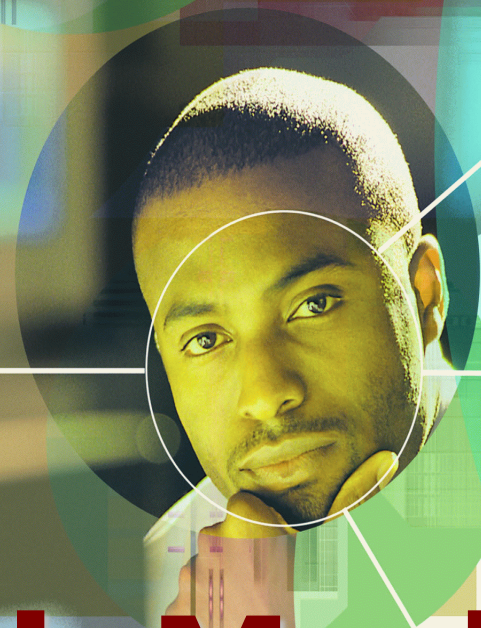




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# Stock Markets

# Types of Stocks

- **Stock**
  - An equity or an ownership stake in a firm.
- **Common stock**
  - Common stockholders have the right to vote.
  - Common stockholders receive dividends.
- **Preferred stock**
  - Are a hybrid between bonds and common stock.
  - Preferred stockholders receive a fixed dividend.
  - Preferred stockholders have a senior claim on assets.
  - Preferred stockholders do not have voting rights.

# Types of Stock Markets

- **Primary market**
  - The market in which a company offers its stock for public sale for the first time (an initial public offering, IPO).
- **Secondary market**
  - The market in which outstanding (already issued) shares of stock of companies are traded.

# Stock Exchanges Versus Over-the-Counter Markets

- Stock exchanges
  - Organized around trading floors where traders execute buy and sell orders for their clients.
- Over-the-counter (OTC) market
  - Has no trading floor; traders execute transactions through a computerized telecommunications network.

# Stock Markets and Exchanges

- New York Stock Exchange (NYSE)
- American Stock Exchange (AMEX)
- Philadelphia Stock Exchange
- Boston Stock Exchange
- Pacific Stock Exchange
- National Association of Securities Dealers Automated Quotations (Nasdaq)

# Stock Market Indexes

- **Dow Jones Industrial Average (DJIA)**
  - A price-weighted index consisting of 30 large industrial stocks.
    - ❖ Its composition is updated occasionally to reflect changes in the economy and the relative importance of industries or of companies within an industry.
- **Nasdaq Composite**
  - A market value-weighted index of stocks that trade in OTC market.
    - ❖ Nasdaq-listed technology stocks have made the Nasdaq Composite an index of technology performance.

# Stock Market Indexes (cont'd)

- S&P 500 Index

- A market value-weighted index of NYSE and AMEX-Nasdaq stocks.
- It consists of 400 industrial companies, 20 transportation companies, 40 utility firms, and 40 financial companies.
- Broader than the DJIA, the S&P 500 serves as a performance benchmark for large cap stocks (companies with a market capitalization greater than \$5 billion).

# Stock Market Indexes (cont'd)

- **Wilshire 5000**
  - A market value-weighted index that consists of more than 7,000 stocks on the NYSE and the AMEX-Nasdaq.
  - Serves as an index for the entire stock market.
- **Nikkei Stock Average Index**
  - A price-weighted index of 225 stocks on the Tokyo Stock Exchange that provides a gauge of the performance of Japanese stocks.



# Indonesia Stock Market Indexes

- Indonesia Composite Index (IHSG)
- LQ45
- JII (Jakarta Islamic Index)
- Kompas100
- Bisnis-27
- Pefindo25
- SRI-KEHATI
- **IDX30**
- Sector Index

# Foreign Securities

- American depositary receipts (ADRs)
  - Certificates representing shares of foreign companies traded in the United States
    - ❖ A broker creates these receipts when he or she purchases shares of a foreign company in its local stock market and deposits the shares with a local custodian in the foreign country.
    - ❖ The U.S. depositary bank then issues depositary receipts for trading in the United States.
    - ❖ ADRs allow U.S. investors to invest in foreign firms without the problems of settling overseas trades or currency exchange.

# Brokers

- Brokers
  - Help others to complete transactions and earn a commission for their efforts.
  - Do not put their own capital at risk by holding inventory of securities.
- Commission brokers
  - Employees of the firm of a firm that is member of an exchange who buy and sell for retail customers.
- Floor brokers
  - Independent members of an exchange who act as brokers for other members.

