

Wealth Management
Stocks basics: an introduction

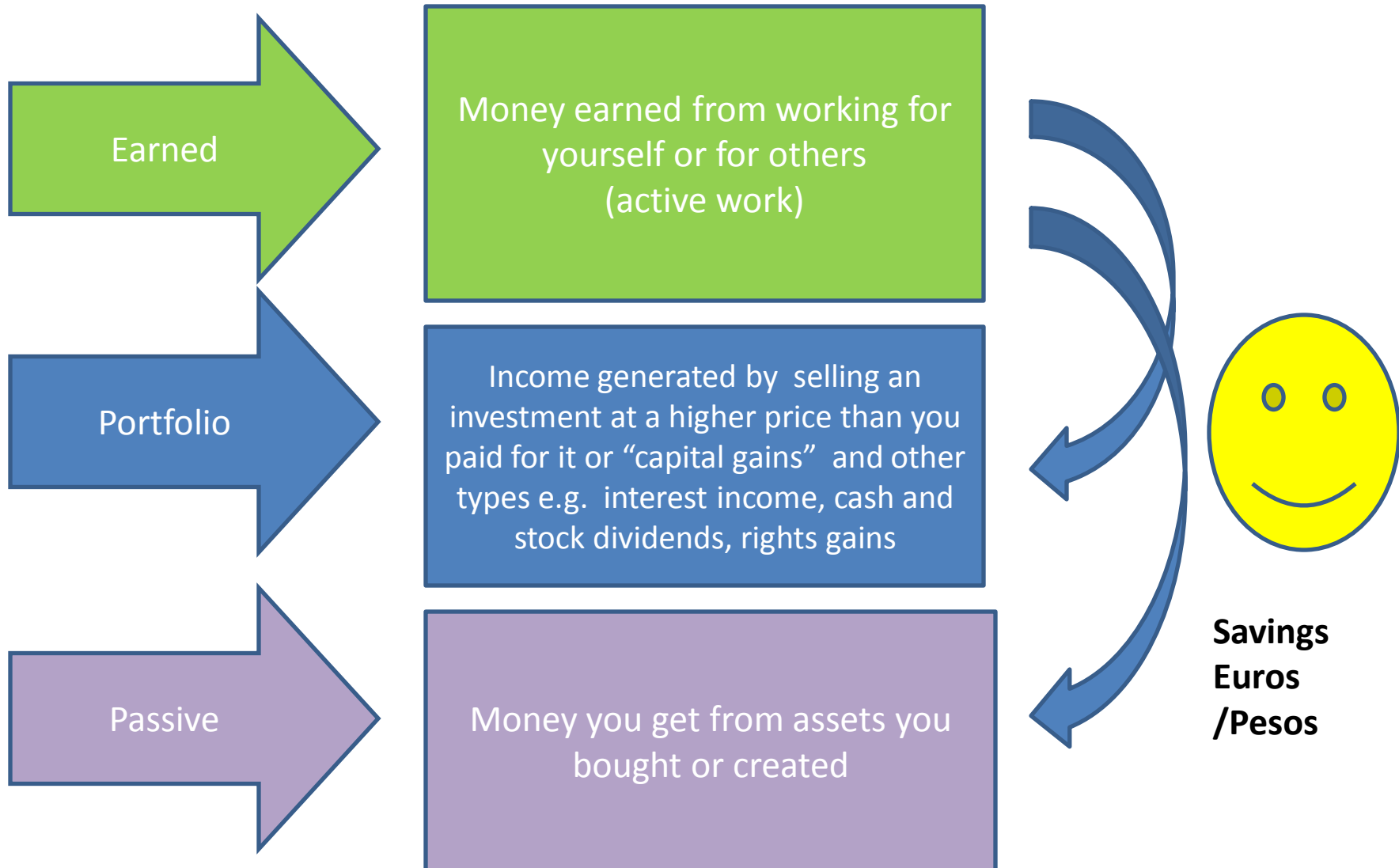
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•when you plant, you harvest or
when you invest, you gain.

