SMART INVESTING - CHOOSING INVESTMENT (STOCK) (#1)

(sumber: https://www.rti.co.id)

INTRODUCTION

When you invest in stock, you buy ownership shares in a company-also known as equity shares. Your return on investment, or what you get back in relation to what you put in, depends on the success or failure of that company. If the company does well and makes money from the products or services it sells, you expect to benefit from that success.

There are two main ways to make money with stocks:

1. Dividends. When publicly owned companies are profitable, they can choose to distribute some of those earnings to shareholders by paying a dividend. You can either take the dividends in cash or reinvest them to purchase more shares in the company. Many retired investors focus on stocks that generate regular dividend income to replace income they no longer receive from their jobs. Stocks that pay a higher than average dividend are sometimes referred to as "income stocks."
2. Capital gains. Stocks are bought and sold constantly throughout each trading day, and their prices change all the time. When a stock price goes higher than what you paid to buy it, you can sell your shares at a profit. These profits are known as capital gains. In contrast, if you sell your stock for a lower price than you paid to buy it, you've incurred a capital loss.

Both dividends and capital gains depend on the fortunes of the company-dividends as a result of the company's earnings and capital gains based on investor demand for the stock. Demand normally reflects the prospects for the company's future performance. Strong demand-the result of many investors wanting to buy a particular stock-tends to result in an increase in the stock's share price. On the other hand, if the company isn't profitable or if investors are selling rather than buying its stock, your shares may be worth less than you paid for them.

The performance of an individual stock is also affected by what's happening in the stock market in general, which is in turn affected by the economy as a whole. For example, if interest rates go up and you think you can make more money with bonds than you can with stock, you might sell off stock and use that money to buy bonds. If many investors feel the same way, the stock market as a whole is likely to drop in value, which in turn may affect the value of the investments you hold. Other factors, such as political uncertainty at home or abroad, energy or weather problems, or soaring corporate profits, also influence market performance.

However-and this is an important element of investing at a certain point, stock prices will be low enough to attract investors again. If you and others begin to buy, stock prices tend to rise, offering the potential for making a profit. That expectation may breathe new life into the stock market as more people invest.

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This cyclical pattern-specifically, the pattern of strength and weakness in the stock market and the majority of stocks that trade in the stock market-recurs continually, though the schedule isn't predictable. Sometimes, the market moves from strength to weakness and back to strength in only a few months. Other times, this movement, which is known as a full market cycle, takes years.

At the same time that the stock market is experiencing ups and downs, the bond market is fluctuating as well. That's why asset allocation, or including different types of investments in your portfolio, is such an important strategy: In many cases, the bond market is up when the stock market is down and vice versa. Your goal as an investor is to be invested in several categories of investments at the same time, so that some of your money will be in the category that's doing well at any given time.

COMMON AND PREFERRED STOCK

You can buy two kinds of stock. All publicly traded companies issue common stock. Some companies also issue preferred stock, which exposes you to somewhat less risk of losing money, but also provides less potential for total return. Your total return includes any income you receive from an investment plus any change in its value.

If you hold common stock you're in a position to share in the company's success or feel the lack of it. The share price rises and falls all the time-sometimes by just a few cents and sometimes by several dollars-reflecting investor demand and the state of the markets. There are no price ceilings, so it's possible for shares to double or triple or more over time-though they could also lose value. The issuing company may pay dividends, but it isn't required to do so. If it does, the amount of the dividend isn't guaranteed, and it could be cut or eliminated altogether though companies may be reluctant to do either if they believe it will send a bad message about the company's financial health.

Holders of preferred stock, on the other hand, are usually guaranteed a dividend payment and their dividends are always paid out before dividends on common stock. So if you're investing mostly for income-in this case, dividends preferred stock may be attractive. But, unlike common stock dividends, which may increase if the company's profit rises, preferred dividends are fixed. In addition, the price of preferred stock doesn't move as much as common stock prices. This means that while preferred stock doesn't lose much value even during a downturn in the stock market, it doesn't increase much either, even if the price of the common stock soars. So if you're looking for capital gains, owning preferred stock may limit your potential profit.

COMMON AND PREFERRED STOCK

Another point of difference between common stock and preferred stock has to do with what happens if the company fails. In that event, there's a priority list for a company's obligations, and obligations to preferred stockholders must be met before those to common stockholders. On the other hand, preferred stockholders are lower on the list of investors to be reimbursed than bondholders are.

SMART INVESTING - CHOOSING INVESTMENT (STOCK) (#2)

CLASSES OF STOCK

In addition to the choice of common or preferred stock, certain companies may offer a choice of publicly traded share classes, typically designated by letters of the alphabet often A and B. For example, a company may offer a separate class of stock for one of its divisions which itself was perhaps a well-known, formerly independent company that has been acquired. In other cases, a company may issue different share classes that trade at different prices and have different dividend policies. When a company has dual share classes, though, it's more common for one share class to be publicly traded and the other to be nontraded. Nontraded shares are generally reserved for company founders or current management. There are often restrictions on selling these shares, and they tend to have what's known as super voting power. This makes it possible for insiders to own less than half of the total shares of a company but control the outcome of issues that are put to a shareholder vote, such as a decision to sell the company.

UNDERSTANDING VARIOUS WAYS STOCKS ARE DESCRIBED

In addition to the distinctions a company might establish for its shares such as common or preferred industry experts often group stocks generally into categories, sometimes called subclasses. Common subclasses, explained in greater detail below, focus on the company's size, type, performance during market cycles, and potential for short- and long-term growth. Each subclass has its own characteristics and is subject to specific external pressures that affect the performance of the stocks within that subclass at any given time. Since each individual stock fits into one or more subclasses, its behavior is subject to a variety of factors.

MARKET CAPITALIZATION

You'll frequently hear companies referred to as large-cap, mid-cap, and small-cap. These descriptors refer to market capitalization, also known as market cap and sometimes shortened to just capitalization. Market cap is one measure of a company's size. More specifically, it's the dollar value of the company, calculated by multiplying the number of outstanding shares by the current market price.

There are no fixed cutoff points for large-, mid-, or small-cap companies, but you may see a small-cap company valued at less than $1 billion, mid-cap companies between $1 billion and $5 billion, and large-cap companies over $5 billion or the numbers may be twice those amounts. You might also hear about micro-cap companies, which are even smaller than other small-cap companies. Larger companies tend to be less vulnerable to the ups and downs of the economy than smaller ones but even the most venerable company can fail. Larger companies typically have larger financial reserves, and can therefore absorb losses more easily and bounce back more quickly from a bad year. At the same time, smaller companies may have greater potential for fast growth in economic boom times than larger companies. Even so, this generalization is no guarantee that any particular large-cap company will weather a downturn well, or that any particular small-cap company will or won't thrive.

INDUSTRY AND SECTOR

Companies are subdivided by industry or sector. A sector is a large section of the economy, such as industrial companies, utility companies, or financial companies. Industries, which are more numerous, are part of a specific sector. For example, banks are an industry within the financial sector. Frequently, events in the economy or the business environment can affect an entire industry. For example, it's possible that high gas prices could lower the profits of transportation and delivery companies. A new rule changing the review process for prescription drugs could affect the profitability of all pharmaceutical companies.

Sometimes an entire industry might be in the midst of an exciting period of innovation and expansion, and becomes popular with investors. Other times that same industry could be stagnant and have little investor appeal. Like the stock market as a whole, sectors and industries tend to go through cycles, providing strong performance in some periods and disappointing performance in others.

Part of creating and maintaining a strong stock portfolio is evaluating which sectors and industries you should be invested in at any given time. Having made that decision, you should always evaluate individual companies within a sector or industry you've identified to focus on the ones that seem to be the best investment choices.

DEFENSIVE AND CYCLICAL

Stocks can also be subdivided into defensive and cyclical stocks. The difference is in the way their profits, and therefore their stock prices, tend to respond to the relative strength or weakness of the economy as a whole.

Defensive stocks are in industries that offer products and services that people need, regardless of how well the overall economy is doing. For example, most people, even in hard times, will continue filling their medical prescriptions, using electricity, and buying groceries. The continuing demand for these necessities can keep certain industries strong even during a weak economic cycle.

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DEFENSIVE AND CYCLICAL

In contrast, some industries, such as travel and luxury goods, are very sensitive to economic up-and-downs. The stock of companies in these industries, known as cyclicals, may suffer decreased profits and tend to lose market value in times of economic hardship, as people try to cut down on unnecessary expenses. But their share prices can rebound sharply when the economy gains strength, people have more discretionary income to spend, and their profits rise enough to create renewed investor interest.

SMART INVESTING - CHOOSING INVESTMENT (STOCK) (#3)

GROWTH AND VALUE

A common investment strategy for picking stocks is to focus on either growth or value stocks, or to seek a mixture of the two since their returns tend to follow a cycle of strength and weakness.

Growth stocks, as the name implies, are issued by companies that are expanding, sometimes quite quickly but in other cases over a longer period of time. Typically, these are young companies in fairly new industries that are rapidly expanding.

Growth stocks aren't always new companies, though. They can also be companies that have been around for some time but are poised for expansion, which could be due to any number of things, such as technological advances, a shift in strategy, movement into new markets, acquisitions, and so on.

Because growth companies often receive intense media and investor attention, their stock prices may be higher than their current profits seem to warrant. That's because investors are buying the stock based on potential for future earnings, not on a history of past results. If the stock fulfills expectations, even investors who pay high prices may realize a profit. Since companies may take big risks to expand, however, growth stocks may be very volatile, or subject to rapid price swings. For example, a company's new products may not be a hit, there may be unforeseen difficulty doing business in new countries, or the company may find itself saddled with major debt in a period of rising interest rates. As always with investing, the greater the

potential for an outstanding return, the higher the risk of loss.

When a growth stock investment provides a positive return, it's usually as a result of price improvement the stock price moves up from where the investor originally bought it's not because of dividends. Indeed, a key feature of most growth stocks is an absence of dividend payments to investors. Instead, company managers tend to plow gains directly back into the company.

Value stocks, in contrast, are solid investments selling at what seem to be low prices given their history and market share. If you buy a value stock, it's because you believe that it's worth more than its current price. You might look for value in older, more established industries, which tend not to get as much press as newer industries. One of the big risks in buying value stocks, also known as undervalued stocks, is that it's possible that investors are avoiding a company and its stock for good reasons, and that the price is a fairer reflection of its value than you think.

On the other hand, if you deliberately buy stocks that are out of fashion and sell stocks that other investors are buying in other words, you invest against the prevailing opinion you're considered a contrarian investor. There can be rewards to this style of investing, since by definition a contrarian investor buys stocks at low prices and sells them at high ones. However, contrarian investing requires considerable experience and a strong tolerance for risk, since it may involve buying the stocks of companies that are in trouble and selling stocks of companies that other investors are favoring. Being a contrarian also takes patience, since the turnaround you expect may take a long time.

VOLATILITY

If you've seen the jagged lines on charts tracking stock prices, you know that prices fluctuate throughout the day, week, month, and year, as demand goes up and down in the markets. You'll see short-term fluctuations as the stock's price moves within a certain price range, and longer-term trends over months and years, in which that short-term price range itself moves up or down. The size and frequency of these short-term fluctuations are known as the stock's volatility.

If a stock has a relatively large price range over a short time period, it is considered highly volatile and may expose you to increased risk of loss, especially if you sell for any reason when the price is down. Though there are exceptions, growth stocks tend to be more volatile than value stocks.

In contrast, if the range of prices is relatively narrow over a short time period, a stock is considered less volatile and normally exposes you to less investment risk. But reduced risk also means reduced potential for substantial short-term return since the stock price is unlikely to increase very much in that time frame.

Stocks may become more or less volatile over time. One example might be a newer stock that had formerly seen big price swings, but becomes less volatile as the company grows and establishes a track record. Another example might be a stock with a traditionally stable price that becomes extremely volatile following unfavorable or favorable news reports, which trigger a rash of buying and selling.

STOCK SPLITS

When a stock price gets very high, companies may decide to split the stock to bring its price down. One reason to do this is that a very high stock price can intimidate investors who fear there is little room for growth, or what is known as price appreciation.

Here's how a stock split works: Suppose a stock trading at $150 a share is split 3-for-1. If you owned 100 shares worth $15,000 before the split, you would hold 300 shares valued at $50 each after the split, so that your investment would still worth $15,000. More investors may become interested in the stock at the lower price, so there's always the possibility that your newly split shares will rise again in price due to increased demand. In fact, it may move back toward the pre-split price though, of course, there's no guarantee that it will.

You may also own stock that goes through a reverse split, though this type of split is less common especially among seasoned companies that trade on one of the major U.S. stock markets, including the NYSE, The NASDAQ Stock Market, or the Amex. In this case, a company with very low-priced stock reduces the total number of shares to increase the per-share price.

For example, in a reverse split you might receive one new share for every five old shares. If the price-per-share had been $1, each new share would be worth $5. Companies may do reverse splits to maintain their listing on a stock

market that has a minimum per-share price, or to appeal to certain institutional investors who may not buy stock priced below a certain amount. In either of those cases indeed if reverse splits are announced or actually occur-you'll want to proceed with caution. Reverse splits tend to go hand in hand with low priced, high risk stocks.