# Market Makers and Specialists

- **Market makers**
  - Provide market liquidity by matching sellers and buyers.
  - Use their own capital to purchase an inventory of the securities for which they are market makers.
- **Specialists**
  - Help maintain a fair and orderly market by acting as both brokers and dealers.
  - Are obligated to buy from sellers, and to sell to buyers when there is a shortage of either buyers and sellers.

# Types of Orders

- **Market order**
  - An investor order that instructs the broker to buy or sell at the best available price in the market.
- **Limit order**
  - An investor order that tells the broker to buy or sell only at a certain or better price (but not lower).
- **Stop loss order**
  - An investor order that directs the broker to begin selling a stock for its best available market price if its price has now dropped to a given level.

# Margin Transactions

- Buying on margin
  - An investor purchases stock by borrowing some of the cost of the stock (usually for the broker) and using the purchases of stock as collateral for the loan.
  - Has the effect of leveraging the purchase because the rate of return (both positive and negative leverage) on the margin transaction will be greater than on a cash purchase. (OPM)

# Margin Transactions (cont'd)

- Initial margin
  - The amount an investor must put up in cash to make a margined purchase of a security.
- Margin call
  - If the price of the security falls, the investor must put additional funds (the variation margin) in the account to bring the account back to the initial margin level.
- Reg T excess equity
  - If the price of the stock purchased on margin rises, the investor can either withdraw the excess equity or use it to buy additional securities.

# Short Selling

- Short sale
  - Investors, who think that a particular stock's price will probably fall, can sell stock that they do not own and then attempt to make a profit by buying the same stock back at a lower market price before they are obligated to deliver the stock they originally sold (cover the short sale).
  - There is no limit to the potential loss in a short sale which makes short selling extremely risky.



# Off-Exchange Trading and Electronic Communications Networks

- Electronic communications networks (ECNs)
  - Computerized trade-matching systems unite the best bid and offer prices and allow buyers and sellers to deal directly with each other.
  - **Instinet** and **Island** ECNS facilitate most of these transactions.

# Transactions Costs

- Direct Costs of Trading
  - Broker commissions for finding sellers and buyers.
  - The bid-asked spread: the difference between the price at which a dealer sells a security and the price at which the dealer buys it.
- Hidden Costs
  - Impact cost: the cost of buying liquidity.
  - Timing cost: the cost of seeking liquidity.
  - Opportunity cost: the cost of not executing a trade.

# Types of Traders

- Information traders
  - Attempt to profit by trading on information before the market factors it into the security's price.
- Value traders
  - Trade because they believe there is a discrepancy between the market price and the equilibrium value of a stock.
  - Supply liquidity to the marketplace because they generally buy when the price falls and sell when the price rises.

# Fundamental Technical Analysts

- **Fundamental analysis**
  - The examination of the financial statements of firms and economic fundamentals to determine the value of a security and its growth prospects.
  - **Top-down approach**
    - ❖ Analysis of the economy and which industries will prosper in general economic outlook.
    - ❖ Analysis of companies' financials to determine their overall financial health, growth prospects, and value of their stocks.
  - **Bottom-up approach**
    - ❖ Analysis beginning at the company level and working up to the aggregate economy to make sure that the economy will support the company and its industry.

# Styles of Investing

- Value investors
  - Seek out companies that they believe the market has incorrectly undervalued.
- Growth
  - Seek companies with accelerating earnings growth and firms whose growth rate exceeds expectations.
- Hybrid
  - Looks at both value and growth (GARP).

# Styles of Investing (cont'd)

- **Sector rotation**
  - Investing by rotate a portfolio into different industry sectors in order to prosper from perceived mispricings.
  - In addition to shifting between sectors, investors may shift between value and growth stocks, or between small and large capitalization stocks.
- **Market timing**
  - Adjusting the stock/bond percentages mix or the risk of a portfolio based on market forecasts of whether stocks are likely to fall or rise.

# Economic Analysis

- Interest rate forecasts
  - Determine the cost for firms to expand and be profitable.
- Shifts in the yield curve
  - Shifts in the yield curve indicate future economic activity.
- GDP forecasts
  - Gross Domestic Product (GDP) represents the income of the aggregate economy and so can be important in determining demand for products.

