferred.
- Similarly, if two different securities have approximately the same variance, the one with the higher return is preferred.

**Detailed content of the Lecture:**

Mean-Variance Analysis

Mean-variance analysis is one part of modern portfolio theory, which assumes that investors will make rational decisions about investments if they have complete information. One assumption is that investors seek low risk and high reward. There are two main components tof mean-variance analysis: variance and expected return. Variance is a number that represents how varied or spread out the numbers are in a set.

Mean-Variance Theory:

Concept of Mean Variance:

It is a common phenomenon that the diversification of investments in the portfolio lead to reduction in variance of the return, even for the same level of expected return. This model has taken into account of risks associated with investments – using variance or standard deviation of the return.

This model is based on the following assumptions:

1. The return on an investment adequately summarizes the outcome of the investment.

2. The investors can visualize a probability distribution of rates of return.

3. The investors' risk estimates are proportional to the variance of return they perceive for a security or portfolio.

4. Investors base their investment decisions on two criteria i.e., expected return and variance of return.

5. All investors are risk averse. For a given expected return he prefers to take minimum risk, obviously for a given level of risk the investor prefers to get maximum expected return.

6. Investors are assumed to be rational in so far as they would prefer greater returns to lesser ones given equal or smaller risk and risk averse. Risk aversion in this context means merely that, as between two investments with equal expected returns, the investment with the smaller risk would be preferred.

7. 'Return' could be any suitable measure of monetary inflows such as NPV, but yield has been the most commonly used measure of return, in this context, so that where the standard deviation of returns is referred to we shall mean the standard deviation of yield about its expected value.

Efficient Frontier:
Markowitz has formulized the risk return relationship and developed the concept of efficient frontier. For selection of a portfolio, comparison between a combination of portfolios is essential. As a rule, a portfolio is not efficient if there is another portfolio with:

1. A higher expected value of return and a lower standard deviation (risk),

2. A higher expected value of return and the same standard deviation (risk),

3. The same expected value but a lower standard deviation (risk).

Markowitz has defined the diversification as the process of combining assets that are less than perfectly positively correlated in order to reduce portfolio risk without sacrificing any portfolio returns.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -329-336

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**LECTURE HANDOUTS**

**L40**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V-Portfolio Management**

**Date of Lecture:**

**Topic of Lecture:** Portfolio selection: Risk and investor Preferences

**Introduction :**

Portfolio analysis" redirects here. For the text book, see Portfolio Analysis. For theorems about the mean-variance efficient frontier, see Mutual fund separation theorem. For non-mean-variance portfolio analysis.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Portfolio return is the proportion-weighted combination of the constituent assets' returns.
- Portfolio volatility is a function of the correlations ρij of the component assets, for all asset pairs

**Detailed content of the Lecture:**

Modern portfolio theory (MPT), or mean-variance analysis, is a mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk. It is a formalization and extension of diversification in investing, the idea that owning different kinds of financial assets is less risky than owning only one type. Its key insight is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return. It uses the variance of asset prices as a proxy for risk.

Risk and expected return

MPT assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will not be the same for all investors. Different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists that has better expected returns.

Under the model:

Portfolio return is the proportion-weighted combination of the constituent assets' returns.
Portfolio volatility is a function of the correlations  of the component assets, for all asset pairs

Diversification

n investor can reduce portfolio risk simply by holding combinations of instruments that are not perfectly positively correlated (correlation coefficient In other words, investors can reduce their exposure to individual asset risk by holding a diversified portfolio of assets. Diversification may

allow for the same portfolio expected return with reduced risk. The mean-variance framework for constructing optimal investment portfolios was first posited by Markowitz and has since been reinforced and improved by other economists and mathematicians who went on to account for the limitations of the framework.

Efficient frontier with no risk-free asset:
The MPT is a mean-variance theory, and it compares the expected (mean) return of a portfolio with the variance of the same portfolio. The image shows expected return on the vertical axis, and the horizontal axis should be labeled variance instead of standard deviation (volatility). Variance is the square of volatility.

