

Little Investment Book

By Arafat Latif

Bismillah hir Rahman nir Raheem

In the name of Allah the most beneficent the most merciful

Introduction:

In this book we will look at two broad sections, the first is the investment a person makes in the hereafter, this is mainly for those that follow the faith of Islam, and the second section is investments in the stock market or businesses like private equity.

This book is for anyone who wants to understand the basics of investing and how to build wealth for the long term, this is not a get rich quick guide. So lets dive into it:

How to build your Hereafter

Firm faith belief in the oneness of Allah SWT and the last messenger Prophet Muhammad SAW

To invest in the hereafter a person needs to have the fundamental belief in Tauheed, the oneness of Allah and firm faith in this and that the last messenger Prophet Muhammad SAW is the final and last prophet of Allah

The oneness of Allah is the truth of Islam and is the main truth that everyone needs to know. The devil tries to distract and divert people to worship the creation instead of the worship of the one true deity Allah. Mankinds salvation is in the acceptance of Islam.

Tauheed is in knowing there is only one true creator of all that exists, that there is no one worthy of worship except Allah and that Allah is alone and there is no one like Allah.

Allah the ever living the eternal Creator of all that exists is the sole reason why we exist. Mankinds purpose is to worship only Allah. This must be done daily by praying 5 salat prayers that are mandatory and obligatory on every able person from the age of puberty.

The remembrance of Allah zikr is nourishment for the heart and soul and it revives and uplifts a person many degrees in status and many ways of wellbeing. It provides a person the means to build and invest in the hereafter which once it is undertaken will make the world submit to the will of man. The world will fall at your feet and as the dua of the

prophet Muhammad SAW states you will have the best of this life and the best of the hereafter.

Righteous deeds and good actions that lead to the benefit of ones soul and the goodness to be achieved by the people will bring much better states of existence and a more enjoyable and pleasant life for a person.

Being good is the only way to a good life that improves a persons potential and so long as Allah gives the ability and opportunity a person can undertake a better life to live.

Spending in the way of Allah SWT is a means to ward off evil and increases love between people and is a means of narrowing the gap between the rich and the poor.

Quran is meant to be recited often and at least daily so that one can accept Allahs blessings into their life and that the mercy of Allah may descend on a person. The Quran is best recited during fajr time as this is witnessed by the angels, however one can recite at any time of the day or night. A person must try to also memorise some new portion of the Quran, understand it and then try to apply it.

Speaking well and clear without the use of profane words is good speech and better means of communication. Say a straight word or remain silent is the approach of a maumin.

Manners in a person's day to day life needs to be built on spending at least a decade learning the various manners and etiquettes of everyday living. Although it takes a long time to learn manners this is something that is meant to be with you all your life building and practicing it.

The life that we live is entirely controlled by the heart. A person behaves according to the condition of the state of the heart. If the heart is hardened more than rocks then it cannot receive benefit either in the form of useful knowledge or in the form of action that is the fruit of knowledge. The more sin a person commits the harder the heart becomes and darkens with the effect of the sin. This is why manners make a person more light, fluid and impeccable. Good manners are the essence of a righteous soul. The behavior a person has with his fellow man is entirely dependent on how much a person knows about social interaction and has polite speech and conduct. The better the good attitude the better the person conducts himself with other people, this brings many opportunities and builds potential for a person.

One must earn respect from people and this is given by Allah SWT. A person tries to hold himself upright and with modesty and self-respect. This means keeping clean as cleanliness is next to godliness. A person recites Quran and prays and this elevates his status in the creation, as Allah makes and places the love of people into their hearts for the believer. This can be achieved by reciting Quran daily and observing your five obligatory prayers. A person has to struggle and strive, fighting day in day out to make sure Allah's path the chosen path of Islam reaches the four corners of the earth. All this and much more is part of building and investing in the hereafter. A person should aim to build an organization that helps and benefits the people as this will be their continuous charity even after death. So worship your Lord Allah SWT until the certainty i.e. Death comes to you.

How to build wealth according to Islamic Principles

Wealth creation and building your wealth is an important part of the life of a muslim. Money matters are important as it is part of the religion to give alms and annual tax of Zakat to the poor and needy. A person gives sadaqah but this does not decrease his wealth. As wealth belongs to Allah it is a trust given to man to be used properly without stinginess miserly or wastage by being spend thrift.

There are many ways that are permissible to build wealth, and it is important to note that a person must not undertake anything that which is haram like riba.

Building a business that deals in that which is permissible is one of the best ways to build wealth. Investing in the stock market i.e. investing in businesses is another method of building wealth over time. Than there are Islamic financial instruments like sukuks, modharabas and other such methods.

One must be careful not to take interest on their savings and not to take interest in other forms of money matters. As riba decreases wealth, builds poverty and widens the gap between the rich and the poor. Also a person must not collect and hoard wealth beyond what is needed to survive or unless your saving for a particular purpose like buying a house or to perform Hajj. Utilise the excess wealth to build and create businesses, jobs and also other philanthropic activities in the path of Islam.

Stock market investments in shariah compliant companies

Investing in the stock market making sure the businesses you invest in are shariah compliant companies. i.e. they do not deal in tobacco, alcohol, weapons that are used to fight against muslims or pornography and other such non shariah compliant companies. These businesses must be avoided at all cost.

Examples of shariah compliant businesses are food, technology, telecommunications, agriculture, pharmaceuticals and chemical and power companies and many others. When beginning to invest in the stock market a person needs to determine whether a business is a viable business to invest in. This requires company scrutiny, management analysis and understanding how the business works.

Methods used to determine a viable investment.

Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.

To calculate earnings per share, take a company's net income and subtract from that preferred dividends. Then divide that amount by the average number of outstanding common shares

EPS Example

Company	Net Income	Preferred Dividends	Weighted Common Shares	Basic EPS
Ghazi Tractors	\$7.6B	\$0	3.98B	$\$7.6/3.98 = \1.91
Meezan Bank	\$18.23B	\$1.61B	10.2B	$\$18.23 - \$1.61/10.2 = \$1.63$

What Is Return on Investment (ROI)?

Return on investment (ROI) is a performance measure used to evaluate the efficiency or **profitability** of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of **return** on a particular investment, relative to the investment's cost.

To calculate ROI, the benefit (or return) of an investment is divided by the cost of the investment. The result is expressed as a percentage or a **ratio**.

