

THE PROFESSIONAL INVESTOR

Investment, trading & tax planning guidance from experts

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Dear Investor,

Market Success in 2022

There are as many market predictions about the market in 2022 as there are market pundits. The skills you will need for market success in 2022, however, always remain the same. If you are an investor, you need actionable investing knowledge. If you are a trader, you need actual trading knowledge.

To help you profit in Market 2022, we are highlighting 2 gold-standard books that have stood the test of time, and are loved and highly rated. For traders, we recommend Balkrishna Sadekar's **How to Make Money Trading with Candlestick Charts**. This superseller reveals how traders can make consistent profits using candlestick charting. (Packed with tested strategies, the book shows you how to read the market messages hidden in each candlestick pattern.)

Fundamental Analysis for Investors by Raghu Palat (page 8) is "a priceless primer" for profitable investing in the stock market year after year.

And, as always, this issue also highlights dozens of terrific books by top market experts to help you make profits in all market conditions!

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Kapil Malhotra
Publisher

PS: The Professional Investor is going green and downsizing its printed numbers. Please send your email Id to visionbooks@gmail.com to receive a digital copy.

How to Make Money Trading with Candlestick Charts

Balkrishna M. Sadekar

The Japanese art of candlestick trading has been around for nearly four centuries. Japanese rice traders successfully used these signal formations to amass huge fortunes. Since then, the signals have been refined, tested and utilized in a variety of markets. Wherever an instrument can be traded in an open market by traders, candlestick signals can be used to profit in such markets.

“ Never put yourself in a position where you were absolutely correct but didn't take enough of a bet to make a difference in your life. ”

— Thom Calandra

CANDLESTICK SIGNALS DEPICT CHANGE IN INVESTOR PSYCHOLOGY. THEY VISUALLY SHOW a trader the sentiments of the other traders in that particular stock or market. It does not matter if the signals are applied to commodities, stocks or futures. Candlestick signals work with all of them. It does not matter whether the market is the Nasdaq, the Nikkei, the German DAX or the Nifty. All of these markets can be analyzed and traded using candlestick charting.

Why do people around the world pour their hard earned money into the financial markets? Why do they not keep their money invested in fixed price no risk certificates? The answer is obvious. They take the risk of investing in stock, currency and futures markets in order to get higher returns on their money. The allure of hitting it big in the stock market keeps their dream of financial independence alive. They look for a

(Continued on page 2)



BALKRISHNA M. SADEKAR is the founder of Profitable Candle-stick Charting LLC., an educational company providing training to stock traders in the proper use of candlestick charting and technical analysis.

He is also a member of Technical Securities Analyst Association (TSAASF.org), a leading authority for technical analysis in the United States.

With a Masters degree in Engineering, Sadekar has passionately blended technology with investor psychology analysis via candlestick charts. Himself a trader for more than a decade, he has trained and continues training novice and experienced traders in correctly applying trading systems for profiting from equity markets.

Sadekar resides in Richmond, VA in the US and can be reached via his website, www.ProfitableCandlestickCharting.com. With this book, which is one of the first candlestick charting books with Indian stock charts, Sadekar hopes to get Indian traders comfortable, confident and successful in the proper application of candlestick charting.

good nest egg to be built from the gains in the market for a comfortable retirement.

Yet the percentage of investors that actively manages its portfolios is paltry compared to those who keep pouring money in the market hoping they would strike gold someday. (Henceforth we will use the terms “market” and “stock market” to include the stock, commodity and the currency markets.)

Ask yourself which category you fit in from among the following:

- You listen to analysts on TV to get recommendations for buying stocks.
- You subscribe to a stock picking service for your stock investments.
- You try out the latest stock picking software, lose money and start all over again.
- You get your stock investment ideas from your friends, your colleagues or the local tea vendor.
- You have tried all of the above, lost money and given up on the stock market altogether.

If you have done any of the above, you are not alone. Most investors are the same everywhere. They keep searching for the one golden technique that will work each and every time they put their money in the markets. They do not spend enough time to independently study the market itself. They tend to believe

that analysts on TV, who do all the research and generously offer their recommendations are motivated by the idea of making you rich! That is being very naïve, indeed.

Most traditional investors believe in a “buy and hold” strategy. They believe in “averaging down” a stock. Their thinking is limited to “It will go up one day”. They will argue against timing the market. These are the people who spend more time thinking about what clothes to wear to office on any day, than they do about their investments and their financial future.

Part of this stems from the fact that real-time access to market data was very limited till just a few years ago. People used to be able to look at their investments only at the end of the day. Trading costs, i.e. buying and selling commissions, were also very high. But those factors are no longer valid. Information technology has changed the trading scenario. More and more people are now opening online trading accounts. They now have access to real-time instantaneous data. Technology has also helped to drive down trading costs considerably.