Risk-free asset and the capital allocation line:
The risk-free asset is the (hypothetical) asset that pays a risk-free rate. In practice, short-term government securities (such as US treasury bills) are used as a risk-free asset, because they pay a fixed rate of interest and have exceptionally low default risk. The risk-free asset has zero variance in returns (hence is risk-free); it is also uncorrelated with any other asset (by definition, since its variance is zero). As a result, when it is combined with any other asset or portfolio of assets, the change in return is linearly related to the change in risk as the proportions in the combination vary.

Systematic risk and specific risk:
Specific risk is the risk associated with individual assets - within a portfolio these risks can be reduced through diversification (specific risks "cancel out"). Specific risk is also called diversifiable, unique, unsystematic, or idiosyncratic risk. Systematic risk (a.k.a. portfolio risk or market risk) refers to the risk common to all securities—except for selling short as noted below, systematic risk cannot be diversified away (within one market). Within the market portfolio, asset specific risk will be diversified away to the extent possible. Systematic risk is therefore equated with the risk (standard deviation) of the market portfolio.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -325

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IQAC

**LECTURE HANDOUTS**

**L41**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V –Portfolio Management** **Date of Lecture:**

**Topic of Lecture:** Constructing the portfolio , Significance of beta in the Portfolio

**Introduction :**

As an individual investor, you need to know how to determine an asset allocation that best conforms to your personal investment goals and risk tolerance. In other words, your portfolio should meet your future capital requirements and give you peace of mind while doing so. Investors can construct portfolios aligned to investment strategies by following a systematic approach.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Overall, a well-diversified portfolio is your best bet for the consistent long-term growth of your investments.
- First, determine the appropriate asset allocation for your investment goals and risk tolerance.
- Second, pick the individual assets for your portfolio.
- Third, monitor the diversification of your portfolio, checking to see how weightings have changed.
- Make adjustments when necessary, deciding which underweighted securities to buy with the proceeds from selling the overweighted securities.

**Detailed content of the Lecture:**

**Determining the Requirements**

Step 1: Determining Your Appropriate Asset Allocation

Ascertaining your individual financial situation and goals is the first task in constructing a portfolio. Important items to consider are age and how much time you have to grow your investments, as well as the amount of capital to invest and future income needs. An unmarried, 22-year-old college graduate just beginning his or her career needs a different investment strategy than a 55-year-old married person expecting to help pay for a child's college education and retire in the next decade.

Step 2: Achieving the Portfolio

Once you've determined the right asset allocation, you need to divide your capital between the appropriate asset classes. On a basic level, this is not difficult: equities are equities and bonds are bonds.

Stock Picking – Choose stocks that satisfy the level of risk you want to carry in the equity portion of your portfolio; sector, market cap, and stock type are factors to consider. Analyze the companies using stock screeners to shortlist potential picks, then carry out more in-depth analysis on each potential purchase to determine its opportunities and risks going forward. This is the most work-intensive means of adding securities to your portfolio, and requires you to regularly monitor price changes in your holdings and stay current on company and industry news.

Bond Picking – When choosing bonds, there are several factors to consider including the coupon,

maturity, the bond type, and the credit rating, as well as the general interest-rate environment.
Mutual Funds – Mutual funds are available for a wide range of asset classes and allow you to hold stocks and bonds that are professionally researched and picked by fund managers. Of course, fund managers charge a fee for their services, which will detract from your returns. Index funds present another choice; they tend to have lower fees because they mirror an established index and are thus passively managed.
Exchange-Traded Funds (ETFs) – If you prefer not to invest with mutual funds, ETFs can be a viable alternative. ETFs are essentially mutual funds that trade like stocks. They're similar to mutual funds in that they represent a large basket of stocks, usually grouped by sector, capitalization, country, and the like. But they differ in that they're not actively managed, but instead track a chosen index or another basket of stocks. Because they're passively managed, ETFs offer cost savings over mutual funds while providing diversification. ETFs also cover a wide range of asset classes and can be useful for rounding out your portfolio.
Step 3: Reassessing Portfolio Weightings
Once you have an established portfolio, you need to analyze and rebalance it periodically, because changes in price movements may cause your initial weightings to change. To assess your portfolio's actual asset allocation, quantitatively categorize the investments and determine their values' proportion to the whole.