SMART INVESTING - CHOOSING INVESTMENT (STOCK) (#4)

EVALUATING A STOCK

When you buy a stock, you're buying part ownership of a company, so the questions to ask as you select among the stocks you're considering are the same questions you'd ask if you were buying the whole company:

- Wat are the company's products?
- Are they in demand and of high quality?
- Is the industry as a whole doing well?
- How has the company performed in the past?
- Are talented, experienced managers in charge?
- Are operating costs low or too high?

- Is the company in heavy debt?
- What are the obstacles and challenges the company faces?
- Is the stock worth the current price?

Because each company is a different size and has issued a different number of shares, you need a way to compare the value of different stocks. A common and quick way to do this is to look at the stock's earnings. All publicly traded companies report earnings to the Securities and Exchange Commission on a quarterly basis in an unaudited filing known as the 10-Q, and annually in an audited filing known as the 10-K.

If you check those reports, the company's annual report, or its Web site, you'll find its current earnings-per-share, or EPS. That ratio is calculated by dividing the company's total earnings by the number of shares. You can then use this per-share number to compare the results of companies of different sizes. EPS is one indication of a company's current strength.

You can divide the current price of a stock by its EPS to get the price-to-earnings ratio, or P/E multiple, the most commonly quoted measure of stock value. In a nutshell, P/E tells you how much investors are paying for a dollar of a company's earnings. For example, if Company A has a P/E of 25, and Company B has a P/E of 20, investors are paying more for each dollar earned by Company A than for each dollar earned by Company B.

There's no perfect P/E, though there is a market average at any given time. Over the long term that number has been about 15, though higher in some periods and lower in others. Value investors tend look for stocks with relatively low P/E ratios below the current average while growth investors often buy stocks with higher than average P/E ratios.

While P/E can be a revealing indicator, it shouldn't be your only measure for evaluating a stock. For example, there are times you might consider a stock with a P/E that's higher than average for its industry if you have reason to be optimistic about its future prospects. Remember, though, that when a stock has an unusually high P/E, the company will have to generate substantially higher earnings in the future to make it worth the price. At the other end of the scale, a low P/E may be a sign that significant price appreciation is possible or that a company is in serious financial trouble. That's one of the determinations you'll want to make before you buy.

A P/E ratio can only be as useful as the earnings numbers it's based on. While there are standards for reporting earnings, and a company's financial reports are audited, there may still be a lack of consistency across earnings reports. You've probably seen stories in the financial press about companies restating earnings. This happens when an accounting error or other discrepancy comes to light, and a company must reissue reports for past periods. Inaccurate or inconsistent earnings statements may make P/E a less reliable measure of stock value.

Even though P/E is the most widely quoted measure of stock value, it's not the only one. You'll also see stock analysts discussing measures such as ROA (return on assets), ROE (return on equity), and so on.

While all of these acronyms may seem confusing at first, you may find, as you get to know them, that they can help answer some of your questions about a company, such as how efficient it is, how much debt it's carrying, and so on.

One way to learn more about individual stocks is through professional stock research. The brokerage firm where you have your account may provide research from its own analysts and perhaps from outside sources. You can also find independent research from analysts who aren't affiliated with a brokerage

firm, as well as consensus reports that bring together opinions from a variety of analysts. Some of this research is free, while other research comes with a price tag.

In the past, there have been conflicts of interest at brokerage firms that provide investment banking services to public companies, since analysts may sometimes have felt pressure to review those stocks positively. However, brokerage firms are required to establish strict separations between their investment banking and stock analysis departments to comply with regulations designed to minimize any such potential conflicts of interests.

TRADING VS. BUY-AND-HOLD

Buy-and-hold investors still need to take price fluctuations into account, and they must pay attention to the stock's ongoing performance. Naturally, the price at which you buy a stock directly affects the potential profits you'll make from its sale. So it makes sense to buy the stock at a price you believe is reasonable. While you hold the stock, it's also important to watch for signs that your investment isn't going the direction you planned for example, if the company regularly misses its earnings targets, or if developments in the industry turn bleaker.

Sometimes you'll decide, after reviewing the company's fundamentals, that it's worthwhile to ride out a slump in price and wait for a stock to recover. Other times, you may decide you'll have better returns if you sell your holding and invest elsewhere. Either way, it's important to stay on top of the stocks you own by paying attention to news that could affect their value.

ADVANCED SHORT-TERM TRADING

There are a number of ways that some experienced investors seek increased returns by taking on more risk.

SMART INVESTING - CHOOSING INVESTMENT (STOCK) (#5)

BUYING ON MARGIN

When you buy stocks on margin, you borrow part of the cost of the investment from your broker, in the hopes of increasing your potential returns. To use this approach, you set up what's known as a margin account, which typically requires you to deposit cash or qualified investments worth at least $2,000. Then when you invest, you borrow up to half the cost of the stock from your broker and you pay for the rest. In this way, you can buy and sell more stock than you could without borrowing, which is a way to leverage your investment. If the price goes up and you sell the stock, you pay your broker back, plus interest, and you get to keep the profits. However, if the price drops, you may have to wait to sell the stock at the price you want, and in the meantime, you're paying interest on the amount you've borrowed. If the price drops far enough, your broker will require you to add money or securities to your margin account to bring it up to the required level. The required level is based on the ratio of your cash and qualified investments to the amount you borrowed from your broker in your account. If you can't add enough money, your broker can sell off the investments in that account to repay what you've borrowed, which invariably means that you'll lose money on the deal.

SHORT SELLING

Short selling is a way to profit from a price drop in a company's stock. However, it involves more risk than just buying a stock, which is sometimes described as having a long position, or owning the stock long. To sell a stock short, you borrow shares from your broker and sell them at their current market price. If that price falls, as you expect it to, you buy an equal number of shares at a new, lower price to return to your broker. If the price has dropped enough to offset transaction fees and the interest you paid on the borrowed shares, you may pocket a profit. This is a risky strategy, however, because you must still re-buy the shares and return them to your broker. If you must re-buy the shares at a price that's the same as or higher than the price at which you sold the borrowed shares, after accounting for transaction costs and interest, you will lose money.

Because short selling is in essence the sale of stocks you don't own, there are strict margin requirements associated with this strategy, and you must set up a margin account to conduct these transactions. The margin money is used as collateral for the short sale, helping to insure that the borrowed shares will be returned to the lender down the road.

BUYING AND SELLING STOCK

To buy and sell stock, you usually need to have an account at a brokerage firm, also known as a broker-dealer, and give orders to a stockbroker at the firm who will execute those instructions on your behalf, or online, where the firm's technology systems route your order to the appropriate market or system for execution. The kind of firm you use will determine how you convey your orders, what types of services you have access to, and what fees you pay to trade your stocks. In general, the more services the firm offers, the more you'll pay for each transaction. Brokerage firms may also charge fees to maintain your account.

Full-service brokerage firms provide research as well as trade executions and may offer customized portfolio management, investment advice, financial planning, banking privileges, and other services. Discount firms offer fewer services but, as their name implies, generally charge less to execute the orders you place. The trick is to find the balance that's right for you. On the one hand, you don't want fees to cut into your returns, but on the other hand, you may benefit from more guidance. You'll want to check what effect the amount you have to invest or what are known as your investable assets-will have on the level of service you receive and the prices you pay.

You can place buy and sell orders over the phone with your broker or you can trade stocks online. Many firms offer full account access and trading through their Web sites at lower prices than they charge for phone orders. If you do trade online, it's important to be wary of trading too much, simply because it's so easy to place the trade. You should consider your decisions carefully, taking into account the fees and taxes as well as the impact on the balance of assets in your portfolio, before you place an order.

There are ways to buy stock directly through certain companies without using a broker. For example, if you used a broker to purchase a share of stock in a company that offers a dividend reinvestment plan, or DRIP, you can choose to buy additional shares through that plan. DRIPs allow you to automatically reinvest your dividends and periodically write checks to buy more stock. Some companies also offer direct purchase plans, or DPPs, that allow you to buy shares directly from the issuer at any time.

DRIPs and DPPs are usually administered for the company by a third party known as a shareholder services company or stock transfer agent that can also handle the sale of your shares. Transaction fees for DRIP and DPP orders tend to be substantially less than brokerage fees.

TRADING VS. BUY-AND-HOLD

The goal of most investors generally is to buy low and sell high. This can result in two quite different approaches to equity investing.

One approach is described as "trading." Trading involves following the short-term price fluctuations of different stocks closely and then trying to buy low and sell high. Traders usually decide ahead of time the percentage increase they're looking for before you sell (or decrease before they buy).

While trading has tremendous potential for immediate rewards, it also involves a fair share of risk because a stock may not recover from a downswing within the time frame you'd like and may in fact drop further in price. In addition, frequent trading can be expensive, since every time you buy and sell, you may pay broker's fees for the transaction. Also, if you sell a stock that you haven't held for a year or more, any profits you make are taxed at the same rate as your regular income, not at your lower tax rate for long-term capital gains.

Be aware that trading should not be confused with "day trading," which is the rapid buying and selling of stock to capitalize on small price changes. Day trading can be extremely risky, especially if you attempt to day trade using borrowed money. Individual investors frequently lose money by trying to use this approach.

SMART INVESTING - CHOOSING INVESTMENT (STOCK) (#6)

A very different investing strategy called buy-and-hold involves keeping an investment over an extended period, anticipating that the price will rise over time. While buy-and-hold reduces the money you pay in transaction fees and short-term capital gains taxes, it requires patience and careful decision-making. As a buy-and-hold investor, you generally choose stocks based on a company's long-term business prospects. Increases in the stock price over years tend to be based less on the volatile nature of the market's changing demands and more on what's known as the company's fundamentals, such as its earnings and sales, the expertise and vision of its management, the fortunes of its industry, and its position in that industry.

TRADING VS. BUY-AND-HOLD

Buy-and-hold investors still need to take price fluctuations into account, and they must pay attention to the stock's ongoing performance. Naturally, the price at which you buy a stock directly affects the potential profits you'll make from its sale. So it makes sense to buy the stock at a price you believe is reasonable. While you hold the stock, it's also important to watch for signs that your investment isn't going the direction you planned for example, if the company regularly misses its earnings targets, or if developments in the industry turn bleaker.

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SMART INVESTING - MANAGING INVESTMENT RISK (#1)

When you invest, you take certain risks. With insured bank investments, such as certificates of deposit (CDs), you face inflation risk, which means that you may not earn enough over time to keep pace with the increasing cost of living. With investments that aren't insured, such as stocks, bonds, and mutual funds, you face the risk that you might lose money, which can happen if the price falls and you sell for less than you paid to buy.

Just because you take investment risks doesn't mean you can't exert some control over what happens to the money you invest. In fact, the opposite is true.

If you know the types of risks you might face, make choices about those you are willing to take, and understand how to build and balance your portfolio to offset potential problems, you are managing investment risk to your advantage.

WHY TAKE RISKS?

The question you might have at this point is, "Why would I want to risk losing some or all of my money?" In fact, you might not want to put money at risk that you expect to need in the short term to make the down payment on a home, for example, or pay a tuition bill for next semester, or cover emergency expenses. By taking certain risks with the rest of your money, however, you may earn dividends or interest. In addition, the value of the assets you purchase may increase over the long term.

If you prefer to avoid risk and put your money in an FDIC-insured certificate of deposit (CD) at your bank, the most you can earn is the interest that the bank is paying. This may be good enough in some years, say, when interest rates are high or when other investments are falling. But on average, and over the long haul, stocks and bonds tend to grow more rapidly, which would make it easier or even possible to reach your savings goals. That's because avoiding investment risk entirely provides no protection against inflation, which decreases the value of your savings over time.

On the other hand, if you concentrate on only the riskiest investments, it's entirely possible, even likely, that you will lose money.

For many people, it's best to manage risk by building a diversified portfolio that holds several different types of investments. This approach provides the reasonable expectation that at least some of the investments will increase in value over a period of time. So even if the return on other investments is disappointing, your overall results may be positive.

TYPES OF INVESTMENT RISK

There are many different types of investment risk. The two general types of risk are:

Losing money, which you can identify as investment risk Losing buying power, which is inflation risk

It probably comes as no surprise that there are several different ways you might lose money on an investment. To manage these risks, you need to know what they are.

Most investment risk is described as either systematic or nonsystematic. While those terms seem intimidating, what they refer to is actually straightforward.

SYSTEMATIC RISK

Systematic risk is also known as market risk and relates to factors that affect the overall economy or securities markets. Systematic risk affects all companies, regardless of the company's financial condition, management, or capital structure, and, depending on the investment, can involve international as well as domestic factors. Here are some of the most common systematic risks:

Interest-rate risk describes the risk that the value of a security will go down because of changes in interest rates. For example, when interest rates overall increase, bond issuers must offer higher coupon rates on new bonds in order to attract investors. The consequence is that the prices of existing bonds drop because investors prefer the newer bonds paying the higher rate. On the other hand, there's also interest-rate risk when rates fall because maturing bonds or bonds that are paid off before maturity must be reinvested at a lower yield.

Inflation risk describes the risk that increases in the prices of goods and services, and therefore the cost of living, reduce your purchasing power. Let's say a can of soda increases from $1 to $2. In the past, $2 would have bought two cans of soda, but now $2 can buy only one can, resulting in a decline in the value of your money.

