

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

Department of Economics



Diploma Thesis

**Evaluation of Investment Strategy in a Given Investment
Fund**

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Objectives of thesis

The aim of the thesis is to evaluate the investment strategy of a current mutual fund for the investment company in the Czech Republic. The perspective on the mutual fund focuses both on the past and future results and then the thesis provides a proposal of the investment strategy for the next years.

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MARK ST. GILES, Mark St. Ekaterina Alexeeva. Managing Collective Investment Funds. 2nd ed. Chichester: John Wiley, 2003. ISBN 978-047-0856-963.

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In Prague, 27th March 2014

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Evaluation of Investment Strategy in a Given Investment Fund

Zhodnocení investiční strategie vybraného investičního fondu

Summary

The diploma thesis is focused on collective investment in the Czech Republic. The objective of the thesis is to evaluate an investment strategy of a given investment fund from the point of view of a potential investor. The analysis is focused mainly on the evaluation of the historical performance of the fund, comparison and evaluation of the investment strategy and the evaluation of portfolio management. The partial aims of the diploma thesis are to calculate, evaluate and compare the historical performance of value of unit with the current value of unit by using intrinsic value and to calculate and compare historical development of investment valuations ratios of the fund. The final aim of the diploma thesis is to evaluate and summarize results about studied topic and provide relevant recommendations and suggestions for the potential investors.

Souhrn

Diplomová práce se zabývá kolektivním investováním v České Republice. Cílem práce je zhodnotit investiční strategii vybraného investičního fondu z pohledu potenciálního investora. Analýza se zaměřuje na zhodnocení historické výkonnosti fondu, komparaci a zhodnocení investiční strategie a management portfolia. Parciálními cíly diplomové práce jsou výpočet, zhodnocení a komparace historické výkonnosti hodnoty podílového listu s aktuální hodnotou podílového listu pomocí vnitřní hodnoty a výpočty i porovnání vývoje investičních poměrů fondu. Finální cíl diplomové práce je analyzovat a shrnout výsledky tématu a poskytnout relevantní doporučení pro potenciálního investora.

Keywords: Investment Strategy; Investment Fund; Mutual Fund; Collective Investment; Investment Horizon; Intrinsic Value; Market Value; P/E ratio; Investor

Klíčová slova: investiční strategie; investiční fond; podílový fond; kolektivní investování; investiční horizont; vnitřní hodnota; tržní hodnota; P/E poměr; investor

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1 INTRODUCTION

Collective investment is nowadays a very popular approach how to increase a value of money among the people worldwide as well as in the Czech Republic. This type of investments offers opportunity to invest savings and to maintain the hope of higher returns compared to just deposit money into for example a saving account at a bank. Mutual fund is the most widely used and most popular form of the various types of investment. The establishment of a number of domestic mutual funds and also the entry of foreign investment companies to the Czech market led to the emergence of a wide range of investment instruments of this type and then to the increase of the popularity and growth in the Czech Republic.

The essence of a collective investment is to gather financial means from individual "small" investors and by purchasing of units or shares of an investment fund they give confidence to the fund which is managed by professional managers of a company. Investment companies allow the general public to invest their money in various types of funds with different strategies. Even though this method of investment is particularly suitable for beginning investors with no previous experience, it is necessary to have a basic knowledge both about how the investment companies in the Czech Republic operate and about the selected fund. Every investor should spend certain time to understand the basic possible strategies of funds and find the most suitable one for the investment.

The main advantages of the collective investment for an investor are primarily professionalism in the management of invested financial means and low administrative and time demands. Investment companies are generally endowed with incomparably much higher amount of financial means than an individual investor, which they may in pursuance of their investments put into various types of assets and thanks to this they can reduce a risk from the potential negative performance of a particular asset.

It is also necessary to emphasize that collective investment has number of risks, which vary according to the types and strategies of funds. Therefore, investors have to realize that they are the only ones who bear the risk of possible losses from investments. To prevent losses of investors, it is required to understand basic investment analysis and indicators that do not point only to historical performance of the fund. Historical development of the value of a financial instrument to which an investor is considering to

invest is an important evidence of the ability of the company that it is able to increase the value of units, but the achieved success in the past in any case cannot guarantee that the successes will be also repeated in the future.

2 OBJECTIVES OF THESIS AND METHODOLOGY

Objectives of Thesis

The main objective of the diploma thesis is to evaluate an investment strategy of a chosen investment fund in the Czech Republic from the point of view of a potential investor.

The analysis focuses mainly on the evaluation of the historical performance of the fund, comparison and evaluation of the investment strategy and the evaluation of composition of portfolio. Through the evaluation of investment strategy, it is possible to define its advantages and disadvantages and also the level of risk for a potential investor.

The partial aims of the diploma thesis are to calculate, evaluate and compare the historical performance of value of unit with the current value of unit by using intrinsic value and to calculate and compare historical development of investment valuations ratios of the fund.

The final aim of the diploma thesis is to summarize results about studied topic and provide relevant recommendations and suggestions for potential investors.

Methodology

Data for the literature overview of the diploma thesis were collected from the available professional sources focused on the topic of collective investment, portfolio theory and investment analysis. The main sources used in the diploma thesis were academic books, web pages and magazines. For a proper processing of literature overview the appropriate methods as synthesis, induction, deduction and comparison were used.

The practical part, based on synthesis and induction in problem resolution, uses financial methods, comparative and qualitative analyses for verification of theory in practice. Fundamental analysis, income model and investment valuation ratios were selected as the appropriate methods.

Qualitative analysis was focused on strategy of a chosen investment fund. A strategy was evaluated by using theory from the literature overview and the possible risks of the fund for the investors were pointed out.