How to Calculate Return on Investment (ROI)

The return on investment (ROI) **formula is as follows**:

ROI= Current Value of Investment–Cost of Investment divided by
Cost of Investment

Financial Ratios

1. Working Capital Ratio

Assessing the health of a company in which you want to invest involves measuring its liquidity. Liquidity refers to how easily a company can turn assets into cash to pay short-term obligations. The working capital ratio can be useful in helping you measure liquidity.

Working capital is the difference between a firm's current assets and current liabilities. It represents a company's ability to pay its current liabilities with its current assets.

The working capital ratio, like working capital, compares current assets to current liabilities and is a metric used to measure liquidity. The working capital ratio is calculated by dividing current assets by current liabilities.

Say that XYZ company has current assets of \$8 million and current liabilities of \$4 million. The working capital ratio is 2 (\$8 million/\$4 million). That's an indication of healthy short-term liquidity. However, if two similar companies each had ratios of 2, but one had more cash among its current assets, that firm would be able to pay off its debts more quickly than the other.

A working capital ratio of 1 can imply that a company may have liquidity troubles and not be able to pay its short-term liabilities. However, the trouble could be temporary and later improve.

2. Quick Ratio

Also called the acid test, the quick ratio is another measure of liquidity. It represents a company's ability to pay current liabilities with assets that can be converted to cash quickly.

The calculation for the quick ratio is current assets minus inventory minus prepaid expenses divided by current liabilities. The formula removes inventory because it can take time to sell and convert inventory into liquid assets.

XYZ company has \$8 million in current assets, \$2 million in inventory and prepaid expenses, and \$4 million in current liabilities. That means the quick ratio is 1.5 ($\$8 \text{ million} - \$2 \text{ million} / \$4 \text{ million}$). It indicates that the company has enough money to pay its bills and continue operating.

A quick ratio of less than 1 can indicate that there isn't enough in liquid assets to pay short-term liabilities. The company may have to raise capital or take other actions. On the other hand, it may be a temporary situation.

3. Price-Earnings Ratio (P/E)

Called P/E for short, this ratio is used by investors to determine a stock's potential for growth. It reflects how much they would pay to receive \$1 of earnings. It's often used to compare the potential value of a selection of stocks.

To calculate the P/E ratio, divide a company's current stock price by earnings-per-share.

If, for example, a company closed trading at \$46.51 a share and the EPS for the past 12 months averaged \$4.90, then the P/E ratio would be 9.49 ($\$46.51 / \4.90). Investors would spend \$9.49 for every generated dollar of annual earnings. Investors have been willing to pay more than 20 times the EPS for certain stocks when they've felt that a future growth in earnings will give them an adequate return on their investment.

If a company has zero or negative earnings, the P/E ratio will no longer make sense. It will appear as N/A for not applicable.

4. Debt-to-Equity Ratio

What if your prospective investment target is borrowing too much? This can increase fixed charges, reduce earnings available for dividends, and pose a risk to shareholders.

The debt-to-equity (D/E) ratio measures how much a company is funding its operations using borrowed money. It can indicate whether shareholder equity can cover all debts, if needed. Investors often use it to compare the leverage used by different companies in the same industry. This can help them to determine which might be a lower risk investment.

To calculate the debt-to-equity ratio, divide total liabilities by total shareholders' equity. Let's say company XYZ has \$3.1 million worth of loans and shareholders' equity of \$13.3 million. That works out to a modest ratio of 0.23, which is acceptable under most circumstances.

However, like all other ratios, the metric has to be analyzed in terms of industry norms and company-specific requirements.

5. Return on Equity (ROE)

Return on equity (ROE) measures profitability and how effectively a company uses shareholder money to make a profit. For common stock shareholders, ROE (which is expressed as a percentage) is calculated by taking net income (income less expenses and taxes) figured before paying common share dividends and after paying preferred share dividends, and dividing the result by total shareholders' equity.

Let's say XYZ company's net income is \$1.3 million. Its shareholder equity is \$8 million. ROE then is 16.25%. The higher the ROE, the better the company is at generating profits using shareholder equity.

What's a Good ROE?

Return-on-equity, or ROE, is a metric used to analyze investment returns. It's a measure of how effectively a company uses shareholder equity to generate income. You might consider a good ROE one that increases steadily over time. That could indicate a company does a good job using shareholder funds to increase profits. In turn, that can increase shareholder value.

(Source of financial ratios: Investopedia.com)

All good principles are timeless, and Fisher's famous "Fifteen Points to Look for in a Common Stock" from *Common Stocks and Uncommon Profits* remain as relevant today as when they were first published. The 15 points are a qualitative guide to finding superbly managed companies with excellent growth prospects. According to Fisher, a company must qualify on most of these 15 points to be considered a worthwhile investment:

- 1.** Does the company have products or services with sufficient market potential to make possible a sizable increase in sales for at least several years? A company seeking a sustained period of spectacular growth must have products that address large and expanding markets.
- 2.** Does the management have a determination to continue to develop products or processes that will still further increase total sales potentials when the growth potentials of currently attractive product lines have largely been exploited? All markets eventually mature, and to maintain above-average growth over a period of decades, a company must continually develop new products to either expand existing markets or enter new ones.
- 3.** How effective are the company's research-and-development efforts in relation to its size? To develop new products, a company's research-and-development (R&D) effort must be both efficient and effective.
- 4.** Does the company have an above-average sales organization? Fisher wrote that in a competitive environment, few products or services are so compelling that they will sell to their maximum potential without expert merchandising.
- 5.** Does the company have a worthwhile profit margin? Berkshire Hathaway's BRK.B vice-chairman Charlie Munger is fond of saying that if something is not worth doing, it is not worth doing well. Similarly, a company can show tremendous growth, but the growth must bring worthwhile profits to reward investors.
- 6.** What is the company doing to maintain or improve profit margins? Fisher stated, "It is not the profit margin of the past but those of the future that are basically important to the investor." Because inflation increases a company's expenses and competitors will pressure profit margins, you should pay attention to a company's strategy for reducing costs and improving profit margins over the long haul. This is where the

moat framework we've spoken about throughout the Investing Classroom series can be a big help.

7. Does the company have outstanding labor and personnel relations? According to Fisher, a company with good labor relations tends to be more profitable than one with mediocre relations because happy employees are likely to be more productive. There is no single yardstick to measure the state of a company's labor relations, but there are a few items investors should investigate. First, companies with good labor relations usually make every effort to settle employee grievances quickly. In addition, a company that makes above-average profits, even while paying above-average wages to its employees is likely to have good labor relations. Finally, investors should pay attention to the attitude of top management toward employees.