# Industry Analysis

- Industry analysis
  - Looks at the profitability and future growth prospects of an industry in order to determine which industries will offer the best investment opportunities.
- Michael Porter identified five factors that determine industry competitiveness:
  - Bargaining power of buyers
  - Bargaining power of suppliers
  - Threat of new entrants
  - Threat of substitutes
  - Rivalry among existing competitors



# Industry Analysis (cont'd)

- Industry life cycle
  - Analyzing the future profitability of an industry by looking at the five phases an industry passes through over its lifetime:
    - ❖ **Pioneering and development**
    - ❖ **Rapid accelerating growth**
    - ❖ **Mature growth**
    - ❖ **Stabilization and market maturity**
    - ❖ **Deceleration of growth and decline**

# Competitive Strategies for a Firm

- **Cost leadership**
  - Becoming the overall low cost competitor.
- **Broad differentiation strategy**
  - Covering a large number of market segments by adding features and services attractive to consumers in those segments.
- **Focus or niche strategy**
  - Using either cost leadership or differentiation strategies in a fairly narrow market.

# Discounted Cash Flow

- Where  $CF_t$  denotes the expected cash flow in period  $t$ ,  $n$  denotes the life of the asset, and  $r$  denotes the discount rate that reflects the riskiness of the cash flow:

$$Value = \sum_{t=1}^n \frac{CF_t}{(1+r)^t}$$

# The Constant Growth DCF Model

- Assumes that the company pays dividends, the dividend growth rate is constant, and the discount rate is larger than the dividend growth rate.

$$P_0 = \frac{D_0(1 + g)}{k - g} = \frac{D_1}{k - g}$$

Where  $P$  denotes the value of the stock,  $D$  is the current dividend,  $g$  is expected dividend growth rate,  $k$  is the discount rate.

# Multi-stage Growth DCF Model

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \frac{\frac{D_2(1+g)}{(k-g)}}{(1+k)^2}$$

Where  $P$  denotes the value of the stock,  $D$  is the current dividend,  $g$  is expected dividend growth rate,  $k$  is the discount rate.

# Capital Asset Pricing Model (CAPM)

- Assumes the total risk of a stock consists of:
  - **Systematic risk** (not diversifiable) is a measure of the stock's risk relative to an average stock.
  - **Company-specific risk** is diversifiable.
- The required rate of return for a stock can be estimated using the following formula:

$$E(R) = R_f + \beta(R_m - R_f)$$

$E(R)$  denotes the required rate of return,  $R_f$  is the risk free rate,  $R_m$  is the return on the market portfolio,  $\beta$  (Beta) is the systematic risk of the stock.