The other factors that are likely to alter over time are your current financial situation, future needs, and risk tolerance. If these things change, you may need to adjust your portfolio accordingly. If your risk tolerance has dropped, you may need to reduce the number of equities held. Or perhaps you're now ready to take on greater risk and your asset allocation requires that a small proportion of your assets be held in more volatile small-cap stocks.

To rebalance, determine which of your positions are overweighted and underweighted. For example, say you are holding 30% of your current assets in small-cap equities, while your asset allocation suggests you should only have 15% of your assets in that class. Rebalancing involves determining how much of this position you need to reduce and allocate to other classes.

Step 4: Rebalancing Strategically
Once you have determined which securities you need to reduce and by how much, decide which underweighted securities you will buy with the proceeds from selling the overweighted securities. To choose your securities, use the approaches discussed in Step 2.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
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**LECTURE HANDOUTS**

**L42**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V-Portfolio Management** **Date of Lecture:**

**Topic of Lecture:** Capital Asset Pricing Model , Portfolio Revision

**Introduction :**

The Capital Asset Pricing Model (CAPM) describes the relationship between systematic risk and expected return for assets, particularly stocks. CAPM is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- It trades on the NYSE and its operations are based in the United States
- Current yield on a U.S. 10-year treasury is 2.5%
- The average excess historical annual return for U.S. stocks is 7.5%
- The beta of the stock is 1.25 (meaning its average return is 1.25x as volatile as the S&P500 over the last 2 years)

**Detailed content of the Lecture:**

Systematic Risk vs. Unsystematic Risk

The capital asset pricing model was developed by the financial economist (and later, Nobel laureate in economics) William Sharpe, set out in his 1970 book Portfolio Theory and Capital Markets. His model starts with the idea that individual investment contains two types of risk:

Systematic Risk – These are market risks—that is, general perils of investing—that cannot be diversified away. Interest rates, recessions, and wars are examples of systematic risks.

Unsystematic Risk – Also known as "specific risk," this risk relates to individual stocks. In more technical terms, it represents the component of a stock's return that is not correlated with general market moves.

Modern portfolio theory shows that specific risk can be removed or at least mitigated through diversification of a portfolio. The trouble is that diversification still does not solve the problem of systematic risk; even a portfolio holding all the shares in the stock market can't eliminate that risk. Therefore, when calculating a deserved return, systematic risk is what most plagues investors.

The CAPM Formula

CAPM evolved as a way to measure this systematic risk. Sharpe found that the return on an individual stock, or a portfolio of stocks, should equal its cost of capital. The standard formula remains the CAPM, which describes the relationship between risk and expected return.

Beta's Role in CAPM

According to CAPM, beta is the only relevant measure of a stock's risk. It measures a stock's relative volatility–that is, it shows how much the price of a particular stock jumps up and down

compared with how much the entire stock market jumps up and down. If a share price moves exactly in line with the market, then the stock's beta is 1. A stock with a beta of 1.5 would rise by 15% if the market rose by 10% and fall by 15% if the market fell by 10%.