The required data for financial analysis were provided by an investment company AKRO investiční společnost, a. s. for the purpose of academic study of income model and investment valuation ratios. The company enabled the access to work with Bloomberg Professional service software for the portfolio and comparison analysis.

Calculations were processed in Microsoft Excel.

The results were compared by using the financial analysis calculations, gathered data and qualitative method based on theory.

3 LITERATURE OVERVIEW

3.1 Basic Types of Marketable Financial Securities

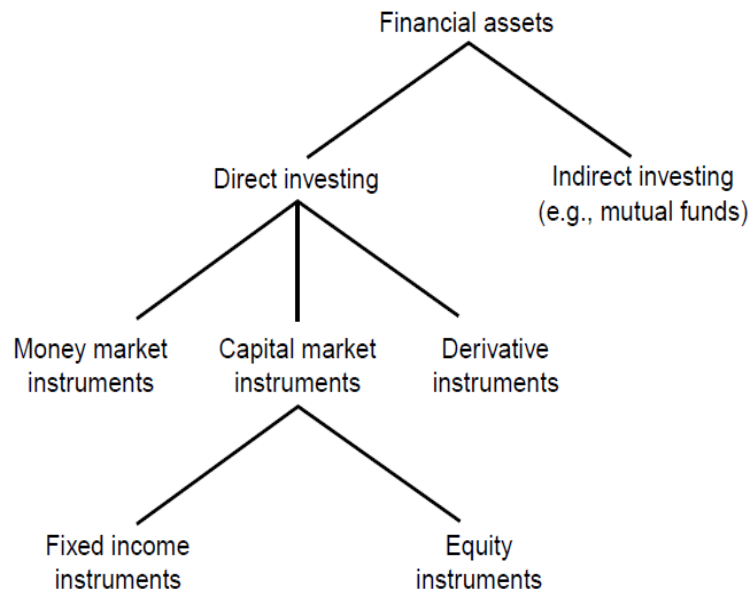
As a first point it is necessary to introduce the reader to the basic financial instruments to be able to understand the main principles of the problem. The first important issue is to describe the main types of financial securities. The major division is separated into two parts. An investor chooses what type of securities is interested in and purchases it directly- it means direct investing. On the other hand the second possibility is that the investor can purchase the shares of some investment company- mutual funds, it means indirect investment.

The classification of the direct investment depends on the time horizon of the investment. Money market instruments have high liquidity and short maturity (less than one year), the government sell the money market securities. The main money market instruments are for example treasury bills, repurchase agreements and commercial papers.

Capital market instruments are the investments with more than one year or no proposed maturity. The division of the market generally depends on the instruments if they promise a set of cash flows in some time period- fixed income market or if they offer some profit of the company in the future- equity market and the preferred stock is an instrument which contains some characteristics from the both mentioned types.

Derivative instruments mean that the value is derived from the price of another security, for example from the value of an underlying security. Another name for derivative instruments is contingent claims, the reason is that the values are contingent on the performance of already mentioned underlying securities- assets. The Picture 1 shows a structure of basic types of marketable financial securities. [1]

Picture 1- Basic Types of Marketable Financial Securities



Source: ELTON, Edwin, GRUBER, Martin, BROWN, Stephen, GOETZMANN, William. Modern portfolio theory and investment analysis. [1]

3.2 Indirect Investing- Collective Investment

The main types of marketable financial securities were already briefly explained, but for the chosen topic the indirect investing is more important to understand. The basic difference between direct and indirect investing was clarified. So for the indirect type of investment it is known that the investor purchases the shares of investment companies- mutual funds.

The most popular form of indirect investing is a collective investment. In chapters hereinafter the definition of a collective investment with the other important parts of the topic will be explained. [2]

3.2.1 Definition of Collective Investment

Collective investment offers an indirect way to the financial market for the investors. Thanks to the intermediary the investors have the opportunity to access to the various types of investment. One of the most popular and used types is an investment fund and especially a mutual fund. In the Czech Republic an open- end funds are mostly spread.

The Act No. 240/2013 Coll., as amended defines a collective investment scheme. In this Act a collective investment is a business which collects finances by underwriting investment fund shares or by issuance of mutual fund's units of the investment company; an investing on the principle of risk spreading and further management of these assets. Used financial means of the fund must be used only in accordance with the law.

A basis of the idea of collective investment funds is the association of financial means of the investors for the purpose to manage more effectively their investments and for the purpose of diversification, cost and also risks minimization. Furthermore, the common investor through a collective investment can reach the markets which are accessible only for the institutional investors. Thanks to a collective investment households can invest and then increase the value of their money with taking all the other advantages of the investment. [2, 3]

3.2.1.1 Institutions of a Collective Investment

Czech legislative differentiates several types of institutions which are directly connected with a collective investment, it means the companies which are intermediaries and they act as a business entity. Their activities are regulated by law, because these companies are focused especially on common, less informed and inexperienced investors.

Investment Fund

An investment fund has a legal entity. It can be administrated by own management or can entrust the administration of the assets to the investment company on the treaty on management. The firms are required to pay a fee to the company which administrates their capital. Czech National Bank has to provide permission for the administration of an

investment fund. In the Czech legislative the fund is established for the fixed or indefinite period and this must be written in the Statute of the company. It has mostly the form of stock company. Investors buy shares of the investment fund of the same nominal value. [3]