# Security Market Line

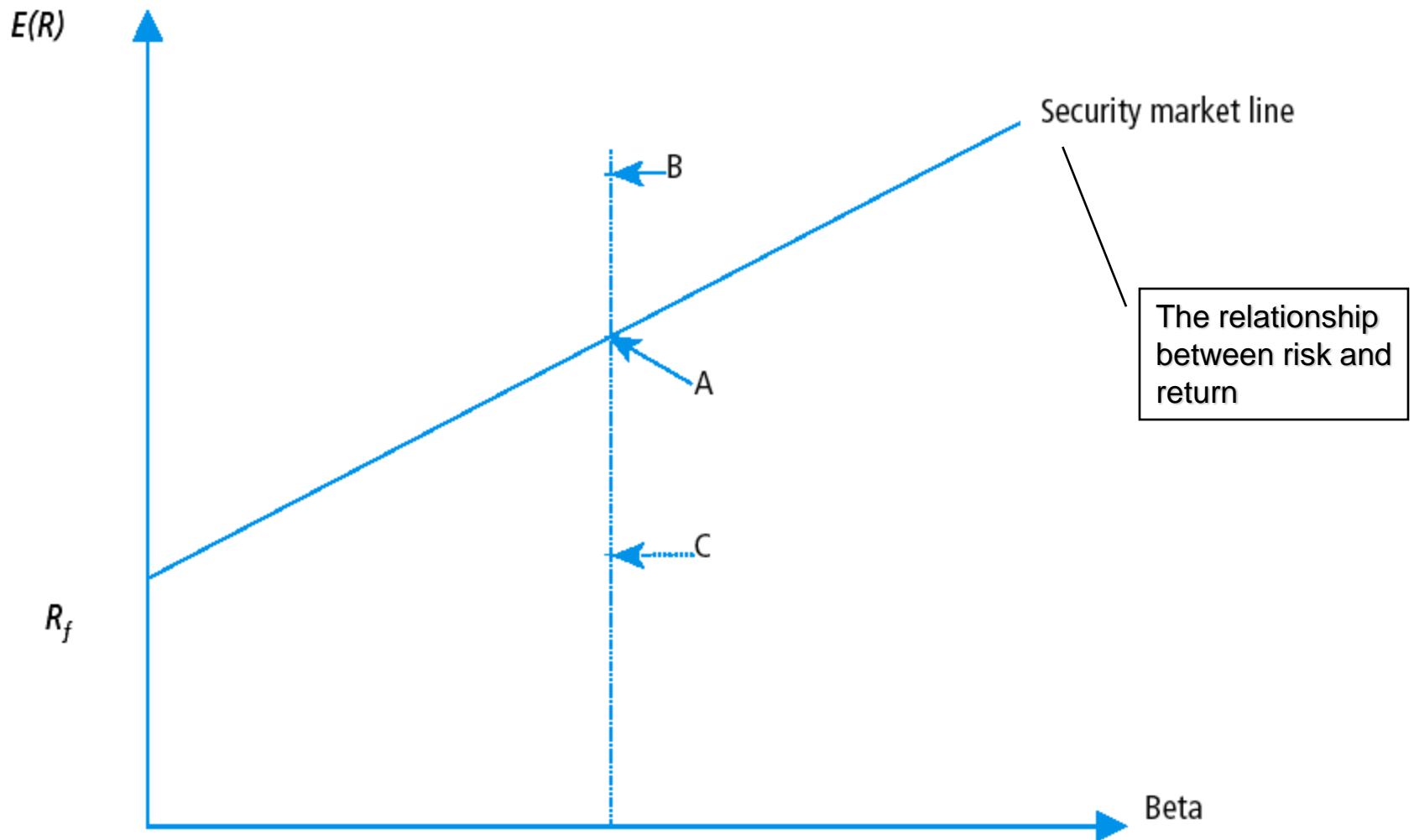


FIGURE 11.1

# Summary of Relative Valuation Approaches

<b>Method</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Price to earnings</b>	Widely reported and easy to compute.	Cannot be used when a firm does not report earnings. Most P/E ratios use historical earnings rather than future earnings.
<b>Price to book value</b>	Can be used even if the firm does not report earnings.	Influenced by accounting methods. Cannot be used when a company records negative book value.
<b>Price to sales</b>	Can be computed for even the most troubled company.	Fails to recognize the cost side. It does not provide a measure of profitability.
<b>Price to cash flow</b>	Can be used for firms that have negative earnings but positive cash flows.	Fails to recognize amortization and depreciation.

TABLE 11.5



# Technical Analysis

- Technical analysis
  - An attempt to identify patterns and trends in a security's price and volume that are believed to have a tendency to persist, and that these trends can be detected by charts.



# Indicators Used by Technical Analysts

- **Mutual Fund Cash Ratio**
- **Short Interest Ratio**
- **Options (Put/Call) Ratio**
- **Odd-Lot Theory**
- **Investment Advisory Opinions**
- **Short Sales by Specialists**
- **Moving Average**
- **Filter Trading Rule**
- **Breadth of Market**
- **Momentum and Rate of Change**
- **Barron's Confidence Index (BCI)**

