STOCK Investment Strategy

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Content

1. Introduction
2. How to Pick Winners
3. Industry Analysis
4. Cost Average Investment

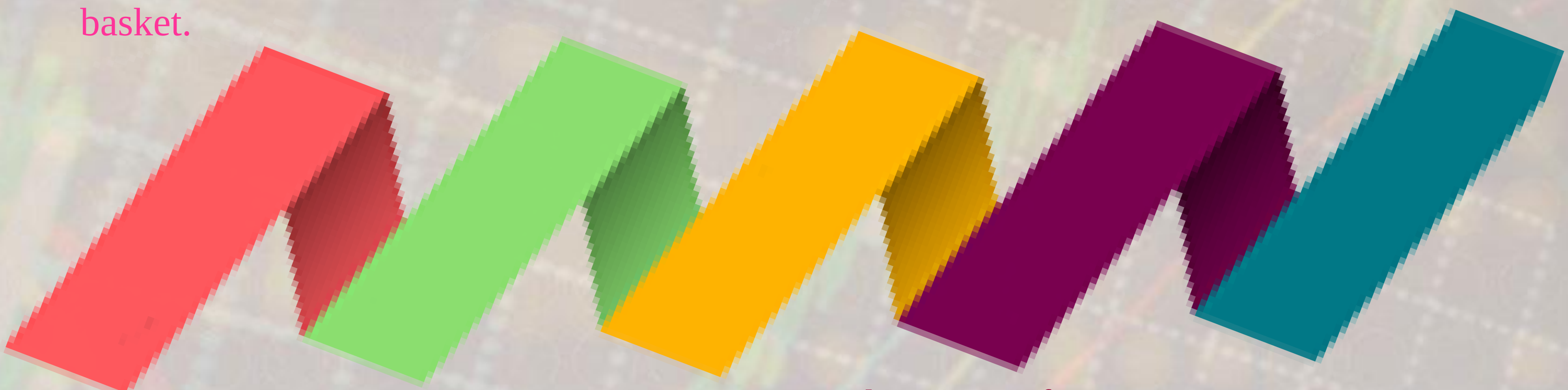
1. Introduction

1.1 Asset Allocation

- Asset allocation is compared with portfolio strategy in a sense that what kind of asset is in the basket.

- **Portfolio strategy covers same type of asset.**

- A large portion of performance is determined by asset allocation, which is thought to be as important as stock selection.



- Asset allocation covers different type of assets.

- The prices of investment Assets are fluctuating and the investors are interested in minimizing the fluctuation.

1. Introduction

1.2 Importance of Asset Allocation

First, the number of target investment asset increases.

Third, asset allocation is proved to be the most important factor in determining the performance.

Second, as people is getting richer, the wealth to be invested is getting bigger.

1. Introduction

1.3 Integrated Investment Management

- First, set up the reasonable performance target.

- Second, implement asset allocation in accordance with the performance target.
- Third, select the individual assets.
- Fourth, monitor the performance and revise the target, asset allocation, and asset selection.

1. Introduction

1.4 Investing Strategies

Major investing strategies are the big four and other strategies:

- How to Pick Winners
- Industry Analysis
- Cost Average Investment

2. How to Pick Winners

2. How to Pick Winners

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Step 1:

Valuation (*Buy Low, Sell High)*

- The buy low, sell high strategy works better if you focus not on the market, but on a specific stock.
- Study after study has shown that stocks with low valuations tend to out perform. With those decades of research in mind, here are some valuation ratios to consider:
  - Price/earnings ratio (P/E).
  - Price/sales ratio (P/S).
  - Price/book ratio (P/B).
  - Price/operating cash flow ratio (P/OCF).

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2. How to Pick Winners

Step 2:

Growth (Does Your Company Expand?)

2.1 Collecting Relevant Data

- Set the period that you want to know (quarter, year,…….)

- Find and collect data from companies websites

2. How to Pick Winners

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Step 2:

Growth (Does Your Company Expand?) (1)

2.2 Calculating Growth Rates

- **Negative numbers:** You need 2 statistics to compute growth rates------the most recent period and the historical period------and your calculation won't mean anything if either of those numbers is negative. ***You might sill be able to draw some conclusions, though.***
- **Blanks:** If you can't find any of the numbers needed for a certain calculation, don't try to shoehorn the data you do have into a modified result. Just forget about calculating that growth rate.
- **Magnitude:** Did you get all the number right?

2. How to Pick Winners

Step 2:

Growth (Does Your Company Expand?)(2)

2.2 Calculating Growth Rates (1)

Equation and Example:

- Growth rate = (sales in most recent quarter / sales in same quarter a year ago)-1

Example: ($12,973 / $ 13,968) – 1 = -7%

- Annualized growth rate = (Sales in the last fiscal year / Sales from four years ago) ^ (1/number of years)-1

Example: ($58,986 / $48,341) ^ (1/4) -1 = 5%

- Estimated profit growth rate =(Profits for later period / Profits for earlier period)-1

Example: ABC company's estimated current-year per-share-profit growth:

($ 2.21 / $ 2.19) -1 = 1%

Example: DEF company's estimated next-year per-share- profit growth

($ 2.31 / $ 2.21) -1 = 4%

2. How to Pick Winners

Step 2:

Growth (Does Your Company Expand?)(3)

2.3 Comparing Growth Rates

Comparing Growth Rates		
1. Compare the growth rates of different statistics for the same period.	*2. Compare the growth rates of the same statistics over different periods.*	*3. Compare the growth rates of the target company with its peers*

2. How to Pick Winners

Step 3:

Profitability (Making the Most of What You Have)

3.1 Gauging Profitability

- Margins and return ratios provide information on the profitability of a company and

  the efficiency of the company.

