

HR Training Programme Series I

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Stock Market Essentials (Professional Level)

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人力資源培訓計劃系列(壹) 股票市場須知(專業篇)

Stock Market Essentials (Professional Level)

Aim:

- Recognise the general understanding, types, rules, value and investment of stock market.

Course outline:

- Concept of stock exchange.
- Initial Public Offerings (IPO).
- Types of securities traded on the KLSE.
- Techniques used in stock selection.

Prerequisite:

- Economics, Finance, and Trade – *optional*.

Duration:

- 90 minutes.

Equipment / Tools:

- None.

Overview of Stock Exchange



Stock Exchange

A market place for the **buying and selling** of **shares** (stocks), **debentures** (corporate bonds) and **government securities**, and some other **investment products**.

- ◆ Also known as “**Equity Market**”.
- ◆ The most vital areas of a “market economy” as it provides **companies with access to capital** and **investors with a slice of ownership** in the company and the **potential of gains**, based on the company's future performance.

In Malaysia, the primary share market is **Kuala Lumpur Stock Exchange (KLSE)**.

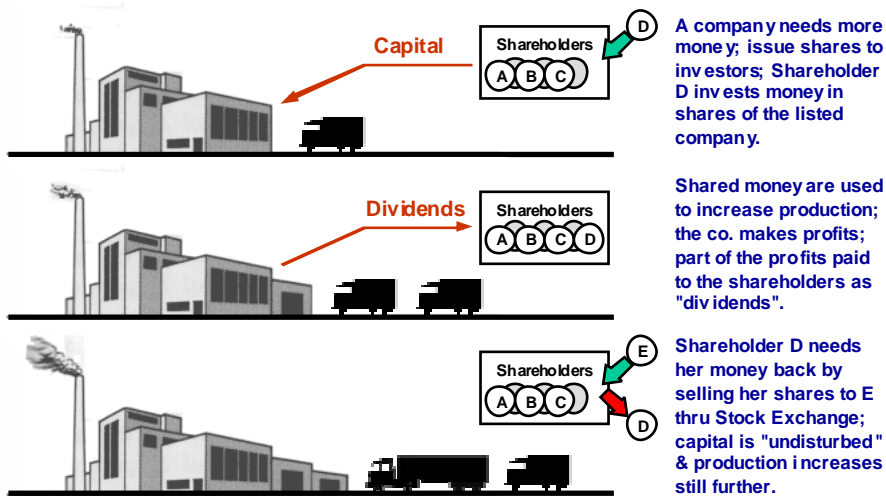


Overview of Stock Exchange (Cont.)

One of the **major function** of stock exchange:

(Source: G F Stanlake, 1991)

- ◆ **Helping government & companies to borrow on a long-term basis.**

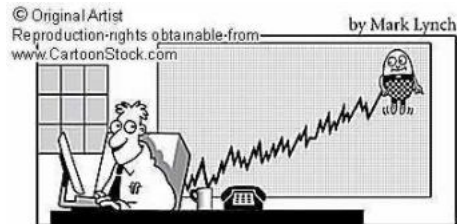


Going Public...

(Source: www.sharesmadeimple.com.au)

A company can **raise money** to finance its business by "going public".

Going public means **being listed on a stock exchange** and **issuing shares to investors**.



- ◆ By buying the shares, each investor **buys part ownership** of the company's business and **becomes a shareholder** in the company.
- ◆ In return for investing in the company, shareholders can **receive dividends and other benefits**.
- ◆ Shares that have been issued to investors by a listed company can **be sold on the share market**.
- ◆ In this way, shareholders can **realise capital gains** if the share **price** has risen - in other words, make a profit by **selling their shares** for more than they paid for them.

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Prices, Dividends & Yields of Shares

Nominal Prices

- ▶ The **face value** (par value) printed on the **share certificate**.

Market Prices

- ▶ Prices determined by "**supply & demand**" in the market for shares.
- ▶ Market price may be **higher or lower** than the nominal prices.
- ▶ If it is higher, the share is selling **at a premium**.
- ▶ If it is lower, the share is selling **at a discount**.