Beta is found by statistical analysis of individual, daily share price returns in comparison with the market's daily returns over precisely the same period. In their classic 1972 study "The Capital Asset Pricing Model: Some Empirical Tests," financial economists Fischer Black, Michael C. Jensen, and Myron Scholes confirmed a linear relationship between the financial returns of stock portfolios and their betas. They studied the price movements of the stocks on the New York Stock Exchange between 1931 and 1965.1

Beta, compared with the equity risk premium, shows the amount of compensation equity investors need for taking on additional risk. If the stock's beta is 2.0, the risk-free rate is 3%, and the market rate of return is 7%, the market's excess return is 4% (7% - 3%). Accordingly, the stock's excess return is 8% (2 x 4%, multiplying market return by the beta), and the stock's total required return is 11% (8% + 3%, the stock's excess return plus the risk-free rate).

What the beta calculation shows is that a riskier investment should earn a premium over the risk-free rate. The amount over the risk-free rate is calculated by the equity market premium multiplied by its beta. In other words, it is possible, by knowing the individual parts of the CAPM, to gauge whether or not the current price of a stock is consistent with its likely return.

What CAPM Means for Investors
This model presents a simple theory that delivers a simple result. The theory says that the only reason an investor should earn more, on average, by investing in one stock rather than another is that one stock is riskier. Not surprisingly, the model has come to dominate modern financial theory. But does it really work?

It's not entirely clear. The big sticking point is beta. When professors Eugene Fama and Kenneth French looked at share returns on the New York Stock Exchange, the American Stock Exchange, and Nasdaq, they found that differences in betas over a lengthy period did not explain the performance of different stocks. The linear relationship between beta and individual stock returns also breaks down over shorter periods of time. These findings seem to suggest that CAPM may be wrong.2

While some studies raise doubts about CAPM's validity, the model is still widely used in the investment community. Although it is difficult to predict from beta how individual stocks might react to particular movements, investors can probably safely deduce that a portfolio of high-beta stocks will move more than the market in either direction, and a portfolio of low-beta stocks will move less than the market.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**
Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -379-410

**Course Faculty**

**Verified by HOD**

# MUTHAYAMMAL ENGINEERING COLLEGE

(An Autonomous Institution)

(Approved by AICTE, New Delhi, Accredited by NAAC & Affiliated to Anna University)
Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

IQAC

**LECTURE HANDOUTS**

**L43**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V-Portfolio Management** **Date of Lecture:**

**Topic of Lecture:** Portfolio Evaluation

**Introduction :**

Many investors mistakenly base the success of their portfolios on returns alone. Few investors consider the risk involved in achieving those returns. Since the 1960s, investors have known how to quantify and measure risk with the variability of returns, but no single measure actually looked at both risk and return together. Today, there are three sets of performance measurement tools to assist with portfolio evaluations.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Ensures Liquidity. Businesses often get in trouble due to lack of cash needed for operations and to repay short-term debts. ...
- Evades Interruptions in Operations. ...
- Enhance Profitability.

**Detailed content of the Lecture:**

Portfolio Performance Evaluation Methods

The objective of modern portfolio theory is maximization of return or minimization of risk. In this context the research studies have tried to evolve a composite index to measure risk based return. The credit for evaluating the systematic, unsystematic and residual risk goes to Sharpe, Treynor and Jensen.

The portfolio performance evaluation can be made based on the following methods:

- Sharpe's Measure
- Treynor's Measure
- Jensen's Measure

Treynor Measure

Jack L. Treynor was the first to provide investors with a composite measure of portfolio performance that also included risk. Treynor's objective was to find a performance measure that could apply to all investors regardless of their personal risk preferences. Treynor suggested that there were really two components of risk: the risk produced by fluctuations in the stock market and the risk arising from the fluctuations of individual securities.

Sharpe Ratio

The Sharpe ratio is almost identical to the Treynor measure, except that the risk measure is the standard deviation of the portfolio instead of considering only the systematic risk as represented by beta. Conceived by Bill Sharpe,2 this measure closely follows his work on the capital asset pricing model (CAPM) and, by extension, uses total risk to compare portfolios to the capital market line.

Jensen Measure

Similar to the previous performance measures discussed, the Jensen measure is calculated using the CAPM. Named after its creator, Michael C. Jensen, the Jensen measure calculates the excess return that a portfolio generates over its expected return. This measure of return is also known as alpha.

