BASIC DEFINATIONS

INVESTMENT STRAGTEGY OF ONSELF (SELF INVESTMENT PROFILING)

Before committing yourself as an investor to any investment, it is imperative that one should have clear and identifiable Objective and Constraints (Investor self profiling). Doing so ensures that the investor commits his/her funds in the most rational manner. Actually most of us haven't actually started framing an IPS (Investment Portfolio Statement) for our self at all. We are driven by thoughts like:

- Do we need to do this?
- Can't we directly jump into trading without all this?
- This only works for sophisticated investors and not for us

We all should devote some of our investing time in framing the individual IPS (or get someone do it for us). We are here to give an over view only to the different ingredients of what goes into making a good IPS and how is it useful to all of us.

To state it in one line, IPS is a document which identifies one's Investment Objectives and Constraints. Why are you investing? What are your goals? How much risk can you bear?

Once you understand the purpose, IPS will sound more Relevant and Interesting to you. It's more Process Oriented, Less Mathematical and No Formula or Technicalities. Basically it summarizes the relevant fact and concludes the Investment strategy of one self.

MAIN INGREDIENTS OF IPS:

1. IPS Objectives (Risk and Return)
As a Return Objective you should list down your required (more priority goals) and desired objectives. Goals like having a retirement, child's education; child's marriage etc. has to be noted down. Also, the Risk Tolerance has to be noted down, Risk in terms of both Ability and Willingness.

To understand risk you have to do "situational profiling" of yourself and it's done by understanding your biases, preferences and perceptions.

- Active Wealth creator has higher willingness towards risk
- If perceived self wealth is more, one will take more risk
- Stage of Life also matters

Risk and return goes hand in hand. If you can't take more risk, you can't get more returns. This does not mean you have to take lot of risk. The only point is your Return objective has to match your willingness and ability to take risk.

Objectives should also be consistent with Capital Market expectation (Economic forecast and its effects on different sectors/industries of the economy) and one's constraints.

2. IPS Constraints (Time, Liquidity, Tax, Legal and Unique)
You should list down different constraints under which the investments have to be made, as they are more likely to limit your risk taking abilities and in turn hamper the return objectives. Different individuals face different types of Constraints and they have been grouped into different categories like, Time constraint, Liquidity constraint, Tax constraint, legal constraint and unique constraints.

- **Time Constraint (How much is timeframe of the investment):** This is critical because if we have a longer time frame, we do not have to worry about the short term market fluctuations and can concentrate on more long term investments. The age of the individual is one of the factors which determine his/her time constraint.

- **Liquidity Constraint**: It determines how much dependent; the individual is on the Investment. Does he/she have sufficient emergency reserve or other sources of income to meet the ongoing and or sudden fund requirements?

- **Tax, Legal and Unique Constraints**: Similarly Client should be aware of the before and after tax returns from the investment, the Legal constraint under which he/she can make investment and any specific Unique Constraint he/she may be subject to.

It's better to approach IPS in a reverse order, meaning first analyze your constraints, then the risk tolerance and then the return objective. Because Constraint affects your risk tolerance and which affects the Return objective.

INVESTMENT INSTRUMENTS

PRODUCTS IN STOCK MARKETS:

Following are the main financial products/instruments in dealt in stock market;

1. Equity Shares
After the shares are made public through Initial Public Offering the same are then traded in secondary market (Stock Exchanges). The holders of such shares are members of the Company and have voting rights. There are various rights of shareholders as per law. For details, please visit SECP guide in reference to shareholder's rights at **www.secp.gov.pk**.

- **Rights issue/Rights shares:** Rights shares are issued when companies need to raise additional capital to finance their new expansion projects or to meet working capital needs, etc. in case of rights issue; existing investors have the right to subscribe to these new shares in proportion to their respective shareholdings.

- **Bonus Shares:** Shares issued by the Companies to their shareholders free of cost by capitalization of accumulated reserves from the profit earned in the earlier years.

2. Derivatives
The term "Derivate" indicates that its value is entirely "derived" form the value of the underlying asset. The underlying asset can be securities, commodities, bullion, currency, live stock or anything else. In other words, Derivatives means a forward, future, option or any other hybrid contract of predetermined fixed duration, linked for the purpose of contract fulfillment to the value of a specified real or financial asset or to an index of securities.

3. Futures Contract
Futures Contract means a legally binding agreement to buy or sell the underlying security on a future date. Futures contracts are the organized/standardized contracts in terms of quantity, quality, delivery time and place for settlement on any date in future. The contract expires on pre specified date which is called the expiry date of the contract. On expiry, futures can be settled by delivery of the underlying asset or cash. Cash settlement enables the settlement of obligations arising out of the future contract in cash. Trading in derivates is governed by the regulations of each exchange regarding Cash settled futures contract, deliverable futures contract, commodities futures contracts and Stock Index futures contract. These regulations are available on the webpage of the exchanges.

4. Bond
Bond is a negotiable certificate that promises fixed income on the value of the bond. It is generally issued by a Company or Government agency. Bond investors lend money to the issuer and in exchange, the issuer promises to repay the amount equal to the bond value on a specified maturity date. The issuer usually pays the bond holder periodic interest payments over the life of the bond.

