

Follow fundamentals of investing

Most of us have limited resources to fulfil our needs, goals and dreams. All too often they exceed the limited resources we have, so balancing these two areas of our personal economy can be quite challenging. In such situations we try to find various avenues to increase our personal income.

An asset class that has the potential to deliver high returns is equity. Studies done have shown that compared to other asset classes, equities have delivered higher inflation-adjusted returns over the long term.

However, unlike in a bank deposit where investors are sure to get a

fixed return, in the share market, the investors must be aware that the share prices fluctuate and this can result in gains or losses. In other words, the share markets tend to move up and down in the short term.

There are many reasons for share prices to fluctuate. If we scrutinize the

historical performance of the share market, it is evident that foreign investor participation can be considered an important factor that determines market fluctuations.

It is not only local investors who invest in a share market, foreign investors also invest heavily. Foreign investor behaviour or in other words the investment pattern in the share market is quite different to that of local investors. It is important to consider whether the local investors too should adopt a similar investment pattern.

The Colombo Stock Exchange (CSE) recorded a strong performance in the early parts of this year and the record-breaking foreign investments mainly contributed to this performance. In many instances, where the CSE made noteworthy gains, foreign investors have contributed significantly in the market.

It is also evident that foreign investors have been able to benefit from the CSE's value proposition. Foreign investors base their investment decisions on careful assessment of the market and evaluation of certain important criteria including valuations, growth potential, dividend history as well as other economic and political factors. Foreign investors therefore make informed investment decisions.

Likewise, there is nothing stopping local investors from doing the same by identifying the opportunities available in the CSE and engaging in the market to reap benefits. But such decisions should be based on careful study of the market and not on having a herd mentality



research reports published by stockbroker firms, etc. should give investors vital information necessary to make investment decisions.

It is important for investors to rely on information sources that are reliable. Foreign investors base their investment decisions

on such information to achieve positive returns in the market. Local investors should also pay attention to such important criteria.

Emotional investing

Warren Buffett cautions investors to "be fearful when others are greedy and greedy when others are fearful." Buffet highlights the role that emotions play in investment decisions. Emotional influences on investment decisions are hard to resist.

Besides, decisions driven by emotions are not very desirable when it comes to investing. Discipline is the antidote for successful investing and by formulating a good investment plan, tracking progress, getting objective advice from a registered investment advisor, putting emphasis on asset allocation and most importantly sitting still and not reacting to market fluctuations can help investors to achieve their long-term financial goals.

The All Share Price Index stood around 1500 points during the early part of the year 2009 and thereafter witnessed a sharp decline at the peak of the war. During this period, the investors who opted to invest in the share market made significant returns when the market bounced back in the aftermath of the war. It is important to make investment decisions based on reliable data and right analysis.

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and following in the footsteps of other investors and losing their hard-earned money in the process. Successful investors base their investment decisions on some of the following criteria:

Company's fundamentals

Investment decisions should not be made in an ad hoc manner but the investors should be looking at the company's fundamentals, which help determine the company's health as well as its growth prospects. Strong fundamentals suggest that a business has a viable framework and indicates less risk if an investor considers purchasing shares of such a company.

Therefore, the investors should look at the following criteria:

- Profitability
- Operating efficiency
- Solvency
- Liquidity
- Background and experience of senior managers
- Earning outlook
- Valuations
- Competitors

To ascertain the health of a company it is important to engage in research. One of the best sources of information is a company's annual report. The investors will be able to get to know the company's core business activities, future prospects, profitability and strategy.

In the same manner, the company announcements that are lodged with the CSE, prospectus (if a company is issuing shares for the first time) and