Who needs portfolio valuation services?

Periodic portfolio valuation is done to determine and report illiquid investment performance, which is often required for financial reporting and tax compliance, and also affects the investment manager's compensation. Private equity funds, hedge funds, venture capital funds, and institutional asset managers (such as pension fund managers) are increasingly seeking independent portfolio valuation services from professionals with expertise in valuing illiquid assets like businesses and securities.

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**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

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**Unit** : **V-Portfolio Management** **Date of Lecture:**

**Topic of Lecture:** Mutual Funds - Types

**Introduction :**

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- A mutual fund is a type of investment vehicle consisting of a portfolio of stocks, bonds, or other securities.
- Mutual funds give small or individual investors access to diversified, professionally managed portfolios at a low price.
- Mutual funds are divided into several kinds of categories, representing the kinds of securities they invest in, their investment objectives, and the type of returns they seek.
- Mutual funds charge annual fees (called expense ratios) and, in some cases, commissions, which can affect their overall returns.
- The overwhelming majority of money in employer-sponsored retirement plans goes into mutual funds.

**Detailed content of the Lecture:**

Mutual Funds

Mutual funds pool money from the investing public and use that money to buy other securities, usually stocks and bonds. The value of the mutual fund company depends on the performance of the securities it decides to buy. So, when you buy a unit or share of a mutual fund, you are buying the performance of its portfolio or, more precisely, a part of the portfolio's value. Investing in a share of a mutual fund is different from investing in shares of stock. Unlike stock, mutual fund shares do not give its holders any voting rights. A share of a mutual fund represents investments in many different stocks (or other securities) instead of just one holding.

How Mutual Funds Work:

A mutual fund is both an investment and an actual company. This dual nature may seem strange, but it is no different from how a share of AAPL is a representation of Apple Inc. When an investor buys Apple stock, he is buying partial ownership of the company and its assets. Similarly, a mutual fund investor is buying partial ownership of the mutual fund company and its assets. The difference is that Apple is in the business of making innovative devices and tablets, while a mutual fund company is in the business of making investments.

Investors typically earn a return from a mutual fund in three ways:

1. Income is earned from dividends on stocks and interest on bonds held in the fund's portfolio. A fund pays out nearly all of the income it receives over the year to fund owners in the form of a distribution. Funds often give investors a choice either to receive a check for distributions or to reinvest the earnings and get more shares.
2. If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.
3. If fund holdings increase in price but are not sold by the fund manager, the fund's shares increase in price. You can then sell your mutual fund shares for a profit in the market.

Types of Mutual Funds

Mutual funds are divided into several kinds of categories, representing the kinds of securities they have targeted for their portfolios and the type of returns they seek. There is a fund for nearly every type of investor or investment approach.

Equity Funds

The largest category is that of equity or stock funds. As the name implies, this sort of fund invests principally in stocks. Within this group are various subcategories. Some equity funds are named for the size of the companies they invest in: small-, mid-, or large-cap. Others are named by their investment approach: aggressive growth, income-oriented, value, and others. Equity funds are also categorized by whether they invest in domestic (U.S.) stocks or foreign equities.

Fixed-Income Funds

Another big group is the fixed income category. A fixed-income mutual fund focuses on investments that pay a set rate of return, such as government bonds, corporate bonds, or other debt instruments. The idea is that the fund portfolio generates interest income, which it then passes on to the shareholders.

Index Funds

Another group, which has become extremely popular in the last few years, falls under the moniker "index funds." Their investment strategy is based on the belief that it is very hard, and often expensive, to try to beat the market consistently.

Balanced Funds

Balanced funds invest in a hybrid of asset classes, whether stocks, bonds, money market instruments, or alternative investments. The objective is to reduce the risk of exposure across asset classes.This kind of fund is also known as an asset allocation fund. There are two variations of such funds designed to cater to the investors objectives.