- ***A margin*** is a portion of revenues that is a profit.

- ***A return*** is a comparison of a profit with the investment necessary to generate the profit.

2. How to Pick Winners

Step 3:

Profitability (Making the Most of What You Have)(1)

3.1 Gauging Profitability

3.1.1 Margin

Profitability Ratios: Margins *Each margin ratio compares a measure of income with total revenues*:
$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Total revenue}}$$
$$\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Total revenue}}$$
$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Total revenue}}$$
$$\text{Pretax profit margin} = \frac{\text{Earnings before taxes}}{\text{Total revenue}}$$

2. How to Pick Winners

Step 3: Profitability (Making the Most of What You Have) (2)

3.1 Gauging Profitability

3.1.1 Return

Return ratios compare a measure of profit with the investment that produces the profit:
$\text{Operating return on assets} = \dfrac{\text{Operating income}}{\text{Average total assets}}$
$\text{Return on assets} = \dfrac{\text{Net income}}{\text{Average total assets}}$
$\text{Return on equity} = \dfrac{\text{Net income}}{\text{Average shareholders' equity}}$

2. How to Pick Winners

Step 4:

4.1. Putting It All Together

- No investor should make a buy or sell decision without reviewing a company from valuation, growth, and profitability.
- And make no mistake, the three concepts you just learned are the beginning.

4.2. Finding New Stock Ideas

Consider these four strategies for inspiration:

- Focus on a stock recommended by someone you trust, particularly if you already know the company, and it looks good from several directions.
- Select a company you like, preferably one that uses a business model you understand.
- Target an industry, not a company.
- Let your preferred approach lead you.

2. How to Pick Winners

Step 4:

4.3. Maintaining Balance

- Whatever method you use to select stocks, and whichever form of analysis you like best, don’t abandon a balanced approach.

As you move toward any buy or ignore decision, remember the following points:

- In a vacuum, you should favor a cheap stock over an expensive one.
- You want to see strong growth in sales, profits, and operating cash flow, but some companies overextend themselves financially to raise cash to fund expansion.
- Hosts of stocks offer either high growth or cheap valuations, but few look good from both angles.
- Improving profitability is generally a good sign, but when companies take it too far, they can cripple their growth potential.
- View extremes with caution.
- Pulling the trigger.

2. How to Pick Winners

Step 5:

5.1. Getting the News: What the Statistics Don’t Tell You

- Plenty of companies look good by the numbers, but statistics rarely tell the whole story.
- This point provides 10 steps to transition you from a careful stock analyst to a wise stock owner.
- The first five provide tips for making informed stock purchases, while the second five illustrate some ways to keep your portfolio fresh and vibrant after you buy.

4. How to Pick Winners

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Step 5:

5.2. Company Analysis: Beyond the Numbers

1) Keep up with news about your stocks.
2) Actually read
3) Believe half of what you read, and less of what you hear.
4) Make a good decision

4. How to Pick Winners

Step 5:

5.3. Following Through: Keeping Up with Your Stocks

6) Track your portfolio.

7) Investigate problems.

8) Reassess your stocks frequently.

9) Revisit the financials once a quarter.

10) Don’t overreact to the news.

3. Industry Analysis

3.1 Introduction

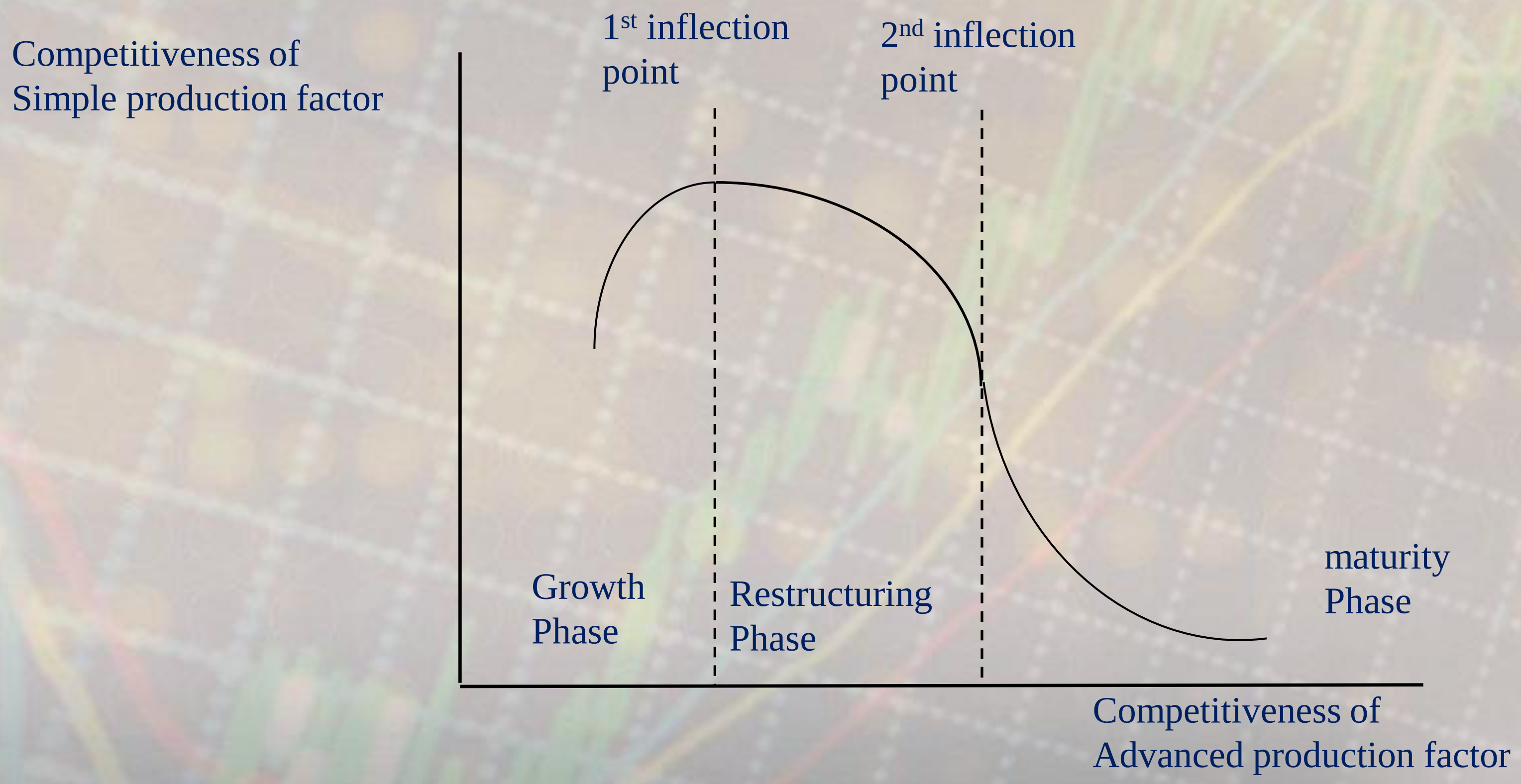
- *Industry analysis helps the investors to select stocks by top-down approach.*