8. Does the company have outstanding executive relations? Just as having good employee relations is important, a company must also cultivate the right atmosphere in its executive suite. Fisher noted that in companies where the founding family retains control, family members should not be promoted ahead of more able executives. In addition, executive salaries should be at least in line with industry norms. Salaries should also be reviewed regularly so that merited pay increases are given without having to be demanded.

9. Does the company have depth to its management? As a company continues to grow over a span of decades, it is vital that a deep pool of management talent be properly developed. Fisher warned investors to avoid companies where top management is reluctant to delegate significant authority to lower-level managers.

10. How good are the company's cost analysis and accounting controls? A company cannot deliver outstanding results over the long term if it is unable to closely track costs in each step of its operations. Fisher stated that getting a precise handle on a company's cost analysis is difficult, but an investor can discern which companies are exceptionally deficient--these are the companies to avoid.

11. Are there other aspects of the business, somewhat peculiar to the industry involved, which will give the investor important clues as to how outstanding the company may be in relation to its competition? Fisher described this point as a catch-all because the "important clues" will vary widely among industries. The skill with which a retailer, like Wal-Mart WMT or Costco COST, handles its merchandising and inventory is

of paramount importance. However, in an industry such as insurance, a completely different set of business factors is important. It is critical for an investor to understand which industry factors determine the success of a company and how that company stacks up in relation to its rivals.

12. Does the company have a short-range or long-range outlook in regard to profits? Fisher argued that investors should take a long-range view, and thus should favor companies that take a long-range view on profits. In addition, companies focused on meeting Wall Street's quarterly earnings estimates may forgo beneficial long-term actions if they cause a short-term hit to earnings. Even worse, management may be tempted to make aggressive accounting assumptions in order to report an acceptable quarterly profit number.

13. In the foreseeable future will the growth of the company require sufficient equity financing so that the larger number of shares then outstanding will largely cancel the existing stockholders' benefit from this anticipated growth? As an investor, you should seek companies with sufficient cash or borrowing capacity to fund growth without diluting the interests of its current owners with follow-on equity offerings.

14. Does management talk freely to investors about its affairs when things are going well but "clam up" when troubles and disappointments occur? Every business, no matter how wonderful, will occasionally face disappointments. Investors should seek out management that reports candidly to shareholders all aspects of the business, good or bad.

15. Does the company have a management of unquestionable integrity? The accounting scandals that led to the bankruptcies of Enron and WorldCom should highlight the importance of investing only with management teams of unquestionable integrity. Investors will be well-served by following Fisher's warning that regardless of how highly a company rates on the other 14 points, "If there is a serious question of the lack of a strong management sense of trusteeship for shareholders, the investor should never seriously consider participating in such an enterprise."

(Source: from *Common Stocks and Uncommon Profits*)

Now lets have a look at the following below to help you understand the basics of fundamental analysis, we have already looked at some financial ratios, now lets look into financial statements.

1. What is a business
2. Assets and liabilities
3. The income statement
4. The Balance Sheet
5. Cash Flow Statement
6. Types of businesses

1. What is a business

So what is a business?

A business is an organization or enterprising entity engaged in commercial, industrial or professional activities. A company transacts business activities through the production of a good, offering of a service or retailing of already manufactured products. A business can be a for-profit entity or a nonprofit organization that operates to fulfill a charitable mission.

Structure.

The most basic business structure is a sole proprietorship. The owner of the business is the sole individual who takes ownership of assets and debt obligations. Alternatively, multiple individuals with shared duties can operate a business, and this business structure is a partnership. A business may operate as a corporation. Incorporating a business releases owners of financial liability of business obligations; however, a corporation has unfavorable taxation rules for the owners of the business. For this reason, a fourth business structure, called a limited liability company, is available, which combines the benefits of a partnership and corporation.

Goals & Objectives

To help you better understand how companies set goals and objectives, you first need a good foundation for what the two are.

- Goals establish where you intend to go and tell you when you get there. They help improve your overall effectiveness as a company, whether you want to increase your share of the market, for example, or improve your customer service. The more carefully you define your goals, the more likely you are to do the right things and achieve what you wanted to accomplish in the first place.
- Objectives are the specific steps you and your company need to take in order to reach each of your goals. They specify what you must do and when.

Think of goals and objectives this way:

- Goals tell you where you want to go; objectives tell you exactly how to get there.
- Goals can increase your effectiveness; objectives back your goals and make you more efficient.
- Goals are typically described in words; objectives often come with numbers and specific dates.

Suppose that your goal is to double the number of people using your website resources as an educational course provider. Your objectives may be as follows:

- Gain awareness by placing print ads in four regional markets and by airing radio ads in two major markets by a specific date
- Attract first-time customers by offering an online giveaway of \$1,000
- Cultivate prospects by implementing a permission-based weekly e-mail to 2,500 targeted contacts
- Convert 10 percent of prospects to clients, using e-mail reminders

Together, goals and objectives form the road map for a company's future. Without them, you risk making wrong turns and wasting precious energy.

What you will find in the remainder of this book is information used to understand businesses for the purposes of investing, and for the use of understanding how companies operations work. The sections are divided as each company has to follow these steps that are part of their day to day activities. The financial statements show us the health of the business and also what information is necessary to its survival. The description of various kinds of businesses is to give you an idea how these companies generate their revenue and what makes them profitable and what are the factors that influence their outlook and the choices management has to make in its operations so as to continue as a sustained entity.

After reading this book you should have a basic understanding of the nature of business, how to understand the financial statements and also be able comprehend the way companies generate revenue and hence make a profit in their business. This will be useful to you in your day to day life and also in times of research when looking to invest in various companies.

2. Assets and liabilities

So what makes an asset and asset? Basically any structure or system that generates wealth for you net after expenses is an asset. If there is wealth being generated and going into to your pocket it is an asset, where as if there is wealth going out of your pocket it is a liability. It's knowing this simple difference that makes you think about your habits and the mechanisms by which you can generate more wealth for use. So next time you look at your car or your house think if this is bringing the use to me and in return allowing my wealth to be generated or is this costing me more than the value that I can perceive or attain from it. A big house will most likely be a liability considering the market devaluation and currency devaluation and also maintenance and taxes. But hey if you have a large income you may want to absorb the loss and say I like living like a star.

Personally I prefer having the same simple house that provides all the basics for you without costing you too much from wear and tear. If you stop working today how much cash keeps flowing in that's from assets and have cash keeps flowing out that's a liability so I'm not saying don't buy a house I'm just saying don't call a liability than an asset.