Investment Companies

Investment companies are legal persons whose activity consists of creating and management of mutual funds. Investment companies can also manage investment funds under the treaty on management. The activities of investment companies are listed in detail in the Act on Collective Investment. The Act also sets out the conditions which are necessary to fulfill for the establishment of an investment company. The investment company has the same authorities as a joint- stock company. The supreme body is the general meeting. Another body is the Board of Directors, as statutory authority and the Supervisory Board as the supervisory authority. The persons participating in the statutory and supervisory bodies have to comply higher requirements to work in these positions. These persons must be professionally competent, criminally blameless and they cannot hold any position which is incompatible with the functions in the bodies of the investment company which lists the Czech law. The reason for stricter conditions is the protection of investor's interests. The supervision of the proper performance of investment activities of companies holds the Czech National Bank and if it obtains the application made by an investment company, after completing all the requirements, it authorizes the formation of a mutual fund and registers it. On the websites of the Czech National Bank a list of collective investment funds is published. In view of the fact that a mutual fund has no legal personality it must be always managed by an investment company, but a company can manage more than only one mutual fund. [3, 4]

Mutual Fund

The investment company manages the assets of investors. The organizational unit of the company is called a mutual fund. It was already mentioned that mutual funds have no legal personality, so they must always be administrated by the investment company. The Czech National Bank gives the permission to create a mutual fund if the company puts forward a proposal of a new fund. A mutual fund is basically formed by selling a mutual

fund's units. The financial means which an investment company receives through a mutual fund must be immediately transferred to an account of a depository. Depository leads the account for each of the fund separately.

Investing through a mutual fund performs that the investor purchases mutual fund's units from the investment company. The investment company issues the mutual fund's units for an amount which is equal to the current value announced at the decisive day. In the Statute there is defined a decisive day and a potential extra charges to the current value of the mutual fund's units. There is also the possibility of issuance of units for an amount which is equal to the nominal value, but only for a maximum of 3 months from the beginning of the issuance of the units.

A mutual fund collects money of investors who are called shareholders. Shareholders are only the owners of certain assets of the investment fund, they have no other rights. The investment company manages them their property for consideration. According to the law about the redemption of fund's units it is possible to divide funds into two categories- closed- end funds and open- end mutual funds. [3, 4]

Difference between Open- end and Closed- end Fund

There are some several differences between open-end fund and closed-end fund. Open-end fund's shares are offered to the common investor continuously. An investor purchases the units from the mutual fund of the company and then they are sold back to the same fund. An investor buys the mutual fund's units at the ask price and then it can redeem shares at the bid price. Shares have to be sold with a prospectus. An open-end fund can borrow or lend money, purchase put or call options, but senior securities cannot be issued. It is a no-loan fund if the ask price and bid are similar and the ask price cannot be higher than the bid price more than 8.5 % under the National Association of Securities Dealers rules.

On the other hand a closed-end fund has a fixed number of shares outstanding. A purchase and sale of shares is realized by other investors and through broker or dealer. An investor buys at the ask price plus a commission and sell at the ask price minus a commission. New issued units have to be sold with a prospectus. Both types of funds can lend or borrow money, purchase put or call option, but only closed-end fund can issue

senior securities. There are two variants where the ask price may be, the first variant is above the bid price or the second variant is below the bid price- net asset value per share. [5]

3.2.1.2 Mutual Fund's Unit

Unit is a special type of security from which results rights for the owner-shareholder. The investor is entitled to a proportionate share of the fund's assets, while also takes part in an income from these investments. Proceed may be paid either continuously or reinvested by fund. Type and method of a payment of the proceed is always determined in the Statute of the fund. A redemption of units of the mutual fund assets subjects to taxation. According to a current legislation there is no necessity to pay a taxation if a shareholder keep the units at least 6 months. Shareholder has no other rights- cannot participate in the General Meeting, participate in the decision- making processes of an investment company and interfere with its investment policy.

A shareholder of a mutual fund has a right to resale mutual fund's units to the investment company. But it is necessary to mention that an investment company can temporarily stop the redemption of units. If necessary, the suspension can be up to a total time of three months. The Board of Directors of an investment company make decision about a suspension of redemption of mutual fund's unit and it has to be written an official record which is then handed to the Czech National Bank. A commitment of the bank is to authorize the suspension and it can also cancel the decision to suspend the redemption of units if there is the possibility that the investor's interests are endangered. In this case for the payment of units an investment company used financial means which are in a depository. Each mutual fund has own account in a depository. Mutual fund's units can be also transferred to another person. [2]

3.2.1.3 Statute of a Fund

Each collective investment fund have to publish a statute of a fund, record about key information, articles of association and annual and semi- annual report.

The principal document governing the activities of an investment company and an investment fund is a statute of a fund. It contains important information about a fund and

every investor should be familiar with this document if he or she is considering invest in a fund. This is the reason why a statute should be written in a simple language and be accesible to the public according to the law. For example the document explains the risks associated with investing in the fund or a method of management of the assets accumulated in the fund.

A statute of a mutual fund has a character of contractual conditions between an investment company and investor. It defines the basic rights and obligations among them. The investor has to have the opportunity to peruse a statute of a mutual fund before investing into the fund. In case that the investor does not peruse the statute, it is binding. An investment company accepts a statute of the respective fund in accordance with its regulations and a statute has to be also approved by the Czech National Bank. [2]

3.2.1.4 Depository

Each investment company and investment fund must have its depository. A depository of a collective investment fund registers assets of a fund of a collective investment and controls wheter a fund of a collective investment disposes with the assets in accordance with the Czech law and a Statute.

