MAXIMIZING OPPORTUNITIES IN A GROWING MARKET

"Speculation is most dangerous when it looks easiest" – Warren Buffet

A growing and well performing market is vital for both investors and borrowers to maximize their returns. This growth can help improve investor confidence as well as uplift the economy as a whole by mobilizing savings to the most important investments in the country. The growth achieved in the capital market will encourage foreign investors to direct their funds into the Sri Lankan economy.

The Colombo Stock Exchange (CSE) has gained global recognition for its commendable performance during the last few weeks. According to Bloomberg the CSE was the 4th best performing market during the first week of May 2013.

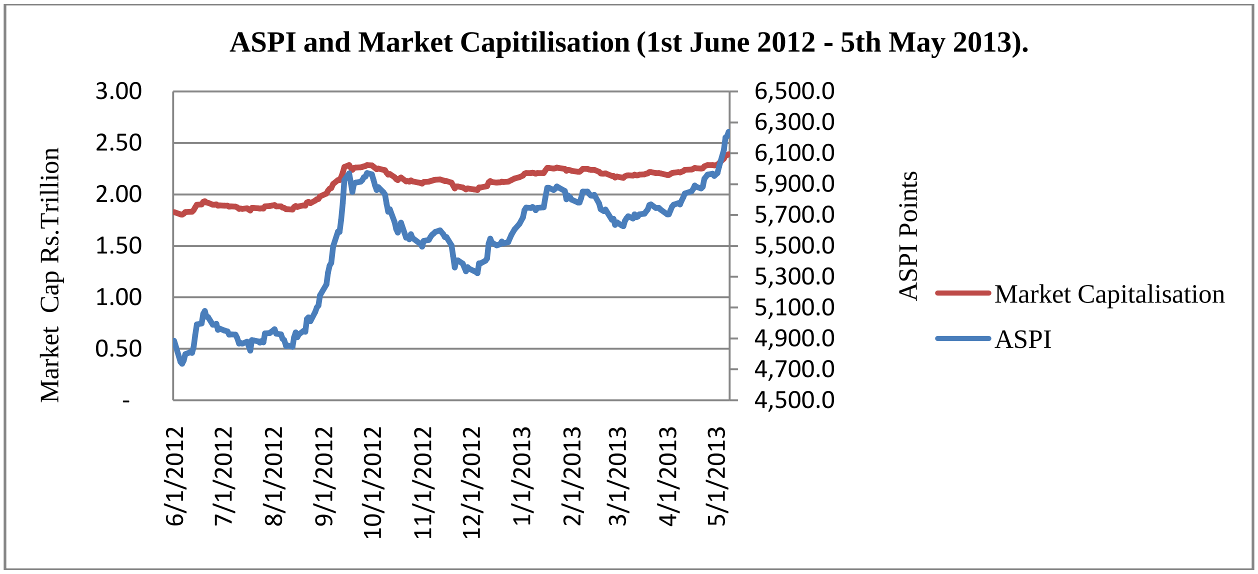
Table 1 – Top 5 best performing markets in the world (1st to 7th May 2013).

RANK	**PRIMARY EQUITY INDICES**	**GROWTH**
1	FTSE BURSA MALAYSIA KLCI	5.60%
2	KAZAKHSTAN KASE STOCK EX	5.27%
3	NIGERIA STCK EXC ALL SHR	4.63%
4	SRI LANKA COLOMBO ALL SH	4.61%
5	BIST NATIONAL 100 INDEX	4.24%

Source: Bloomberg News Wire

The All Share Price Index (ASPI) witnessed a growth of nearly 22% during 1st June 2012 to 2nd May 2013 while the market capitalization grew by nearly 25% in the same period.

Graph 1 – ASPI & Market Capitalization (1st June 2012 to 5th May 2013).



The end of the ethnic conflict in Sri Lanka boosted the market to reach its highest point in the history of the CSE. It has been 4 years since then and the market is identified as both a stable and growing market. Hence it could be argued that political stability along with a prudent regulatory framework and prevailing macro economic conditions created a stable and continuously growing market.

The nature of growth and sustainability greatly depends on the behavior of both parties in the market. In a growing market such as ours it is vital that investors are disciplined while making wise decisions in order to maintain the current trend over a period of time. Given below are a few tips on how a smart investor could maximize his opportunities in a growing market.

HAVE AN INVESTMENT PLAN

Every investor should have an investment plan that would serve as a framework when making decisions. The investment plan should be drawn up based on the individual's financial capacity, holding power, risk appetite and the nature of return to investment that he would expect. They should refrain from spur of the moment investment decisions. The lack of long term investment oversight could result in large scale losses for the investor. Investors should bear in mind that the capital market is not a place to make quick money but rather a method of earning based on sound judgment. When drawing up an investment plan each individual should be cautious of not following another persons plan as each person is faced with a unique set of circumstances.