Dividends

- ▶ The **proportion** of a company's **net earnings** paid to its shareholders.
- ▶ Expressed as a **percentage of the nominal value**.

Yields

- ▶ The **return of an investment** (profit) expressed as a **percentage**.
- ▶ Formula: $(\text{Dividend amount per share} / \text{Market price of share}) * 100\%$

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IPO (Initial Public Offering)



Benefits of IPO: (Why IPO?)

- IPO provides **greater availability** and **liquidity of securities**.
- **Quoted securities**, because of their **marketability**, may be **transacted at a premium**.
- Quoted securities tend to be accepted by lenders as **collateral**.
- **Wider choice of financing alternatives**, e.g. issue of new equity securities, private debt securities or debt securities with equity linked instruments.
- Able to **secure borrowing at more competitive terms** as a result of its enhanced credit standing.
- Public listed companies may **expand through mergers and acquisitions** undertaken through the **exchange of securities**, which would not strain their cash resources.
- Shareholders are able to **realise their investment** in a company seeking IPO at a possible premium.
- **Greater commitment** to perform by management of Applicant to increase Applicant's values, thus **increasing returns to shareholders**.

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IPO – Benefits (Cont.)



- Suppliers, customers and other business associates may feel **more secure** when they are dealing with public listed companies.
- This is mainly due to the listing status which may **provide some indication** as to the **financial viability** and **quality of management** of Applicant.
- A listing status will provide the Malaysian public the **opportunity to participate in the equity** of the company and hence its **future growth and profitability**.
- **Greater visibility** and **higher profile**.
- Listed status **enhances reputation and credibility** of Applicant.
- As a way of **rewarding employees**, Applicant can consider the allocation of securities via "**pink forms**" to its employees in its IPO exercise. These allocations would constitute part of the public shareholding spread requirement.
- Ability to attract, retain and reward employees through the establishment of an "**Employee Share Option Scheme (ESOS)**".
- A listed company's ESOS is naturally **more attractive to existing and prospective employees**.

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IPO – Implications

Implication & Requirements of IPO:

- A listed company has to **comply with the rules** of **Bursa Malaysian Securities Berhad (BMSB)** and **Securities Commission (SC)**, which regulate its transactions and impose extensive disclosure requirements such as quarterly and annually reporting to shareholders/public and public announcements.
- **Opportunity for competitors to understand** more of the public listed company's business strategies.
- All major investment decisions, acquisitions, divestment or securities issues will **require approval of the shareholders** at a **general meeting** convened for that purpose. Transactions involving the interests of substantial shareholders and/or Directors will preclude them and their related parties from voting.
- A listed company is usually **under constant scrutiny (inquiry)** of the press and the public.

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IPO – Implications (Cont.)

- Major shareholders would **not be in the position to control** the action of other shareholders.
- Applicant's directors will have **greater responsibility** to take care of the interests of Applicant and its shareholders, esp. the minority shareholders.
- **Stricter requirements** to comply with existing requirements and disclosures.
- **Additional costs, resources and disclosures requirements**, i.e. quarterly and annually financial reporting to shareholders and public.



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Types of Securities

Security

- ▶ **Stock, bond, note, or any type of investment product or vehicle.**

The following are the types of securities traded on KLSE:



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Types of Securities (Cont.)

Ordinary stocks / shares

Give holders the **rights of ownership** of the company such as the right to **share the profits** by way of dividend, the right to **vote** in general meeting and to elect and to **dismiss directors**.

Preference shares

Shares of a different class from ordinary shares which have a preferential position over ordinary shares on the payment of **dividends** (normally on a **fixed amount**).

Bonds

Documents recording a **loan** specifying the date of its **maturity** and the rate of **interest** to be paid at a specified period. Common name for fixed interest securities of more than one year in term.

Debenture

Fixed interest securities bearing a **maturity date** and a specified **rate of interest**. The assets of the borrowing company are charged against the debenture issue; details of the charge are included in a debenture deed drawn up to protect the debenture holder. In essence, they are **a loan to a company**.

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Types of Securities (Cont.)

Loan stocks

Securities issued by a company for a loan made by investors. Loan stocks may be secured, unsecured, convertible or nonconvertible, but are often unsecured, unlike debentures.

