# THE INVESTMENT ENVIRONMENT

### WHAT IS AN INVESTMENT?

- What you do with the savings to make them increase over time is investment
- an **investment** is the current commitment of dollars (money) for a period of time in order to derive future payments that will compensate the investor for (I) the time the funds are committed, (2) the expected rate of inflation, and (3) the uncertainty of the future payments.
- To earn a return from savings due to their deferred consumption.

# FINANCIAL INSTITUTIONS AND MARKETS

- <u>financial institution</u>, An intermediary that channels the savings of individuals businesses, and governments into loans or investments.
- <u>financial markets</u>, Forums in which suppliers of funds and demanders of funds can transact business directly.

# **INVESTMENTS & FINANCIAL ASSETS**

- Essential nature of investment
  - Reduced current consumption
  - Planned later consumption
- Real Assets
  - Assets used to produce goods and services, thus determine the wealth of an economy
- Financial Assets
  - Claims on real assets

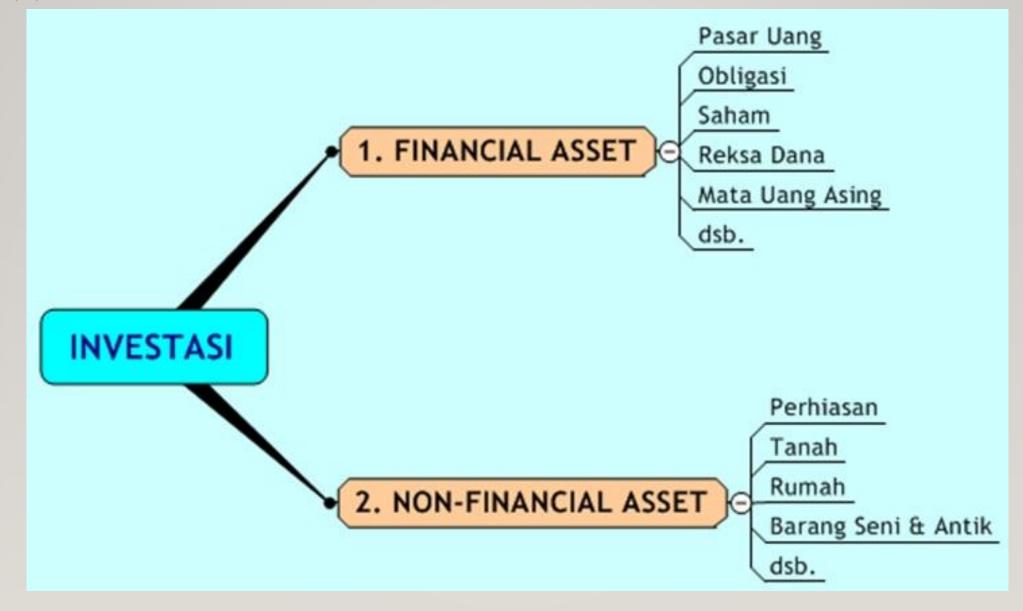
# ROLE OF FINANCIAL ASSETS AND MARKETS IN THE ECONOMY

Consumption Timing

In high-earnings periods, invest in financial assets (stocks, bonds). In low-earnings periods, sell these assets

- Allocation of Risk
   Buying stocks is more riskier than buying bonds
- Separation of Ownership & Management

For a large firm, the owners and the managers of the firm are different. There is an agency problems.



# MONEY MARKET & CAPITAL MARKET

#### **MONEY MARKET**

 A financial relationship created between suppliers and demanders of short-term funds.

#### CAPITAL MARKET

 A market that enables suppliers and demanders of long-term funds to make transactions.