A DIVERSIFIED PORTFOLIO

Investors should maintain a broad diversified portfolio based on different asset classes and investment styles such as stocks, debt, funds, unit trust etc. A combination of securities held together will give a beneficial result if they are grouped in a manner to secure higher return. One should take into account the relationship between different securities and then draw up a relationship of risk between them. Success can be achieved by combining a security of low risk with another security of high risk. Failing to diversify leave investors vulnerable to fluctuations in a particular sector or security, thus increasing the risk of investment. Investors are advised to educate themselves regarding such assets classes and styles before making investment decisions. However the degree of diversification greatly depends on ones financial capacity.

NOT GETTING CAUGHT UP IN THE HYPE

A common misconception amongst the general public is that in times of market growth all shares gain. This is far from the truth. Although market growth is of utmost importance to a nation's capital market it does not mean that all shares grow with it. Investors should be aware not to make rash decisions in times of growth and should be guided by the core fundamentals of investing. *If good sense is used in times of market growth then the investor could grow with it. Investors must not let the market hype affect their ability to make calculated investment decisions.*

WHAT TO LOOK OUT FOR WHEN INVESTING IN STOCKS

There are a few underlining principals that investors should pay close attention to before investing in stocks. As a first step one should look into the viability and sustainability of the business. The more we understand about the operations the company is involved the better equipped we will be to monitor our investment. It is a commonly known fact that we look into the profit prior to investing. However one should also evaluate a company's annual report which contains the profit statement, balance sheet, statement of equity and other financial information that will show the true situation of the company as a whole.

Reviewing the company's future business plan is another vital factor to consider when selecting a stock. Most large scale companies have diversified business operations which belong to different industries. Diversification generally increases share holder value, nevertheless diversification that lacks long term oversight could lead to losses which would in turn reduce the return on investment.

INVESTOR IS KING

In the Sri Lankan Capital market framework the investor is represented in the trading of securities by a licensed stock broker firm which is bound to follow the instructions of the investor. The investor should be aware that a stock broker is a medium of obtaining investment advice and has no legal authority to purchase or sell any securities without the absolute consent of the investor unless he has signed a ***"**Discretionary Account"* form. The investor then holds the right to accept this advice or research further to obtain the information he requires to make an informed decision. It is highly recommended that investors do their own additional research while considering the advice given by their investment advisor. Institutions such as the Securities & Exchange Commission (SEC) which is the capital market regulator in Sri Lanka publishes many articles and reports that would help transform you into a smart investor. Always keep in mind that you as the investor are king.

BE AWARE OF REGULATIONS

The Sri Lankan Capital Market is governed by the *"Securities and Exchange of Sri Lanka Act, No 36 of 1987 as amended by Act No 26 of 1991, Act No 18 of 2003 and Act No 47 of 2009.*

Investors should educate themselves regarding the provisions of the said Act before engaging in trading activities. They should also read up on stock broker rules, Central Depository System (CDS) rules and CSE circulars.

A sound knowledge on the documentation required prior to trading is vital. As a primary requirement of obtaining the services of a stock broker an investor would need to sign a *"Client Agreement**"***. Further on, an investor who intends to trade on credit should sign a *"Credit Agreement"*. Investors who wish to give their investment advisors the power to trade without their consent should sign a *"Discretionary Account"* form.

Investors are strongly advised to read and understand all the forms prior to submission.

BE AN INVESTOR AND NOT A GAMBLER

In a growing market such as ours, one should be disciplined when making investment decisions. Investment should not be made purely on the day to day shifts in stock prices but on sound principles. Investment decisions that are based on obtaining short term gains could lead to more than proportionate losses for the investor. An actively traded share may not necessarily indicate that the fundamentals of the company are strong. Investors may be tempted to speculate on the companies shares based on sudden upward price movements. However buying shares purely on the belief that their prices will increase at a very high price is undoubtedly a very risky move. One should think twice before purchasing a share if its price is more than what the share is worth. As a rule of thumb smart investors normally buy shares that are undervalued but have the potential of providing good and sustainable returns.

It is ideal if one invests a greater proportion towards fundamentally strong shares. The current trend in the market is towards long term investment. When the ASPI grew by only 10% the Standard & Poors Sri Lanka 20 Index (S&P SL20) grew by 14% in the current year. Companies that are listed on the S&P SL20 index takes into account share liquidity, market capitalization and profitability and are considered an ideal pick for long term investments.

New investors are encouraged to invest in fundamentally strong shares which carry less risk while speculative stocks that carry a higher a risk should be attempted only by seasoned investors.

INVESTMENT AS A CAREER

Globally there have been many success stories built around the capital market. Many smart investors have built empires from scratch by simply trading smart. Individuals like Warren Buffet are globally renowned for having a knack for investing. Investors who wish to engage in a career in this field could use them as role models.

An advantage of taking up investment in the capital market as a career greatly outweighs the disadvantages. Smart investors can earn a high return in proportion to the capital they have invested through capital gains and dividends.

On that note it could be concluded that the CSE is poised for further growth provided both investors and intermediaries are disciplined and sensible when trading.

"As long as you enjoy investing, you'll be willing to do the homework and stay in the game". –
Jim Cramer