As the BSE and NSE equity indices rally because of underlying strong growth fundamentals of India, individual investors would naturally want to increasingly participate in the markets. It is extremely important that these investors

and traders educate themselves in learning the language of the markets. The markets speak in subtle ways. They are always giving clues to their directional movements. **Candlestick trading is all about reading this subtle language of the markets.**

A GAME OF FEAR AND GREED: If someone were to ask me what percentage of trading is comprised of psychological warfare, I would put the number between 85% and 95%. The stock market is essentially a game of fear and greed. Supply and demand are by-products of these two emotions battling it out for dominance in the market.

Fear and Greed: Fear creates panic. And panic creates supply in the marketplace.

Greed produces exuberance, giving rise to

demand.

As humans, we cannot escape these two emotions while trying to make money in the marketplace.

When you watch a stock you own go down, you get overwhelmed by fear and anxiety. Such emotions create havoc in the mind:

- How low will the stock go and how much will I lose?
- What if my spouse / parents / friends find out about this pathetic losing trade I made?
- Should I get out now?
- What if the stock turns around as soon as I sell it? How much of a fool would I be then? And on and on and on.

Notice the Fear: On similar lines, what do you think when the stock you don't own, but wanted to own, keeps going up?

- I always knew this would be 10-bagger.
- Should I buy it now? If I don't, and it goes up even more, what a fool I'll then be.
- This is the stock to own, let me get in now.
- Everybody I know owns this one, I have to buy it and ride it up. And, on and on.

Notice the Greed: We are all slaves to these two emotions. They are also the trader's worst enemy. If you are expecting that I am going to show you how to master these two, often overpowering, human emotions, you are going to be sorely disappointed. For that, please browse through

the self-help section of your favourite bookstore.

The fact is that experienced and successful traders know that they cannot master these two emotions. They know that all profits will evaporate into thin air if they fall in the trap of trying to master them. What they do, however, is design a system and abide by the system's rules to execute their trades. They realize that the market is much bigger than them and their egos. In order to win in the market, they have mastered the art of understanding the subtle hints of the market. This is where candlestick signals assert their dominance.

Candlestick signals, by the very nature of how they are constructed, point out the messages of the market. These signals have been time

If you take away one lesson from this book, let it be this — as a trader, you should always be buying into other's fears and selling into other's greed.

tested for over four hundred years. They would not have been around for this long if they wouldn't have had strong underlying market logic.

These signals depict the outcome of all the cumulative knowledge of the traders and investors playing that stock. Stock prices have little to do with the actual fundamentals of a company. Instead, they have a lot more to do with the company's "perceived" fundamentals. It does not matter what a company has achieved till date. If the perceived growth of the company is doubtful, then the stock has little or no chance of appreciation. What would you rather be buying? A good, well known company but with little perceived growth or a company which traders and investors believe will grow for the next few years. I would buy the latter. This is what makes the stock market so dynamic. The fear of losing money and the greed for making more money creates the demand-supply imbalances that move stock prices.

If you take away one lesson from this book, let it be this — **as a trader, you should always be buying into other's fears and selling into other's greed.**

And this is not as complex as it sounds. Once you are done with this book, it will be very easy to recognize the emotions of the traders in that stock. Candlesticks make the analysis visually apparent.

TRADING TIPS FROM A CANDLESTICK TRADER'S PERSPECTIVE

Always Work Out the Risk-Reward Ratio: If you have read any trading book, you know of the three basic price points you need to be aware of even before placing the trade:

- **The entry point** — this is the point to buy after a confirmed candlestick signal.
- **The stop loss point** — this is the point to exit the trade if the stock is not performing as expected.
- **The target point** — this is the point where you expect the stock to reach if the trade is successful, usually a previous high or perceived resistance level.

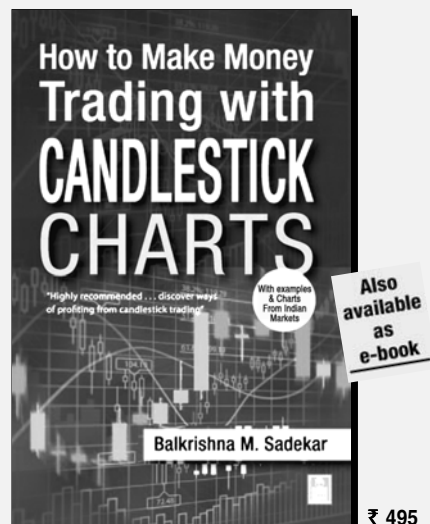
These points help you define the "reward to risk ratio" as follows:

$$\text{Reward / risk ratio} = \frac{(\text{Target point} - \text{Entry point})}{(\text{Entry point} - \text{Stop loss point})}$$

The higher the reward-risk ratio, the more compelling is the trade. Traders normally like

How to Make Money Trading with Candlestick Charts

Japanese rice traders have successfully used candle signals to amass huge fortunes for nearly four centuries. Constantly refined and tested over time, candlestick signals are now being used the world over for trading all financial markets, including stocks, derivatives and currencies, etc.