Inflation risk and interest rate risk are closely tied, as interest rates generally rise with inflation. Because of this, inflation risk can also reduce the value of your investments. For example, to keep pace with inflation and compensate for the loss of purchasing power, lenders will demand increased interest rates. This can lead to existing bonds losing value because, as mentioned above, newly issued bonds will offer higher interest rates. Inflation can go in cycles, however. When interest rates are low, new bonds will likely offer lower interest rates.

Currency risk occurs because many world currencies float against each other. If money needs to be converted to a different currency to make an investment, any change in the exchange rate between that currency and

yours can increase or reduce your investment return. You are usually only impacted by currency risk if you invest in international securities or funds that invest in international securities.

SMART INVESTING - MANAGING INVESTMENT RISK (#2)

SYSTEMATIC RISK

Currency risk

For example, assume that the current exchange rate of the U.S. dollar to British pound is $1=0.53 British pounds. If you invest $1,000 in a mutual fund that invests in the stock of British companies, this will equal 530 pounds ($1,000 x 0.53 pounds = 530 pounds). Six months later, assume the dollar strengthens and the exchange rate becomes $1=0.65 pounds. If the value of the fund does not change, converting the original investment of 530 pounds into dollars will return only $815 (530 pounds/0.65 pounds = $815). Consequently, while the value of the mutual fund has not changed in the local currency, a change in the exchange rate has devalued the original investment of $1,000 into $815. On the other hand, if the dollar were to weaken, the value of the investment would go up. So if the exchange rate changes to $1=0.43 pounds, the original investment of $1,000 would increase to $1,233 (530 pounds/0.43 pounds = $1,233).

As with most risks, currency risk can be managed to a certain extent by allocating only a limited portion of your portfolio to international investments and diversifying this portion across various countries and regions.

Liquidity risk is the risk that you might not be able to buy or sell investments quickly for a price that is close to the true underlying value of the asset. Sometimes you may not be able to sell the investment at all if there are no buyers for it. Liquidity risk is usually higher in over-the-counter markets and small-capitalization stocks. Foreign investments can pose liquidity risks as well. The size of foreign markets, the number of companies listed, and hours of trading may limit your ability to buy or sell a foreign investment.

Sociopolitical risk is the possibility that instability or unrest in one or more regions of the world will affect investment markets. Terrorist attacks, war, and pandemics are just examples of events, whether actual or anticipated, that impact investor attitudes toward the market in general and result in system-wide fluctuations in stock prices. Some events, such as the September 11, 2001, attacks on the World Trade Center and the Pentagon, can lead to wide-scale disruptions of financial markets, further exposing investments to risks. Similarly, if you are in vesting overseas, problems there may undermine those markets, or a new government in a particular country may restrict investment by non-citizens or nationalize businesses.

Your chief defense against systematic risk, as you'll see, is to build a portfolio that includes investments that react differently to the same economic factors. It's a strategy known as asset allocation. This generally involves investing in both bonds and stocks or the funds that own them, always holding some of each. That's because historical patterns show that when bonds as a group though not every bond-are providing a strong return, stocks on the whole tend to provide a disappointing return. The reverse is also true.

Bonds tend to provide strong returns, measured by the combination of change in value and investment earnings, when investor demand for them increases. That demand may be driven by concerns about volatility risk in the stock market what's sometimes described as a flight to safety or by the potential for higher yield that results when interest rates increase, or by both factors occurring at the same time.

That is, when investors believe they can benefit from good returns with less risk than they would be exposed to by owning stock, they are willing to pay more than par value to own bonds. In fact, they may sell stock to invest in bonds. The sale of stock combined with limited new buying drives stock prices down, reducing return.

In a different phase of the cycle, those same investors might sell off bonds to buy stock, with just the opposite effect on stock and bond prices. If you owned both bonds and stocks in both periods, you would benefit from the strong returns on the asset class that was in greater demand at any one time. You would also be ready when investor sentiment changes and the other asset class provides stronger returns. To manage systematic risk, you can allocate your total investment portfolio so that it includes some stock and some bonds as well as some cash investments.

NONSYSTEMATIC RISK

Nonsystematic risk, in contrast to systematic risk, affects a much smaller number of companies or investments and is associated with investing in a particular product, company, or industry sector. Here are some examples of nonsystematic risk:

Management risk, also known as company risk, refers to the impact that bad management decisions, other internal missteps, or even external situations can have on a company's performance and, as a consequence, on the value of investments in that company. Even if you research a company carefully before investing and it appears to have solid management, there is probably no way to know that a competitor is about to bring a superior product to market. Nor is it easy to anticipate a financial or personal scandal that undermines a company's image, its stock price, or the rating of its bonds.

Credit risk, also called default risk, is the possibility that a bond issuer won't pay interest as scheduled or repay the principal at maturity. Credit risk may also be a problem with insurance companies that sell annuity contracts, where your ability to collect the interest and income you expect is dependent on the claims-paying ability of the issuer.

SMART INVESTING - MANAGING INVESTMENT RISK (#3)

NONSYSTEMATIC RISK

One way to manage nonsystematic risk is to spread your investment dollars around, diversifying your portfolio holdings within each major asset class-stock, bonds, and cash either by owning individual securities or mutual funds that invest in those securities. While you're likely to feel the impact of a company that crashes and burns, it should be much less traumatic if that company's stock is just one among several you own.

OTHER INVESTMENT RISKS

The investment decisions you make and sometimes those you avoid making-can expose you to certain risks that can impede your progress toward meeting your investment goals.

For example, buying and selling investments in your accounts too frequently, perhaps in an attempt to take advantage of short-term gains or avoid short-term losses, can increase your trading costs. The money you spend on trading reduces the balance in your account or eats into the amount you have to invest. If you decide to invest in something that's receiving a lot of media attention, you may be increasing the possibility that you're buying at the market peak, setting yourself up for future losses. Or, if you sell in a sudden market downturn, it can mean not only locking in your losses but also missing out on future gains.

You can also increase your investment risk if you don't monitor the performance of your portfolio and make appropriate changes. For example, you should be aware of investments that have failed to live up to your expectations, and shed them when you determine that they are unlikely to improve, using the money from that sale for another investment.

ASSESING RISK

It's one thing to know that there are risks in investing. But how do you figure out ahead of time what those risks might be, which ones you are willing to take, and which ones may never be worth taking? There are three basic steps to assessing risk:

Understanding the risk posed by certain categories of investments Determining the kind of risk you are comfortable taking Evaluating specific investments You can follow this path on your own or with the help of one or more investment professionals, including stockbrokers, registered investment advisers, and financial planners with expertise in these areas.

STEP 1: DETERMINING THE RISK OF AN ASSET CLASS

The first step in assessing investment risk is to understand the types of risk a particular category or group of investments called an asset class-might expose you to. For example, stock, bonds, and cash are considered separate asset classes because each of them puts your money to work in different ways. As a result, each asset class poses particular risks that may not be

characteristic of the other classes.

If you understand what those risks are, you can generally take steps to offset those risks.

* Stock-Because shares of stock don't have a fixed value but reflect changing investor demand, one of the greatest risks you face when you invest in stock is volatility, or significant price changes in relatively rapid succession. In fact, in some cases, you must be prepared for stock prices to move from hour to hour and even from minute to minute. However, over longer periods, the short-term fluctuations tend to smooth out to show a gradual increase, a gradual decrease, or a basically flat stock price.

For example, if a stock you bought for $25 a share dropped $5 in price In the following week because of disappointing news about a new product, you suffered a 20% loss. If you had purchased 200 shares at a cost of $5,000, your investment would now be worth just $4,000. If you sold at that point-and there might have been good reason to do so-you would have lost $1,000, plus whatever transaction fees you paid.

While some gains or losses of value seem logical, others may not, as may be the case when a company announces increased earnings and its stock price drops. If you have researched the investment before you made it and believe that the company is strong, you might hold on to the stock. In that case, you might be rewarded down the road if the investment then increases in value and perhaps pays dividends as well.

While positive results aren't guaranteed, you can learn to anticipate when patience is likely to pay off.

* Bonds-If you hold a bond until maturity, you will get that amount back, plus the interest the bond earns, unless the issuer of the bond defaults, or fails to pay. In addition to the risk of default, you also face potential market risk if you sell bonds before maturity.

For example, if the price of the bonds in the secondary market-or what other investors will pay to buy them is less than par, and you sell the bonds at that point, you may realize a loss on the sale.

The market value of bonds may decrease if there's a rise in interest rates between the time the bonds were issued and their maturity dates. In that case, demand for older bonds paying lower rates decreases. If you sell, you must settle for the price you can get and potentially take that loss. Market prices can also fall below par if the bonds are downgraded by an independent rating agency because of problems with the company's finances.

SMART INVESTING - MANAGING INVESTMENT RISK (#4)

Some bonds have a provision that allows the issuer to "call" the bond and repay the face value of the bond to you before its maturity. Often there is a set "call date," after which a bond issuer can pay off the bond. With these bonds, you might not receive the bond's original coupon rate for the bond's entire term. Once the call date has been reached, the stream of a callable bond's interest payments is uncertain, and any appreciation in the market value of the bond may not rise above the call price. These risks are part of call risk.

Similar to when a homeowner seeks to refinance a mortgage at a lower rate to save money when loan rates decline, a bond issuer often calls a bond after interest rates drop, allowing the issuer to sell new bonds paying lower interest rates thus saving the issuer money. The bond's principal is repaid early, but the investor is left unable to find a similar bond with as attractive a yield. This is known as reinvestment risk.

* Cash-The primary risk you face with cash investments, including U.S. Treasury bills and money market mutual funds, is losing ground to inflation. In addition, you should be aware that money in money market funds usually is not insured. While such funds have rarely resulted in investor losses, the

potential is always there.

Other asset classes, including real estate, pose their own risks, while investment products, such as annuities or mutual funds that invest in a specific asset class, tend to share the risks of that class. That means that the risk you face with a stock mutual fund is very much like the risk you face with individual stock, although most mutual funds are diversified, which helps to offset nonsystematic risk.

STEP 2: SELECTING RISK

The second step is to determine the kinds of risk you are comfortable taking at a particular point in time. Since it's rarely possible to avoid investment risk entirely, the goal of this step is to determine the level of risk that is

appropriate for you and your situation. Your decision will be driven in large part by:

* Your age
* Your goals and your timeline for meeting them
* Your financial responsibilities
* Your other financial resources

Age is one of the most important issues in managing investment risk. In general, the younger you are, the more investment risk you can afford to take. The reason is simple: You have more time to make up for any losses you might suffer in the short term.

You can use recent history to illustrate the validity of this point. Suppose two people, one 30 and the other 60, had been similarly invested in October 2007 in portfolios overloaded with stocks. By March 2009, both would almost certainly have lost substantial amounts of money. But while the younger person has perhaps 35 years to recover and accumulate investment assets, the older person may be forced to delay retirement.

On the other hand, having a long time to recover from losses doesn't mean you can ignore the importance of managing risk and choosing investments carefully and selling them when appropriate. The younger you are, the more stock and stock funds-both mutual funds and exchange traded funds-you might consider buying. But stock in a poorly run company, a company with massive debt and non competitive products, or a company whose stock is wildly overpriced, probably isn't a good investment from a risk-management perspective, no matter how old you are.

As you get closer to retirement, managing investment risk generally means moving at least some of your assets out of more volatile stock and stock funds into income-producing equities and bonds. Determine what percentage of your assets you want to transfer, and when. That way you won't have more exposure to a potential downturn than you've prepared for. The consensus, though, is to include at least some investments with growth potential (and therefore greater risk to principal) after you retire since you'll need more money if you live longer than expected. Without growth potential, you're vulnerable to inflation.

Keep in mind that your attitude toward investment risk may and probably should -change over time. If you are the primary source of support for a number of people, you may be willing to take less investment risk than you did when you were responsible for just yourself.

In contrast, the larger your investment base, the more willing you may be to take added risk with a portion of your total portfolio. In a worst-case scenario, you could manage without the money you lost. And if your calculated risk pays off, you may have even more financial security than you had before. Many people also find that the more clearly they understand how investments work, the more comfortable they feel about taking risk.

STEP 3: EVALUATING SPECIFIC INVESTMENTS

The third step is evaluating specific investments that you are considering within an asset class. There are tools you can use to evaluate the risk of a particular investment-a process that makes a lot of sense to follow both before you make a new purchase and as part of a regular reassessment of your portfolio. It's important to remember that part of managing investment risk is not only deciding what to buy and when to buy it, but also what to sell and when to sell it.

SMART INVESTING - DAY TRADING (#1)

DAY TRADING MARGIN REQUIREMENTS: KNOW THE RULES

We are issuing this investor guidance to provide some basic information about day trading margin requirements. We also encourage you to read Federal Register notice about the rules.

SUMMARY OF THE DAY-TRADING MARGIN REQUIREMENTS

The rules adopt a new term "pattern day trader," which includes any margin customer that day trades (buys then sells or sells short then buys the same security on the same day) four or more times in five business days, provided the number of day trades are more than six percent of the customer's total trading activity for that same five-day period. Under the rules, a pattern day trader must maintain minimum equity on any day that the customer day trades. The required minimum equity must be in the account prior to any day-trading activities. If the account falls below the requirement, the pattern day trader will not be permitted to day trade until the account is restored to the

minimum equity level.