A depository is inherently one of the regulatory authorities of collective investment funds. Its function is to supervise the activity of investment companies and investment funds. A depository may be a bank or a foreign bank with a branch office in the Czech Republic, which has a banking license allowed to manage the depository. Conditions for fulfillment of obligations between the depository and investment company or investment fund are set out in the depository contract. It is concluded for an indefinite period. The notice period is six months. A duty of a depository is to check whether the financial means of investment company and investment fund are utilized according to the law. In case of misconduct, the depository shall immediately notify both the relevant investment company or investment fund, but also the Czech National Bank. A mission of a depository is to restrict the possibility of damage to property of investor because of the illegal and irresponsible practise of an investment company or investment fund. A depository has also an access to the flow of the financial means between the investor and the investment company or investment fund. It increases the possibility of protecting the assets of the

shareholders, which is the main aim of a depositary. For a proper operation of the depositary it is also important a communication with the investment company and the investment fund which fulfills the informative duty in relation to a depositary. An independent evidence of property of a depositary is also needed. The control body of a depositary is the Czech National Bank. It supervises the activities of a depositary and in a case of some misconduct it is entitled to impose penalties and fines. [2]

3.3 Investment Strategy

3.3.1 Definition of Investment Strategy

The aim of the thesis is to evaluate the investment strategy of a chosen investment fund in the Czech Republic. Firstly it is necessary to define what a strategy is. The definitions are for example: “a plan of action designed to achieve a long-term or overall aim” [6] or “A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem.” [7]

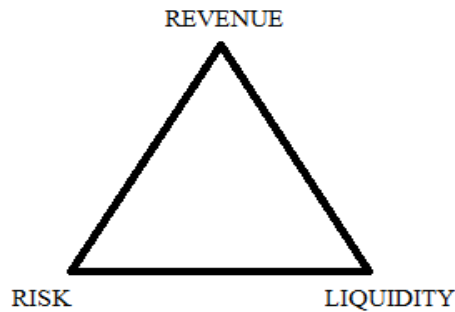
And the investment strategy can be defined as “An investor's plan of attack to guide their investment decisions based on individual goals, risk tolerance and future needs for capital. The components of most investment strategies include asset allocation, buy and sell guidelines, and risk guidelines.” [8]

If an investor wants to indirectly invest its financial means to the investment company it should study the investment strategies of the company and should try to find the one which is close to the investor's style of investment strategy. As it was already mentioned in the chapter above it is necessary to peruse thoroughly a statute of the fund to understand well how the investment company administrates a fund. In a statute of a fund strategies are defined.

3.3.2 Investment Triangle

The basic factors of the investment strategy are profitability, risk and liquidity. These three factors are known as an investment triangle. The basic rules of an investment triangle are that between risk and return is a direct proportion. With increasing return the risk is increasing and with increasing of the risk of an investment return is increasing. Between liquidity and return is an inverse proportion. The more liquid investment, the lower the return is. Between liquidity and risk is also an inverse proportion- the higher the risk, the lower the liquidity is. Investor always moves inside the triangle and can never reach a perfect investment that would simultaneously maximize revenue, be completely safe or to be possible to immediately change the revenue into the cash. [9]

Picture 2- Investment Triangle



Source: Own elaboration based on BECKER, Philipp M. *Investing in microfinance integrating new asset classes into an asset allocation framework applying scenario methodology*. [9]

3.3.3 Investment Strategy Division

There are a lot of different strategies and their division which an investment company can use for its management, but it is not possible to define exactly what strategy is correct or wrong. The positive and unfortunately negative result of a fund depends on many internal and external factors, which sometimes could not be influenced by the investment company and its directors. It is very difficult to predict an emergency of the funds. But nowadays of course as in all economic sciences there are some indicators which can help us to evaluate past performance of a fund and predict the future results and through that it is possible to evaluate the management of a fund of the investment company.

In the thesis the problematic is especially focused on collective investment through the view of investment company. There are many possibilities how an investment company can be managed.

3.3.3.1 Types of Investment

Firstly the company has to define what type of investment is interested in. The most often used types are equities, bonds, money market and other instruments as for example non- financial investment (commodities, real estate market etc.)

The investment companies can also invest in more than only one type of investment. They can combine for example equities with bonds for a portfolio or an investment company can purchase some commodities as maize or silver with shares in a stock market. It is known as a mixed fund. The main objective is to decrease a possibility of a risk. A mixed fund maintains a large flexibility to invest only where the market conditions are favourable. [1]

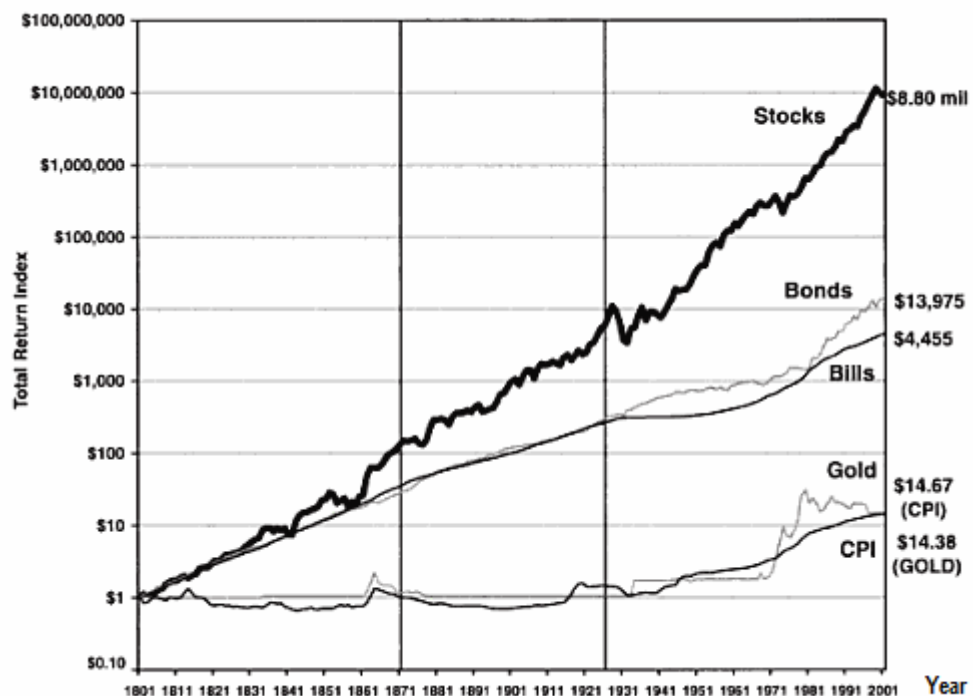
Equities

The “equity market” is also known as a market for shares and it is a part of capital market which was already defined in the first chapter. The equity concept is that the shares

exist to provide: capital, a means for sharing risks, security of ownership, transferability and negotiability, liquidity and diversification. Investors can easily and also efficiently invest to the many of different companies, not only to invest to any one company and by this reduce a risk connected with this issue. Equities are traded in a stock market.