# Support and Resistance

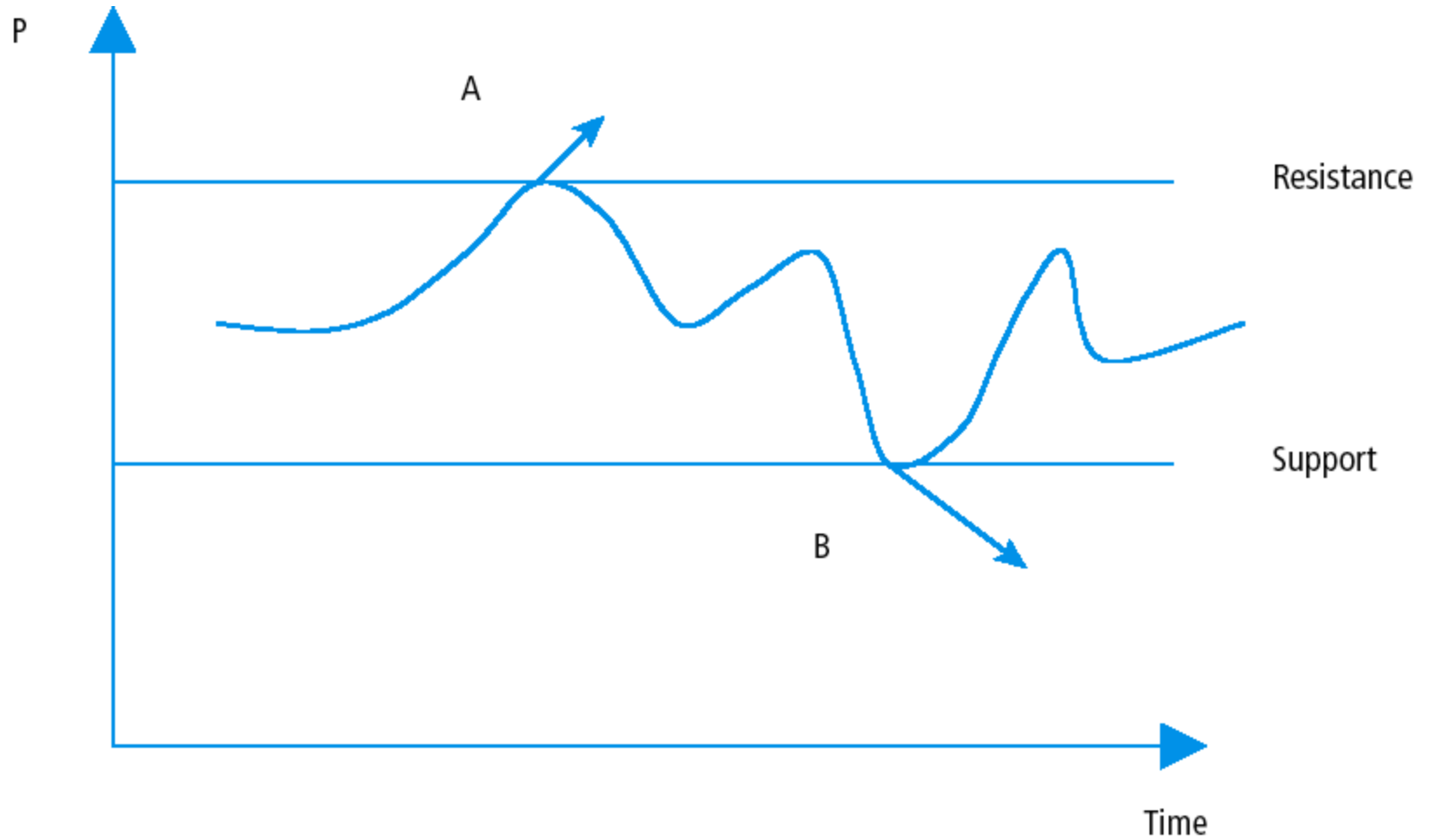


FIGURE 11.2

# Market Efficiency

- **Perfectly efficient market**
  - A market in which prices always reflect all known information and prices adjust instantaneously to new information.
- **Economically efficient market**
  - Market price reflects all relevant information about the security and is an unbiased estimate of the security's true value.
  - The market price may deviate from the true value of the security, but there is an equal chance that the price will be greater or less than the true value.

# Three Levels of Market Efficiency

- **Weak-form efficiency**
  - Current market prices reflect all past market prices and data such that technical analysis is not useful in finding undervalued or overvalued stocks.
- **Semi-strong form efficiency**
  - Current market prices reflect all public information such that fundamental analysis is of no use.
- **Strong-form efficiency**
  - Current market prices reflect all information, public and private, and no mispriced securities can be identified even with inside, private information.

# Conditions Fostering Market Efficiency

- The availability of information to all market participants at the same time without costs.
- No transaction costs, taxes, or other barriers to trading.
- Market demand and supply determine the stock prices such that trading by any individual trader does not impact the market price.
- All participants pursuing profit maximization.

## World Stock Indexes

### Americas

Index Name	Value	Change	% Change	Time
Dow Jones Industrial Average	14,512.03	+90.54	+0.63%	16:37:17
S&P 500 Index	1,556.89	+11.09	+0.72%	03/22/2013
NASDAQ Composite Index	3,245.00	+22.40	+0.70%	17:16:00
S&P/TSX Composite Index	12,757.35	+9.48	+0.07%	03/22/2013
Mexican Stock Exchange Mexican Bolsa IPC Index	42,686.68	+155.61	+0.37%	03/22/2013
Bovespa Brasil Sao Paulo Stock Exchange Index	55,243.40	-333.27	-0.60%	16:47:30

[More Americas Indexes >>](#)