Three Types of Income



Four Uses of Income



Present

To spend for basic necessities and to have savings for investments (developing the culture of savings)



Future

Safe and less risky investments (blue chip stocks, mutual fund, balance fund)



Gifts

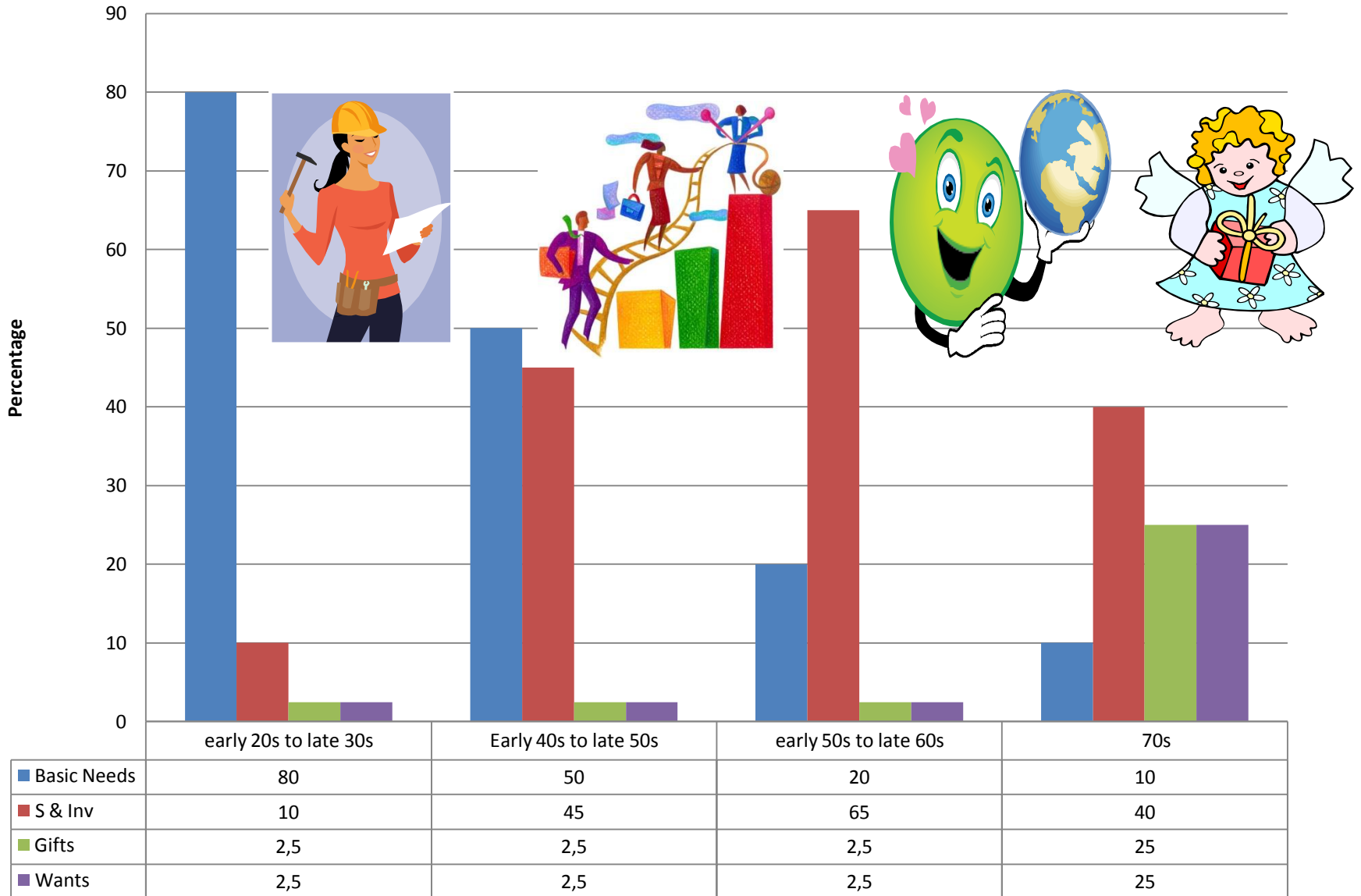
Gifts – unconditional gift giving to family, relatives and others



Wants

Things you don't really need

Uses of Income according to age bracket



Buy your first stock!



What is a stock or a share?

Corporations sell shares or stocks to raise cash to fund their operations. The first time that a company sells its shares is termed its initial public offering (IPO). Most companies make additional stock offerings from time to time to raise additional funds.

You are buying ownership in an organization when you buy a stock or stocks in a pooled fund.

Source: Harry Domash, **Investing 101: Buy your first stock or fund**, available at:

<http://articles.moneycentral.msn.com/Investing/StartInvesting/Investing101BuyYourFirstStockOrFund.aspx> accessed 20 December 2010.

Buying stocks in The Netherlands

Where do you buy or participate in stocks or shares trading in the Netherlands?

- Banks e.g. ABN AMRO, ING, Rabobank
- Investment houses ALEX, DFT
- Investment Clubs

Can I buy international stocks as well?