It is possible to say that the equity market, along with the other capital markets, provides very efficient way how to channel saving into the most productive part of the economy- growing business. Shares are liquid and buying and selling of them is feasible at any time. But what is also necessary to mention is that the equities are very often appreciated as the riskiest one of all the assets, especially in a short- term perspective. But this is not true at all when we look to the long- term horizon. The Graph 1 below shows the period between 1802- 2001 of the total nominal return indexes of different assets. From the graph it is noticeable that equities- stocks are the most profitable ones in the long- term period, the return is on average better than to invest to other type of asset. Thus the equities are intended for investors with no short- term horizon returns. [1, 10]

Graph 1- Total Nominal Return Indexes of Different Assets- 1802- 2001



Source: ELTON, Edwin, GRUBER, Martin, BROWN, Stephen, GOETZMANN, William. *Modern portfolio theory and investment analysis*. [1]

But there are also many risks for an investment company to own equities. The main types are volatility risk, political risk, currency risk, company risk, transactional risk and liquidity risk. [10]

Bonds

Bonds are debt securities. In a simplified way if a person purchases a bond, he or she is lending money to for example company, financial institution, municipality or a government. The institution which offers bonds is called an issuer. Bonds are fixed instruments and they are issued to raise a capital. The investor's profit is that the issuer has to pay some extra charge for the privilege that it can use money from investor. The extra charge is returned in a form of interest payments- sometimes called coupons. Bonds are fixed instruments because if an investor holds the bonds until maturity what is a predetermined day when an issuer has to repay the amount borrowed.

It is also important to define what are the main differences between bonds and equities- bonds are debt and stocks are equity. If company purchases equity- stock it becomes an owner of a company, it has a share of the company. On the other hand if a company is interested to invest own financial means to purchase bonds it becomes a creditor to the issuer. The main advantage is in the case of bankruptcy of an issuer a creditor has a higher claim on assets than shareholder by law. The disadvantage is if the profits of issuer are higher than for example the prediction then a bondholder obtains still only the predetermined interest payment.

The bonds are good choice for the investors which are interested in short- time horizon profit with low risk. The other main reason when an investor should purchase bonds is to diversify its own portfolio.

Money Market

A money market is a part of the global financial system. A definition of a money market is that it is “a market for both borrowing and lending money for short- time periods between banks and other financial organizations” [11] as for example investment companies. Investment into a money market fund is a short- term investment instrument.

To provide a current income it is the main aim for the investor. The money market funds invest the joint investment of a huge number of investors in the money market. It is relatively safe form of investment, because of investing in government and other public securities, bank deposits etc. and the term is not longer than one year. As the benefits of money market funds it is possible to mention some examples: the investments are very liquid, the capital of investor is very safe and there is no commission payment. But of course money market funds have also the disadvantages as for exaple there is no quaranty of fixed returns. [12]

In the European Union money market is divided into two main types according to the Committee of European Securities Regulators. The first type is defined as short- term money market fund which means that these funds operate very short weighted average maturity and also weighted average life. On the other hand the second type- money market fund operates with a longer weighted average maturity and weighted average life. All the differences are written in a CESR's Guidelines on a common definition of European money market funds from the year 2010 and the Czech Capital Market Association based on this document and also document of EFAMA (European Fund and Asset Management Association) published methodology about a classification of funds for the members of AKAT. [13]

Non- Financial Investment

It is also important to mention non- financial instruments as real estate market, gold market or commodities. The average cost of land is still increasing worldwide, so the investment to the real estate market can be profitable, but nowadays because of a financial crisis many prices of houses and building goes down, but of course it depends on many factors as a locality etc.

For many years investment in gold was profitable. Last 12 years the value of gold was rising, but nowadays the value goes down. The predictions for next years are very different among the economists, so it is not possible to say if investment in gold will be profitable or not. Gold can be a part of a portfolio to diversify it, but there is no certainty of profit.

Commodities are raw materials which are used for the creation of products for the consumers. Agricultural commodities are for example wheat, barley, maize or animals as cattle or chicken. They are very important, because every person needs basic nutrition products. On the other hand commodities are also energy products as oil, gas and minerals. Also already mentioned gold above is a commodity. Some commodities can be stored only for limited time period as cocoa, sugar or coffee and they are known as “soft” commodities. Commodities are a distinct asset class where the returns are mainly independent of stock and bond returns. To invest in commodities it can help diversify a portfolio of stocks and bonds with low potential of risk and potentially increasing of return. [14]

3.3.3.2 Geographical Strategy of Funds

The other strategy of an investment company is to choose where it wants to invest geographically, it means to focus on specific geographic region, either domestic region- in our case to concentrate on the Czech Republic market or foreign market as U. S. market. The other possibility is to focus on emerging market which is nowadays very popular.

