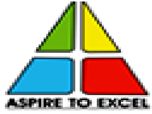

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PRABANDHAN MANTRA

A Quarterly Newsletter

Editors Desk

As an institution which believes in serious academic pursuits which have practical implications, B.I.T Durg has always been a fore-runner in academic endeavors setting benchmarks in education and industry.

This News Letter aims at empowering professionals everywhere to lead more productive (work) lives by disseminating knowledge processed here at our campus.

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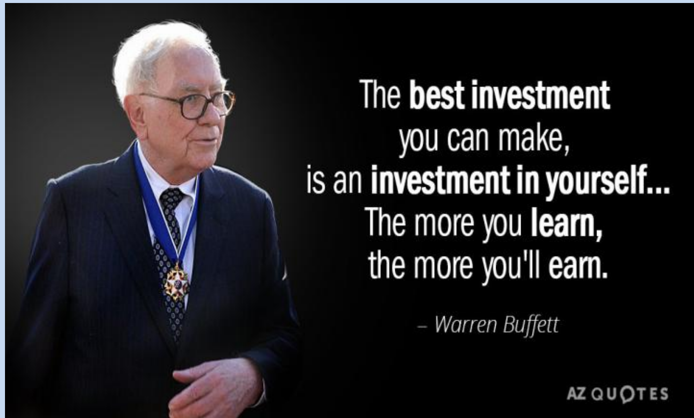


Share buyback -

What does a company do when it has excess cash? They would either invest it in their business or build new infrastructure, right? But a few companies repurchase their shares from the shareholders using this extra cash. This process is called share buyback or share repurchase.

Reason behind Buyback

We investors invest in a company because we want the company to use the capital to earn profits. These profits will be passed on to us, which will be our return on investment.

Hence, companies reward their shareholders by purchasing back their shares instead of keeping idle funds.

Other Purposes

1. The company has excess cash reserves, and they have no project to deploy surplus cash

2. To increase the promoter holding in the company

3. To boost share prices while reducing the number of outstanding shares

4. To manipulate stock prices and critical performance ratios like return on asset, earnings per share, etc

Two Methods of buyback are -

• Tender offer buyback: The company offers to buy back its shares at a particular price (offer price) at which the shareholders can sell their shares

• Open market buyback: The company purchases its shares directly from the stock market.

What Does Share Buyback Signify?

A buyback is seen as a positive signal from the company. It indirectly indicates to shareholders that the company's prospects are good. It also signifies that the stock price will rise as the outstanding shares in the market decrease. But many factors, like the sector's performance and the overall market sentiment, may also impact the valuation of the share. If the company buys back shares at a premium, it strengthens investors' confidence in its management.

Conversely, if the company's management has pledged some shares for borrowings, they somehow have to safeguard the valuation of the shares. Hence, the management may opt for a buyback of shares.

As investors, you can analyze the motive behind the buyback by analysing the stock trend and the earning per share graph.

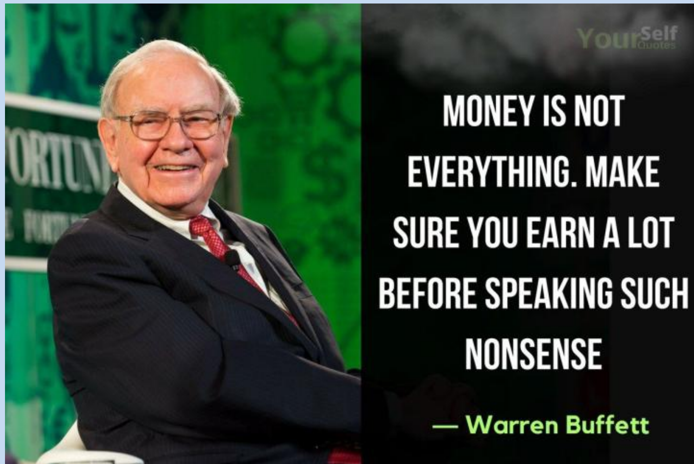
How Does Share Buyback Impact Your Portfolio?

As the company repurchases its shares from the market, the net income remains the same while the outstanding shares decrease, resulting in higher Earnings Per Share (EPS). Apart from this, it will also increase your holding stake in the company.

Conclusion

A share buyback is a widespread corporate action that most companies go through. Refrain from jumping on any buyback offer without due diligence. Analyse the company's financials before deciding to stay invested or take the buyback offer.

By – Rakhi Sankhla



When to sell shares?

The correct way to approach the situation is to look at your risk profile, need of funds and asset allocation. If you are the daredevil 100 per cent equity person and have no need for funds, lucky you, then do nothing. No one can predict, but whatever it is; you have seen such volatility before. Just sit through that phase. This too shall pass.

One should look at asset allocation at a portfolio level. List down all equities you have, whether direct or through mutual funds and do the same for your debt investments.