- *We have various industries, which have different outlook in terms of profitability and growth.*
- *Understanding of each industry's position will help to narrow down the number of investment targets.*

3. Industry Analysis

3.2 Structural change of industry growth

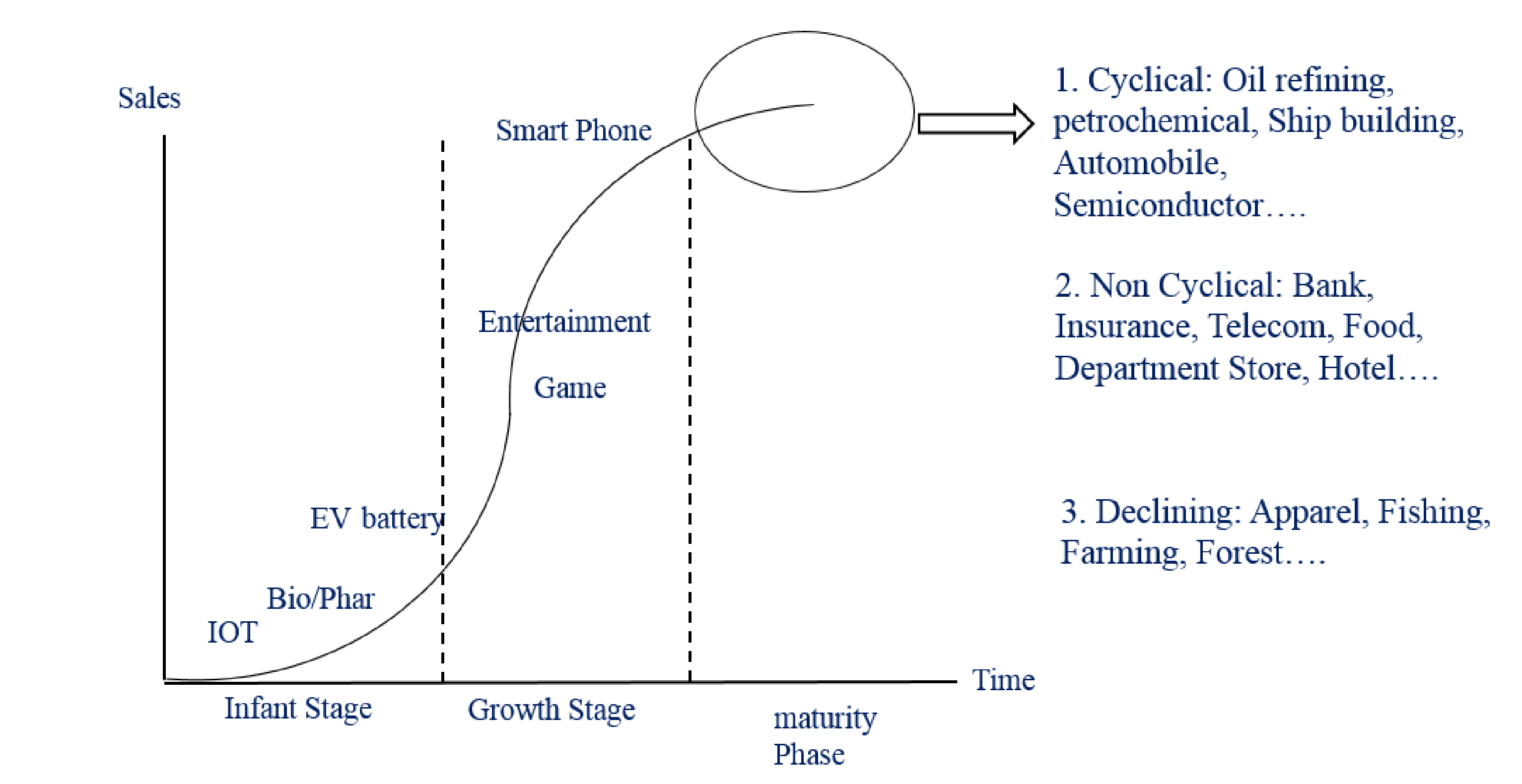
Labor market's competitiveness change process