Assets increase your wealth, while liabilities cost you money. That what makes the rich richer and the poor poorer is that the rich spend their money on assets, while the poor waste their money on liabilities, which they think of as assets. Let me give you an example. A poor person, who's been sold a life-style as true happiness all their life, might think, owning, driving and maintaining a ferrari is an asset. Now, no one denies that they aren't fun, but all they do on the financial side of things is cost you money, lots of it. So, the shiny car, the newest smartphone and brand clothes and the great mansion may look attractive but are only useful if you got a surplus in income. A rich person might enjoy those liabilities, but they understand that what ensures their crazy lifestyle is assets like owning a building, having cash on hand or on deposit, corporate stock, equipment, inventory, mutual funds and even your own money jar. Whereas the middle class might try to live a similar lifestyle through mortgages, consumer loans and credit cards. The beautiful home, then, becomes a great liability, instead of an asset. Most people work almost all their lives to pay off their home. They've got expenses like maintenance, utilities and property tax. For another example, let's look at the taxation system, which, as you surely know, affects the middle- and upper middle class the most. When you run an organization, which is a great asset to have, if it makes lots of profit, one of the things maximizing your earnings is, that you are allowed by regulations to first spend on your expenses and pay your taxes after deduction.

Whereas people without assets are taxed on more than half of what they earn and spend. And you can start right now, take a little piece of paper, write down "asset or liability – question mark", put it in your wallet, wrap it around your bills and the next time you grab that wallet before making an impulsive buying decision, simply ask yourself "Is this product or service, I want to spend on, an asset, meaning it will help me make more money, thus it is a mid- or long-term investment or is it a liability and I will only lose money? That little paper will serve you as a reminder that you are not careless with your money. If you can make this a powerful habit, that sticks with you for the rest of your life or at least until you're wealthy, you're effectively going to operate as a small-time investor, have a careful eye on your expenses and spend your money only on products and services worth buying.

3. The Income Statement

The income statement is important because it shows the profitability of a company during the time interval specified in its heading. The income statement shows revenues, expenses, gains, and losses; it does not show cash receipts (money you receive) nor cash disbursements (money you pay out).

The income statement is one of three financial statements that stock investors need to become familiar with (the other two are balance sheet and cash flow statement). Understanding an income statement is essential for investors in order to analyze the profitability and future growth of a company, which should play a huge role in deciding whether or not to invest in it.

Income Statement Accounts

Net Sales (a.k.a. sales or revenue): At the end of your accounting period, you can now determine the sales figures for your income statement. Starting with gross sales, subtract the total sales discounts, returns and allowances you gave your customers to determine your net sales. The net sales is the term that is the value of a company's sales of goods and services to its customers. Even though a company's bottom line (its net income) gets most of the attention from investors, the top line is where the revenue or income process begins. In the long run, profit margins on a company's existing products tend to eventually reach a maximum that is difficult on which to improve. Thus, companies typically can grow no faster than their revenues.

Cost of Sales (a.k.a. cost of goods/products sold (COGS), and cost of services): Cost of Sales is a special type of expense that is used to differentiate between the direct costs and general overhead expenses of a business. It is important to determine the correct Cost of Sales to ensure pricing of products or services are established at levels that provide an appropriate gross profit margin and put the business in position to maximize profitability by managing overhead expenses. For a manufacturer, cost of sales is the expense incurred for labor, raw materials, and manufacturing overhead used in the production of goods. While it may be stated separately, depreciation expense belongs in the cost of sales. For wholesalers and retailers, the cost of sales is essentially the purchase cost of merchandise used for resale. For service-related businesses, cost of sales represents the cost of services rendered or cost of revenues.

Gross Profit (a.k.a. gross income or gross margin): The gross profit of a company tells use more than simply the difference between net sales and the cost of sales. Gross profit provides the resource to cover all of the company's other expenses such as overheads and corporate costs. Obviously, the greater and more stable a company's gross margin, the greater potential there is for positive bottom line (net income) results.

Selling, General and Administrative Expenses: This term refers to the company's operational expenses. Financial analysts generally assume that management exercises a great deal of control over this expense category. The trend of SG&A expenses, as a percentage of sales, is watched closely to detect signs, both positive and negative, of managerial efficiency.

Operating Income: Deducting SG&A from a company's gross profit produces operating income. This figure represents a company's earnings from its normal operations before any so-called non-operating income and/or costs such as interest expense, taxes and special items. Income at the operating level, which is viewed as more reliable, is often used by financial analysts rather than net income as a measure of profitability.

Interest Expense: This item reflects the costs of a company's borrowings. Sometimes companies record a net figure here for interest expense and interest income from invested funds.

Pretax Income: Another carefully watched indicator of profitability, earnings garnered before the income tax expense is an important bullet in the income statement. Numerous and diverse techniques are available to companies to avoid and/or minimize taxes that affect their reported income. Because these actions are not part of a company's business operations, analysts may choose to use pretax income as a more accurate measure of corporate profitability.

Income Taxes: As stated, the income tax amount has not actually been paid, it is an estimate, or an account that has been created to cover what a company expects to pay over the tax year.

Special Items or Extraordinary Expenses: These items can have a significant impact over the profitability of a company. A variety of events can produce charges against income. They are commonly identified as restructuring charges, unusual or nonrecurring items and discontinued operations. These write-offs are supposed to be one-time events. Investors need to take these special items into account when making inter-annual profit comparisons because they can distort evaluations.

Net Income (a.k.a. net profit or net earnings): This is the bottom line, which is the most commonly used indicator of a company's profitability. Of course, if expenses exceed income, this account caption will read as a net loss. After the payment of preferred dividends, if any, net income becomes part of a company's equity position as retained earnings.

4. The Balance Sheet

So the balance sheet is one of the key statements used to underline and see the health of the business along with the income statement

Investopedia.com provides a very clear and succinct account of information on financial statements, they have shown the terms associated with accounting documents explained in a simple easy to understand manner.

The **balance sheet** provides information on what the company owns (its assets), what it owes (its **liabilities**) and the value of the business to its stockholders (the **shareholders' equity**) as of a specific date. It's called a balance sheet because the two sides balance out. This makes sense: a company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).

Assets are economic resources that are expected to produce economic benefits for their owner

Liabilities are obligations the company has to outside parties. Liabilities represent others' rights to the company's money or services. Examples include bank loans, debts to suppliers and debts to employees.

Shareholders' equity is the value of a business to its owners after all of its obligations have been met. This net worth belongs to the owners. Shareholders' equity generally reflects the amount of capital the owners have invested, plus any profits generated that were subsequently reinvested in the company.

Each of the three segments of the balance sheet will have many accounts within it that document the value of each segment. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates the differences between varying types of businesses.

Here are the entries you'll find on a balance sheet and what each one means.