This book explains step-by-step how you can make money by trading the powerful and proven candlestick techniques. Here is how:

- Explanation of major candle signals; how to recognize them and use them effectively.
- The underlying market psychology revealed by each candle formation.
- How to combine candlestick signals with Western technical analysis to take advantage of high probability trades which generate explosive profits.
- Stop loss settings for various candlestick signals for cutting losses. Master this and you will be way ahead of fellow traders.
- How the use of candlesticks with technical analysis provides a simple mechanical trading system which eliminates emotional interference, panic and greed.
- How to use candlestick charts for making money from longer term trading and investing.
- PLUS: Proven, market-tested trading ideas, tips and common mistakes to avoid based on the author's rich experience of trading stocks and options.

This book will enable both new and experienced traders derive systematic and consistent trading profits from the market through candlestick charting.

[Excerpt from: **How to Make Money Trading with Candlestick Charts** by **Balkrishna M. Sadekar**. Order by email to visionbooks@gmail.com, or online at www.visionbooksindia.com; www.amazon.in and www.flipkart.com]

to have at least a reward-risk ratio of 2, or higher. Personally, I like to see 3 or higher. You will have to decide what ratio you are comfortable with.

Just because you notice an excellent candlestick buy signal does not mean you have to enter the trade. Always calculate the reward-risk ratio. If you could lose ₹ 10 for a possible gain of ₹ 15, the trade is not worth it, no matter how good the candlestick signal.

Don't Turn a Trade into an Investment: This is the most common mistake committed by traders. They see a good buy situation setting up. They notice the stochastics are oversold and can sense panic selling in the market. Then the buy signal is formed. They know their entry point, their target point and also their stop loss point. They enter the market feeling confident that the trend has reversed. The stock moves up as expected. The traders are happy. Everything is good and rosy. Soon, however, the stock starts dropping. The bears start taking control of the stock and push it down past through the stop loss point. The trader hesitates at this critical juncture. Something inside his mind knows, now is the time to sell and accept the loss. But, then, hope crawls in. Hope, that ultimate trickster! The trader convinces himself that the stock will rebound anytime now. He promises to himself to get out as soon as the stock comes to break even. Alas, the market is unforgiving to such "weak hearted" traders. By the end of the day, the stock is down considerably. This leads to the biggest mistake of all. Now the trader convinces himself that the company whose stock he just bought is fundamentally very sound. The prospects for the company are great. He will keep holding and buying more, so he can average out the price.

The problem with this scenario is multifold:

- The trader has no inkling how far down the stock is going to go. So his portfolio is not under his control anymore.
- His money is now tied into an "investment" which is losing its value.
- He is losing other valuable opportunities by not having that money at his disposal, and, most importantly,
- He is mentally shaken and his confidence rattled by watching his portfolio go down.

Do not turn your losing trades into a long term investment. Get out if the candlestick signals fail and wait for another buy opportunity.

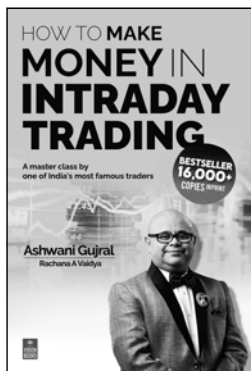


HOW TO MAKE MONEY IN BULL MARKETS OR BEAR



"The more you learn, the more you earn" — Warren Buffett

Ashwani Gujral's Trading Bestsellers



How to Make Money in Intraday Trading

A master class by one of India's most famous traders

In his trademark blunt style, (and laced with wry throwaway humour) Ashwani Gujral cuts through the clutter and awe surrounding day trading, sharply zeroing in on the skills, methods and abilities which spell suspended success and profit in this most

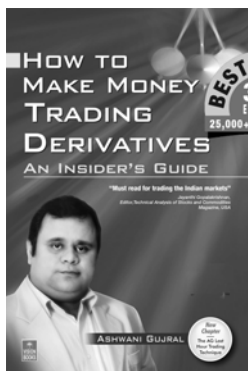
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challenging and rewarding of endeavours.

This book will equip you with the skills and temperament to make you market ready. It reveals Ashwani's time-tested and practical day trading strategies and systems which are easy to understand and implement.

Packed with 200+ real market examples and charts, this book shows you how to approach the market every single trading day like a winner, equipped with appropriate technical expertise and supreme self-confidence.

₹ 999



How to Make Money Trading Derivatives

An Insider's Guide

This is a pioneering book on trading Indian futures and options written by an expert who does so for a living. It is an insider's guide which spans all aspects of successful trading: charting and entry techniques, money

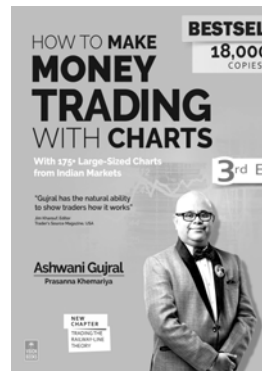
and trade management, and trading psychology.

Based on an insider's expertise and trading Indian futures and options, the book is packed with proven strategies and examples of real trades in the Indian derivatives market.

The author boldly asserts that "derivatives have changed the Indian trading landscape forever . . . It is, finally, possible to make a fortune on the Indian stock markets."