3. Industry Analysis

3.3 Industry growth curve

Labor market's competitiveness change process



3. Industry Analysis

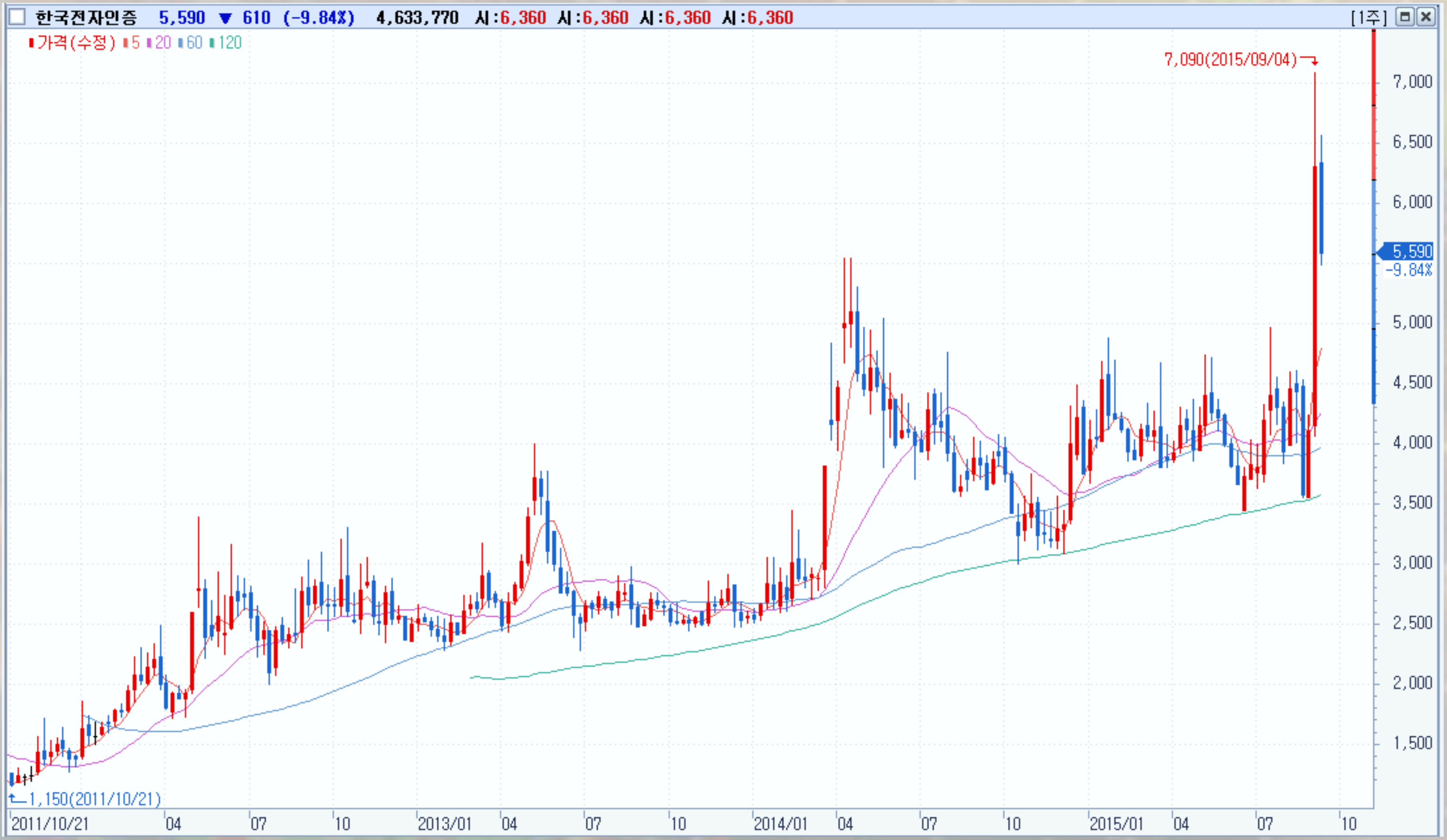
3.3 Industry growth curve (1)

Industry growth curve- Infant stage example

3. Industry Analysis

3.3 Industry growth curve (2)

Industry growth curve- Infant stage example



3. Industry Analysis

3.3 Industry growth curve(3)

Industry growth curve- Infant stage example

3. Industry Analysis

3.3 Industry growth curve (4)

Industry growth curve- growth stage example

3. Industry Analysis

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3.3 Industry growth curve (5)