Total Assets

Total assets on the balance sheet are composed of the following:

The Current Assets are those assets that may be converted into cash, sold or consumed within a year or less. These usually include:

Cash - This is what the company has in cash in the bank. Cash is reported at its market value at the reporting date in the respective currency in which the financials are prepared. Different cash denominations are converted at the market conversion rate.

Marketable securities (short-term investments) - These can be both equity and/or debt securities for which a ready market exists. Furthermore, management expects to sell these investments within one year's time. These short-term investments are reported at their market value.

The accounts receivable portion is the money that is owed to the company for the goods and services it has provided to customers on credit. Every business has customers that will not pay for the products or services the company has provided.

Inventory represents raw materials and items that are available for sale or are in the process of being made ready for sale. These items can be valued individually by several different means, including at cost or current market value, and collectively by FIFO (first in, first out), LIFO (last in, first out) or average-cost method. Inventory is valued at the lower of the cost or market price to preclude overstating earnings and assets.

Prepaid expenses are payments that have been made for services that the company expects to receive in the near future. Typical prepaid expenses include rent, insurance premiums and taxes. These expenses are valued at their original (or historical) cost.

Long-Term assets - These are assets that **may not** be converted into cash, sold or consumed within a year or less. All items that are not included in current assets are considered long-term assets. These are:

Investments - These are investments that management does not expect to sell within the year. These investments can include bonds, common stock, long-term notes, investments in tangible fixed assets not currently used in operations (such as land held for speculation) and investments set aside in special funds, such as sinking funds, pension funds and plan-expansion funds. These long-term investments are reported at their historical cost or market value on the balance sheet.

Fixed assets are those assets that are durable physical properties used in operations that have a useful life longer than one year. This includes:

Machinery and equipment - This category represents the total machinery, equipment and furniture used in the company's operations. These assets are reported at their historical cost less accumulated depreciation.

Buildings or Plants - These are buildings that the company uses for its operations. These assets are depreciated and are reported at historical cost less accumulated depreciation.

Land - The land owned by the company on which the company's buildings or plants are sitting on. Land is valued at historical cost and is not depreciable under U.S. GAAP.

Other assets - This is a special classification for unusual items that cannot be included in one of the other asset categories. Examples include deferred charges (long-term prepaid expenses), non-current receivables and advances to subsidiaries.

Intangible assets are those assets that lack physical substance but provide economic rights and advantages: patents, franchises, copyrights, goodwill, trademarks and organization costs. These assets have a high degree of uncertainty in regard to whether future benefits will be realized.

Total Liabilities

Liabilities have the same classifications as assets: current and long term.

Current liabilities are those debts that are due to be paid within one year or the operating cycle, whichever is longer. Such obligations will typically involve the use of current assets, the creation of another current liability or the providing of some service.

Usually included in this section are:

The bank line of credit that is owed to the bank in the short term.

The accounts payable which the amount that is owed to suppliers for products and services that are delivered but not yet paid for.

The amount that is payable to employees, landlords, government and others in the form of wages, rents, taxes and utilities.

Accrued liabilities (accrued expenses) are those liabilities that arise because an expense occurs in a period prior to the related cash payment. This accounting term is usually used as an all-encompassing term that includes customer prepayments, dividends payables and wages payables, among others.

Short term loans are the amounts that the company owes to a creditor, and it usually carries an interest expense.

Unearned revenues (customer prepayments) – Payments that are received by customers for products and services the company has not delivered or for which the company has not yet started to incur any cost for delivery.

The amount that is going to be paid to its shareholders but has not been paid yet but accounted for by declaring it in its financial statements and its annual report.

The amount that is the currently maturing portion of the long-term debt is classified as a current liability. Theoretically, any related premium or discount should also be reclassified as a current liability.

The amount that is the current portion of a capital lease obligation what is the portion that is due within the next year.

Long-term Liabilities - These are obligations that are reasonably expected to be liquidated at some date beyond one year or one operating cycle. Long-term obligations are reported as the present value of all future cash payments. Usually included are:

The amount that the company owes to a creditor, which usually carries an interest expense is the notes payable.

The long term debt of bonds payable that is net of the current portion.

The deferred tax liabilities are taxes due in the future (future cash outflow for taxes payable) on income that has already been recognized for the books. If a company's tax expense is greater than its tax payable, then the company has created a future tax liability (the inverse would be accounted for as a deferred tax asset).

The Pension fund liability - This is a company's obligation to pay its past and current employees' post-retirement benefits; they are expected to materialize when the employees take their retirement for structures like a defined-benefit plan. The pension fund liability represents the additional amount the company will have to contribute to the current pension fund to meet future obligations.

The long-term capital-lease obligation is the written agreement under which a property owner allows a tenant to use and rent the property for a specified period of time.

5. Statement of Cash Flow

The statement of cash flow reports the impact of a firm's operating, investing and financial activities on cash flows over an accounting period.

In a Cash Flow statement, the only thing that matters is how much a business gets in cash and how much it pays in cash. This year's Cash Flow Statement also includes cash collected for previous years' sales or even future years' sales as long as it's collected this year. This year's Cash Flow Statement also includes cash paid for previous years or even future years' costs, expenses, capital expenditures, and taxes as long as it's paid this year. Note that a Cash Flow statement can be for any time period, and not only a 1-year time period like stated in this simple example. See? So that's the super simplified explanation of a Cash Flow Statement.

The cash flow statement shows the following:

How the company obtains and spends cash? Why there may be differences between net income and cash flows. If the company generates enough cash from operation to sustain the business. If the company generates enough cash to pay off existing debts as they mature. If the company has enough cash to take advantage of new investment opportunities

Investopedia.com has an excellent format for explaining the cash flow statement and I have sourced this from their site to explain to you the structure of the cash flow statement. The statement of cash flows is segregated into three sections:

- Operating activities
- Investing activities
- Financing activities

Cash Flow from Operating Activities (CFO)

CFO is cash flow that arises from normal operations such as revenues and cash operating expenses net of taxes.

This includes:

- Cash inflow (+)

1. Revenue from sale of goods and services
2. Interest (from debt instruments of other entities)
3. Dividends (from equities of other entities)

- Cash outflow (-)

1. Payments to suppliers
2. Payments to employees
3. Payments to government
4. Payments to lenders
5. Payments for other expenses

Cash Flow from Investing Activities (CFI)

CFI is cash flow that arises from investment activities such as the acquisition or disposition of current and fixed assets.