The rules permit a pattern day trader to trade up to four times the maintenance margin excess in the account as of the close of business of the previous day. If a pattern day trader exceeds the day-trading buying power limitation, the firm will issue a day-trading margin call to the pattern day trader. The pattern day trader will then have, at most, five business days to deposit funds to meet this day-trading margin call. Until the margin call is met, the day-trading account will be restricted to day-trading buying power of only two times maintenance margin excess based on the customer's daily total trading commitment. If the day-trading margin call is not met by the fifth business day, the account will be further restricted to trading only on a cash available basis for 90 days or until the call is met.

In addition, the rules require that any funds used to meet the day-trading minimum equity requirement or to meet any day-trading margin calls remain in the pattern day trader's account for two business days following the close of business on any day when the deposit is required. The rules also prohibit the use of cross-guarantees to meet any of the day-trading margin requirements.

FREQUENTLY ASKED QUESTIONS

WHY THE CHANGE?

The primary purpose of the day-trading margin rules is to require that certain levels of equity be deposited and maintained in day-trading accounts, and that these levels be sufficient to support the risks associated with day-trading activities. It was determined that the prior day-trading margin rules did not adequately address the risks inherent in certain patterns of day trading and had encouraged practices, such as the use of cross-guarantees, that did not require customers to demonstrate actual financial ability to engage in day trading.

Most margin requirements are calculated based on a customer's securities positions at the end of the trading day. A customer who only day trades does not have a security position at the end of the day upon which a margin calculation would otherwise result in a margin call. Nevertheless, the same customer has generated financial risk throughout the day. The day-trading margin rules address this risk by imposing a margin requirement for day trading that is calculated based on a day trader's largest open position (in dollars) during the day, rather than on his or her open positions at the end of the day.

DEFINITIONS

WHAT IS A DAY TRADE?

Day trading refers to buying then selling or selling short then buying the same security on the same day. Just purchasing a security, without selling it later that same day, would not be considered a day trade.

DOES THE RULE AFFECT SHORT SALES?

As with current margin rules, all short sales must be done in a margin account. If you sell short and then buy to cover on the same day, it is considered a day trade.

DOWS THE RULE APPLY TO DAY TRADING OPTIONS?

Yes. The day trading margin rule applies to day trading in any security, including options.

WHY IS A PATERN DAY TRADER?

You will be considered a pattern day trader if you trade four or more times in five business days and your day-trading activities are greater than six percent of your total trading activity for that same five-day period.

Your brokerage firm also may designate you as a pattern day trader if it knows or has a reasonable basis to believe that you are a pattern day trader. For example, if the firm provided day trading training to you before opening your account, it could designate you as a pattern day trader.

WOULD I STILL BE CONSIDERED A PATERN DAY TRADER IF I ENGAGE IN FOUR OR MORE DAY TRADES IN ONE WEEK, THAN REFRAIN FROM DAY TRADING THE NEXT WEEK?

In general, once your account has been coded as a pattern day trader, the firm will continue to regard you as a pattern day trader even if you do not day trade for a five-day period. This is because the firm will have a "reasonable belief" that you are a pattern day trader based on your prior trading

activities. However, we understand that you may change your trading strategy. You should contact your firm if you have decided to reduce or cease your day trading activities to discuss the appropriate coding of your account.

DAY TRADING MINIMUM EQUITY REQUIREMENT

CAN I CROSS-GUARANTEE MY ACCOUNTS TO MEET THE MINIMUM EQUITY REQUIREMENT? No, you can't use a cross-guarantee to meet any of the day-trading margin requirements. Each day-trading account is required to meet the minimum equity requirement independently, using only the financial resources available in the account.

SMART INVESTING - DAY TRADING (#2)

WHAT HAPPENS IF THE EQUITY IN MY ACCOUNT FALLS BELOW THE MINIMUM EQUITY REQUIREMENT?

If the account falls below the requirement, you will not be permitted to day trade until you deposit cash or securities in the account to restore the account to the minimum equity level.

I'M ALWAYS FLAT AT THE END OF THE YEAR. WHY DO I HAVE TO FUND MY ACCOUNT AT ALL? WHY CAN'T I JUST TRADE STOCKS, HAVE THE BROKERAGE FIRM MAIL ME A CHECK FOR MY PROFITS OR, IF I LOSE MONEY, I'LL MAIL THE FIRM A CHECK FOR MY LOSSES? This would in effect be a 100 percent loan to you to purchase equity securities. It is saying you should be able to trade solely on the firm's money without putting up any of your own funds. This type of activity is prohibited, as it would put your firm at substantial risk.

DAY TRADING BUYING POWER

WHAT IS MY DAY-TRADING BUYING POWER UNDER THE RULES?

You can trade up to four times your maintenance margin excess as of the close of business of the previous day.

It is important to note that your firm may impose a higher minimum equity requirement and/or may restrict your trading to less than four times the day trader's maintenance margin excess. You should contact your brokerage firm to obtain more information on whether it imposes more stringent margin requirements.

DAY TRADING MARGIN CALLS

WHAT IF I EXCEED MY DAY-TRADING BUYING POWER?

If you exceed your day-trading buying power limitations, your brokerage firm will issue a day-trading margin call to you. You will have, at most, five business days to deposit funds to meet this day-trading margin call. Until the margin call is met, your day-trading account will be restricted to day-trading buying power of only two times maintenance margin excess based on your daily total trading commitment. If the day-trading margin call is not met by the fifth business day, the account will be further restricted to trading only on a cash available basis for 90 days or until the call is met.

ACCOUNTS

DOES THIS RULE CHANGE APPLY TI CASH ACCOUNTS?

Day trading in a cash account is generally prohibited. Day trades can occur in a cash account only to the extent the trades do not violate the free-riding prohibition of Federal Reserve Board's Regulation T. In general, failing to pay for a security before you sell the security in a cash account violates the free-riding prohibition. If you free-ride, your broker is required to place a 90-day freeze on the account.

DOES THIS RULE APPLY ONLY IF I USE LEVERAGE?

No, the rule applies to all day trades, whether you use leverage (margin) or not. For example, many options contacts require that you pay for the option in full. As such, there is no leverage used to purchase the options. Nonetheless, if you engage in numerous options transactions during the day you are still subject to intra-day risk. You may not be able to realize the profit on the transaction that you had hoped for and may indeed incur substantial loss due to a pattern of day-trading options. Again, the day trading margin rule is designed to require that funds be in the account where the trading and risk is occurring.

CAN I WITHDRAW FUNDS THAT I USE TO MEET THE MINIMUM EQUITY REQUIREMENT OR DAY TRADING MARGIN CALL IMMEDIATELY AFTER THEY ARE DEPOSITED?

No, any funds used to meet the day-trading minimum equity requirement or to meet any day-trading margin calls must remain in your account for two business days following the close of business on any day when the deposit is required.

PRIMA INVESTAMA KAPITAL

SMART INVESTING - MARGIN (#1)

PURCHASING ON MARGIN, RISKS INVOLVED WITH TRADING IN A MARGIN ACCOUNT

We are issuing this investor guidance to provide some basic facts to investors about the practice of purchasing securities on margin, and to alert investors to the risks involved with trading securities in a margin account.

USE OF MARGIN ACCOUNTS

A customer who purchases securities may pay for the securities in full or may borrow part of the purchase price from his or her securities firm. If the customer chooses to borrow funds from a firm, the customer will open a margin account with the firm. The portion of the purchase price that the customer must deposit is called margin and is the customer's initial equity in the account. The loan from the firm is secured by the securities that are purchased by the customer. A customer may also enter into a short sale through a margin account, which involves the customer borrowing stock from a firm in order to sell it, hoping that the price will decline. Customers generally use margin to leverage their investments and increase their purchasing power. At the same time, customers who trade securities on margin incur the potential for higher losses.

MARGIN REQUIREMENTS

The terms on which firms can extend credit for securities transactions are governed by federal regulation and by the rules of VD6 and the securities exchanges. This investor guidance focuses on the requirements for marginable equity securities, which includes most stocks. Some securities cannot be purchased on margin, which means they must be purchased in a cash account, and the customer must deposit 100 percent of the purchase price. In general, under BAPEPAM RULES VD6, firms can lend a customer up to 50 percent of the total urchase price of a stock for new, or initial, purchases.

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Assuming the customer does not already have cash or other equity in the account to cover its share of the purchase price, the customer will receive a margin call from the firm. As a result of the margin call, the customer will be required to deposit the other 50 percent of the purchase price.

The rules of BAPEPAM VD6 by placing "maintenance" margin requirements on customer accounts. Under the rules of BAPEPAM VD6, as a general matter, the customer's loan in the account must not exceed 65 percent of the current market value of the securities in the account. Otherwise, the customer may be required to deposit more funds or securities in order to maintain the loan at the 65 percent level. The failure to do so may cause the firm to force the sale of or liquidate the securities in the customer's account in order to bring the account's loan back up to the required level.

MARGIN TRANSACTION EXAMPLE

For example if a customer buys Rp 1,000,000,000 of secuties on day 1, BAPEPAM

Rules VD6 would requires the customer to deposit margin of 50% (INITIAL MARGIN

RATIO = 50%) of Rp 500,000,000 in payment for the securities. As a result,

the customer's equity in the margin account is Rp 500,000,000 and the customer

has received a margin loan of Rp 500,000,000 from the firm. Assume that on day

2 the market value of the securities fall to Rp 600,000,000. Under this scenario, the customer's margin loan from firm would remain at Rp 500,000,000 however, the minimum maintanance margin requirement for the account is 65%. Meaning that the customer collateral must not fall below Rp 770,000,000 (Rp 500,000,000/0.65) (Loan amount divide by 65%). The customer would receive a maintenance margin call for Rp 110,000,000 (Loan less collateral value

multiplied by 65%). Because of the way the margin rules operate, if the firm liquidated securities in the account to meet the maintenance margin call, it would need to liquidate Rp 315,000,000 of securities.

BAPEPAM MARGIN RULES V.D.6 - MARGIN ACCOUNT

Margin ratio = loan divided by collateral value x 100%

1. Initial margin ratio <= 50%
2. 50% < maintenance margin ratio <= 65%(maintenance level)
3. 65% < margin call ratio <= 80% (top up level)
4. Margin call ratio > 80% (force sell level)

FIRM PRACTICES

Firms have the right to set their own margin requirements often called "house" requirements as long as they are higher than the margin requirements under BAPEPAM Rules VD6. Firms can raise their maintenance margin requirements for specific volatile stocks to ensure there are sufficient funds in their customers' accounts to cover large price swings. These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Again, a customer's failure to satisfy the call may cause the firm to liquidate a portion of the customer's account.

MARGIN AGREEMENTS AND DISCLOSURES

If a customer trades stocks in a margin account, the customer needs to carefully review the margin agreement provided by his or her firm. A firm charges interest for the money it lends its customers to purchase securities on margin, and a customer needs to understand the additional charges he or she may incur by opening a margin account. Under the federal securities laws, a firm that loans money to a customer to finance securities transactions is required to provide the customer with written disclosure of the terms of the loan, such as the rate of interest and the method for computing interest. The firm must also provide the customer with periodic disclosures informing the customer of transactions in the account and the interest charges to the customer.

ADDITIONAL RISKS INVOLVED WITH TRADING ON MARGIN

There are a number of additional risks that all investors need to consider in deciding to trade securities on margin. These risks include the following:

* You can lose more funds than you deposit in the margin account. A decline in the value of securities that are purchased on margin may require you to provide additional funds to the firm that has made the loan to avoid the forced sale of those securities or other securities in your account.

SMART INVESTING - MARGIN (#2)

* The firm can force the sale of securities in your account. If the equity in your account falls below the maintenance margin requirements under the law or the firm's higher "house" requirements the firm can sell the securities in your account to cover the margin deficiency. You will also be responsible for any short fall in the account after such a sale.

* The firm can sell your securities without contacting you. Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities in their accounts to meet the call unless the firm has contacted them first. This is not the case. As a matter of good customer relations, most firms will attempt to notify their customers of margin calls, but they are not required to do so.

* You are not entitled to an extension of time on a margin call. While an extension of time to meet initial margin requirements may be available to

customers under certain conditions, a customer does not have a right to the extension. In addition, a customer does not have a right to an extension of time to meet a maintenance margin call.

It is important that investors take time to learn about the risks involved in trading securities on margin, and investors should consult their brokers regarding any concerns they may have with their margin accounts.

UNDERSTANDING MARGIN ACCOUNTS, WHY BROKERS DO WHAT THEY DO

We are issuing this investor guidance to provide some basic facts to investors about the mechanics of margin accounts. We encourage any investor reading this communication to also read Purchasing on Margin, Risks Involved with Trading in a Margin Account.

HOW MARGIN CALLS WORK IN VOLATILE TIMES

Many margin investors are familiar with the "routine" margin call, where the broker asks for additional funds when the equity in the customers account declines below certain required levels. Normally, the broker will allow from two to five days to meet the call. The brokers calls are usually based upon the value of the account at market close since various securities regulations require an end-of-day valuation of customer accounts. The current "close" for most brokers is 4 p.m., Eastern time.

However, in volatile markets, a broker may calculate the account value at the close and then continue to calculate calls on subsequent days on a real-time basis.

WHAT COULD THE CUSTOMER HAVE DONE TO AVOID THIS?