# INVESTMENT INSTRUMENT

#### **MONEY MARKET**

- Sertifikat Bank Indonesia (SBI)
- Surat Berharga Pasar Uang (SBPU)
- Call money / pasar uang antar bank
- Commercial Paper
- Repurchase Agreement
- Banker's Acceptance
- Promissory Notes
- Certificate of Deposit (CD)

#### CAPITAL MARKET

- I. Saham (stock) & Saham Preferen
- 2. Obligasi (Bonds), Obligasi Konversi dan Sukuk
- B. Derivatif:
  - Bukti *Right* (HMETD)
  - Waran
  - Kontrak Berjangka Indeks Saham
  - Efek Beragun Aset (EBA)
  - Reksa Dana

#### OTORITAS JASA KEUANGAN (OJK) (D/H KEMENKEU)

#### (D/H BAPEPAM-LK)

#### LEMBAGA PASAR MODAL

- I. Bursa Efek
- 2. Perusahaan Efek
  - a. Penjamin Emisi Efek
  - b. Perantara Pedagang Efek
  - c. Manajer Investasi
- 3. Penasihat Investasi
- 4. Lembaga Kliring dan Penjaminan (LKP)
- 5. Lembaga Penyimpanan & penyelesaian (LPP)

#### LEMBAGA PENUNJANG

- I. Kustodian
- 2. Biro Administrasi Efek (BAE)
- 3. Wali Amanat
- 4. Pemeringkat Efek

#### PROFESI PENUNJANG

- I. Akuntan Publik
- 2. Notaris
- 3. Penilai
- 4. Konsultan Hukum
- 5. Profesi lain yang ditetapkan dengan Peraturan Pemerintah

# **DEFINITION OF RISK**

Risk is the uncertainty of future outcomes. An alternative definition might be the probability of an adverse outcome.

# **BACKGROUND ASSUMPTIONS**

- One basic assumption of portfolio theory is that as an investor you want to maximize the returns from your investments for a given level of risk
- Portfolio theory also assumes that investors are basically risk averse, meaning that, given a choice between two assets with equal rates of return, they will select the asset with the lower level of risk.
- While recognizing this diversity of attitudes, our basic assumption is that most investors committing large sums of money to developing an investment portfolio are risk averse

# PORTFOLIO MANAGEMENT

• The portfolio management process is an integrated set of steps undertaken in a consistent manner to create and maintain an appropriate portfolio (combination of assets) to meet investors' stated goals

# MANAGEMENT PORTFOLIO PROCESS

#### **Typical Portfolio Management Process**



#### Set Investment Objectives

- Time horizon
- Risk tolerance
- Liquidity issues
- Income needs
- Income Taxation
- Estate Taxation
- Legacy Concerns
- Charitable Interest



#### Ongoing Portfolio Review

- Any changes in objectives, resources, needs?
- Performing consistent with expectations?
- Modify portfolio appropriately



#### Develop an Investment Strategy

- Appropriate asset allocation
- Growth / Income / Preservation
- Asset rebalancing
- Income & Estate Tax Strategy
- IRA vs. Roth IRA methodology



#### Select an Appropriate Investment Vehicle

- Independent Consultants
- Separately managed accounts
- Mutual Fund Asset Allocation Wraps
- Mutual Funds



# THE PORTFOLIO MANAGEMENT PROCESS

#### THE PORTFOLIO MANAGEMENT PROCESS



# **SUMMARY**

- Understand that an optimum portfolio is a combination of investments, each having desirable individual risk-return characteristics that also fit together based on their correlations
- It defines the set of portfolios that has the highest expected return for each given level of risk or the minimum risk for each given level of return

# THE ROLE OF CAPITAL MARKETS

- Simbol kemodernan
- Kebutuhan
  - Menyediakan modal tanpa batas
    - Menjual Saham & obligasi
    - Investor domestik & internasional
  - Meningkatkan loyalitas konsumen
  - Menjadikan perusahaan berskala global (MNC)
  - Success story
    - Coca Cola berangkat dari perusahaan kecil hingga masuk Fortune 500

# THE ROLE OF CAPITAL MARKETS

- I. Menjadikan Manajemen Profesional
- 2. Solusi Suksesi
- 3. Alternatif Investasi
- 4. Alternatif Sumber Dana
- 5. Indikator Ekonomi (Leading Indicator)

# **KEY TRENDS - GLOBALIZATION**

# International and Global Markets Continue Developing

- Managing foreign exchange
- Diversification to improve performance
- Instruments and vehicles continue to develop.
- Information and analysis improves.

## REFERENCES

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