



The Investor's Guide

To Stocks, Bonds & Mutual Funds

Master Your Investment Decisions
with Confidence and a Winning Attitude

ZKFC

Zughaibi & Kabbani Financial Consultants

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ISSN 1319 – 6065 Legal Deposit No. 1475/17

Preface

These are exciting times for investors. The investment environment is going through major changes particularly in the Gulf Cooperation Council (GCC) countries. Considerable efforts are being made by governments and regulators to establish financial markets on a stronger footing while adding depth and breadth. Zughaibi & Kabbani Financial Consultants (ZKFC) has endeavored to introduce investors to the fundamentals of investment environment, tools, techniques, and theoretical framework through publishing this tutorial “**The Investor’s Guide**” in English as well as Arabic which is also available online on our website: www.gulfbase.com. This tutorial is unique in the sense that it presents all the latest investment related theories and techniques in a simple and easy-to-understand manner. It is beneficial for new as well as experienced investors as its coverage is comprehensive and in-depth. While the tools and concepts introduced here can be used for making most investment decisions, it is mainly focusing on equity investments.

We begin the tutorial by giving an overview and introduction to the investment environment in the capital market. We introduce and classify in detail the various types of financial markets and instruments available. **Chapter one** explains how the money market is different from capital markets and what are the characteristics of each instrument available. It also explains the basic investment process and the fundamentals of risk & return trade-off. Towards the end, a classification of the major types of investors and their brief characteristics is presented.

In **chapter two**, we discuss in detail the process through which securities are issued and the players involved. The process of investment banking and issuing securities in the primary market is discussed in detail. We cover the steps involved in taking a company public through an Initial Public Offering (IPO) and discuss the legal and structural aspects as well as the parties involved. In **chapter three**, we go a step further and discuss how securities, once issued are traded in the secondary market. The structure of the secondary market including the stock exchange, over-the-counter market (OTC), brokers, dealers, types of orders and trading mechanisms are explained in great detail.

Chapter four discusses the various types and nature of institutional investors. Covered in detail are investment companies and mutual funds focusing on their benefits, types, net asset value calculation, costs etc. We describe the various types of mutual funds that are commonly available in the market. Also discussed are the various other types of investment companies like real estate investment trusts (REITS), commingled funds,

and hedge funds. Towards the end, the role of other institutional investors like pension funds and endowments is given.

Chapter five details various concepts, terminologies and techniques relevant to stock market investing. In **chapter six**, we discuss various aspects of the returns earned on an investment. This includes various components of returns, types of returns and methods of their calculation. This Chapter also gives the various dimensions of risks involved in investments. **Chapter seven** takes forward the concepts of risk and return and weaves them into the picture of modern portfolio theory. Explained in detail, yet in simplified manner, are the concepts of portfolio theory, standard deviation, covariance, correlation, and the benefits of diversification.

Chapter eight updates the readers' understanding of a company's financial statements and basic accounting concepts. **Chapter nine** gives a comprehensive discussion of various types of financial analysis and the tools used for this purpose. At the end of these two chapters, the reader is expected to be able to completely understand and analyze financial statements.

In **chapter ten**, we synthesize the concepts of risk, return, and earnings of the company into a final decision making process: the valuation of a stock. Discussed are various methods used to arrive at a fair market value (FMV) of the share of a company. Based on these methods, investors decide whether a stock is over priced, under priced or trading at a fair price. After reading the material on valuation, the reader should be able to estimate the fair value of a share, or a company's total equity, by using the Dividend Discount Model, Free Cash Flow Method, or by using various valuation multiples.

Chapter eleven gives some basic guidelines useful in building an investment portfolio. In **chapter twelve**, we highlight the importance of portfolio diversification. Discussed are various methods to maximize return by reducing risk through portfolio diversification.

In **chapter thirteen**, we cover a very different, yet useful dimension of investment decision-making called 'Technical Analysis'. Based on historical data and the relationship between variables, we present a number of decision-making tools that are useful for short and long-term investment decisions. These range from charting techniques to technical and psychological indicators that reflect the markets perceptions and major trends.

Finally, we would like to indicate that each chapter of the tutorial is followed by Self-Test Questions as checkpoints for readers to test their knowledge and develop their skills. Thus, the importance of investment and its good management will reflect positively on the individual's life and the society as a whole which makes the investment field stimulating, exciting and challenging. Theoretically we can obtain this but at a practical level the field is confronted by complexities such as constant changes in economic conditions and risks diversity.

We sincerely hope this tutorial will provide readers, investors and others interested with the information that may help them to achieve better investment decisions.

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