The bottom line is that margin accounts require work on behalf of the customer. Information about the price of a stock is available from any number of sources. In fact, many investors check these prices on a daily basis, if not several times a day. An investor is free to deposit additional cash into a margin account at any time in an attempt to avoid a margin call. However, even if additional deposits are made, subsequent declines in the market value of securities in the account may result in additional margin calls. If an investor does not have access to funds to meet a margin call, he should probably not be using a margin account. While cash accounts do not provide the leverage that a margin account does, cash accounts are easier to maintain in that they do not require the vigilance that a margin account requires.

PARTIAL SELL OUTS

In a partial sell out, some but not all the securities in a customer's account will be sold out.

It is important to remember that while customers borrow individually, brokers lend collectively. As such, brokers are concerned with overall financial exposure. In each example, the broker had numerous customers who had borrowed money against GHI and JKL. In order to reduce its exposure to "concentrated positions," where one or more securities support a large amount of customer debt, the broker's computers were programmed so that if sell outs were required, the securities sold would be those which represent the greatest financial risk to the broker.

Brokers, like other lenders, have policies and procedures in place to protect themselves from market risk, or the decline in the value of securities collateral, as well as credit risk, where one or more investors cannot or refuse to meet their financial obligations to the broker. Among the options available to them, they have the right to increase their margin requirements or choose not to open margin accounts.

Margin is buying securities on credit while using those same securities as collateral for the loan. Any residual loan balance is the responsibility of the borrower.

Any obligation to a broker should be taken as seriously by an investor as an obligation to a bank or other lender. Failure to meet obligations to a broker may result in legal action against the customer and will almost certainly cause the broker to report the default to a data center. If you can't pay for a securities transaction, whether your order is placed in a cash or margin account, you should not place that order. Individuals should participate in the securities markets only when they have the financial ability to withstand the risks and meet their obligations.

It is important that investors take time to learn about the risks involved in trading securities on margin, and investors should consult their brokers regarding any concerns they may have with their margin accounts.

SMART INVESTING - MARGIN (#3)

PRIMA INVESTAMA KAPITAL

MARGIN DISCLOSURE STATEMENT

Your brokerage firm is furnishing this document to you to provide some basic facts about purchasing securities on margin, and to alert you to the risks involved with trading securities in a margin account.

Before trading stocks in a margin account, you should carefully review the margin agreement provided by your firm. Consult your firm regarding any questions or concerns you may have with your margin accounts.

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from your brokerage firm. If you choose to borrow funds from your firm, you will open a margin account with the firm. The securities purchased are the firm's collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, the firm can take action, such as issue a margin call and/or sell securities or other assets in any of your accounts held with the member, in order to maintain the required equity in the account.

It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

* You can lose more funds than you deposit in the margin account. A decline in the value of securities that are purchased on margin may require you to provide additional funds to the firm that has made the loan to avoid the

forced sale of those securities or other securities or assets in your account(s).

* The firm can force the sale of securities or other assets in your

account(s). If the equity in your account falls below the maintenance margin requirements or the firm's higher "house" requirements, the firm can sell the securities or other assets in any of your accounts held at the firm to cover the margin deficiency. You also will be responsible for any short fall in the account after such a sale.

* The firm can sell your securities or other assets without contacting you. Some investors mistakenly believe that a firm must contact them for a margin call to be valid, and that the firm cannot liquidate securities or other assets in their accounts to meet the call unless the firm has contacted them first. This is not the case. Most firms will attempt to notify their customers of margin calls, but they are not required to do so. However, even if a firm has contacted a customer and provided a specific date by which the customer can meet a margin call, the firm can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the customer.

* You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call. Because the securities are collateral for the margin loan, the firm has the right to decide which security to sell in order to protect its interests.

* The firm can increase its "house" maintenance margin requirements at any time and is not required to provide you advance written notice. These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call.Your failure to satisfy the call may cause the member to liquidate or sell securities in your account(s).

* You are not entitled to an extension of time on a margin call. While an extension of time to meet margin requirements may be available to customers under certain conditions, a customer does not have a right to the extension.

HEADLINE=GUIDELINE ON MARGIN TRADING

BUYING SECURITIES ON MARGIN

An investor who purchase securities may pay for the securities in full or may borrow part of the purchase cost from his brokerage. If the investor choose to borrow money, he has to open a margin account. The portion of the purchase cost that the investor deposits is called "margin".

PRIMA INVESTAMA KAPITAL

The Investor's credit facility is secured against the purchased securities or other securities held in his margin account as collateral. After selling the securities, the investor has to repay the borrowed money in accordance with the terms of the margin facility. The profit is the different between the purchase cost and the sale proceeds, reduced by transaction costs and the interest charged on the margin loan.

WHY TRADING ON MARGIN?

Investor generally use margin to increase their purchasing power and leverage their investments, i.e. to magnify the returns on their investments. Despite the possible higher gains, however, investors who trade securities on margin may potentially incur higher losses.

Suppose an investor buys a stock for $100 and the stock price rises to $150. If the investor pays for the stock in full, he will make a 50% gain on his investment. But if he buys the stock on 50% margin, i.e. paying $50 in cash and borrowing $50 from the brokerage, he can end up with a 100% gain on the money he invested.

However, the downside to margin trading is that if the stock price falls, a substantial loss will happen. Suppose the stock purchase for $100 drops to $50. If the investor pays for the stock in full, he will lose 50%of his stake. But if he buys on 50% margin, he will suffer a 100% or total loss!.

RISK MANAGEMENT

Effective policies and procedures shall be established and maintained which serve to ensure the proper management of risks to which the firm and its clients are exposed, particularly in relation to their identification and quantification, whether financial or otherwise, and the provision of timely and adequate information to management to enable it to take appropriate and timely action to contain and otherwise adequately manage such risks.

MARGIN CONTROL

PRIMA INVESTAMA KAPITAL

To keep margin load exposeure under control, brokerage is required to maintain

a strong risk management and control system to manage their margin financing risk. In particular, Securities Margin Financing providers are reminded to:

- adhere to prudent margin lending policy and take prompt actions to follow up outstanding margin calls;

- consider diligently the quality, volatility and liquidity of stock collateral and prevailing market conditions when determining margin call trigers;

- refrain from allowing further purchases by clients who have yet to meet margin call;

- maintain proper audit trail for margin call initiation and approvals for waivers of margin call or forced liquidation, which should be supported by sound justification in writing;

- closely monitor client and stock collateral concentration risks, especially in relation to illiquid stock collateral and clients with poor credit history;

- conduct stress testing on a regular basis and in times of significant market movements to assess the adequacy of their capital under changing market

conditions.

Securities Margin Financing provider should consider setting a cap for the maximum loan amount to be advanced to a single margin client when the client's outstanding margin loan exceeds 10% of total margin loan outstanding.

MARGIN CALLS

If the value of the securities held on the margin account falls below a pre-specified lending ratio, the brokerage may call for further collateral. If the investor fails to meet the "margin call", the brokerage has the right to "cash in" the secuties held on his account.

Investors should notice that brokerage may not be obliged to make a margin call or otherwise tell the investors that the value of the securities held on account have fallen below the specified lending ratio. Brokerage may sell securities at any time without consulting in advance. Under some margin agreements, even if brokerage offers to give time to raise the collateral in account, the firm can sell securities without waiting. It is unlikely that the "forced liquidation" will occur at a price or time that is favorable to investor. Furthermore, if you have more than one stock as collateral, brokerage may sell the most liquid ones - not what investors may have wanted to sell. Therefore, investors have to make sure to check the margin call procedures before start trading.

Investors should also know that it is possible to lose more than the margin deposit under forced liquidation. For instance, if the proceeds from forced liquidation are insufficient to cover the margin loans, investors will not only lose all the margin deposit but will also be liable to the remaining shortfall in account.

HEADLINE=PERATURAN BAPEPAM NO.V.D.6 : TRANSAKSI MARJIN

Transaksi Marjin

1) Sebelum menyetujui untuk membiayai penyelesaian Transaksi Marjin, petugas kredit di bagian pesanan dan perdagangan Perusahaan Efek harus memastikan telah tersedia sejumlah dana dan atau Efek di Rekening Efek Pembiayaan Transaksi Marjin sebagai Jaminan Awal.

2) Nilai pembiayaan dana atas Transaksi Marjin adalah sebesar jumlah piutang atas Transaksi Marjin yang diberikan Perusahaan Efek kepada nasabahnya dan dicatat sebagai Saldo Debit dalam Rekening Efek Pembiayaan Transaksi Marjin

3) Nilai Jaminan Awal paling kurang 50% (lima puluh perseratus) dari nilai pembelian Efek pada saat transaksi atau Rp 200.000.000,00 (dua ratus juta rupiah) mana yang lebih tinggi.

4) Nilai pembiayaan dana atas Transaksi Marjin yang dapat diberikan oleh Perusahaan Efek kepada nasabah paling banyak 65% (enam puluh lima perseratus) dari nilai Jaminan Pembiayaan.

5) Jika nilai Jaminan Pembiayaan mengalami penurunan sehingga nilai pembiayaan sebagaimana dimaksud dalam angka 6 huruf b butir 2) melebihi 65% (enam puluh lima perseratus) dari nilai Jaminan Pembiayaan, maka perusahaan Efek wajib melakukan Permintaan Pemenuhan Jaminan kepada nasabahnya dan nasabah wajib memenuhi Permintaan Pemenuhan Jaminan, sehingga nilai pembiayaan tidak melebihi 65% (enam puluh lima perseratus) dari nilai Jaminan Pembiayaan sebagaimana dimaksud dalam angka 6 huruf b butir 4).

6) Jika nasabah tidak memenuhi Permintaan Pemenuhan Jaminan sebagaimana dimaksud dalam angka 6 huruf b butir 5) paling lambat 3 (tiga) hari bursa, maka Perusahaan Efek pada hari bursa ke-4 (keempat) wajib segera menjual

Efek dalam Jaminan Pembiayaan yang dibuktikan dengan melakukan penawaran jual sehingga nilai pembiayaan tidak melebihi 65% (enam puluh lima perseratus) dari nilai Jaminan Pembiayaan.

7) Jika nilai pembiayaan telah mencapai 80% (delapan puluh perseratus) dari nilai Jaminan Pembiayaan, maka Perusahaan Efek baik dengan ataupun tanpa pemberitahuan kepada nasabahnya, wajib segera menjual Efek dalam Jaminan Pembiayaan yang dibuktikan dengan melakukan penawaran jual sehingga nilai pembiayaan tidak melebihi 65% (enam puluh lima perseratus) dari nilai Jaminan Pembiayaan.

8) Perusahaan efek wajib menyampaikan konfirmasi secara tertulis kepada nasabahnya atas transaksi penjualan sebagaimana dimaksud dalam angka 6 huruf b butir 6) dan butir 7), yang dibedakan dengan konfirmasi tertulis atas transaksi berdasarkan pesanan nasabah pada hari yang sama dengan penjualan Efek nasabah oleh Perusahaan Efek sebagaimana dimaksud angka 6 huruf b butir 6) dan butir 7).

* Perusahaan Efek dilarang memberikan pembiayaan Transaksi Marjin dan atau Transaksi Short Selling kepada nasabahnya yang merupakan Komisaris, Direktur, atau Pegawai Perusahaan Efek dimaksud.

HEADLINE=PERATURAN BAPEPAM NO.V.D.6 : ILUSTRASI TRANSAKSI MARJIN

ILUSTRASI TRANSAKSI MARJIN

1. Asumsi yang digunakan dalam ilustrasi

a. Dalam perhitungan dilakukan pembulatan angka desimal di bawah 0,5 menjadi 0 dan 0,5 keatas menjadi 1; dan

b. Mengabaikan perhitungan komisi, biaya transaksi, pajak dan biaya lainnya

2. Ilustrasi Transaksi Marjin Nasabah

Nasabah A membuka Rekening Efek Pembiayaan Transaksi Marjin dengan menyetorkan Jaminan Awal senilai Rp200.000.000,-. Dengan fasilitas marjin Perusahaan Efek dapat membiayai Nasabah A sebesar Rp200.000.000,- [50% dari Nilai Transaksi Marjin, ketentuan angka 6 huruf b butir 3)] sehingga Nasabah A dapat membeli 400.000 lembar saham senilai Rp400.000.000,-(Rp1.000,- per saham).