"Gujral has cemented himself as a pioneer in this field." — James Holter, Editor, Futures Magazine, USA

₹ 599



How to Make Money Trading with Charts

Knowledgeable traders are able to make money using their skillful reading and interpretation of

price charts, irrespective of whether the market is rising or falling — or simply moving sideways.

In this bestselling book, Ashwani Gujral

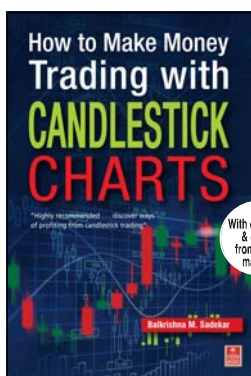
shows how you can make money trading any type of market by correctly identifying the market's mood from the various typical patterns that are formed on charts — and by using appropriate trading methods for each pattern.

Using real-life examples and 175+ charts from the Indian markets, this pioneering and comprehensive book on chart patterns and chart analysis explains every significant tradable pattern, buy and sell signal, and the use of important technical indicators.

"A must read for anyone interested in trading the Indian markets." — Technical Analysis of Stocks and Commodities Magazine, USA

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Balkrishna Sadekar's Trading Bestsellers



How to Make Money Trading with Candlestick Charts: With examples and charts from Indian markets

BESTSELLER!

With examples & charts from Indian markets

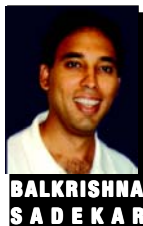
Japanese rice traders have successfully used candle signals to amass huge fortunes for nearly four centuries. Constantly refined and tested over

time, candlestick signals are now being used the world over for trading all financial markets, including stocks, derivatives and currencies, etc. This book explains step-by-step how you can make money by trading the powerful and proven candlestick techniques.

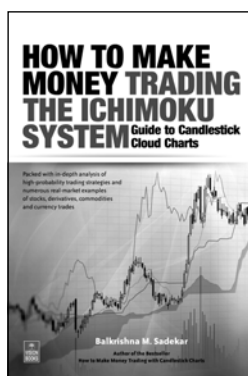
This book will enable both new and experienced traders derive systematic and consistent trading profits from the market through candlestick charting.

"Educative addition to the technical trader's shelf." — The Hindu Business Live

₹ 495



BALKRISHNA SADEKAR



How to Make Money Trading the Ichimoku System: Guide to Candlestick Cloud Charts

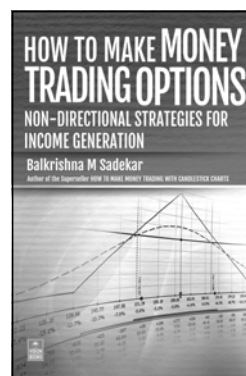
Ichimoku is one of today's most powerful trading systems. Due to the Ichimoku cloud's unique construction, which is heart of this system, a trader can visually determine in an instant whether a chart is

bullish or bearish! Not Just that:

- Ichimoku clearly defines support and resistance, identifies trend direction, gauges momentum, and provides trading signals.
- It is the only system with a built-in forward looking indication.
- Looking at Ichimoku charts on multiple time frames can offer a tell-all x-ray into the dynamics of any market.

Packed with in-depth analysis of high-probability trading strategies and numerous real-market examples of stocks, derivatives, commodities and currency trades, this book reveals how you can make money using the powerful Ichimoku system, the candlestick cloud charts.

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How to Make Money Trading Options Non-Directional Strategies for Income Generation

A pioneering book on making money through non-directional trading, i.e. without having to predict the market's future direction. It reveals and explains:

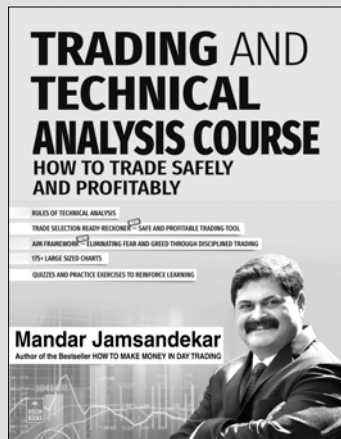
- The concept and nature of non-directional

options trading ■ How to construct non-directional option trading strategies.

The centerpiece of the book is the thorough exposition and analysis of a powerful, tested non-directional options trading strategy. The author dissects the strategy with the help of real life examples and 150+ charts, highlighting how to manage non-directional trades through various stages and situations.

The book will equally benefit directional traders through its lucid explanation of popular options strategies of leveraging, hedging, and speculation — and even for buying stocks cheaper by using options. Plus, of course, it will enable options traders to diversify and generate income through non-directional trading as well.