Industry growth curve- growth stage example

3. Industry Analysis

3.3 Industry growth curve (6)

Industry growth curve- Cyclical industry example

3. Industry Analysis

3.3 Industry growth curve (7)

Industry growth curve- Cyclical industry example

3. Industry Analysis

3.3 Industry growth curve (8)

Industry growth curve- Cyclical industry example

3. Industry Analysis

3.3 Industry growth curve (9)

Industry growth curve- Non Cyclical industry example

3. Industry Analysis

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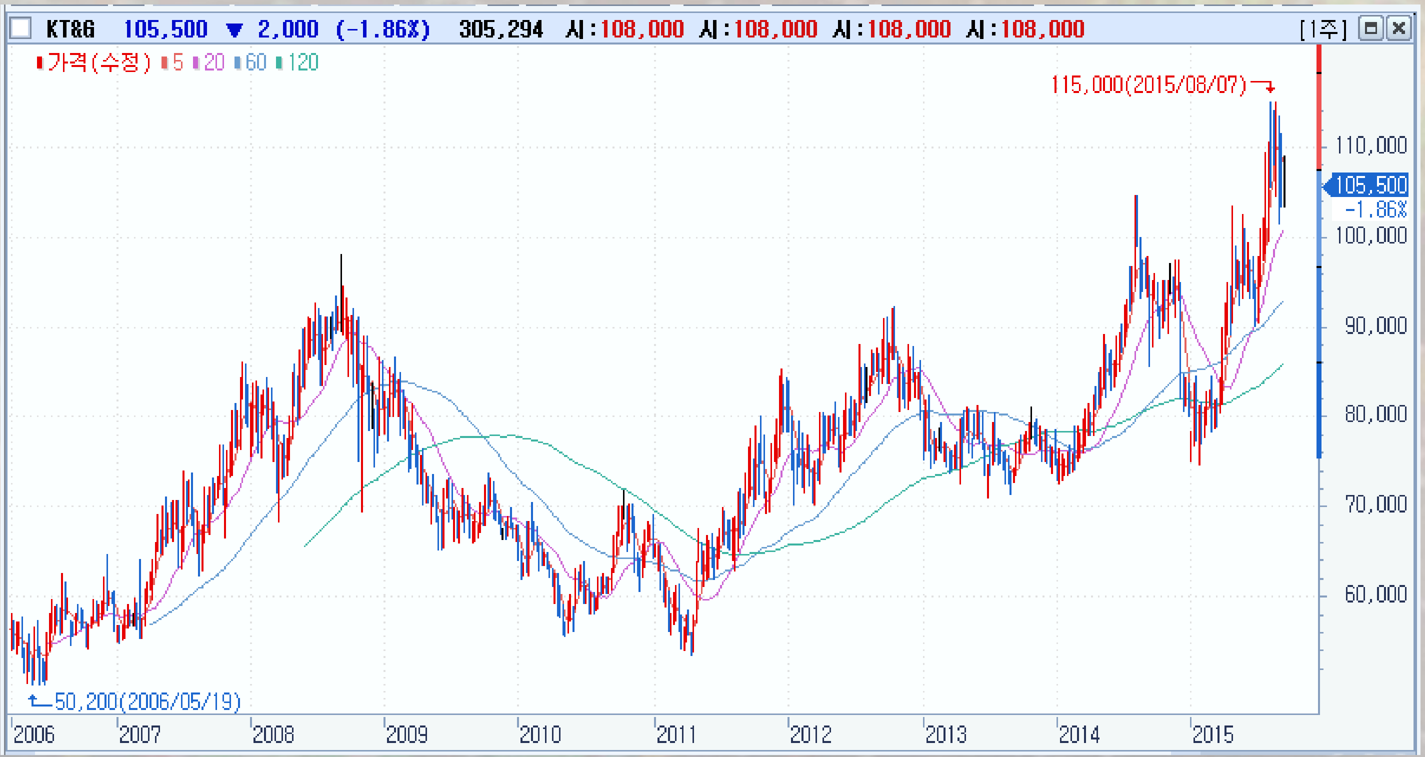
3.3 Industry growth curve (10)

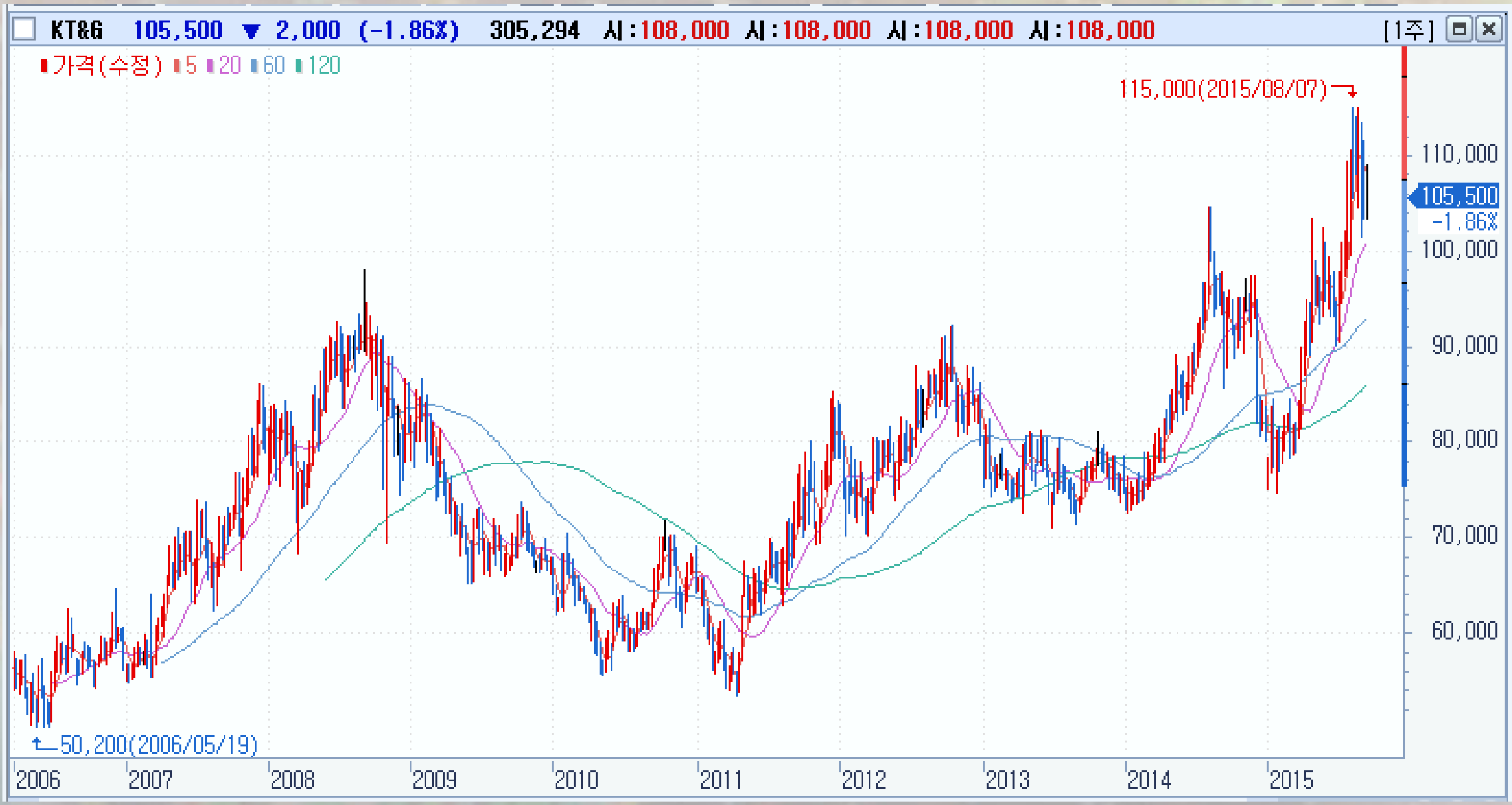
Industry growth curve- Non Cyclical industry example