Pada saat penyelesaian transaksi, Perusahaan Efek akan membayar Rp400.000.000,- kepada Lembaga Kliring dan Penjaminan, dimana Rp200.000.000 berasal dari Jaminan Awal Nasabah dan Rp200.000.000,- merupakan pembiayaan dari Perusahaan Efek. Saham yang dibeli selanjutnya menjadi Jaminan Pembiayaan sehingga total Jaminan Pembiayaan menjadi senilai Rp400.000.000. Dengan demikian, maka rasio pembiayaan terhadap jaminan adalah: Rp200.000.000 : Rp400.000.000 (yaitu dari Rp1.000 x Rp400.000 saham) = 50%

Kondisi harga saham mengalami penurunan

- Jika Harga saham mengalami penurunan menjadi Rp900,- dan Jaminan Pembiayaan hanya meliputi saham tersebut, maka penurunan tersebut akan mengakibatkan

Jaminan Pembiayaan juga akan mengalami penurunan menjadi Rp900 x Rp400.000 =

Rp 360.000.000,-. Sedangkan nilai pembiayaan yang wajib dilunasi oleh nasabah kepada Perusahaan Efek tetap sejumlah Rp200.000.000,- sehingga rasio pembiayaan terhadap jaminan akan mengalami peningkatan menjadi: Rp200.000.000 : Rp360.000.000 (yaitu dari Rp900 x 400.000 saham) = 56%

- Jika Harga saham mengalami penurunan menjadi Rp769, maka rasio pembiayaan menjadi:

Rp200.000.000 : Rp307.600.000 (yaitu dari Rp769 x 400.000 saham) = 65%

- Jika Harga saham mengalami penurunan menjadi Rp700, maka rasio pembiayaan menjadi:

Rp200.000.000 : Rp280.000.000 (yaitu dari Rp700 x 400.000 saham) = 71%

Pada saat rasio pembiayaan sudah mencapai 71%, maka Perusahaan Efek wajib melakukan Permintaan Pemenuhan Jaminan kepada nasabah untuk menyerahkan tambahan dana atau Efek ke Rekening Efek Pembiayaan Transaksi Marjin, sehingga pembiayaan yang diberikannya menjadi paling banyak 65% (enam puluh perseratus) Untuk memenuhi rasio tersebut, nasabah wajib menyerahkan tambahan dana dan atau Efek paling kurang sebesar:

nilai pembiayaan - [besarnya nilai jaminan x batas maksimal pembiayaan]

= Rp200.000.000 - [Rp280.000.000 (dari Rp700 x 400.000 saham) x 65%]

= Rp18.000.000

Tambahan dana dan atau Efek tersebut digunakan untuk mengurangi besarnya pembiayaan, sehingga rasio pembiayaan kembali menjadi:

(Rp200.000.000 - Rp18.000.000) : Rp280.000.000 = 65%

Jika nasabah tidak melakukan penyerahan dana dan atau Efek tambahan sedangkan harga saham mengalami penurunan lebih lanjut menjadi Rp600, maka rasio pembiayaan menjadi:

Rp200.000.000 : Rp240.000.000 (yaitu Rp600 x 400.000 saham) = 83% Dalam kondisi ini, Perusahaan Efek wajib melakukan eksekusi jaminan untuk memperbaiki rasio pembiayaan menjadi 65%. Adapun besarnya jaminan yang wajib dieksekusi adalah:

Rp200.000.000 dikurangi X

____________________________ = 65%

Rp240.000.000 dikurangi X

* Keterangan X adalah jaminan yang dieksekusi

Jaminan yang wajib dieksekusi oleh Perusahaan Efek adalah sebesar Rp125.702.879,- sehingga nilai pembiayaan mengalami penurunan menjadi Rp74.297.121,- yaitu Rp200.000.000 dikurangi Rp125.702.879,- dan nilai jaminan mengalami penurunan menjadi Rp114.297.121, yaitu Rp240.000.000 dikurangi Rp125.702.879. Dengan demikian rasio pembiayaan terhadap jaminan menjadi:

Rp200.000.000 - Rp125.702.879 Rp74.297.121

_______________________________ = ______________ = 65%

Rp240.000.000 - Rp125.702.879 Rp114.297.121

Tabel Ilustrasi Transaksi Marjin:

Lembar 400.000 400.000 400.000

Harga Saham (Rp) 1.000 900 769

Nilai Pembiayaan (Rp) 200.000.000 200.000.000 200.000.000

Nilai Jaminan Pembiayaan (Rp) 400.000.000 360.000.000 307.600.000

Rasio 50% 56% 65%

Tambahan dana / Efek (Rp) - - -

Eksekusi Jaminan (Rp) - - -

Lembar 400.000 400.000

Harga Saham (Rp) 700 600

Nilai Pembiayaan (Rp)	200.000.000	200.000.000
Nilai Jaminan Pembiayaan (Rp)	280.000.000	240.000.000
Rasio	71%	83%
Tambahan dana / Efek (Rp)	18.000.000	-
Eksekusi Jaminan (Rp)	-	125.702.879

PERATURAN BAPEPAM NO.V.D.6: TRANSAKSI SHORT SELLING (#1)

Pembiayaan Transaksi Short Selling

1) Sebelum menyetujui untuk membiayai penyelesaian Transaksi Short Selling, petugas kredit di bagian pesanan dan perdagangan Perusahaan Efek wajib:

a) memastikan telah tersedia sejumlah dana dan atau Efek di Rekening Efek Pembiayaan Transaksi Short Selling sebagai Jaminan Awal;

b) mempertimbangkan ketersediaan Efek pada saat penyelesaian Transaksi Short Selling antara lain:

(1) memiliki Efek lain yang dapat dikonversi atau ditukar menjadi Efek yang digunakan untuk penyelesaian Transaksi Short Selling; atau

(2) telah melaksanakan hak atas opsi atau waran untuk memperoleh Efek yang digunakan untuk penyelesaian Transaksi Short Selling.

c) memastikan bahwa nasabah telah menandatangani perjanjian pinjam meminjam Efek dengan Perusahaan Efek; dan

d) memastikan bahwa nasabah telah memahami hak dan kewajiban berkenaan dengan Transaksi Short Selling tersebut.

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2) Nilai pembiayaan Efek atas Transaksi Short Selling adalah sebesar nilai pasar wajar Efek yang ditransaksikan secara short selling oleh nasabah yang dibiayai oleh Perusahaan Efek dan dicatat pada saldo Posisi Short Rekening Efek Pembiayaan Transaksi Short Selling di buku pembantu Efek.

3) Nilai Jaminan Awal paling kurang 50% (lima puluh perseratus) dari nilai Transaksi Short Selling atau Rp200.000.000,00 (dua ratus juta rupiah) mana yang lebih tinggi.

4) Nilai Jaminan Pembiayaan paling kurang 150% (seratus lima puluh perseratus) dari nilai Transaksi Short Selling pada saat Transaksi Short Selling pertama terjadi, dimana Jaminan Pembiayaan dimaksud paling kurang terdiri dari Jaminan Awal dan dana yang diterima dari penjualan Efek melalui Transaksi Short Selling dimaksud.

5) Nilai Jaminan Pembiayaan atas Transaksi Short Selling yang wajib dipelihara nasabah paling kurang 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek pada Posisi Short.

6) Jika nilai Jaminan Pembiayaan mengalami penurunan dan atau nilai pasar wajar Efek dalam Posisi Short mengalami kenaikan sehingga nilai Jaminan Pembiayaan sebagaimana dimaksud dalam angka 6 huruf a butir 2) kurang dari 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short, maka Perusahaan Efek wajib melakukan Permintaan Pemenuhan Jaminan kepada nasabahnya dan nasabah wajib memenuhi Permintaan Pemenuhan Jaminan kepada nasabahnya dan nasabah wajib memenuhi Permintaan Pemenuhan Jaminan, sehingga nilai Jaminan Pembiayaan tidak kurang dari 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short sebagaimana dimaksud dalam angka 6 huruf c butir 5).

7) Jika nasabah tidak memenuhi Permintaan Pemenuhan Jaminan sebagaimana dimaksud dalam angka 6 huruf c butir 6) paling lambat 3 (tiga) hari bursa, maka Perusahaan Efek pada hari bursa ke-4 (keempat) wajib segera membeli Efek yang dijual melalui Transaksi Short Selling yang dibuktikan dengan melakukan penawaran beli sehingga nilai Jaminan Pembiayaan tidak kurang dari 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek pada Posisi Short.

8) Jika nilai Jaminan Pembiayaan kurang dari 120% (seratus dua puluh perseratus) dari nilai pasar wajar Efek pada Posisi Short, maka Perusahaan Efek wajib segera membeli Efek pada Posisi Short yang

dibuktikan dengan melakukan penawaran beli sehingga nilai Jaminan Pembiayaan tidak kurang dari 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short.

9) Perusahaan Efek wajib menyampaikan konfirmasi secara tertulis kepada nasabahnya atas transaksi pembelian sebagaimana dimaksud dalam angka 6 huruf c butir 7) dan butir 8), yang dibedakan dengan konfirmasi tertulis

atas transaksi berdasarkan pesanan nasabah pada hari yang sama dengan pembelian Efek nasabah oleh Perusahaan Efek sebagaimana dimaksud dalam angka 6 huruf c butir 7) dan butir 8).

10)Transaksi Short Selling dibatasi dengan ketentuan:

a) Harga penawaran jual yang dimasukkan dalam sistem perdagangan Bursa Efek harus di atas harga yang terjadi terakhir di Bursa Efek; dan

b) Perusahaan Efek wajib memberi tanda "short" pada saat pelaksanaan order jual pada sistem perdagangan Bursa Efek.

PERATURAN BAPEPAM NO.V.D.6: TRANSAKSI SHORT SELLING (#2)

Perjanjian Pinjam Meminjam Efek dalam rangka pembiayaan Transaksi Short Selling nasabah.

1) Perusahaan Efek hanya dapat melakukan pembiayaan Transaksi Short Selling nasabah apabila Efek yang digunakan oleh Perusahaan Efek untuk penyelesaian transaksi Efek tersebut akan diperoleh dengan cara Perusahaan Efek meminjam Efek dari dan atau melalui:

a) Lembaga Kliring dan Penjaminan (LKP);

b) Perusahaan Efek lain;

c) Bank Kustodian; dan atau

d) Pihak lain.

2) Kontrak standar pinjam meminjam Efek wajib memuat rincian antara lain mengenai:

a) jumlah dan jenis Efek;

b) waktu berlakunya pinjam meminjam;

c) jaminan;

d) hak-hak sehubungan dengan pemilikan Efek termasuk hak suara, hak memesan Efek terlebih dahulu, bonus, dividen, dan bunga;

e) kewajiban perpajakan;

f) biaya-biaya dalam rangka pinjam meminjam;

g) wanprestasi;

h) metode penilaian Efek yang dipinjamkan dan jaminan; dan

i) mekanisme penyelesaian perselisihan.

3) Dalam rangka menjalankan fungsinya, Lembaga Kliring dan Penjaminan wajib membuat kontrak standar pinjam meminjam Efek yang isinya sesuai dengan angka 6 huruf d butir 2) dan telah disetujui oleh Bapepam dan LK untuk dapat dipergunakan oleh semua Pihak sebagaimana dimaksud dalam angka 6 huruf d butir 1).

4) Setiap Pihak sebagaimana dimaksud dalam angka 6 huruf d butir 1) yang tidak menggunakan kontrak standar pinjam meminjam Efek sebagaimana dimaksud dalam angka 6 huruf d butir 3), dapat membuat kontrak pinjam meminjam Efek yang isinya sesuai dengan peraturan ini sepanjang disertai pendapat hukum dari 2 (dua) konsultan hukum yang terdaftar di Bapepam dan LK dan wajib disampaikan kepada Bapepam dan LK untuk mendapat persetujuan sebelum

berlaku.

* Perusahaan Efek dilarang memberikan pembiayaan Transaksi Marjin dan atau Transaksi Short Selling kepada nasabahnya yang merupakan Komisaris, Direktur, atau Pegawai Perusahaan Efek dimaksud.

PERATURAN BAPEPAM NO.V.D.6: TRANSAKSI SHORT SELLING (#3)

Transaksi Short Selling oleh Perusahaan

Perusahaan Efek yang melakukan Transaksi Short Selling untuk kepentingan sendiri wajib mengikuti ketentuan sebagai berikut:

a. Sebelum melakukan Transaksi Short Selling, Perusahaan Efek wajib:

1) telah membuka rekening terpisah untuk Transaksi Short Selling;

2) telah menyisihkan dana dan atau Efek dalam rekening sebagaimana dimaksud dalam angka 8 huruf a butir 1) paling kurang 50% (lima puluh perseratus) dari nilai Transaksi Short Selling sebagai aset yang disisihkan Perusahaan Efek untuk menutup risiko Transaksi Short Selling; dan

3) memastikan telah tersedia Efek pada saat penyelesaian Transaksi Short Selling antara lain:

a) memiliki Efek lain yang dapat dikonversi atau ditukar menjadi Efek yang digunakan untuk penyelesaian Transaksi Short Selling;

b) telah melaksanakan hak atas opsi atau waran untuk memperoleh Efek yang digunakan untuk penyelesaian Transaksi Short Selling; dan atau

c) telah melakukan perjanjian pinjam meminjam Efek dalam rangka Transaksi Short Selling dari dan atau melalui pihak-pihak sebagaimana dimaksud dalam angka 6 huruf d butir 1). Perjanjian pinjam meminjam Efek dibuat dengan menggunakan kontrak sebagaimana dimaksud dalam angka 6 huruf d butir 2), butir 3) dan butir 4).

b. Pada saat Transaksi Short Selling pertama terjadi, nilai aset yang disisihkan sebagaimana dimaksud dalam angka 8 huruf a butir 2) ditambah dana yang diterima dari penjualan Efek melalui Transaksi Short Selling paling kurang 150% (seratus lima puluh perseratus) dari nilai Transaksi Short Selling.

c. Nilai aset yang disisihkan ditambah dana yang diterima dari penjualan Efek melalui Transaksi Short Selling sebagaimana dimaksud dalam angka 8 huruf b wajib dipelihara Perusahaan Efek paling kurang 135% (seratus tiga puluh lima perseratus) dari nilai wajar Efek pada Posisi Short.

d. Jika nilai aset yang disisihkan ditambah dana yang diterima dari penjualan Efek melalui Transaksi Short Selling sebagaimana dimaksud dalam angka 8 huruf b mengalami penurunan dan atau nilai pasar wajar Efek dalam Posisi Short mengalami kenaikan sehingga nilai aset yang disisihkan ditambah dana yang diterima dari penjualan Efek melalui Transaksi Short Selling kurang dari:

1) 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short, maka Perusahaan Efek wajib menambah aset yang disisihkan dan atau membeli Efek yang ditransaksikan secara short selling paling lambat 3 (tiga) hari bursa, sehingga nilai aset yang disisihkan ditambah dana yang diterima dari penjualan Efek melalui Transaksi Short Selling tidak kurang dari 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short sebagaimana dimaksud dalam angka 8 huruf c.