Unsecured loan stocks

Securities carry higher risk than debentures, and in the event of a winding-up, unsecured loan stocks holders rank alongside all other unsecured creditors.

Convertible loan stocks

Carry the right to convert into ordinary shares of the company on pre-arranged terms and within a limited period. The objective of issuing a convertible loan stock is to obtain fixed interest finance at a relatively low rate of interest and at the same time, make it attractive to potential holders by offer of equity participation at a later date.

Loan notes

Securities issued by a company for a loan made by investors.

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Types of Securities (Cont.)

Property trust units

Units in a unit trust (or mutual fund) which invests in real estate.

Warrants / Transferable Subscription Rights (TSRs)

Give the holders the right, but not the obligation, to subscribe for new ordinary shares at a specified price during a specified period. The warrants / TSRS, usually attached to an issue of loan stock, are issued by the company and usually have a maturity period of five years.

Rights

Companies raised additional capital by offering to existing shareholders the rights to subscribe for new shares, at a price usually below the current market price. The rights, while current, attract a price of their own and can be traded on the KLSE.

Closed-end funds

This fund is a listed company which invests in shares of other companies. It has a fixed number of shares in issue at any point of time, the price of which will fluctuate according to new asset value and market forces.

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Minimum Bids

▶ Below RM1.00	→	1/2 sen
▶ RM1.00 .. RM2.99	→	1 sen
▶ RM3.00 .. RM4.98	→	2 sen
▶ RM5.00 .. RM9.95	→	5 sen
▶ RM10.00 .. RM24.90	→	10 sen
▶ RM25.00 .. RM99.75	→	25 sen
▶ Over RM100.00	→	50 sen

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Trick of Buying & Selling

One common old trick:

“Buy LOW and Sell HIGH”

or

“Sell HIGH and Buy LOW”

But... **HOW?**



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“There’s always an element of risk. No one has a crystal ball. OK, I have one, but no one knows how it works.”

“Risk Comes From Not Knowing What You Are Doing.”

~ Warren Buffett, World’s Greatest Investor ~

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Analytical Techniques

Two general techniques used in stocks picking:

Fundamental Analysis

Based on **current economic information**.

- Which is the most attractive **country**?
- Is the country having **brightest economy outlook**, and **political stability**?
- Which is the **fastest growing sector**?
- What are the **government policies**?
- Which **company** is likely to outperform?
- How does the (favourite) **company perform**?
 - ▶ Major information: **Company's Annual Report & Financial Statements**.
 - ▶ Some useful ratios: **P/E ratio, Dividend Yield, Net Tangible Asset, etc.**
 - ▶ Other information: **Chairman/CEO Report, Management, Biz Plans, etc.**



Technical Analysis

Based on **historical price patterns** (to forecast future price movement).

- Use of charts: **Line Chart, Bar Chart, Candlestick Chart, Trend, etc.**
- Some useful indicators: **Moving Average, Relative Strength Index (RSI), etc.**

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Some Other Useful Information...

GDP and GNP

Gross Domestic Product (GDP) is the total output produced by the factors of production in Malaysia. Some of these factors (e.g. capital) are owned by foreign firms.

Gross National Product (GNP) is the total output produced by Malaysia-owned factors of production wherever they happen to be located, whether **at home or abroad**. *(Some part of the value of what is produced in Malaysia will be taken out of the country in the form of profits by foreign-owned firms which have businesses in Malaysia. On the other hand, Malaysia-owned firms located abroad will bring profits back to Malaysia)*

Basic calculation:

$$\text{GNP} = \text{GDP} + (\text{Income earned abroad} - \text{Income paid abroad})$$

Leading Indicator

An indicator is referred to as a **statistical calculation** that can be used to **anticipate future changes in prices** (so as to give appropriate buy or sell **signals**).

- ▶ **Production, sales, incomes, and employment statistics** indicate how well the economy is performing.
- ▶ Several leading indicators are often combined to form a **leading index**: a single composite statistical series that can **give advance warning** about **business cycle movements**.
- ▶ Combining several indicators **helps keep temporary developments** in one part of the economy **from giving a false impression** about where the overall economy is headed.



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