Emerging Markets

Emerging markets, also called as “developing markets” or “rapidly industrializing nations” are rapidly growing economies with fast industrialization. It means emerging markets are countries which are in a phase of transition between developing to developed country. Nowadays there are a lot of emerging markets, but they are very quickly and often changed. There are chosen indicators and many different methods which classify the market to the emerging market. The indicators which evaluate a market are for example a growth of the gross national product, poverty situation, etc. FTSE (Financial Times Stock Exchange) index determined according to the development level these countries as advanced emerging markets in 2012: Brazil, the Czech Republic, Hungary, Mexico, Poland, Malaysia, South Africa, Turkey and Taiwan. The secondary emerging countries which were determined according FTSE index were Chile, China, Columbia, Egypt, India, Indonesia, Morocco, Pakistan, Peru, the Philippines, Russia, Thailand and the UAE in

2012. The most popular means with methods for evaluating emerging countries are for example MSCI (Morgan Stanley Capital International) framework, Grant Thornton's emerging markets opportunity index or already mentioned FTSE index. [15]

The main reasons why to invest in emerging markets are that there is relatively low correlation with developed stock market and emerging countries in average have a huge amount of mineral wealth. The legal, political and economic environment has a tendency of a fast improvement and also because of this there is a strong inflow of foreign capital. All these aspects cause increasing economic and consumer confidence in the market. The very important forecast is that China, India, Brazil and Russia- BRIC countries will enter into the top ten largest economies in the world. Basically the advantage of funds investing in emerging markets is a broad geographic diversification, which reduces the risk of a sharp decline in performance of the fund. The fact that the portfolio includes the different and distant areas of the world, a decrease in the market in one part of the world is usually compensated by increasing in the remaining markets. Investor can take advantage of the growth potential of emerging markets and not to take the risk of investing based on a single market.

On the other hand risks may be significantly higher in the emerging global markets than in developed countries. Especially in countries with a characteristic of an authoritarian government, political instability and high taxation the risk is very high. Compared to the developed countries, stock markets in these countries may be less stable and also less liquid. A participation in these markets can be costly and information about investing may be incomplete and unreliable. Investor should have the experience of investing in shares and should be prepared for the short-term losses associated with higher volatility of a fund- it means more frequent and deeper positive and negative fluctuations in the fund. [16]

The U. S. Market

The U. S. capital market has a leading role worldwide. Stock exchanges in other countries monitor developments in the USA and they are fundamentally influenced by them. The U. S. stocks have the highest liquidity and the most important investors trade there, most of them still bring new investment tools.

The United States market for stocks has a tradition longer than 200 years and nowadays it is one of the most important financial institutions in world economy. The main stock exchanges are the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX) and the National Association of Securities Dealers Automated Quotation (NASDAQ). [17]

The most famous and oldest stock exchange is traditional NYSE (New York Stock Exchange). It is one of the oldest institutions of its kind - the first session was organized in 1792. The development of the exchange as a whole is characterized by a prestigious index Dow Jones Industrial Average 30. This stock exchange is considered as the largest, the most liquid and the most famous stock exchange in the world. Currently there are over three thousand registered U. S. and foreign companies. The stock exchange has over four hundred members from institutional and individual investors. There are traded stocks of the largest and the most valuable U. S. companies, but also shares of the prestigious foreign companies. [18]

The National Association of Securities Dealers Automated Quotation is a global electronic marketplace where investors can purchase or sell securities. The main vision of NASDAQ is that the system is computerized so it means very speedy and also transparent.

The American Stock Exchange is the third largest stock exchange in the United States by trading volume. The AMEX is situated in New York and it manages about 10 % of all securities which are traded in the U. S. [19]

Domestic and Foreign Market

Investment in a domestic market has of course many advantages as for example no language barriers or easy access to information. The investors also know better the law and regulations connected with the investment in a country. The main disadvantage for the investors is that they are investing only in one country which is not nowadays very often profitable. The economic situation of the country influences if the stocks rise or fall. The recommendation is that the domestic market strategy is good for investment for a retirement account or if the investor is interested in short- term horizon trading, because of easy and sooner access to the stock than investing in a foreign market.

Foreign stocks have usually higher profit than domestic stocks which is of course the main reason why to invest abroad. But it was already mentioned that the access to the information for investors is easier in a domestic market. It is possible to say that foreign investor do not usually get the same information as domestic ones. When investor wants to trade in a foreign market he or she should spend much more time to understand the market and all the other aspects connected with investment. [20]

3.3.3.3 Industrial Strategy of Funds

From the other point of view an investment company can be interested in different industries to invest. There are a lot of various industries all over the world, so it is not possible to mention all of them. In the current time the most interested industries are especially the pharmaceutical industry and the technological industry. Both of them are nowadays very rapidly developing industries which influence all of us. The research in the pharmaceutical industry develops new medicinal drugs and through this many diseased people can survive or live longer than without these medicaments. Technological industry development provides for example easier transfer of information, new and better technologies for security etc. Many investors see in these two industries a huge potential both for the investment and for the whole society, so they are really interested to invest in the technological or pharmaceutical industry.

It is possible to say that the technological industry is one of the largest single units of the market. The technological companies invest a huge amount of money into an innovation and invention so they need money. They offer for example their shares in the stock market where the investors can purchase them. So it should be profitable for both of them, but there is also a possibility that the company will not be successful either in its development and research or there will be some different external factors such as a better and faster competitor and the value of the investor's shares will decrease. So a general recommendation is for example to understand a firm's strategy and visions to the future. [21]

3.3.3.4 Themes- Socially Responsible Investment

Some of investors do not purchase certain types of shares and bonds or do not invest in money market because of some ethical, religious or ecological problems of the company where they want to invest, it is known as socially responsible investment. It is sure that for example Muslims which do not eat pork meat will not buy shares of pork meat factory. Nowadays many investors are really interested about ecological topics because of global warming effects and other ecological problems, it is known as green investment.

Ethical investment can be described as an investment in such companies which do not interfere in morality, or certain ethical standards, but determining the extent of the ethical potential of the company is basically at the discretion of the particular investor or fund manager. There is a problem that many firms state that they are ethical companies, but if the investors are interested to understand the strategies of companies, they can find some issues which are not basically determined as ethical. The companies have for example a problem to publish their ethical criteria or they do not provide a transparent money management. The other problems are that they employ the staff under the minimum salary or they employ children etc.