3. Industry Analysis

3.3 Industry growth curve (11)

Industry growth curve- Non Cyclical industry example



3. Industry Analysis

3.3 Industry growth curve (12)

Industry growth curve- Non Cyclical industry example

3. Industry Analysis

3.3 Industry growth curve (13)

- *Declining Industry: The industry is losing competitiveness and the sales and earnings are shrinking. Only a very strong news will be the reason to buy the stock. Otherwise, you would better avoid investing in this sector.*

Industry growth curve- Declining industry example

4. Cost Average Investment

4.1 Introduction

- Cost Average Investment (CAI) is an investment strategy for reducing the impact of volatility on large purchases of financial assets such as equities.
- By dividing the total sum to be invested in the market (e.g. $100,000) into equal amounts put into the market at regular intervals (e.g. $1000 over 100 weeks), CAI reduces the risk of incurring a substantial loss resulting from investing the entire "lump sum" just before a fall in the market.
- CAI is not always the most profitable way to invest a large sum, but it minimizes downside risk.
- CAI is also called Dollar cost averaging or unit cost averaging.

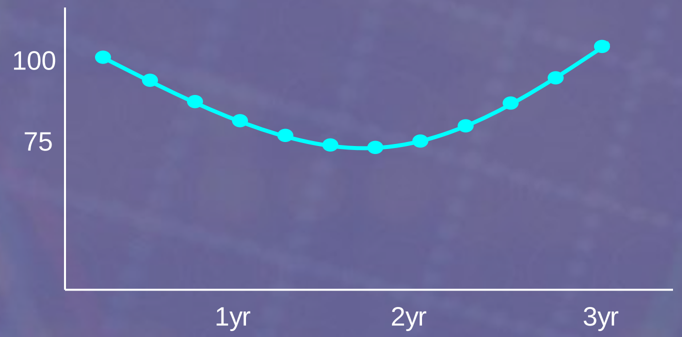
4. Cost Average Investment

4.2 The effect of CAI

- CAI works better for more volatile market.
- Ex: Invest US$10 every month for 3 years. The principal is US$360.

US$413

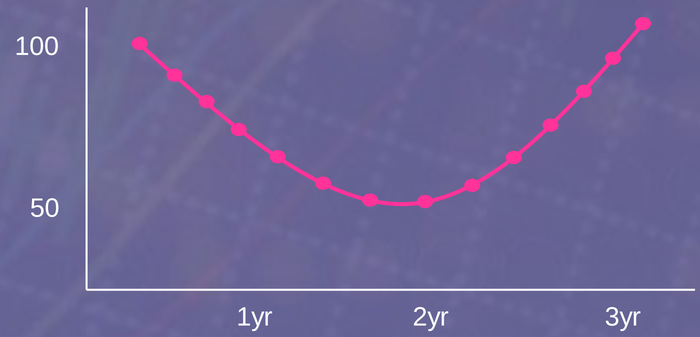
Profit US$53



Asset price falls 25% and then recover to the initial level

US$495

Profit US$135



Asset price falls 50% and then recover to the initial level

4. Cost Average Investment

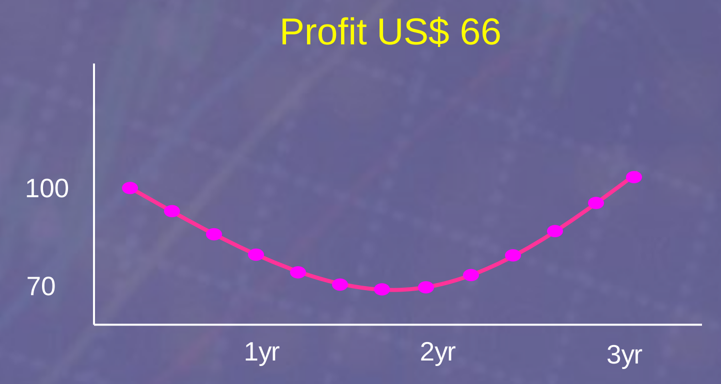
4.2 The effect of CAI

- CAI works better when the initial stage is weak market.

US$316

Asset price rises 30%, and then falls to the initial level.