This includes:

- Cash inflow (+)

1. Sale of property, plant and equipment
2. Sale of debt or equity securities (other entities)
3. Collection of principal on loans to other entities

- Cash outflow (-)

1. Purchase of property, plant and equipment

2. Purchase of debt or equity securities (other entities)
3. Lending to other entities

Cash flow from financing activities (CFF)

CFF is cash flow that arises from raising (or decreasing) cash through the issuance (or retraction) of additional shares, or through short-term or long-term debt for the company's operations. This includes:

- Cash inflow (+)
 1. Sale of equity securities
 2. Issuance of debt securities

- Cash outflow (-)
 1. Dividends to shareholders
 2. Redemption of long-term debt
 3. Redemption of capital stock

6. Types of businesses

Well let's have a look now at various industries and the companies that work within these industries. This will make it clear to you how a business operates and what their means is to making profit and generating cash for the shareholders.

Food industry

Basically the food industry operates with low margins and economies of scale. The following examples of companies in the food industry will give you an understanding as to how the basic mechanics of the companies take place. Majority of the companies will have to invest in plant and machinery on a particular site where the factory process raw ingredients to make a finished good. They mass produce various juices, sauces, pickles, jams etc and sell them to wholesalers and retailers. Everybody loves to eat so do we know how the foods are created.

Well let's take a look at the sugar mill as an example. Farmers grow sugar cane and beetroot to be harvested and transported, this is the initial first step of the process to making crystallized sugar. The sugar cane is sent to the mills where they undergo processing by pressing and crushing the sugar cane to extract the raw juice from them. That juice added with a little lemon and a pinch of salt makes a most refreshing beverage that is commonly enjoyed in areas like the sub-continent. Anyway back to the processing, the raw sugar cane juice is then processed and undergoes various treatment at the sugar refinery where it is crystallized to form the sugar granules as a finished product. Depending on the process you obtain various degrees of sugar. Now sugar is an essential raw ingredient that goes into almost any product like cakes, biscuits, custard, tea, cereal etc. it tastes good and depending on how you use it is beneficial for you.

People love the sweet taste of the product and it is safe to say that it will be continued to be used for many generations.

So now that the sugar is crystallized it is placed into sacks and bags and transported to the wholesalers, stockists, and retailers. The business is simple straightforward and yields a good return over time. Marketing and advertising goes into promoting a particular brand for a company and this is then provided to the consumer you and me. So it's safe to see why it is a safe investment particularly in a developing economy or an agricultural economy.

Other food manufacturers such as say a juice bottling plant undergo roughly the same process with a few different steps in the process of creating the finished product. There are some materials and packaging differences and also some additional costs in the production of the finished goods.

Also you will have to remember that certain cleaning chemical agents are also part of the process of these factories day to day production. Once the food product is produced the material containers and pipes have to be washed thoroughly for use in creating the next batch of finished goods.

So the food business depending on the type of business is a safe investment. One that has history in making a particular brand, providing raw ingredients for the production of other food goods are usually the better investments among them.

You will also find some of the most sophisticated machinery depending on the size of the business and some of the most basic simple machinery as well that is common to the market.

Sugar, wheat, milk are three common raw material ingredients that are used for the basis of many other products.

Telecommunications

A very highly regulated industry and also highly competitive as well. The basis of this business relies upon heavy installation costs in the setup of the infrastructure needed to provide robust signals to the consumer. Capital costs are high and agreements are made with many commercial property owners to allow the construction of towers and other equipment that form the basis of the signal broadcasting system.

The telecommunication providers also then have agreements with particular phone manufacturers although most operate independently they can endorse a particular manufacturer to promote the use of their service.

They have heavy investments in phone software and also the necessary means to provide various forms of services that can be integrated with the provision and use of mobile phones.

They have highly skilled specialist workforce working on a multitude of various projects designed for the promotion and development of their service ranging from software engineers, electrical engineers to network administrators and also specialized administrative staff working closely on the building of the brands and products.

They also provide internet based products and internet service provisions. It allows us to speak, share thoughts and do business with nearly anyone, regardless of where in the world they might be. Telecom operating companies make all this happen.

They generate large sums of revenue by making calls, sending messages and images over their hardware. They connect people all over the world and communities and businesses as well. Success rests largely on the brand name and strength efficient billing systems. Their customers range from end user consumers

to households and also to corporate and business entities. Offering a variety of packages and incentives with each provider having access to millions of users they generate large turnover through various price mechanisms. Economies of scale play a large role in this industry.

Pharmaceutical companies

A lot of costs spent on research and development, there is a process from scientists thinking of the ideas to the doctor's research, test and trials for the drugs to be produced and then marketed to the public. This is known as the pipeline and refers to how many products - vaccines, steroids, immune system suppressants, aphrodisiacs (all under the general heading of drugs) - are in various stages of research and development. It takes between 10 to 15 years for an average drug to make it to pharmacy counters from a scientist's notebook. The main reason the pipeline fails to flow freely, is that there are heavy regulators like the food and drug administration (FDA) has its own shut-off valve in order to protect consumers from drugs that may have unexpected side effects. The FDA has very strict guidelines and tests that a drug must pass before it reaches store shelves; even after passing the tests, the FDA reserves the right to pull the drug en masse at any time.

Established companies are almost always safer than new ones. Brand name and recognition play a strong role in the reputation and quality of the medicines being offered. If there is an up-and-coming company with an unbeatable drug, a major firm will usually come along and partner with the smaller firm, or buy it outright.

So what are the factors affecting the market, there are patents and pricing, then most countries have an ageing population and lifestyles and incomes also contribute to the prevalent illnesses and sickness that is caused amongst societies. There are a range of chronic conditions that are increasing as a result of consumer choice and behaviour. Eating habits play a role in the onset of various conditions and illnesses.

So once the drugs are approved by the regulatory body they are then marketed and sent to distributors, stockists, retailers, and hospitals before making their way to the consumer.

Airline industries

Now the airline industry has many national and private commercial entities operating competing against each other for the consumers preferred choice of service. There are massive capital costs spent on the investments of airplane carriers used primarily for the transport of people, cargo and various goods. Logistic companies also operate their freight services with their own planes and a lot is spent on promotions and incentives provided to the consumer.

Oil prices directly affect the price and revenue of these airlines. The airlines operate primarily in three areas, international flights, regional, domestic and cargo, it is heavily regulated and intensely competitive. All vying to provide the best service to the consumer.

Labour force has high turnover and a lot of job discontentment results as the primary factor for this high turnover. Labour is the airline's No.1 cost; airlines must pay pilots, flight attendants, baggage handlers, dispatchers, customer service and others. Licenses are required for the operating of the services paid to the government and regulatory authority.