₹ 599

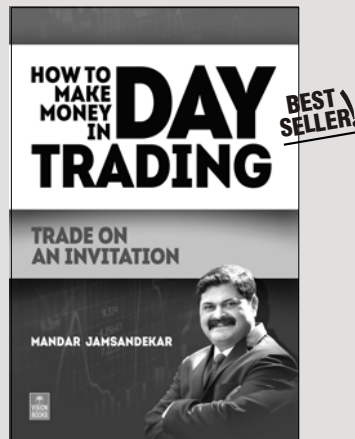


Trading and Technical Analysis Course: How to Trade and Profitably

BESTSELLER! This course book shows you, step-by-step, how to combine the stock picking and market timing capability of technical analysis with the power of disciplined trade entries and trade management strategies. Result: safe and profitable trading:

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- **NEW:** Trade Selection Ready-Reckoner — the author's powerful trading tool that helps you identify and manage high reward trades

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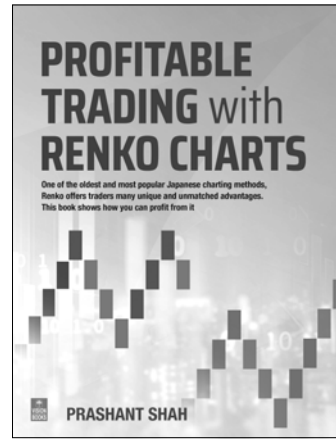


How to Make Money in Day Trading Trade on an Invitation

Day Trading holds tremendous attraction for those seeking to make money in the markets. Nearly 90% of Market players are interested in day trading because it requires lower capital, you don't carry overnight risks and you can make money whether the market is rising or falling.

This book contains a powerful day trading strategy, complete from how to select a stock to trade, to risk management and profitable exits. The strategy rests on the author's innovative concepts of trade invitation and running and stagnant prices.

₹ 295



Profitable Trading with Renko Charts

Prashant Shah

One of the oldest and most popular Japanese charting methods, Renko can be used to profitably trade all types of financial markets and instruments — and over any time frame.

Renko offers traders many unique and unmatched advantages over other charting methods.

- Renko charts are simple to use

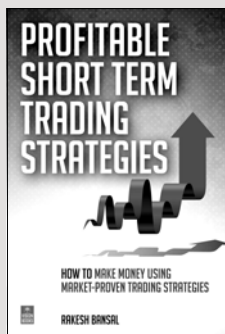
- Trends are easier to identify in Renko charts since the price is always either clearly bullish or bearish
- Due to their uncluttered appearance, significant tradeable patterns are much easier to spot in Renko charts
- Being objective in nature, entry and exit signals are clearly defined in Renko charts, making it easier to trade profitably
- By eliminating insignificant price action, Renko charts help traders control overtrading — one of the biggest sources of trading losses
- PLUS: 250+ charts and examples from Indian markets.

With recent advancement in technology making Renko easily accessible on popular charting software, this book will help both experienced and novice traders to profit from this very powerful system.

Prashant Shah is one of India's top practitioners of "noiseless charts." In this comprehensive book, he reveals all the tips and tricks of profitable trading with Renko charts that he has mastered over the years.

₹ 889

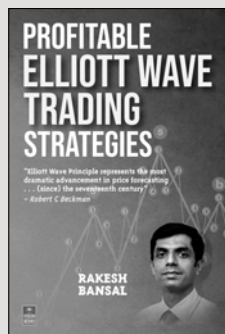
Trading Books by Rakesh Bansal



Profitable Short Term Trading Strategies: How to Make Money Using Market-Proven Trading Strategies

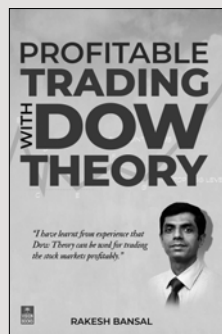
BESTSELLER! This book is a valuable compendium of select tried and tested short term trading strategies. Followed with discipline and patience, these strategies can help you build solid wealth in the stock market.

Come, profit from these market-proven trading strategies. ₹ 599



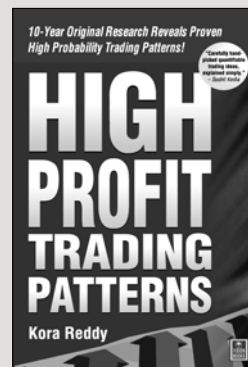
Profitable Elliott Wave Trading Strategies: How to make money using market-proven Elliott Wave trading strategies

The book starts with a concise introduction to Elliott Wave Theory, and an explanation of its various key building blocks. It then focusses on three proven market-tested trading strategies. Each trading strategy is explained in detail with entry, stop loss and exit rules from the Indian market. ₹ 599



Profitable Trading with Dow Theory: How to Make Money Trading with Dow Theory

In this book, expert trader and market commentator Rakesh Bansal presents his successful and market-tested trading methods based on the principles of Dow Theory. Followed with discipline and correct understanding, these strategies can help you trade the stock market profitably. ₹ 599



High Profit Trading Patterns

10-Year Original Research Reveals Proven High Probability Trading Patterns!

Kora Reddy

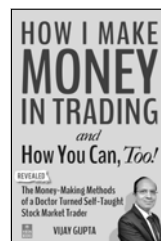
This pioneering book arms you with power to trade with the odds stacked greatly in your favour.