US$426

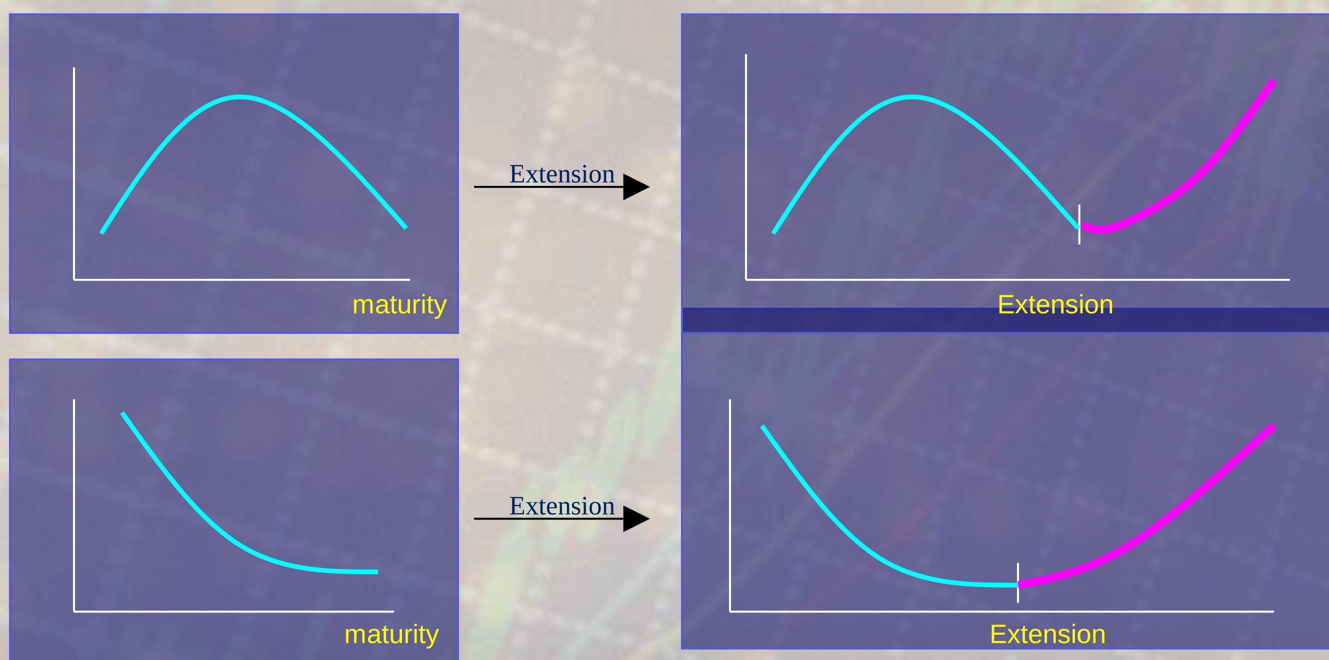


Asset price falls 30%, and then recovers to the initial level.

4. Cost Average Investment

4.3 Maturity of CAI

- When you make loss at the maturity, you can consider an extension for recovery.



Loss at the original maturity

Recover the loss by extension

4. Cost Average Investment

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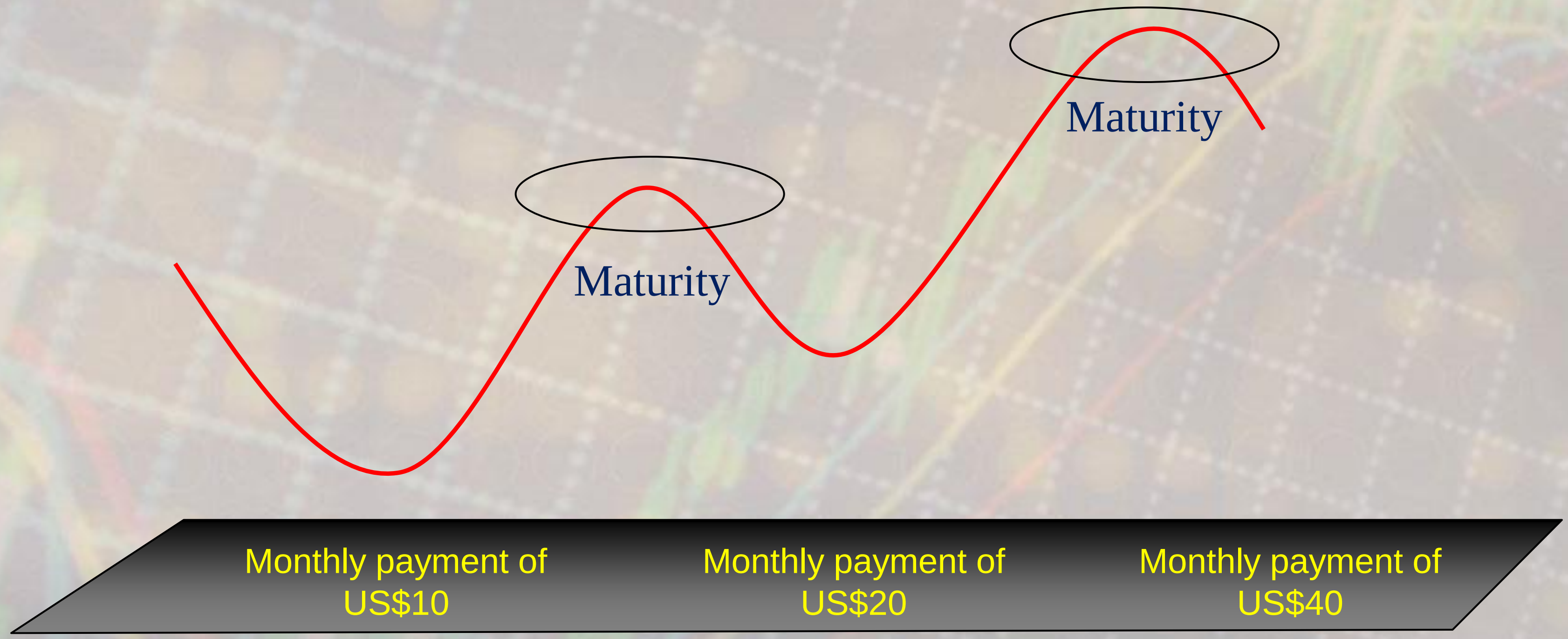
4.3 Maturity of CAI