### Europe, Middle East & Africa

Index Name	Value	Change	% Change	Time
EURO STOXX 50 Price EUR	2,681.67	-2.25	-0.08%	18:03:04
FTSE 100 Index	6,392.76	+4.21	+0.07%	12:35:30
CAC 40 Index	3,770.29	-4.56	-0.12%	03/22/2013
Deutsche Borse AG German Stock Index DAX	7,911.35	-21.16	-0.27%	03/22/2013
IBEX 35 Index	8,329.50	-21.70	-0.26%	03/22/2013
FTSE MIB Index	16,045.51	+109.52	+0.69%	12:30:59
AEX-Index	350.74	-1.67	-0.47%	13:05:01
OMX Stockholm 30 Index	1,196.43	+8.71	+0.73%	13:38:49
Swiss Market Index	7,744.33	-17.97	-0.23%	03/22/2013

[More Europe, Middle East & Africa Indexes >>](#)

Data of March 23, 2013

## Asia-Pacific Stock Indexes

Select Country

Asia Region x

Japan x

### Asia Region

Index Name	Value	Change	% Change	Time
S&P Asia 50 CME	3,438.65	-12.69	-0.37%	03/22/2013
MSCI asia apex 50	860.09	-4.81	-0.56%	12:04:27
Tokyo Stock Exchange Tokyo Price Index TOPIX	1,038.57	-19.53	-1.85%	02:00:02
Nikkei 225	12,338.53	-297.16	-2.35%	02:28:01
JASDAQ Stock Index	77.94	-0.79	-1.00%	02:11:00
Hong Kong Hang Seng Index	22,115.30	-110.58	-0.50%	03/22/2013
Shanghai Shenzhen CSI 300 Index	2,618.31	+3.32	+0.13%	03/22/2013
Shanghai Stock Exchange Composite Index	2,328.28	+4.04	+0.17%	03:15:20
Shenzhen Stock Exchange Composite Index	960.84	+2.45	+0.26%	03:00:38
Shenzhen Stock Exchange Component Index	9,343.41	+17.12	+0.18%	03/22/2013
Taiwan Stock Exchange Weighted Index	7,796.22	-15.62	-0.20%	03/22/2013
Korea Stock Exchange KOSPI Index	1,948.71	-2.11	-0.11%	05:03:20
S&P/ASX 200	4,967.26	+7.86	+0.16%	02:01:35
National Stock Exchange CNX Nifty Index	5,651.35	-7.40	-0.13%	07:05:39
S&P BSE India Sensex Index	18,735.60	-57.27	-0.30%	06:30:13
Straits Times Index STI	3,258.57	-9.08	-0.28%	03/22/2013
FTSE Bursa Malaysia KLCI Index	1,626.89	-3.86	-0.24%	03/22/2013
Stock Exchange of Thailand SET Index	1,478.97	-50.55	-3.30%	06:07:00
Jakarta Stock Exchange Composite Index	4,723.16	-79.51	-1.66%	05:00:02
New Zealand Exchange 50 Gross Index	4,342.89	+0.38	+0.01%	00:30:02
Philippines Stock Exchange PSEi Index	6,518.71	+45.73	+0.71%	04:30:00
Karachi Stock Exchange KSE100 Index	17,963.11	+49.49	+0.28%	03/22/2013
Vietnam Ho Chi Minh Stock Index / VN-Index	489.99	-1.80	-0.37%	03:17:13
Sri Lanka Colombo Stock Exchange All Share Index	5,768.88	+5.05	+0.09%	03/22/2013
Laos Securities Exchange Composite Index	1,393.74	0.00	0.00%	00:32:00



## Data of March 23, 2013 - Indonesia Capital Market

### Indeks Bursa Efek Indonesia

Lihat saham global

MBX 1,354.74 -1.80% ↓	DBX 675.11 -0.65% ↓	JII 630.61 -2.40% ↓	KOMPAS100 1,033.59 -2.04% ↓
PEFINDO25 503.67 -1.50% ↓	IDX30 406.69 -2.05% ↓	AGRICULTURE 1,926.48 -1.22% ↓	MANUFACTURE 1,203.76 -1.95% ↓
CONS. GOODS 1,651.79 -2.45% ↓	FINANCE 636.84 -1.36% ↓	MINING 1,745.53 -2.99% ↓	BASIC INDUSTRY 579.37 -2.06% ↓
MISC. INDUSTRY 1,325.22 -1.09% ↓	CONSTRUCTION 316.73 0.12% ↑	INFRASTRUCTURE 989.50 -1.00% ↓	TRADE 504.32 0.14% ↑

Source: www.kontan.co.id