# Basic Investing Guidelines

## Investing

Investing means to commit (money or capital) in order to gain a financial return: *invested their savings in stocks and bonds. (Source: Dictionary.com)*

## How to start investing?

First, you must ensure you have enough savings of at least 3-6 months of your monthly salary for investment before you decide to invest in the stock market. Make sure you have some cash funds that are not meant for investment in case of emergency.

## Convenience

With the advances in technology, you can trade anywhere at any time as long as the markets you trade in are open. You can also monitor and manage your investment online should you decide to trade online.

## Know your objective for investing

Keep your objective clear – whether it is for your children's education or for your own future savings, your investment should be focus on stocks that offers good capital growth. Meanwhile, if you are investing for your retirement fund, you should focus investing in stocks that offers a consistent income stream.

## Know your risk appetite…

Are you a high risk taker or low risk taker? Investing in stocks that provide high returns tend to have higher risk while stocks which have steady growth (low risk) may provide with lower investment returns. You can also diversity your investment by having a mixture of high to low risk stocks.

## Discipline

You must be disciplined in your investment plan/strategy and stick to it. If your stock is losing money, ensure that you have a stop loss strategy in place (between 3-5% is recommended, depending on your risk appetite).

## Do not put all your eggs in one basket…

Learn to manage your risk. Never put all you money onto one stock. Always diversify your investment so that you can still have some investment returns if one of your investments turns out bad.

## Know what you are getting into

You should always research the company you invest in – what business are they in, competitive edge of the company, how do they generate income, the company's business cycle, whether they are a financial stable company. You should study the fundamentals of the company to ensure that you are investing in a financially sound company. You can also look at technical studies to determine the best entry and exit points in your investment.

### Say 'NO' to rumours

Never buy a stock based on rumours. The stock could be subjected to speculative play, which normally ends very fast. You could end up in the losing end once the speculators exit the stock.

### Volatility

Do note that the stock market is a volatile place. Stocks may be affected by regional and/or global markets, economics news, cancellation of contracts, commodities prices, political stability and etc.

### Beside the returns of your investment…

The company may reward shareholders through dividends, bonus issues, right issues and etc.

### How do you select stocks?

Again, it depends on your investment plan and risk appetite. You can choose to invest in (i) developing companies (just started its business – high risk), (ii) growing companies (strong growth in sales and profits – huge potential returns), (iii) maturing companies (growth not as exciting as growth stock, potential return lower – low risk) or (iv) declining companies (unable to grow as fast the economy/industry growth rate – high risk, low returns). It is best to invest in companies that have high demand in products or services, low debt to equity ratio, efficient management of shareholders fund and ability to survive the ups and downs of the market despite increase in competition.

### Fundamental Analysis

A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industrial conditions) and individually specific factors (like the financial condition and management of companies). The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security – i.e. underpriced – buy, overpriced – sell. Fundamental analysts use real data to evaluate a security's value – such as financial statement to evaluate stocks.

### Technical Analysis

A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysis does not attempt to measure a security's intrinsic value, but instead uses charts and other tools to identify patterns that can suggest future activities. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.

### Dividends

A cash payment from a company's earnings, announced by the company and distributed among shareholders – i.e. dividends are an investor's share of a company's profits.

### Dividend Yield

Shows how much a company payout in dividends each year relative to its share price. In the absence if any capital gains, the dividend yield is the return on investment for a stock. Dividend Yield is calculated as:-

$$\text{Dividend Yield} = \frac{\text{Annual Dividends per share}}{\text{Price per share}}$$

High dividend yielding stocks are preferable for long term investors as they can accumulate dividend payouts on top of the gains from the share price performance.

### Earnings Per Share (EPS)

The portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

$$\text{EPS} = \frac{\text{Net Income}}{\text{No. of shares outstanding}}$$

It is more accurate to use a weighted average no. of shares outstanding over the reporting period, because no. of shares outstanding can change over time. Meanwhile, diluted EPS expands on basic EPS by including the shares of convertibles or warrants outstanding in the outstanding share numbers. The company that is more efficient of using its capital to generate income would be a better company. Investor should invest in stocks that offer positive EPS and/or higher EPS.

***Note:*** *Earnings manipulation will affect the quality of earnings number.*

### Price-Earning Ratio (P/E Ratio)

P/E Ratio is a valuation of a company's current share price compared to its per-share earnings.

$$\text{P/E Ratio} = \frac{\text{Price per share (Current share price)}}{\text{Earnings per share (EPS)}}$$

High P/E suggests that investors are expecting higher earnings growth in the future compared to companies with lower P/E. It is most useful to compare P/E ratios of one company to other companies in the same industry – i.e. peer comparison, to the market in general or against the company's own historical P/E.

It is referred to as the "multiple", because it shows how much investors are willing to pay per ringgit of earnings. Eg. If Company XYZ is currently trading at a P/E of 10x, it means that an investor is willing to pay RM10 for RM1 of current earning. In other words, the higher the P/E, the more "expensive" is the stock.

***Note:*** *Avoid just using P/E valuation to determine whether you want to invest in the stock.*

### Return On Equity (ROE)

The amount of net income returned as a percentage of shareholders equity. ROE measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

This ratio is useful for comparing the profitability of a company to that of other firms in the same industry.

### Return On Investment (ROI)

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

$$\text{ROI} = \frac{\text{(Gains from investment – Cost of investment)}}{\text{Cost of investment}}$$

Investor should invest in stocks that offer positive ROI and/or higher ROI.

***Note:*** *This ratio depends on what you include as returns and costs.*

### Debt-to-equity Ratio (or Gearing)

A measure of a company's financial leverage calculated by dividing its total liabilities by shareholder's equity. It indicates what proportion of equity and debt the company is using to finance its assets.

$$\text{Debt-to-equity ratio} = \frac{\text{Total of interest bearing liabilities}}{\text{Shareholder's equity}}$$

Company with lower gearing is better – i.e. less than 1x net cash while company with gearing more than 1x has higher borrowings compared to its cash & bank balances. A high debt-to-equity ratio generally means that a company has been aggressive in financing its growth with debt which in turn can result in volatile earnings as a result of the additional interest expense.

***Note:*** *This ratio depends on industry – some industries are more capital intensive (e.g. manufacturing, construction) and therefore may require borrowing more in order to generate higher income.*

### Price-to-Book Ratio (P/B Ratio)

P/B Ratio is used to compare a stock's market value to its book value. It is also know as price-equity ratio.

$$\text{P/B Ratio} = \frac{\text{Current share price}}{\text{Total Assets – Intangible Assets \& Liabilities}}$$

A lower P/B ratio could mean that the stock is undervalued. Therefore, investors should invest in stocks that offers high P/B ratio.