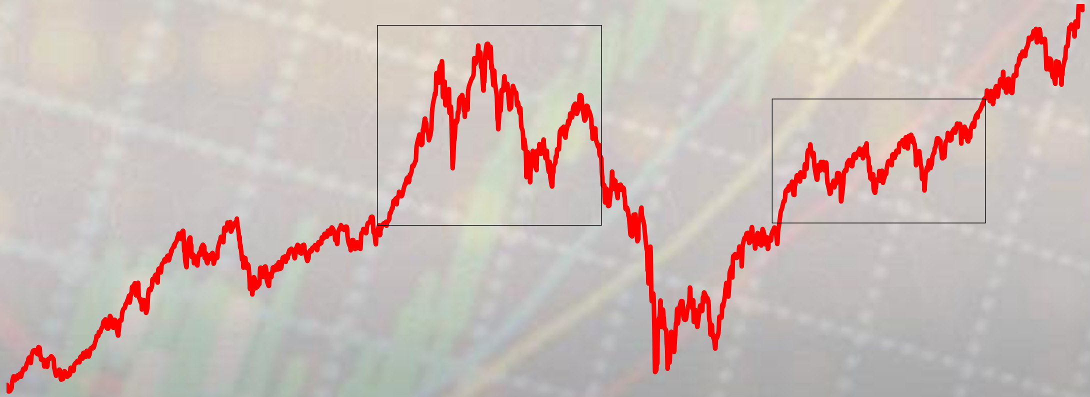
- When you make profit at the maturity, you decision will be more flexible. You can cash out or consider an extension for profit maximization.



4. Cost Average Investment

4.4 Advantage of CAI

- It is almost impossible to buy at the bottom of the asset price. CAI reduces the risk associated with lump sum purchase.
- One of the most important factors for success in asset investment is to maintain mental stability. CAI helps the investors to enjoy share price reduction, because it is a chance to lower the average purchasing cost.



Exercise: BUY or Sell?

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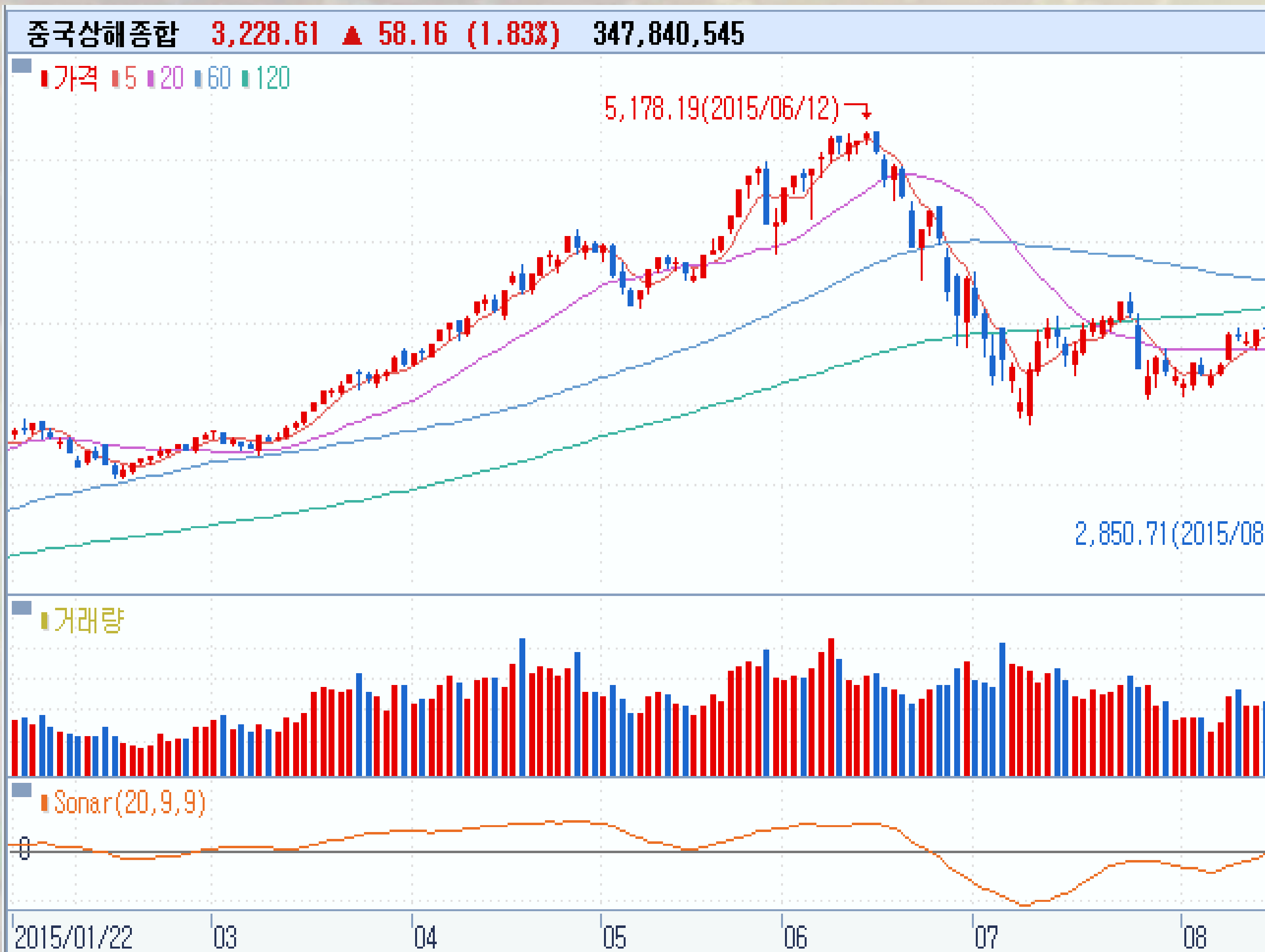

Exercise: BUY or Sell?

Thank You!