The trend worldwide is that many companies try to develop new technologies which are ecological and less harmful for a nature and for human beings as well. And still more and more investors are interested about this. They are not only interested in profit, but also from what they gain the profit. [22]

3.3.3.5 Investment Styles

There are a variety of investment styles that managers of funds can use and it is not possible to say which style is good or bad only that there is no best investment style except the one that works best for the investor. Many investors consider that equity funds investing in the same territory and the same market should have roughly the same performance, and therefore they deemed to select a specific fund as a secondary matter. But the opposite is a true - the individual funds significantly differ in their investment styles that determine the behavior of the fund in different market situations. The most popular styles are mentioned and briefly described below:

Active x Passive Portfolio Management

The basic style of fund management division represents the distribution of the funds into actively managed and passively managed (known also as index funds). The objective of an actively managed fund is to overcome yield of the market, a passively managed fund target is committed to achieve a performance consistent with the overall market. Passively managed funds have the advantage that they have a clear investment policy and lower management fees. Their disadvantage is that they cannot actively adjust portfolio of the current market situation and seek growth opportunities. However, if the market is efficient, this objection is irrelevant. [1, 23]

Old x New Economy

Simultaneously with the choice of actively or passively managed fund the investor must decide whether to invest in businesses representing the "old economy" which means enterprises, transport, energy and constructions or to invest in companies which are interested in technology, media and telecommunications- the "new economy". From the funds investing in old economy it can be expected lower risk and lower performance, the funds investing in the new economy are riskier but also potentially more powerful. [1, 23]

Small x Large Businesses

If the the investor chooses to actively managed funds, the other decision which is necessary to do is to choose a size of the fund. The basic possibilities are to invest in rather large, middle or small companies. As large size companies there are considered firms with a market capitalization greater than 5 billion USD in the U. S. As a small company it is defined a company with a capitalization of less than 1 billion USD and of course middle companies are defined as company with capitalization between 1 billion to 5 billion USD. It is clear that large enterprises have a more stable source of revenues than small businesses, and therefore they are less risky but they offer lower growth potential. "New economy" businesses are, with some exceptions as Microsoft, Yahoo or Cisco, in the category of small businesses. [1, 23]

Value x Growth Funds

The other very important question which an investor should ask is if he or she is interested to invest in company that is already at the height of its powers or try to find the businesses from which they soon may become the most profitable ones. The first approach is called value, the second one is growth. It is not basically possible to say that one approach is riskier than the second one. Growth strategy demands an access to a deeper knowledge of the fundamental situation of the company, its management capabilities and potential of the market in which the company operates. The value strategy is usually more advantageous in the boom times, because companies with a good market position in the growth of the economy report further revenue growth. On the contrary growth approach is more advantageous in the recession time when the only companies with a good management and good strategy may grow. [1, 23]

Top-Down x Bottom-Up Strategy

Two other basic approaches for selection are top-down strategy and bottom-up strategy. In the top-down strategy a portfolio fund manager selects firstly perspective region, economy and industry and then in the selected sector the manager searches for a specific company in which to invest. While in the bottom-up strategy a manager selects a particular firm, regardless of the perspective of the whole industry, economy or region.

It is obvious that the investment styles mentioned above are certain extremes. Portfolio management is always a compromise between these extremes. This is especially true for the two types of approaches- growth versus value strategy and top-down versus bottom-up strategy. The distinction between growth and value enterprises is not definite - value fund may eventually prove to be rather growth and vice versa. Likewise when the perspectives of the company are evaluated it is not possible to avoid to assess the perspectives of industry or region, and therefore most supporters of the bottom-up strategy select to the portfolio only those firms whose industry will face a further growth. [23]

Market Timing and Buy & Hold Strategy

Market timing is other way how to invest. The investor or portfolio manager seeks to determine whether the market or the security has already reached its maximum or minimum and also uses available information to predict a "mood" of the market. The disadvantage is that the investor can easily sells when the value is "down" and vice versa buys "on top". According to many studies anybody of the professional portfolio managers is not able to systematically and reliably determine whether or when the market or a security has reached its peak or bottom.

The opposite method of the market timing is a strategy of buy & hold where regardless of market sentiment the investor holds securities throughout the investment horizon. This method is based on the principle that in the long- time period most shares rising and according to a series of statistics this strategy provides slightly better results than the approach of the market timing. [1, 24]

3.4 Fundamental Analysis- Intrinsic Value and Market Price of Shares

Regards the investment, there is a large number of shares and other instruments in which it is possible to invest. But not every financial instrument guarantees any revenue which is the main aim why to invest in particular. This is the reason why nearly all investors use different analytical methods, each in a sole discretion. These methods can be divided into four groups:

- Fundamental analysis,
- Technical analysis,
- Psychological analysis,
- Theory of efficient markets.

The first three of these four analyzes are based on the assumption that the shares traded on the stock market are valued differently than what is their actual value and therefore it is possible to achieve long-term returns. The theory of efficient markets, by contrast, contends that on the market poorly rated securities do not exist. From the previous very brief definition follows that efficient markets theory is not stock analysis. The theory of efficient markets is used to explain movements of the stock rate, not for the investment decisions.