The weather has to be monitored carefully as that has the power to cancel flights cause delays and other frustrations to the passengers and high costs to the airline in terms of fuel expenditure, reputation damage and also damage to the aircrafts.

Airlines also earn revenue from transporting cargo, selling frequent flier miles to other companies and up-selling in flight services. But the largest proportion of revenue is derived from regular and business passengers. For this reason, it is important that you take consumer and business confidence into account on top of the regular factors that one should consider like earnings growth and debt load.

A final key area to keep a close eye on is costs. The airline industry is extremely sensitive to costs such as fuel, labor and borrowing costs. If you notice a trend of rising fuel costs, you should factor that into your analysis of a company. Fuel prices tend to fluctuate on a monthly basis, so paying close attention to these costs is crucial.

Substitutes are only realistic in terms of regional flights where a train or car may be acceptable for international flights the substitute effect is marginally low. The cost of competition is high therefore returns are generally low

Car manufacturers

The auto manufacturing industry is considered to be highly capital and labor intensive. Large capital investments are needed to setup factories that produce the finished goods. These factories rely on machines, robots and also human labour. Specialised highly skilled workers are used in the engineering and design aspect of the car production. The major costs for producing and selling automobiles include labor materials everything from steel, aluminum, dashboards, seats, tires, etc. are purchased from suppliers. And advertising each year automakers spend billions on print and broadcast advertising; furthermore, they spent large amounts of money on market research to anticipate consumer trends and preferences.

The auto market is thought to be made primarily of automakers, but auto parts makes up another lucrative sector of the market. The major areas of auto parts manufacturing are:

Original Equipment Manufacturers (OEMs) - The big auto manufacturers do produce some of their own parts, but they can't produce every part and component that goes into a new vehicle. Companies in this industry manufacture everything from door handles to seats.

Replacement Parts Production and Distribution - These are the parts that are replaced after the purchase of a vehicle. Air filters, oil filters and replacement lights are examples of products from this area of the sector.

Rubber Fabrication - This includes everything from tires, hoses, belts, etc.

Automobiles depend heavily on consumer trends and tastes. While car companies do sell a large proportion of vehicles to businesses and car rental companies (fleet sales), consumer sales is the largest source of revenue.

The cars produced are then sent to car dealers, showrooms, company retailers and other sellers of the vehicles.

Returns on capital invested is normally low, and anything like manufacturing faults and other problems can bear heavy costs for the manufacturer that would have to recall the vehicles to make sure they are appropriately road safe.

A significant portion of an automaker's revenue comes from the services it offers with the new vehicle.

Greater emphasis on leasing has also helped increase revenues. The advantage of leasing is that it eases consumer fears about resale value, and it makes the car sound more affordable. From a maker's perspective, leasing is a great way to hide the true price of the vehicle through financing costs. Car companies, then, are able to push more cars through.

The higher the cost of operating a vehicle, the more likely people will seek alternative transportation options. The price of oil has a large effect on consumers' decisions to buy vehicles. If it is cheaper and more affordable to take the bus or train than that will have a direct impact on the use and purchase of motor vehicles.

Oil and gas companies

The oil and gas sectors fall into the energy industry on which we will talk about later on. These companies are involved in two main areas, oil drilling and oilfield services. Before petroleum can be used, it is sent to a refinery where it is physically, thermally and chemically separated into fractions and then converted into finished products. About 90% of these products are fuels such as gasoline, aviation fuels, distillate and residual oil, liquefied petroleum gas (LPG) and kerosene. Refineries also produce non-fuel products, including petrochemicals, asphalt, road oil, lubricants, solvents and wax. Petrochemicals (ethylene, propylene, benzene and others) are shipped to chemical plants, where they are used to manufacture chemicals and plastics.

Oil Drilling and Services

Oil drilling and services is broken into two major areas: drilling and oilfield services.

Drilling - Drilling companies physically drill and pump oil out of the ground. The drilling industry has always been classified as highly skilled. The people with the skills and expertise to operate drilling equipment are in high demand, which means that for an oil company to have these people on staff all the time can cost a lot. For this reason, most drilling companies are simply contractors who are hired by oil and gas producers for a specified period of time.

In the drilling industry, there are several different types of rigs, each with a specialized purpose. Some of these include:

Land Rigs - Drilling depths ranges from 5,000 to 30,000 feet.

Submersible Rigs - Used for ocean, lake and swamp drilling. The bottom part of these rigs is submerged to the sea's floor and the platform is on top of the water.

Jack-ups - this type of rig has three legs and a triangular platform which is jacked-up above the highest anticipated waves.

Drill Ships - These look like tankers/ships, but they travel the oceans in search of oil in extremely deep water.

Oilfield Services - Oilfield service companies assist the drilling companies in setting up oil and gas wells. In general these companies manufacture, repair and maintain equipment used in oil extraction and transport. More specifically, these services can include:

Seismic Testing - This involves mapping the geological structure beneath the surface.

Transport Services - Both land and water rigs need to be moved around at some point in time.

Directional Services - Believe it or not, all oil wells are not drilled straight down, some oil services companies specialize in drilling angled or horizontal holes.

The oil industry is easily influenced by economic and political conditions. If a country is in a recession, fewer products are being manufactured, not as many people drive to work, take vacations, etc. All of these variables factor into less energy use. The best time to invest in an oil company is when the economy is firing on all cylinders and oil companies are making so much money that using excessive amounts of energy themselves has little effect on their bottom line.

The contracts through which an oil services company is paid also play a large role in supply. Pay close attention to the day rates, as falling day rates can dramatically decrease revenues. The opposite is true should day rates rise. This is because many of the drillers' costs are fixed.

While there are plenty of oil companies in the world, much of the oil and gas business is dominated by a small handful of powerful companies. The large amounts of capital investment tend to weed

out a lot of the suppliers of rigs, pipeline, refining, etc.

Substitutes for the oil industry in general include alternative fuels such as coal, gas, solar power, wind power, hydroelectricity and even nuclear energy. All of these fall into the energy industry.

Cement companies

So what do we know about cement and the companies that make these bags of raw construction material. Everything around us man made that is in the form of a building or structure will most likely have cement as part of its fundamental constituent in the makeup of its infrastructure. So how do we make cement. This business is very much like the other raw material businesses such as the making of sugar. Except we don't eat the cement we make structures out of it.

So where do we get cement from, cement is typically made from limestone and clay or shale. These raw materials are extracted from the quarry crushed to a very fine powder and then blended in the correct proportions.