2) 120% (seratus dua puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short, maka Perusahaan Efek wajib segera menambah aset yang disisihkan dan atau membeli Efek yang ditransaksikan secara short selling, sehingga nilai aset yang disisihkan ditambah dana yang diterima dari penjualan Efek melalui Transaksi Short Selling tidak kurang dari 135% (seratus tiga puluh lima perseratus) dari nilai pasar wajar Efek dalam Posisi Short sebagaimana dimaksud dalam angka 8 huruf c.

e. Transaksi Short Selling Perusahaan Efek dibatasi dengan ketentuan:

1) Harga penawaran jual yang dimasukkan dalam sistem perdagangan Bursa Efek harus di atas harga yang terjadi terakhir di Bursa Efek; dan

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2) Perusahaan Efek wajib memberi tanda "short" pada saat pelaksanaan order jual pada sistem perdagangan Bursa Efek.

f. Perusahaan Efek hanya dapat melakukan Transaksi Short Selling atas Efek yang ditetapkan Bursa Efek sebagai Efek yang dapat ditransaksikan secara short selling.

g. Dalam hal Efek tidak lagi memenuhi syarat yang ditetapkan Bursa Efek sebagai Efek yang dapat ditransaksikan secara short selling, maka Transaksi Short Selling Perusahaan Efek yang sudah berjalan wajib diselesaikan paling lambat 5 (lima) hari bursa sejak Efek tidak lagi memenuhi syarat yang

ditetapkan Bursa Efek.

* Dengan tidak mengurangi ketentuan pidana di bidang Pasar Modal, Bapepam dan LK dapat mengenakan sanksi terhadap setiap pelanggaran ketentuan peraturan ini, termasuk Pihak yang menyebabkan terjadinya pelanggaran tersebut.

PERATURAN BAPEPAM NO.V.D.6: ILUSTRASI TRANSAKSI SHORT SELLING (#1)

1. Asumsi yang digunakan dalam ilustrasi

a. Dalam perhitungan dilakukan pembulatan angka desimal di bawah 0,5 menjadi 0 dan 0,5 keatas menjadi 1; dan

b. Mengabaikan perhitungan komisi, biaya transaksi, pajak dan biaya lainnya

2. Ilustrasi Transaksi Short Selling

Nasabah B membuka Rekening Efek Pembiayaan Transaksi Short Selling dengan menyetorkan Jaminan Awal kepada Perusahaan Efek senilai Rp200.000.000. Dengan Transaksi Short Selling, Perusahaan Efek dapat memberikan pembiayaan Efek atas Transaksi Short Selling sebesar nilai Efek yang ditransaksikan

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secara short selling oleh nasabah. Yang dibiayai oleh Perusahaan Efek dan dicatat pada saldo Posisi Short Rekening Efek Pembiayaan Transaksi Short Selling di buku Pembantu Efek. Dengan jaminan sebesar Rp200.000.000 [50% dari Nilai Transaksi Short Selling, ketentuan angka 6 huruf c butir 3] nasabah dapat melakukan Transaksi Short Selling sebesar Rp400.000.000 (dengan asumsi harga saham adalah Rp1.000,- per saham dan jumlah saham

adalah 400.000 saham).

Pada saat penyelesaian transaksi, Perusahaan Efek akan menerima dana senilai Rp400.000.000,- dari Lembaga Kliring dan Penjaminan. Dna yang diterima dari penjualan tersebut selanjutnya menjadi Jaminan Pembiayaan, sehingga rasio Jaminan Pembiayaan terhadap Posisi Short adalah:

Rp200.000.000 (Jaminan Awal) + Rp400.000.000 (dana hasil short selling)

____ = 150%

Rp400.000.000 (nilai pasar wajar Efek pada Posisi Short

Kondisi harga saham mengalami kenaikan

* Jika nilai pasar wajar saham pada Posisi Short mengalami peningkatan menjadi Rp1.100, maka peningkatan tersebut akan mengakibatkan nilai pasar wajar Efek pada Posisi Short mengalami kenaikan menjadi Rp1.100 x 400.000 = Rp440.000.000,-, sehingga rasio Jaminan Pembiayaan terhadap Posisi Short akan mengalami penurunan menjadi:

Rp600.000.000 : Rp440.000.000 (yaitu dari Rp1.100 x 400.000 saham) = 136%

* Jika nilai pasar wajar saham pada Posisi Short mengalami kenaikan menjadi Rp1.111, maka rasio Jaminan Pembiayaan terhadap Posisi Short menjadi: Rp600.000.000 : Rp444.000.000 (yaitu dari Rp1.111 x 400.000 saham) = 135%

*	Jika nilai pasar wajar saham pada Posisi Short mengalami kenaikan lebih lanjut menjadi Rp1.200, maka rasio Jaminan Pembiayaan terhadap Posisi Short menjadi:

Rp600.000.000 : Rp480.000.000 (yaitu dari Rp1.200 x 400.000 saham) = 125%

Pada saat rasio Jaminan Pembiayaan terhadap Posisi Short kurang dari 135%, maka Perusahaan Efek wajib melakukan Permintaan Pemenuhan Jaminan kepada nasabah untuk menyerahkan tambahan dana atau Efek ke Rekening Efek Pembiayaan Transaksi Short Selling sehingga nilai Jaminan Pembiayaan terhadap nilai pasar wajar saham pada Posisi Short menjadi paling kurang 135% (seratus tiga puluh lima perseratus).

Pada saat nilai pasar wajar saham pada Posisi Short sebesar Rp480.000.000, maka Jaminan pembiayaan seharusnya Rp480.000.000 x 135% = Rp648.000.000. Oleh karena jaminan yang ada adalah Rp600.000.000, maka nasabah wajib menyerahkan tambahan dana dan atau Efek paling kurang sebesar Rp48.000.000,-

Jika nasabah tidak melakukan penyerahan dana dan atau Efek tambahan sedangkan nilai pasar wajar saham pada Posisi Short mengalami peningkatan lebih lanjut menjadi Rp1.300, maka nilai Jaminan Pembiayaan terhadap nilai pasar wajar saham pada Posisi Short menjadi:

Rp600.000.000 : Rp520.000.000 (yaitu dari Rp1.300 x 400.000 saham) = 115% Dalam kondisi ini, Perusahaan Efek wajib melakukan eksekusi jaminan untuk membeli saham pada Posisi Short dalam rangka memperbaiki rasio antara Jaminan Pembiayaan terhadap nilai pasar wajar saham pada Posisi Short sehingga menjadi 135% (seratus tiga puluh lima perseratus). Adapun jaminan yang wajib dieksekusi adalah sebesar saham pada Posisi Short yang wajib dibeli yaitu:

Rp600.000.000 dikurangi X

____________________________ = 135%

Rp520.000.000 dikurangi X

* keterangan: X adalah saham pada Posisi Short yang wajib dibeli

Saham pada Posisi Short yang wajib dibeli oleh Perusahaan Efek adalah senilai Rp291.077.467 atau sebanyak Rp291.077.467 : Rp1300 = 223.923 saham sehingga rasio antara Jaminan Pembiayaan terhadap nilai pasar wajar saham pada Posisi Short adalah 135% (seratus tiga puluh lima perseratus) dengan perhitungan sbb:

$$\frac{\text{Rp}600.000.000 - \text{Rp}291.077.467}{\text{Rp}520.000.000 - \text{Rp}291.077.467} = 135\%$$

Tabel ilustrasi Transaksi Short Selling:

Lembar 400.000 400.000 400.000

Harga Saham (Rp) 1.000 1.100 1.111

Nilai Pembiayaan (Rp) 400.000.000 440.000.000 444.444.444

Nilai Jaminan Pembiayaan (Rp) 600.000.000 600.000.000 600.000.000

Rasio 150% 136% 135%

Tambahan dana / Efek (Rp) - - -

Eksekusi Jaminan (Rp) - - -

Lembar 400.000 400.000

Harga Saham (Rp) 1.200 1.300

Nilai Pembiayaan (Rp) 480.000.000 520.000.000

Nilai Jaminan Pembiayaan (Rp) 600.000.000 600.000.000

Rasio 125% 115%

Tambahan dana / Efek (Rp) 48.000.000 -

Eksekusi Jaminan (Rp) - 291.077.467

PERATURAN BAPEPAM NO.V.D.6: ILUSTRASI TRANSAKSI SHORT SELLING (#2)

Penutupan Rekening-Rekening Efek Pembiayaan Transaksi Short Selling

Apabila Nasabah B bermaksud menutup Rekening Efek Pembiayaan Transaksi Short Selling pada saat harga mencapai Rp1.300, maka Perusahaan Efek akan melakukan pembelian atas saham dalam Posisi Short senilai Rp1.300 x 400.000 = Rp520.000.000. Dengan pembelian tersebut maka sisa nilai Jaminan Pembiayaan menjadi: Rp600.000.000 - Rp520.000.000 = Rp80.000.000.

Dengan ditutupnya rekening tersebut, Perusahaan Efek mendapatkan pengembalian saham sebanyak 400.000 lembar dengan nilai Rp520.000.000 dan Nasabah menerima sisa Jaminan Pembiayaan sebesar Rp80.000.000,-

SMART INVESTING - ONLINE TRADING (#1)

WHAT IS ONLINE TRADING?

Generally, online trading refers to buying and selling securities via the Internet or other electronic means such as wireless access, touch-tone telephones, and other new technologies. With online trading, in most cases customers access a brokerage firm's Web Site through their regular Internet Service Provider. Once there, customers may consult information provided on the Web Site and log into their accounts to place orders and monitor account activity.

AREN'T ONLINE INVESTING AND DAY TRADING THE SAME THING?

No. Online investing refers to the method of placing orders via the Internet to buy and sell securities as compared to the method of placing orders by speaking directly with a broker by telephone. Day trading refers to a trading strategy where an individual buys and sells the same security in a short period of time (often the same day) in an attempt to profit from small movements in the price of the security.

CAN I ACTUALLY OPEN AN ACCOUNT ONLINE?

Yes, you can open an account with many brokerage firms online; however, in most instances your account will not be active until the brokerage firm receives and processes a signed application from you. Note that some firms allow for the use of electronic signatures, while others will require a manually (hand written) signed document. Some firms will gather basic information for your account over their Web Sites, then mail you the pre-completed application for you to sign and return. Please make sure to check with your brokerage firm for information on specific guidelines.

IS THERE STILL A BROKERAGE FIRM INVOLVED OR DO I REALLY BYPASS THE BROKER COMPLETELY?

All trades involve a brokerage firm even if a stockbroker is not used to help with the trade. Although customers may enter orders for trades via the Internet, customers do not have direct access to the securities markets and therefore must use a brokerage firm in order to execute their trades. Customers should also remember to do their homework where their investments are concerned.

WHAT IS THE DIFFERENCE BETWEEN A CASH ACCOUNT AND A MARGIN ACCOUNT? Cash accounts are used by customers who pay in full for the cost of the securities purchased. Margin accounts are used by customers who are authorized to borrow part of an investment's total purchase cost from their brokerage firm. This loan from the brokerage firm to the customer is secured by the value of the securities in the customer's account. Customers generally use margin to expand their purchasing power. However, customers who use margin also run the risk that if the value of the securities that secure the margin loan declines beyond a certain level, additional money or securities must be deposited to the account in order to make up the value. A brokerage firm may sell part or all of any securities held in the account, without prior notice to the customer, in order to make up the value and meet the margin limit requirements. These "margin calls" may occur suddenly and investors should take care to understand the financial impact that trading on margin can have on the value of their accounts.

WHAT KINDS OF SECURITIES CAN I BUY ONLINE?

You can buy almost any type of stock, bond, or mutual fund online.

WHAT'S THE DIFFERENCE BETWEEN A MARKET ORDER AND LIMIT ORDER? IS ONE BETTER THAN THE OTHER?

With a market order the customer instructs his or her brokerage firm to buy or sell a stock at whatever the price is when the trade is executed, presumably as soon as possible. If the price of the stock is moving quickly and there is a delay in the transmission of the order, then the price at which the customer purchases or sells the stock may be very different than what the customer expected when the order was placed. With a limit order, the customer specifies the price at which he or she is willing to buy or sell. Limit orders can help protect customers from rapid price changes when markets are moving fast. However, there is the risk that the limit order will not be executed. Also note that limit orders usually cost a bit more than market orders.

HOW DO I KNOW MY BROKERAGE FIRM RECEIVED MY ORDER?

High Internet traffic, market volume, and other systems issues may affect your ability to access your account or transmit your orders and may delay receipt of your order by the brokerage firm. Check with your particular brokerage firm on its notification procedures. And note that notification that the order was received does not mean that the order was executed.