Very little research has so far been available on the behaviour of the Indian markets. Path-breaking and original, this book reveals for the first time how you can hugely improve your trading performance with the help of meticulously tested and proven high profit price patterns.

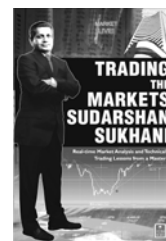
Traders can pick and choose from the large array of high probability patterns presented in this book.

You can also use the book as your trading reference

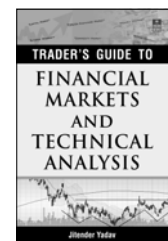
guide to compare ongoing marked action with the market's past winning behaviour to maximize profitable trades while weeding out the losing ones. ₹ 750



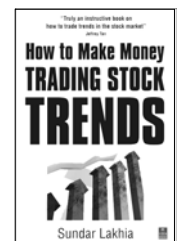
Like millions, Dr Vijay Gupta began investing in the stock market hoping to increase his income and wealth. ₹ 399



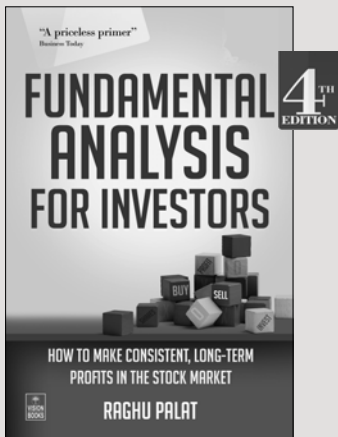
Real-time actionable market analysis and technical trading lessons from a famous trader. "A master class" ₹ 599



Comprehensive guide to various financial markets plus how to successfully trade stocks, bonds, forex and derivatives using technical analysis. ₹ 799



A logical, simple-to-follow and disciplined method of making money in the markets. With Indian charts and examples. "Truly instructive" ₹ 395

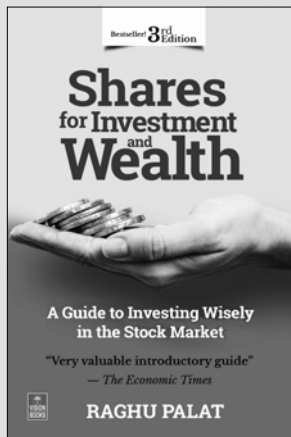


Fundamental Analysis for Investors: How to Make Consistent, Long-term Profits in the Stock Market

BESTSELLER! Raghu Palat
How to make steady, consistent profits in the stock market based on well informed and information-backed decisions.

"A priceless primer." — *Business Today*

₹ 349



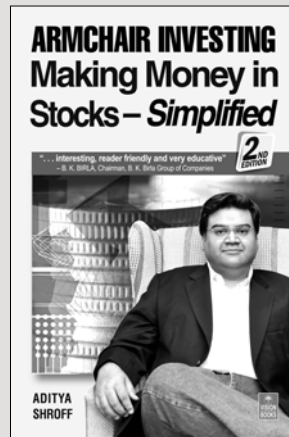
Shares for Investment and Wealth (3rd Expanded Edition)

BESTSELLER! Raghu Palat
How to grow wealthy by investing wisely in the stock Market.

"Simply and easy to follow with numerous illustration. Useful and well written." — *The Times of India*

"A very valuable introductory guide to new investors." — *The Economic Times*

₹ 399

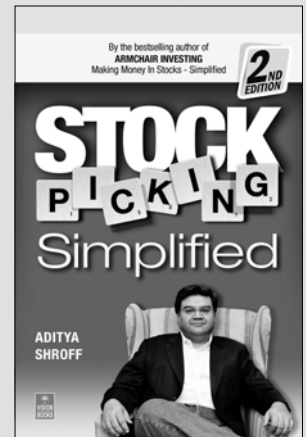


Armchair Investing: Making Money in Stocks — Simplified (2nd Edition)

BESTSELLER! Aditya Shroff

Here is a book with a big promise — a simplified way of making money in the stock market. The *Armchair Investing* system is a practical, tested, safe, automatic and rule-based method which can help you steadily build wealth from stocks.

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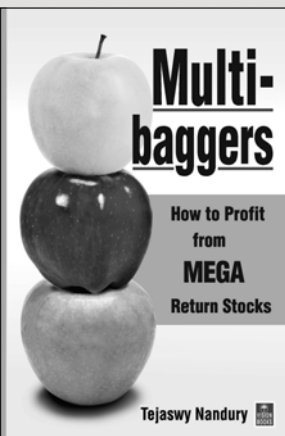


Stock Picking — Simplified
How to choose the right stocks to invest in - easily and quickly

BESTSELLER! Aditya Shroff
The stunning success of some of the world's legendary investors, including Warren Buffett and Peter Lynch, has been built on their stock picking skills. "Strategy to profit on the bourses."