MODE OF STOCK INVESTMENT

Following are the modes of investment in stock;

1. IPO - Initial Public Offer

An initial public offering (IPO) is the process through which a company issues/offers its securities to the public for the first time. The company goes for IPOs for various reasons which include raising money for a specific project; or to list their securities on the stock exchange; or to meet their working capital requirements or to pay extensive debts etc.

The shares are offered to the public through an offering document called "prospectus or "offer for sale document'' (incase shares are offered by existing shareholder of a company and not by the company itself) which covers all information relevant to the issue and which helps an investor to make his/her decision whether to invest in a particular scrip or not. The information contained in the prospectus includes procedures for application of shares; financial and general information about the issuer; purpose of utilization of the proceeds of the issue; risk factors and advice for investors.

Before issue of shares, the prospectus or the offer for sale document, as the case may be, of a company must be cleared by the respective stock exchange under the listing regulations and must be approved by the Commission under section 57 or section 62 (in case of offer for sale document) of the Companies Ordinance, 1984.

The shares offered to the public may be at par or premium.

The Company may issue its shares to the general public either at fixed price or at a price determined through book building mechanism. Where the shares are offered at a price determined through book building mechanism then the company is required to fulfill the requirements which pertain to the book building offering mechanism as mentioned in the Listing Regulations.

- **Book Building Process:** Book building is a capital issuance process used in initial public offer (IPO) which aids price and demand discovery. It is a process used for marketing a public offer of equity shares of a company. It is a mechanism where, during the period for which the book is open, bids are collected from institutional investors. The offer is pre determined after the bid closing date based on the market demand of shares.

  In the book building process since the price of share is determined on the basis of market demand; as such the chances of over/under pricing are minimized. Further, the issuer company has the option to withdraw from the market if the demand for the shares does not exist. Book building is an established practice in most developed countries.

However, investors must ensure that only one application in IPO is submitted for subscription. As submission of multiple applications against an IPO is against law and is liable for confiscation of application money.

2. Secondary Market (Stock Exchange)

The market that exists in a new security just after the new issue is often referred to as the secondary Market/aftermarket. Once a newly issued stock is listed in a Stock Exchange, investors and speculators can easily trade on the exchange through members of the stock exchange (stock brokers). Liquidity is the main benefit of the secondary market. Supply and demand in stock markets are driven by various factors which, as in all free markets, affect the price of stocks.

A Stock Exchange provides "trading" facilities for stock brokers and traders, to trade stocks and other securities. To be able to trade a security in a certain Stock Exchange, it has to be listed there. There is a central location for Securities movement and shareholding's recordkeeping (Central Depositary Company of Pakistan).

Trade on an exchange is allowed for members only (stock brokers) therefore to Trade in the Stock Exchange, you must be an account holder with a member (broker) of an exchange.

COMMON TERMS OF TRADING SCREEN

Following are the most common terms of trading screen;

Market	The type of trade in which the Security falls
Symbol	Unique short name assigned to any particular script by PSX.
Change	Difference between the last traded and close of the previous day's price
Buy Vol	No. of Securities investor intends to buy
Buy	The rate at which investor intends to execute his/her buy order
Sell Vol	No. of Securities investor intends to sell
Sell	The rate at which investor intends to execute his/her Sell order
Last Vol	No of Securities executed/traded in previous/last trade.
Last Price	The price at which last trade took place
Total Vol	Total No. of Securities traded during a particular time/day
Avg	Total value of Security traded, divided by No. of Securities traded
High	The highest rate at which the Security traded
Low	The lowest rate at which the Security traded
Prev. Close	Previous day's closing price
Trade Time	The time at which the trade took place
Limit Order	A limit order is when the user enters the order into the system with a specific price
Market Order	A market order is when the user enters the order into the system without a specific price. The system will execute the order irrespective of price. The system will search for the quantity of order to be completed at any available price. In a rapidly moving market, a market order may be executed at a price higher or lower than the quote displayed on the website at the time of order entry.
Market Lot	Market Lot is the normal unit of trading for a security, which is 500 shares of stock having price less than Rs.50/- and 100 shares of stock having price above Rs.50/-.
Odd Lots	For stocks, any transaction less than the market lot is usually considered to be an odd lot. These odd lots cannot be traded on the regular market and hence the Karachi Stock Exchange has initiated a separate ODD Lots Market.
Margin Call	A margin call most often occurs when the amount of actual capital the investor has, drops below a set percent of the total investment. A margin call may also be triggered if the broker changes their minimum margin requirement which is the absolute minimum percentage of the total investment that one must have in direct equity.
Stop Loss Order	A stop-loss order is a request to sell a security once the market price reaches or falls below an investor -specified price. Once the target price has been reached or surpassed, the order becomes a "market" order. This is especially true in a fast-moving market where stock prices can change rapidly. A stop-loss order is typically used to sell a security, to lock in profits or limit losses if a security price falls. Setting a stop-loss order for 5% below the price at which you bought the stock will limit your loss to 5%. Stop-loss orders are only available when selling a security to close a position.
Short Sell	Short selling refers to the practice of selling securities the seller owns in the hope of repurchasing them later at a lower price. This is done in an attempt to profit from an expected decline in price of a security. Such as a stock or a bond, is contrast to the ordinary investment practice, where an investor "goes long," purchasing a security in the hope the price will rise.

For better understanding of these terms along with their visual shots, please download AFS - Trading Terminal Manual.