

CONTENTS

CHAPTER 1 ~ TYPES OF INVESTMENTS	
Learning Objectives and Key Concepts	1
1.1 The Malaysian Capital Market	3
1.2 Cash and Fixed-Income Investments	7
1.3 Equity Securities	8
1.3.1 Characteristics of Ordinary Shares	12
1.3.2 Characteristics of Preference Shares	13
1.3.3 Public Issues	14
1.3.4 KLSE Listing Requirements	16
• Listing Requirements on the Main Board	16
• Listing Requirements on the Second Board	17
1.3.5 Procedures for Initial Listing	17
1.3.6 Types of Share Issues	18
1.4 Derivatives Securities	19
1.4.1 Options	20
1.4.2 Futures	21
• Bases of Stock Index Futures Trading	22
1.4.3 Warrants	24
• Value of Warrants	25
• Warrant Formulas and Calculations	27
1.5 Fixed Income Securities	27
1.5.1 Types of Bonds	28
• Corporate Bonds	28
• Municipal Bonds	30
• Eurobonds	30
1.6 Unit Trusts	30
1.6.1 Guidelines on Unit Trust Funds	31
Summary	37
Self-Evaluation Exercises	38
CHAPTER 2 ~ THEORY OF INVESTMENT	
Learning Objectives and Key Concepts	39
2.1 Measures of Investment Returns	41
2.1.1 Holding Period Return	41
2.1.2 Holding Period Yield	42
2.1.3 Arithmetic Mean	43
2.1.4 Geometric Mean	44
2.1.5 Arithmetic Mean versus Geometric Mean	44
2.2 Risk and Return	46
2.2.1 Total Risk and Diversification	46
2.2.2 Sources of Risk	46
2.2.3 Calculation of Risk	48
2.2.4 Total Return on Investment	49
2.2.5 Expected Rate of Return	49
2.2.6 Risk-Free Rate of Return	50
2.2.7 Risk Premiums	50
2.2.8 Risk Return Trade-off and Capital Asset Pricing Model	50
2.3 Stock Market Indices	54
Summary	55
Self-Evaluation Exercises	55
CHAPTER 3 ~ INVESTMENT ANALYSIS AND APPRAISAL	
Learning Objectives and Key Concepts	57
3.1 Fundamental Analysis	60
3.1.1 First Step – Aggregate Stock Market	60
3.1.2 Second Step – Industry Analysis	62
3.1.3 Third Step – Company Analysis	62
3.2 Technical Analysis	63

3.3	Valuation of Equities	64
3.3.1	Earnings-Based Methods	65
	• Dividend Discount Model	65
	• Earning Multiplier Model	68
3.3.2	Balance Sheet Valuation Methods	71
	• Book Value	71
	• Replacement Value	71
	• Liquidation Value	71
3.4	Financial Statement Analysis	71
3.4.1	Financial Ratio Analysis	73
	• Internal Liquidity or Internal Solvency Ratios	76
	• Leverage Ratios	77
	• Operating Efficiency Ratios (Activity Ratios)	79
	• Profitability Ratios	81
	• Valuation Ratios	85
3.4.2	Factors Affecting Share Prices	86
3.5	Bond Valuation and Appraisal	87
3.5.1	Features Affecting a Bond's Maturity	88
3.5.2	Zero-Coupon Bonds	88
3.5.3	Bond Ratings	88
3.5.4	Bond Yield	89
3.5.5	Bond Risks	93
3.5.6	Relationship Between Bond Prices and Interest Rates	93
3.5.7	Term Structure of Interest Rates (Yield Curve)	94
3.5.8	Risk Premium – Yield Spreads	96
3.5.9	Convertible Bonds	96
	• Advantages of Convertible Bonds	97
	• Valuation of Convertible Bonds	97
3.6	Options and Futures – Valuation and Appraisal	99
3.6.1	Option Trading	100
3.6.2	Basic Option Strategies	103
3.6.3	Valuation of Call Options	105
	Summary	107
	Self-Evaluation Exercises	108

CHAPTER 4 ~ REGULATORY BODIES

	Learning Objectives and Key Concepts	111
4.1	Securities Industry Act (Part IX) – Trading in Securities	114
4.2	The Kuala Lumpur Stock Exchange	115
4.2.1	Members of the KLSE	116
4.2.2	Trading Rules and Regulations	117
4.3	Kuala Lumpur Options and Financial Futures Exchange	118
	Summary	119
	Self-Evaluation Exercises	120

CHAPTER 5 ~ PRACTICAL INVESTMENT CONSIDERATIONS

	Learning Objectives and Key Concepts	121
5.1	Procedures and Settlement of the KLSE	123
5.1.1	KLSE's Automated Trading System	125
5.1.2	Fixed Delivery and Settlement System (FDSS)	127
5.1.3	The Central Depository System	129
5.1.4	Central Depository System Fees	130
5.1.5	Benefits of the Central Depository System	130
5.2	Capitalisation and Investors' Entitlements	131
5.2.1	Bonus Issues	131
5.2.2	Reasons for Bonus Issues	132
5.2.3	Rights Issue	132
5.2.4	Adjustments to Earnings Figures	135
5.3	Tax Considerations	135
	Summary	136
	Self-Evaluation Exercises	137