— *Hindu Business Line*

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Multibaggers: How to Profit from Mega Return Stocks

Tejasw Nandury
Have you ever wondered how people make millions by investing in stocks? Well, you too can do so by investing in multibagger stocks. Multibaggers are stocks that can give you ten-fold, even hundred-fold returns, stocks that can literally make

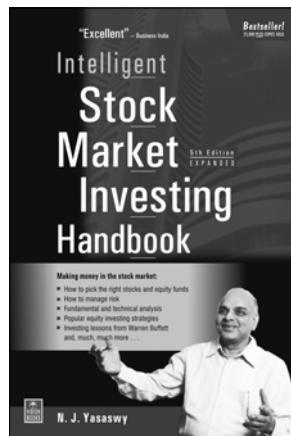
you a fortune. Unbelievable? Read on . . . Infosys appreciated 250-fold in 16 years following its public issue in 1993; and Dr. Reddy's Labs returned over 600 times the original amount invested during the same period.

Based on extensive, multi-year research of Indian stocks that appreciated more than 1,000% in the recent past, the author reveals the major characteristics of multibagger stocks and provides a step-by-step investing framework for getting mega returns such stocks offer:

- How to identify a potential multibagger at an early stage
- How to spot game-changing trends before the market does in industry and technology trends that produce multibagger stocks
- The many hues of multibaggers — turnaround companies, brand new business segments, ignored sectors
- How to determine the right time to buy multibaggers
- How to stay invested long enough in a multibagger stock to generate mega returns
- When to sell a multibagger stock and cash in the big profits
- How to manage the risks of multibagger investing
- PLUS: Examples and analysis of 10 Indian multibaggers to help you find-tune your multibagger investing skills.

Here, then, are all the tools you need to discover and profit from multibaggers — stocks that can make you a fortune.

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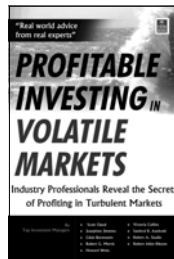
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शेयरों से लगातार बड़ी कमाई कैसे करें!

■ क्या आप शेयर बाजार में बार-बार नुकसान उठाते हैं ?
■ क्या आप अपनी जमा-पूंजी को लगातार बढ़ाना चाहते हैं ?

■ क्या आप बेहतरीन कंपनियों के शेयर चुनने के आसान और व्यावहारिक तरीके सीखना चाहते हैं ?

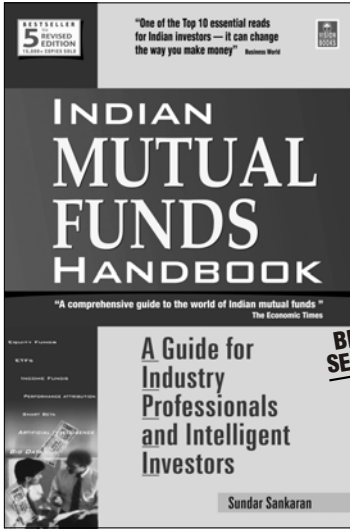
यदि इन प्रश्नों में से किसी एक का भी आपका उत्तर "हाँ" में है, तो यह पुस्तक आपके लिए एक आदर्श मार्गदर्शक साबित होगी।

सरल भाषा में लिखी गई, और वास्तविक भारतीय उदाहरणों से भरपूर, यह किताब शेयर बाजार में लगातार कमाई करने में आपके लिए बहुमूल्य सिद्ध होगी। जानें :

- शेयर बाजार में नुकसान से कैसे बचें
- बढ़िया शेयरों के चुनाव के सरल और व्यावहारिक उपाय, और एक जादुई फार्मूला
- एक सशक्त शेयर पोर्टफोलियो कैसे बनाएं
- शेयर खरीदने और बेचने के उचित समय की पहचान कैसे करें
- किसी भी कम्पनी मैनेजमेंट को कैसे आँकें
- शेयर को खरीदने की सही कीमत कैसे आँकें।

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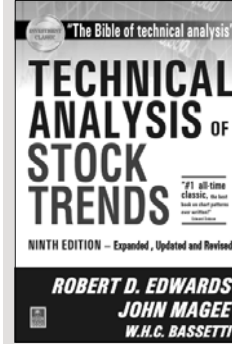


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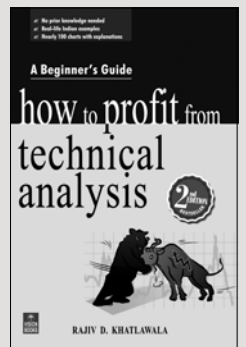
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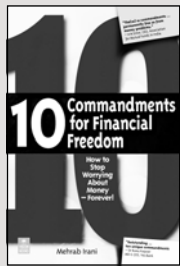
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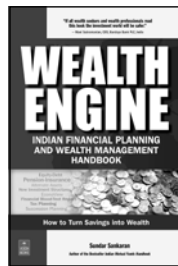


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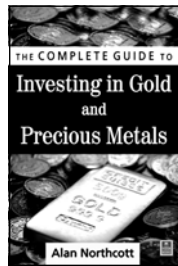
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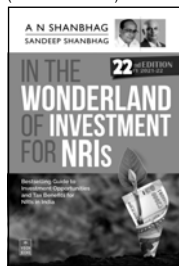
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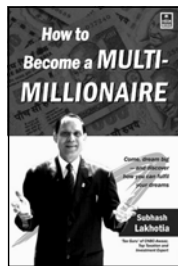
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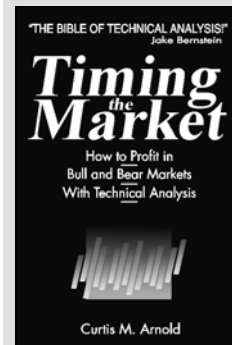
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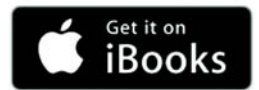
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INTRINSIC VALUE OF A SHARE

“Is the Share Over-Priced?”