Money Market Funds

The money market consists of safe (risk-free), short-term debt instruments, mostly government Treasury bills. This is a safe place to park your money. You won't get substantial returns, but you won't have to worry about losing your principal.

Income Funds

Income funds are named for their purpose: to provide current income on a steady basis. These funds invest primarily in government and high-quality corporate debt, holding these bonds until maturity in order to provide interest streams. While fund holdings may appreciate in value, the primary objective of these funds is to provide steady cash flow to investors. As such, the audience for these funds consists of conservative investors and retirees.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -129

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**LECTURE HANDOUTS**

**L45**

**MBA**

**II/III**

**Course Name with Code** : **19MBC13- Security Analysis and Portfolio Management**

**Course Faculty** : **S.SENTHILKUMAR**

**Unit** : **V- Portfolio Management** **Date of Lecture:**

**Topic of Lecture:** Regulatory Environment - Emerging

**Introduction :**

The regulatory environment that is growing around scientific endeavors inevitably brings with it ambiguities and conflicts when applied in areas that the lawmakers did not anticipate. Exact standards of research conduct may leave no room for intelligent interpretation or for resolution of conflicting ethical principles. The effort required to follow a given law may be disproportional to the expected results.

**Prerequisite knowledge for Complete understanding and learning of Topic:**

- Hard to Attract Investors. A small business that lacks sufficient working capital may find it difficult to attract investors and lenders. ...
- Day-to-Day Operations. ...
- Difficult to Grow Business. ...

**Detailed content of the Lecture:**

An exhaustive discussion of the regulatory environments found world wide is simply beyond the scope of this essay. The focus here is on campaign finance data in the United States, especially that available for federal elections. In addition, the article examines only the most widely used types of campaign finance data, recognizing that there are other types of data that are typically classified under particular regulatory characteristics of specific states. The focus is on the data that have become available since the mid-1970s. First, the general regulatory parameters that define the characteristics of particular types of campaign finance data are examined. Next, campaign finance data that typically classified under the rubrics of hard money and soft money are discussed.

Over the past 10 years, environmental regulation development and implementation have continued to evolve and change. Since the creation of the EPA, about 200 new environmental regulations per year (7) were promulgated. Currently there are about 27,074 pages of environmental regulation in Title 40 of the Code of Federal Regulations. Of these regulations, roughly 66 percent deal with emissions into the air, regulated by the Clean Air Act and the Clean Air Act Amendments of 1990. Currently under the Trump Administration, there is no major regulation push or program under consideration, such as the Clean Air Act or Clean Water Act, and the stated aim of the current EPA Administrator Scott Pruitt is a more balanced approach to environmental management at the EPA

1. Develop and promote favorable policies and regulatory framework, fair, transparent, stable, predictable and nondiscriminatory that promote competition, foster continued technological and service innovation, and encourage investments on broadband infrastructure, services and applications.

2. Given the rapid pace of change in technology compared with the time needed to introduce and implement new legislation and regulations, adapt the regulatory environment to tackle the main threats facing consumers, for example the misuse of their personal data, whilst ensuring consumers enjoy the benefits.
3. Ensure that al stakeholders are informed about potential security and privacy challenges they may face with online services and have access to timely and accurate information, including about speeds and data traffic management.

   The establishment of a culture of security that promotes trust in ICT applications, one in which there is effective enforcement of privacy and consumer protection based on the strengthening of cross international cooperation.
4. In meeting their broadband challenges, and to further develop digital opportunities, policy-makers and regulators need to embrace the changes occurring in the broadband ecosystem.

5. Governments should take steps to develop e-business enabling environments and adopt e-commerce regulations consistent with the cross-border nature of ecommerce.

**Video Content / Details of website for further learning (if any):**

**Important Books/Journals for further learning including the page nos.:**

Security Analysis and portfolio management,Punithavathy Pandian, PVikas Publishing House, Pg No -433-436

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