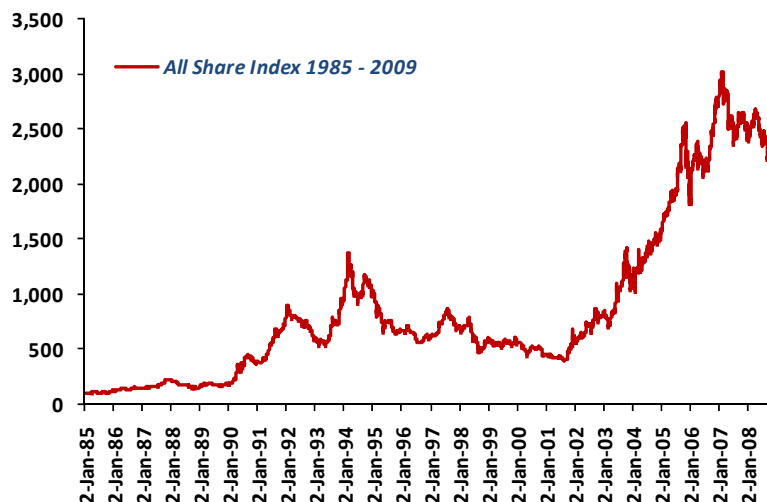


The Colombo Stock Exchange – An Investment Opportunity Outlook

I can't predict the short term movement of the Stock Market. I haven't the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely however is that the market will move higher perhaps substantially so, well before the sentiment or the economy, turns up. So if you wait for the Robins, spring will be over - Warren Buffet

Peace & the CSE

Sri Lanka is at the crossroads of an unprecedented landmark event in its history. The permanent solution to the civil unrest that has marred the Emerald Isle is potentially poised to bring about an increased level of interest, activity and fund flows, reminiscent of the extended Bull Run the Colombo Stock Exchange (CSE) enjoyed in the early to mid 2000 time period. During its peak the All Share & Milanka indices continued to break records culminating in all time highs of 3,016 and 4,214 in early 2007. It also



witnessed an active participation from retail, institutional, local and foreign investors reinforcing the attractiveness of Equities as a powerful investment vehicle in the hands of a diligent, informed investor with a clear investment strategy in mind. We look back at the historical performance of the CSE as an indicator of the possible upside that Colombo stocks bring to the discerning investor.

Timing & Risk

A key ingredient to the successful generation of fruitful investment returns is the timing of entry and exit of investment flows. Entering at an opportune

Date	ASI	Growth/(Decline)	CAGR- Trough to Peak(Approx.)	CAGR-Peak to Trough(Approx.)
1-Jan-85	100.00	NA		
1-Mar-94	1,378.82	1279%	33.8%	
17-Aug-01	383.40	-72%		-16.7%
13-Feb-07	3,016.42	687%	41.0%	
30-Dec-08	1,484.53	-51%		?

time, reaping the holding gains/profit target and exiting at the target price is a formula practiced by investors the world over. It should be noted that Equities or shares are equivalents of ownership. Equity investments bring with them a higher degree of risk which is traded off/compensated with a higher degree of returns (risk/return trade off). One of the risks of Equity investments arises from the inability of the investing public to perfectly predict the movement of the prices therefore the gains or losses from investment

Diligence, Research & Strategy

The performance of the market during times of peace (coinciding with the cease fire agreements mainly in 1991 and 2002) indicate a significantly prosperous opportunity window for an investor willing to take on the higher risk associated with Equity instruments. This is more so given the fact that share prices have significantly receded from their 2007 highs. It important to note that careful, diligent back ground analysis is a logical pre requisite to investment. This means the analysis of the company itself and the price history of the counter in the formulation of Equity strategy

Fundamental analysis is the investigation of

- Growth (Revenue, Profit. Assets)
- Future Prospects (New markets, products, JV's, alliances, positive changes in legislation or product/market dynamics)
- Underlying Economics (Debt, Margins, Peer Comparison, Efficiency of Asset Utilization)
- Macro changes (Shifts in customer tastes etc)

and arriving at a buy/sell/hold decision comparing the share price versus the “intrinsic” value of the company in concern.

Common valuation metrics are the Price Earnings Ratio (PER) & the Price to Book Value (PBV). It is also important to understand the price history of the counter in terms of the highest or lowest trading points, liquidity, free float and ownership structure. This provides the investor a guide line as to which level the stock is currently trading in terms of its historical movements, how often the stock is transacted and the number of shares in the public domain. Price knowledge may guide the buyer as to whether the purchase is being made at a higher or lower level compared to what the counter has previously traded, helping in the timing of investment and the setting of profit targets for exiting the investment. Diligence, care, strategy and monitoring of the investment is required in order to make the market work for the investor in the generation of rewards

Broad Macro Incidents and the CSE

In addition to the expected conclusion to civil strife it is also important to note that factors such as

- The Global Financial Crisis and Economic Meltdown
- Sri Lanka's own foreign currency concerns
- A recent history of high interest rates
- Inflationary conditions
- The slump in commodity markets
- Construction being stagnant as at present
- Corporate earnings potential

need to be considered when deciding, timing and proceeding with Equity investments in the CSE.

Equities bring with them their own unique risk flavor. In the hands of a careful, diligent investor with a planned strategy targeting specific achievable profits Equity investment in the CSE can be a significantly rewarding exercise

Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.

Risk comes from not knowing what you're doing.

Rule #1 Never Lose Money. Rule #2 Never Forget Rule #1

-Warren Buffet