Debt instruments are these days not as safe as they are thought to be. Keep at least six months' monthly expenses as emergency funds. Also, deduct your best estimates for lumpy expenses that are expected over next 12 months. After doing this simple exercise, you can calculate your asset allocation into two big buckets – debt and equity.

You are the best judge of how much risk can you handle. The modern portfolio theory (though ancient as it came around 1952) states that the best way to allocate assets in your portfolio is largely a personal choice. There is nothing called a perfect asset allocation – do not waste time targeting the impossible. Whatever suits and works for you is perfect for you. It is a lot personal and, hence, dynamic depending on your investment horizon, age, financial situation and how your investment goals are evolving.

A simple way of defining your risk profile is to answer a question honestly: What is the amount you are willing or can afford to lose without losing sleep - or in the present age without fluctuating your BP or raising your sugar levels. That is the minimum amount you could safely park in equities.

Too little allocation to equities is also a risk, as it could come in the way of not reaching your financial goals. Inflations eats away your purchasing power. A popular thumb rule of equity investing is 100 minus your age as allocation to equities. These days it is changing to 110 and 120 minus your age, depending on your risk appetite.

Follow some of these basics of investing. Every year, say January 1, when you think of making your New Year resolutions, look at your asset allocation and maintain the balance. If equity is higher than your comfort level, then sell and invest in debt and if debt is higher then sell debt and buy equities. You are in a comfortable position, the best is to do nothing and when you have done it all, don't forget the tax characteristics of your investments.

Following some of this basic investment, hygiene may not make you an investment rock star. The complexities in the financial world are difficult to comprehend even for seasoned fund managers. Yet, the fact remains that some of the most important habits of successful investors are pretty simple: Create a plan, stick to it, save enough, pay attention to asset allocation and taxes and if everything is going well. Believe that compounding works wonders.

By – Abhijeet Sarkar

Making Smart Financial Decisions

The four tips to making smart financial decisions are:

Tip 1: Understanding needs vs. wants

Tip 2: Creating a spending plan

Tip 3: Maximizing savings opportunities

Tip 4: Putting the plan into action and sticking with it

Needs are items we need in order to live. Examples include housing, food, utilities, clothing, etc. (many of which could be qualified disability-related expenses). Wants are items we would like to have but don't necessarily need them to live. (These could also be expenses for which your ABLE funds could potentially be used.)

Spending plans or a budget can be a plan for the funds in your ABLE account. A spending plan is based on numbers. How much money do you bring home each month, through paychecks, public benefits or contributions into your ABLE account from outside sources? And how much goes out as expenses? A spending plan gives you an opportunity to look at your expenses straight on, and it shows you how you spend your money.

Saumya Singh

7 Smartest Things You Can Do for Your Finances - Bright Ideas for Your Money

The Smartest Things You Can Do for Your Finances & Money

Have you ever wondered what the best things are that you can do for your money and your financial future? Here is our list of the smartest things that anyone can do for their finances.

1. Create a Spending Plan & Budget

If you are spending more than you earn, you will never get ahead—in fact, it's a sure sign that your finances are headed for trouble. The best way to make sure that your income is greater than your expenses is to track your expenses for a month or two and then create a budget. It can be a very simple budget, but you should have one.

2. Pay Off Debt and Stay Out of Debt

One of the best things you can do for your finances is to pay off all of your debt. To get started, focus on your most expensive debt—the credit cards and loans that charge you the highest interest. Once you have paid off all of these debts, focus on paying off your mortgage. For your mortgage, consider splitting your monthly payment in half and paying bi-weekly. Then pay extra as you can afford it. This will shave years off your mortgage and save you tens of thousands of dollars in interest.

3. Prepare for the Future - Set Savings Goals

Saving money for your future is crucial. If you don't set savings goals and steadily work towards them, you will have to rely on credit when times get tough. You might even need to work through your retirement years to supplement your small government pension. Entering retirement may also be delayed or impossible if you are in debt because you need enough money to make all of your payments.

4. Start Saving Early - But It's Never Too Late to Start

Due to the magic of compounded interest, even when the rates are low, someone who starts to save for their retirement early doesn't have to save as much as someone who starts saving later in life.

So the second person would have to pay almost twice as much per month to make up for waiting 10 years. It's never too late to begin saving, but the sooner you start, the better off you will be.

6. Sleep On It - Don't Be Hasty With Big Financial Decisions

There are no major financial decisions or major purchases that need to be made on the spot. In fact, being pressured into making a hasty financial decision is one of the warning signs that the deal might not be as good as it seems.

7. Stay Married

Studies show that married people earn higher incomes, have twice the assets at retirement, and live on 25% less than what comparable single people would need to live the same lifestyle. Statistically speaking, staying married is good for your finances.

Bahul Dutta