So vehicles, quarry machinery and manpower is utilized in the extraction of this raw materials from the earth and then this blended raw material as mentioned is known as the 'raw feed' or 'kiln feed' and is heated in a rotary kiln where it reaches a temperature of about 1400 C to 1500 C. In its simplest form, the rotary kiln is a tube up to 200 metres long and perhaps 6 metres in diameter, with a long flame at one end. The raw feed enters the kiln at the cool end and gradually passes down to the hot end, then falls out of the kiln and cools down.

The material formed in the kiln is described as 'clinker' and is typically composed of rounded nodules between 1mm and 25mm across.

After cooling, the clinker may be stored temporarily in a clinker store, or it may pass directly to the cement mill.

The cement mill grinds the clinker to a fine powder. A small amount of gypsum - a form of calcium sulfate - is normally

ground up with the clinker. The gypsum controls the setting properties of the cement when water is added.

This fine powder which is used to make the cement for construction purposes is then packaged in bags just like sugar and distributed to the various development companies and retailers for use in various projects.

Cement is a safe investment particularly in developing economies where infrastructure projects are being implemented and also in developed countries where real estate, commercial estate and other structural projects are being undertaken.

It is one of the fundamental building blocks in forming concrete investment.

Fertilizer companies

Ok now what we have here is another raw material component that is used in the farming industry. Fertilizer is added to the soil to make the plants grow better and for the crops to produce a better yield. Fertilizer is in two forms, inorganic and organic. Most of the products that a fertilizer company produces are bags of various soil rich additions to make the farmers crop better. So basically anything that will enhance the metabolic reactions of the plants to produce better quality product and help in cross pollination and further propagation and improvement to the earth so that continuous farming can take place over the seasons with different seasonal crops.

So where there's farming there is fertilizers. The companies that make the bags of fertilizers are basically forming different percentage of compound ingredients like nitrogen, phosphate and potash. These are then added with various other raw ingredients to make a finished product which is then packaged and distributed to the farmers.

The farmer adds this to his land and plants his crop. And each harvest is expected to produce a better yield as a result.

Factors like weather and other influences like disease and pests can also affect the overall yield of the crop, as a result most of the companies also produce pesticides as part of their product portfolio, which might not make the most nutritious of foods as compared to organic foods but this is the modern era of farming and agriculture that we live in today.

So in a strong agricultural economy a fertilizer company is usually a safe investment that will grow and produce a good return on investment.

Chemical companies

Well this is a very interesting sector. It forms one of the basic components of various types of commodities. So this will have impact on many other sectors and many industries. You will find that chemical components will have more than 70,000 different types of uses in various forms of goods.

Ranging from creating cleaning equipment, to making paints, uses in the food industry, in the pharmaceutical industries in making medicines and in processes and R&D, in wood and wood products, for use in the oil and gas sector, pulp and paper products and many others, agriculture and machinery.

So how do these companies make revenue, they provide the necessary chemical ingredients and solutions to various sectors for the processing and manufacture of other goods and provision of services.

In the industrial sector in the manufacture of most goods in plastics and various polymers, in the production of various kinds of foods, or the making of paper, chemistry is necessary and a fundamental ingredient in the process of making a finished good.

So most other industries rely heavily on the chemical industry and are the customer base of the various chemical ingredients that they apply to their design and processes.

It's a very profitable industry but has high barriers to entry as it takes large capital investments to setup an industrial plant that produces the chemicals for the use in different products.

If you understand the basis of how these companies work, with the margins involved and how they generate revenue then they can form a key part of a given return on investment.

However, you do have to be involved in the recent developments in the various industries to see the impact it has on potential growth and future investments. They are also involved in pioneering new methods and technologies in improving the quality of life.

The chemical industry is very much reliant on the consumer behaviour and choice of people that creates the necessary means to which it is acting as a key supplier to other industries.

Energy companies

Well this is a very different business model to most companies. How do energy companies make their money? The basics of this is based on two methods and that is providing supply of energy to domestic and non domestic consumers and also by energy generation and production.

Electrical energy companies invest heavily on producing the facilities or power houses designed for energy production. Each energy unit produced is then supplied to domestic and non-domestic consumers who purchase the units in the form of a monthly bill sent to their homes. This revenue generated to the company is then offset against any costs of investment, supply of services, corporate costs and any interest payments that might have been incurred as a result of loans taken out to invest in the project.

It is a heavily regulated industry so that consumers do not pay too much for their bills and there are policies and guidelines by which the energy companies have to adhere to otherwise it can result in fines being levied against them.

In certain countries the energy companies are so heavily regulated that profit margin, price rates, rate of returns are all prefixed by the regulator. One has to look carefully at the factors involved in the industry to determine whether it's a safe predictable rate of return or whether any changes to the industry will result in consequences that may cause an energy company to go out of business. There can be instances where it is a low risk and guaranteed rate of return in certain economies, well guaranteed to a certain degree.

Other places it is a matter of the economic factors, interest rates, and supply and shortfall of energy in the provision of Gas, power

generation or other factors that has overall effect on the profitability and rate of return to investors.

Profit margin in selling wholesale energy can be 5 times as much more profitable than supply of energy to consumers.

This is the energy industry and unless one knows all the factors involved in the business it can be a complex business, although most are vertically integrated generating energy and supplying it to consumers. There are many factors that one has to be aware of particularly the influence of the regulatory authority to determine whether it's an investment to be entered into.

Sample Portfolio of Dividend Income Stocks PSX KSE 100

Stocks	Share Price	No of Shares	Value in Rs.	Dividends	Income
FFC	112.99	1,770	200,000	2.10	3,717
Nishat Chunian Power ltd	13.5	14,815	200,000	10.00	148,148
Kot Addu	30.34	6,592	200,000	4.00	26,368
Engro Corporation Ltd	231.13	865	200,000	11.00	9,518
Mehran Sugar Mills Ltd	35.4	5,650	200,000	-	-
Engro Polymer & Chemicals Ltd.	59.34	3,370	200,000	2.50	8,426
Attock Petroleum Ltd.	293.75	681	200,000	30.00	20,426
Security Papers Ltd	120	1,667	200,000	-	-
Abbott	570	351	200,000	15.00	5,263
Dawood Hercules	89.2	2,242	200,000	4.50	10,090
International Steels Ltd.	59.58	3,357	200,000	4.50	15,106
Fauji Cement Company	15.18	13,175	200,000	-	-
Bestway Cement	132	1,515	200,000	4.00	6,061
Engro PowerGen	22.33	8,957	200,000	5.00	44,783
Total		65,007	2,800,000		297,905

If you can count your money, you don't have a billion dollars.