Raghu Palat

FUNDAMENTAL ANALYSIS IS BASED ON THE premise that every share has a certain intrinsic value at a period of time. This intrinsic value changes from time to time as a consequence of both internal and external factors. The theory of fundamental analysis submits that one should purchase a share when it rises above its intrinsic value. When the market value of share is below its intrinsic value it is under-valued, whereas if the market value of a share is above its intrinsic value it is over-valued. Fundamentalists thus seek to purchase underpriced shares and sell overpriced ones. They believe that although the market price may deviate from the intrinsic value in the short term, in the long term the market price will be equal to the intrinsic value.

WHAT IS INTRINSIC VALUE: What is the intrinsic value of a share? How is it determined? Fundamental analysis propounds that the intrinsic value is, and has to be, based on the benefits that accrue to investors in the share. As the return to shareholders is in the form of dividends, fundamental analysis, helps that the

present value of a share, future, dividends, discounted on the basis of its perceived safety or risk is its intrinsic value. The intrinsic value is based on the dividend because that is what a shareholder or investor receives from a company, and not on the earnings per share of the company. This distinction is very important.

CALCULATING INTRINSIC VALUE: How, then does one calculate the intrinsic value of a share? Let us assume that one expects a return of 20% on an investment every year for 3 years. Let us also assume that the company would pay dividends of 20%, 25% and 30% on its ₹10 share. The dividend received on a share would therefore be ₹2.00 in the first year, ₹2.50 in the second, and ₹3.00 in the third. Let us also assume that the share can be sold at ₹200 at the end of 3 years. The intrinsic value of the share will be:

$$\frac{2}{1.2} + \frac{2.5}{(1.2)^2} + \frac{3 + 200}{(1.2)^3} = ₹120.88$$

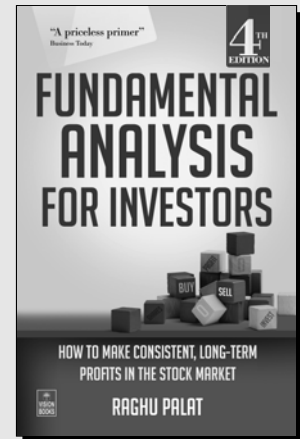
The logic is to discount the dividend received and anticipated to be received in future years and the expected price at a future date with the return or yield expected. Since the price at that future date is also considered, the possibility of capital appreciation is considered and this is why this method of arriving at the intrinsic value is considered the most balanced and fair.

If the market price of the share is below ₹120.88 then the share is below its intrinsic value and therefore well worth purchasing. If, on the other hand, the market price is higher, it is a sell signal and the share should be sold.

CONSIDERATIONS: It must be noted that the intrinsic value of a share can and will be different for different individuals. If, in regard to the above mentioned investment, another individual (Kumar) expects a return of 16%, and a third individual (Nair) expects a return of 25% the intrinsic value (assuming the dividends and the sale value at the end of 3 years will remain the same will be):

How to make profits in the stock market — steadily and consistently

Raghu Palat's book will help you master the essentials of fundamental analysis. It clearly explains, with illustrations, all the analytical tools of economic, industry and company analysis, including ratios and cash flow. It



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Intrinsic value for Kumar :

$$\frac{2}{1.16} + \frac{2.5}{(1.16)^2} + \frac{3 + 200}{(1.16)^3} = ₹133.63$$

Intrinsic value for Nair :

$$\frac{2}{1.25} + \frac{2.5}{(1.25)^2} + \frac{3 + 200}{(1.25)^3} = ₹107.14$$

Thus if the market price is ₹120.88, the first individual (let us call him Siddarth) will hold on to the share whereas Nair would sell the share and Kumar would purchase it. In short, the intrinsic value of a share will vary from individual to individual and will be dependant both on that individual's ability to bear risks and the return that individual expects.

It is prudent and logical to remove this anomaly. The return expected should be the return one can expect from an alternate, reasonably safe investment in that market.

[Excerpt from: **Fundamental Analysis for Investors** by Raghu Palat. Order by email to visionbooks@gmail.com, or online at www.visionbooksindia.com; www.amazon.in and www.flipkart.com]

FORM IV

(See Rule 18)

Statement about ownership and other particulars about newspaper *The professional Investor* to be published in the first issue every year after the last day of February.

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