Yes, you may buy or sell stocks of organizations from other countries e.g. Google, Apple, Coca Cola

Funds or stocks?

Should I buy funds or stocks?

- Mutual funds invest the pooled funds of thousands of investors. By investing in mutual funds you gain the advantages of professional management. Because most funds hold dozens, if not hundreds, of stocks in their portfolios, investing in funds also gives you automatic diversification.
- That is an important advantage. Even if you're a gifted stock-picker, inevitably something unexpected will happen that will sink the share price of one of your stocks. Such an event could be a disaster if you own only a few stocks, but would be no big deal for a mutual fund holding a hundred or so stocks.

Source: Harry Domash, **Investing 101: Buy your first stock or fund**, available at:

<http://articles.moneycentral.msn.com/Investing/StartInvesting/Investing101BuyYourFirstStockOrFund.aspx> accessed 20 December 2010.

Categories of Investors

1. Growth investors

- A stock's price often reflects how profitable investors think a company will be in the future. So most investors follow a growth strategy, which means that they look for companies with strong prospects for growing their sales and earnings.
- Definitions vary, but stocks expected to increase their sales (and their net income) from one year to the next by at least 15% generally qualify as growth stocks.

2. Value

- Value investors follow a different path. They believe that the broader stock market always overreacts to news about a company. They seek out formerly hot stocks that have stumbled and whose share prices are at bargain levels.
- Being cheap, though, isn't enough by itself. Value investors try to zero in on stocks that were beaten down due to temporary problems that can be fixed.

3. Dividends

- Dividend investors buy stocks that pay a cash dividend based on the number of shares you own, usually on a quarterly basis. Unlike value and growth investors, who only make money when they sell, dividend investors get paid while they hold the stock.
- Thus, dividend investors buy stocks as much for the income as they do for capital appreciation (which is what you get when you sell a stock at a higher price than you paid for it). Dividend investors look for financially solid companies with the wherewithal to continue paying their dividends, regardless of what's happening in the economy.

Source: Harry Domash *Investing 102: Pick a stock and buy it* available at :

<http://articles.moneycentral.msn.com/Investing/StartInvesting/Investing102PickAStockAndBuyIt.aspx>
accessed 20 December 2010.

Valuation Ratios

- **Price-to-earnings (P/E):** This is a company's stock price divided by how much it earns per share over 12 months (expressed as earnings-per-share, or EPS). Most often, the EPS used is the most recent 12 months' earnings. P/E is the most widely used valuation gauge.
- **Price-to-sales (P/S):** A company's stock price divided by the most recent 12 months' sales-per-share. Some investors favor P/S over P/E because sales don't vary as much as earnings from quarter to quarter. Another advantage is that you can calculate P/S, but not P/E, when a company loses money in a quarterly or annual reporting period.
- **Price-to-book (P/B):** Also called book value, this is a company's assets minus its liabilities. A P/B ratio divides a company's stock price by its book value per share. Value investors tend to favor P/B.

Source: Harry Domash *Investing 102: Pick a stock and buy it available at :*

<http://articles.moneycentral.msn.com/Investing/StartInvesting/Investing102PickAStockAndBuyIt.aspx> accessed 20 December 2010.

Defining value and growth

Ratio	Value	Growth	Overpriced Growth
P/S	Less than 15	More than 20	More than 50
P/E	Less than 2.5	More than 3	More than 10
P/B	Less than 3	More than 5	More than 15

Stocks with valuations in the gaps between the value and growth definitions -- say, a P/E of 18 and a P/B of 4 -- could be in either category, depending on the circumstances. Valuations in the Overpriced Growth column define stocks that many investors would consider overpriced.

These ratios can help you understand whether a company's shares are cheap or expensive. If they are cheap, and you've done your work trying to find out why, then they may be attractive as a buy.

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Fundamental Analysis

- Fundamental Analysis is just as it sounds. It is based on examining the fundamental pieces of a business and its operation. There are no exotic formulas used. You do not need to be a mathematician. Anyone with a simple calculator and some basic information about a business should be able to employ Fundamental Analysis quite effectively.
- Profitability (Income Statement), sufficient net worth, (Balance Sheet), healthy cash flow (Cash Flow)
- Find a cheap security, buy it and become rich. If only it were that simple. Or perhaps it is? Just ask Mr. Buffett. (Take advantage of recessions, temporary problems)
- definitive work on Fundamental Analysis is provided by Graham and Dodd