IS MY ORDER EXECUTED IMMEDIATELY?

Orders entered electronically are usually executed quickly; however, there is no assurance that this will always occur. Investors should be aware that high trading volumes can cause delays in executions. Market volatility and delays in executions due to trading volume can result in trade executions at prices significantly different from the quoted price of the security at the time the order was entered. Also, different firms offer different levels of access and system sophistication. The speed of the Internet Service Provider used by an investor may also have an effect on order transmittal and execution. Timing in execution of orders may also be impacted by market volume, order queues at market centers, possible delays in order transmissions by brokers, and other systems issues.

WHAT DO THE ONLINE BROKERAGE RANKINGS MEAN? IF I OPEN AN ACCOUNT AT A BROKERAGE FIRM RANKED #1, DO I HAVE A BETTER CHANCE OF MAKING MONEY? Generally, these rankings indicate the level of customer service or satisfaction with the online brokerage. There are many groups that provide 'ranking' services, and investors should keep in mind that these are not regulated entities. Further, different ranking groups use varying criteria and update their data on different schedules. You do not have a better chance of making money at a firm ranked #1 because the rankings do not relate to the likelihood of investment success.

SMART INVESTING - ONLINE TRADING (#2)

WHAT ARE THE RISKS OF ONLINE TRADING?

There is risk of loss associated with investing in securities regardless of the method used. New investors need to understand the principles of investing, their own risk tolerance, and their investment goals before venturing into the market. In addition, online investors may want to consider these other risks. High Internet traffic may affect online investors' ability to access their account or transmit their orders. Online investors should be skeptical of stock advice and tips provided in chat rooms or bulletin boards. Investors should do their own research before acting on these tips. Also, for some online investors, there is a temptation to "overtrade" by trading too frequently or impulsively without considering their investment goals or risk tolerance. Overtrading can effect investment performance, raise trading costs, and complicate your tax situation.

WHAT DOES IT MEAN TO 'TRADE ON MARGIN'?

If a customer chooses to borrow funds from a firm, the customer will open a margin account with that firm. The portion of the purchase price that the customer must deposit is called margin and is the customer's initial equity in the account. The loan from the firm is secured by the securities that are purchased by the customer. Customers generally use margin to leverage their investments and increase their purchasing power. At the same time, customers who trade securities on margin incur the potential for higher losses; therefore, customers should make sure they clearly understand this concept before opening a margin account and entering the investing arena. For more information, including a specific example, click here.

GENERAL INVESTOR INFORMATION

MARGIN ACCOUNTS

View investor guidance on purchasing on margin and risks involved with trading in a margin account. Learn what margin and margin requirements are; also see an example of how this type of trading works and learn the risks of investing this way.

GUIDANCE TO INVESTORS REGARDING STOCK VOLATILITY AND ONLINE TRADING

Before opening an online account or placing the first trade, investors should ask brokerage firms a number of questions so they can make appropriate investment decisions. Online investors need to be aware of the potential for stock market volatility, the possibility of delays due to high Internet traffic or high trading volume, and the difference between market and limit orders.

PROHIBITED CONDUCT

Learn about the types of conduct in the securities industry that are prohibited before you begin investing. HOW TO AVOID PROBLEMS

See a listing of steps for investors to follow in order to avoid problems when participating in the market environment. INTERNET INVESTING

Learn about the possibilities & pitfalls of using the Internet as an investment tool. Online investors must be aware that high Internet traffic may affect their ability to access their account or transmit their orders. Also, they should be skeptical of stock advice and tips provided in chat rooms and should do their own research before acting on these tips.

SMART INVESTING - UNDERSTANDING SECURITIES ANALYST RECOMMENDATIONS (#1)

INTRODUCTION

As stock market participation has expanded from Wall Street to Main Street, investment information has exploded as well. TV financial news, business magazines, newspapers, Internet Web sites and chat rooms, corporate filings and news releases, stock analyst reports there is a din of data for investors to sift through today. Unfortunately, quantity is no guarantee of quality: It has never been harder for small investors to assess which information they should rely upon in making decisions. As a result, some investors have depended too heavily on the one-word recommendations of just a few analysts not understanding the particular context in which such recommendations often are generated, and the particular ways in which they often must be read.

Strengthening that understanding is the purpose of this Guide. Analysts play a

useful role in our capital markets, but investors should understand that role. For example, by doing in-depth research for their large institutional clients and employers, analysts can help substantial sums of capital be directed to more productive uses in our economy. This Guide explains what analysts do and places it in perspective, so investors can learn what other information they need for managing their portfolios.

This Guide covers two basic types of issues. The first stems from the fact that analysts' ratings today do not have clear, standardized meanings. The second relates to the potential conflicts of interest that you, as an investor, should be aware of in assessing the usefulness to you of any particular analyst recommendation.

SAME WORD, DIFFERENT MEANINGS

Analysts usually summarize their research reports with a brief recommendation.

Every firm uses its own rating system. Here are examples from three firms:

Firm A	Firm B	Firm C
Buy	Strong Buy	Recommended List
Outperform	Buy	Trading Buy
Neutral	Hold	Market Outperformer
Underperform	Sell	Market Perform
Avoid		Market Underperformer

As you can see, comparing these ratings scales is not easy. The same term might mean one thing for one firm and something else for another firm: For example, as you can see above, Firm A rates its most positive recommendations as "Buy," but Firm B does not. When Firm B uses a "Buy," it means that Firm B likes the stock, but not as much as the stocks that it rates "Strong Buy."

Likewise, one firm's "Underperform" might mean that it expects a stock to appreciate 10% slower than the overall market over an 18-month period. For another firm, the same term "Underperform" might mean that it expects the stock to drop 5% within a 12-month period.

Clear "Sell" ratings have grown rare. Some firms no longer even use "Sell" or any word obviously like it. Frequently, a "Hold" rating in effect means "Sell."

Even providers of so-called "consensus" ratings, use their own rating scales. These organizations apply numerical formulas to map several analysts' different ratings scales to their own rating conventions. They then average their standardized recommendations to create a "consensus" rating for a particular security.

For all these reasons, be careful about what you assume whenever you invest or even consider changes in your portfolio. Keep in mind:

* Is it right for YOU? A "Buy" rating does not mean that every investor should acquire the stock; nor does a "Sell" rating mean that every investor should immediately sell it. Your own financial situation and investment needs are what matter. If you consider any individual rating, do not view it in absolute or abstract terms, but in the context of your own unique financial situation.

* Never rely on a rating alone. Do your investment homework. When considering an analyst recommendation, look at the full research report, not just the one-word rating. The full report will often provide information that is essential to explain risk factors or to put the recommendation into its proper perspective.

* Analysts differ in quality. As in any other field, not every analyst can be the best. To learn about different analysts' track records, you can either follow their recommendations over time, or refer to rankings that are found in certain investor-oriented magazines, newsletters, and Internet Web sites.

SMART INVESTING - UNDERSTANDING SECURITIES ANALYST RECOMMENDATIONS (#2)

CONFLICTS OF INTEREST

Research analysts study companies and draw on a wealth of industry, economic, and business trend information to help their clients make better investment decisions. Retail investors may believe that most analysts work for them that their primary obligation is to the investing public. But in fact, the full story is much more complicated.

Some analysts are unaffiliated: they sell their independent research to financial or investing institutions, banks, insurance companies, or private investors on a project or subscription basis. But a large number of analysts are employed by institutions whose financial stake in their recommendations may go well beyond their accuracy.

For example, many analysts work for large financial firms that underwrite securities. An underwriter acts as an intermediary between the company publicly offering securities and investors buying the new stock. Even after the initial public offering, or IPO, it may have an ongoing relationship with the company or own a significant amount of the company's stock. And it will of ten stand to benefit from analyst recommendations that would tend to support the price of or encourage trading in that security.

Other analysts work for institutional money managers, such as mutual funds, hedge funds, or investment advisers. They may provide research and advice for institutional clients whose investment decisions can differ significantly from those faced by ordinary investors. A mutual fund that relied on its analyst's earlier positive recommendation in acquiring the stock of a company might be harmed by any revised recommendation that would tend to lower the market value of the security.

Just by thinking about these kinds of employment arrangements, you can begin to imagine the kinds of conflicts that analysts may face as they develop and offer their opinions in research reports. For example:

* Investment Banking Relationships. Providing investment banking services, such as underwriting an IPO or advising on a merger or acquisition, can be a lucrative source of revenue for an analyst's firm. Thus, the analyst may feel an incentive not to say or write things that could jeopardize existing or potential client relationships for their investment banking colleagues. On the other hand, the analyst may also be more knowledgeable or diligent in his research because his firm did the underwriting.

* Analyst Compensation. Brokerage firms' compensation arrangements can put pressure on analysts to issue positive research reports and recommendations. For example, many analysts are paid at least partly and indirectly on the basis of their firms' underwriting profits. So they may be reluctant to make recommendations that could reduce such profits, and hence their own compensation.

* Brokerage Commissions. An analyst's report can help firms make money indirectly by generating more buying and selling of covered securities which, in turn, result in additional commissions for the firm.

* Buy-Side Pressures. A mutual fund with large holdings in a stock has little desire to see an analyst put out a "Sell" recommendation on that security and possibly contribute to a sharp decline in its price. Hence the proliferation of euphemistic ratings such as "Hold," "Retain," and "Market Perform" which small investors may take at face value, but which professional and institutional investors know are often tantamount to "Sell." As a result, ratings inflation became as widespread and unhealthy in our markets as grade inflation in our schools.

* Ownership Interests in the Company. An analyst, other employees, and the firm itself may own significant positions in the companies or market sectors

on which the analyst conducts research and makes recommendations.

The analyst may own such shares directly, or through employee stock-purchase pools.

These economic realities certainly do not mean that analysts are corrupt or even biased. But because analysts are called upon to make so many judgments that are not black and white, any of the above factors can put pressure on their objectivity no matter how honest or competent they may be. So you should bear these realities in mind before making an investment decision.

MAKING YOUR INVESTMENT DECISION

The fact that analysts or their firms may have conflicts of interest does not mean that their recommendations are without value. Often research reports will contain quantifiable measures such as earnings predictions or comparisons to other companies in an industry sector that you may decide provide useful insight even if you do not take the analyst's rating at face value. In any case, you should take all potential conflicts into consideration in assessing how much weight you should give the recommendation.

SMART INVESTING - UNDERSTANDING SECURITIES ANALYST RECOMMENDATIONS (#3)

The important thing to remember is that you should never rely solely on an analyst recommendation when making an investment decision. There are many other important sources of information and factors you may wish to consider. For example:

* Research the company's reports yourself. If you can't analyze them on your own, ask your broker or another trusted financial professional for help.

* Speak with your broker or financial adviser and ask questions about the company and its prospects. When doing so, ask your broker about the relationship of his own firm, if any, to the company whose stock you are considering.

* Learn about the company by consulting independent news reports, commercial databases, and other references.

* Find out whether the analyst's firm underwrote one of the company's recent stock offerings especially its initial public offering (IPO).

*	Find out more about analyst recommendations by consulting your broker or some of the other sources discussed in this Guide.

In short, whatever a given analyst recommendation may say, always consider whether a particular investment is right for you in light of your own financial circumstances. Remember, you are the boss, it's your money, and your situation and goals that matter.

CONCLUSION

In considering how to assess analyst recommendations, it may help to consider that truly good, free investment advice is about as easy to get as a truly good, free lunch. If it's free to you, it was probably designed with someone else's interests in mind. If you want it tailored to fit your situation and interests, chances are, you'll have to pay for it.

One handy way to summarize much of the advice in this Guide is to remember, "Before you invest, investigate." This may seem like just a slogan, but in fact, it is sound advice. Because there is no substitute for investors who know how to look behind analyst recommendations as well as brokers who will work to help them do so.

SMART INVESTING - GLOSSARY OF ANALYST RESEARCH REPORT TERMS Preferred Stock

Capital stock with a claim on company earnings and assets that takes precedence over the claims of common stock in the event of the company's liquidation. Preferred stock often pays a regular dividend, which is also paid prior to any dividend payments to common stockholders. Preferred stock usually does not carry voting rights.

Pretax Income

Earnings before income tax is subtracted.

Price/Earnings Ratio (P/E Ratio)

A common measure for identifying undervalued and overvalued stock. It uses the relationship between a company's earnings and share price to value a company's stock. The P/E ratio is calculated by dividing the current market price per share by the earnings per share. A stock's P/E ratio gives you a sense of what you are paying for a stock in relation to its earning power (e.g., a stock with a P/E of 20 is trading at 20 times its earnings). If a company's market price is $40 and the earnings per share is $4, the P/E ratio for the company is 10.

Price to Book Ratio

A ratio calculated by dividing a company's total market capitalization by its book value.

Pricing Pressure

Condition resulting when, in response to the competitive nature of the market, companies must reduce the prices of their products or services. This can reduce earnings.

Prime Rate

In theory, the interest rate banks charge their best and biggest customers for short-term loans. In practice, banks sometimes vary the rate they offer, depending on other factors such as the customer's creditworthiness.

Pro Forma (PF) Financial Statements

Hypothetical financial statements based on a projected or recently completed transaction, such as a merger.

Publicly Traded Company

A company whose securities can be bought and sold by the general public.