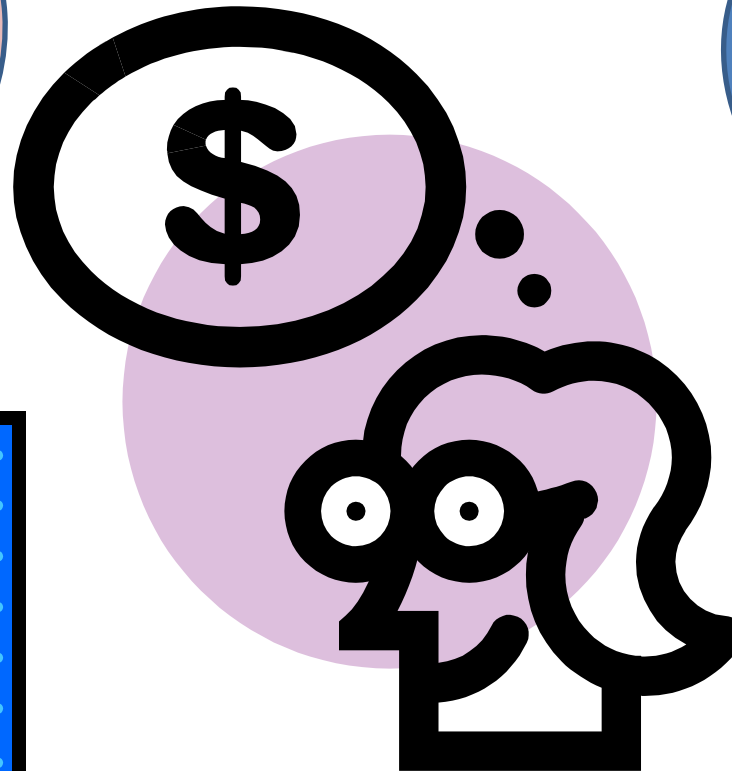
Source: http://EzineArticles.com/?expert=Ray_Johns

Technical analysis

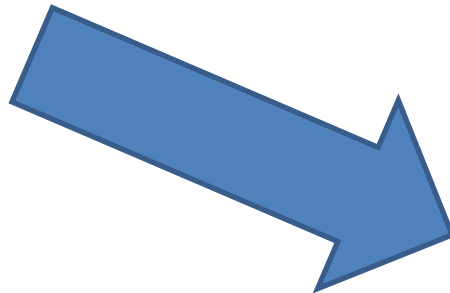
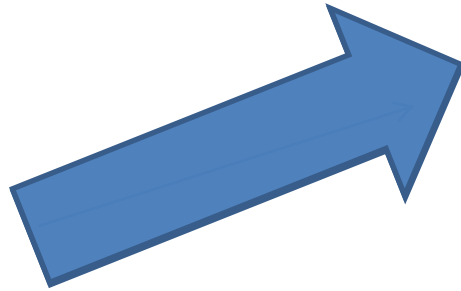
- "The technical approach to investing is essentially a reflection of the idea that prices move in trends which are determined by the changing attitudes of investors toward a variety of economic, monetary, political, and psychological forces. The art of technical analysis -- for it is an art -- is to identify trend changes at an early stage and to maintain an investment posture until the weight of the evidence indicates that the trend has reversed." by Martin J. Pring in his book "Technical Analysis Explained" as quoted by Ray Johns .
- Technical Analysis has become much more popular and widely used in perhaps only the last 20 to 30 years on Wall Street. This may be largely due in part to its more widespread teaching and acceptance in colleges in more recent years.
- Technical Analysis has been [incorrectly] extrapolated to mean that the market will "always perfectly" evaluate a security based on all information known by the markets. Unfortunately, that is not "always" the case.

Source: [http://EzineArticles.com/?expert=Ray Johns](http://EzineArticles.com/?expert=Ray_Johns)

Financial Analyses



Don't be greedy!



Words of Wisdom from Warren and Graham

- Margin of safety
- Value investing



Links to Securities Information

General: banks, investment houses, Internet

- Netherlands

<http://onlineseminar.dft.nl>

- US

[http://moneycentral.msn.com/detail/stock quote](http://moneycentral.msn.com/detail/stock_quote)

<http://finance.yahoo.com/>

- Philippines

<http://business.inquirer.net/>

<http://www.pse.com.ph>

Taxes on income, profit and wealth in NL

- **Box 3**

Income from savings and investments falls in this box. The rate is 30% and is levied on a deemed fixed yield of 4% of the total net worth. Net worth is the value of the assets, which may be savings deposits, rented-out property excluding residence, shares etc., after the deduction of debt, based on the average balance for the year. The reference dates are 1 January and 31 December. Tax is levied on the value in excess of € 20,014.

Source:

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