Hereinafter the emphasis is placed on fundamental analysis, because it is a basic method and it is also very often used. Fundamental analysis is already for the last 30 years the most commonly used tool for assessing the accuracy of valuation of shares. By using a fundamental analysis investors estimate the future behavior of the market. Fundamental analysis is based on analysis of the basics - fundamentals, to determine the real (intrinsic) value of the shares and to determine the market value which oscillates around the intrinsic value. It deals in detail with the economic, political, social, geographic, demographic and other factors and issues that determine the evolution of share prices. To understand this analysis it is necessary to clarify the basic concepts that occur such as an intrinsic value of shares and the market price of the shares. [25]

3.4.1 Intrinsic Value

An intrinsic value can be defined as the imaginary value of a security, regardless of the market rate, which reflects all relevant company characteristics and also revenue opportunities and the company's prospects for the future. It is a measure of how shareholders, owners and especially investors appreciate the shares. They are finding the intrinsic value to compare it with the market price of share. By this it is possible to determine whether a stock is overvalued, undervalued or properly valued and therefore whether the investor should sell, buy or continue to hold share in property. Intrinsic value of shares is referred to as a good price. For the determination of the intrinsic value of the share, there are many methods that are based on different courses- formed factors. If the investor believes that the intrinsic value of the shares is mainly determined by the company's profit he or she uses to calculate income models. If there is the possibility that the intrinsic value of the shares is especially determined by dividends payables the dividend discount models are used. For shareholders who believe that the main factor is the property of the company, it is suitable to use balanced model method. And for an investor who is interested in the previous development of a company, historical models are suitable. [26]

3.4.2 Market Value

Market price is the price at which the shares are traded on the stock markets. It is also a value which oscillates at around the intrinsic value. The market values are presented for example on the website of the company, in newspapers etc. The market price of the shares is determined by supply and anonymous demand of the market. It is then given by the intersection of supply and demand and the intersection is called a fair price. The market values of shares are regularly recorded, so it is possible to check values of market prices at which the shares were traded in the past. The comparison of market share price and the intrinsic value of the shares is the last step of a fundamental analysis. This may result in the following three findings:

- Intrinsic value > Market value
 - i. e. the stock is **undervalued** and it is a time to buy this stock

- Intrinsic value < Market value
 - i. e. the stock is **overvalued**, it is a time to sell the shares held and with purchase of new shares wait
- Intrinsic value = Market value
 - i. e. **properly valued** shares

Fundamental analysis is already for the last 30 years the most commonly used tool for assessing the accuracy of valuation of shares. By using a fundamental analysis investors estimate the future behavior of the market. Fundamental analysis is based on analysis of the basics - fundamentals, to determine the real (intrinsic) value of the shares and to determine the market value which oscillates around the intrinsic value. It deals in detail with the economic, political, social, geographic, demographic and other factors and issues that determine the evolution of share prices. [27]

3.4.3 Methods for Calculation Intrinsic Value of Shares

To calculate the intrinsic value of the shares it was developed a lot of methods over the years. The methods can be divided into the five basic groups:

- Dividend discount model,
- Income models,
- Cash flow models,
- Historical models,
- Balance models.

Some of these methods are based on future revenues, which in some circumstances investors could receive from the held shares. These methods then take into account the time value of money. These methods are the dividend discount models, income and cash flow models. From analytical and theoretical point of view these models are the most comprehensive and accurate and the most complex ones. Other models use to determine the intrinsic value of the shares the data from the financial statement of the company. Other

methods use only historical data, which are regulated and related to the present day, order to allow to determine the intrinsic value of the shares. The models abound in greater or lesser degree of precision. Most of the methods used for the calculation the expected values and therefore the analysts must often settle for only with the indicative values. [26, 27]

3.4.4 Income Models

Income models are often used methods for determining the intrinsic value of shares on the basis of the price- earnings ratio (P/ E). This indicator can be defined as the ratio of the current share price and the net income per share. When comparing the P/ E ratio of different shares, investor has to note that the values are different for different countries, sectors and time. The P/ E ratio is a popular indicator, primarily because easy availability, it can be also easily calculated and is well understood. Also, it reflects a number of characteristics such as profitability, risk, indebtedness, etc. The shares which have a low value of P/ E are indicated by investors as undervalued, while stocks with high P/ E are not recommended to buy. It is because many investors regard for the prospect of high profits in the form of income from shares which have had in past years, so there is a high demand for this stock and this pushes up the market rate. This also increases the value of their P/ E. For these stocks there is a high risk that investors will often disappointed by lower revenues than they expected. In contrast, the undervalued stocks whose market value is low are usually completely contrary to the expectations of investors bring high profits.

As it was already mentioned, the value of P/ E ratio is different for individual markets, as well as in different sectors. The factors that cause differences in the P/ E values in different markets are:

- the expected growth opportunities in a given country - the higher the expected growth opportunities, the more optimistic investors and thus the demand for shares is increasing also with the increasing value of P/ E ratio,
- the required rate of return - the lower the required rate of return, the higher the P/ E ratio,

- the expected rate of inflation - an increase of inflation rate causes an increase of the required rate of return, thereby there is a decrease of P/ E ratio,
- tax rate - the higher the tax rate of the country, it is required the higher the rate of return and thereby there is the decrease of the value P/ E.

The factors which influence the value of P/ E ratio at the individual level are especially:

- monitored growth perspectives and risks of investment company - at a high expected growth of the company the investors expect higher profits, demand for shares is growing and thus also the value of P/ E ratio,
- dividend policy - high payout ratio attracts investors who are willing to pay more for certain share and therefore the value of P/ E ratio increases,
- type of industry and its popularity among the investors - investors prefer industry with abundant use of new technologies and researches, in these sectors both the demand and P/ E ratio are increasing,
- quality management of the company - if the management of the company is high-quality and respected, the market price of its shares is rising also as increasing of value of P/ E.

There are a lot of types of P/E ratios. For the analysis it will be defined two most often used and very popular ratios- Trailing P/ E Ratio and Forward P/ E Ratio. Values in the range between 8 to 15 are usually identifies as a correct valuation of shares, but it also depends on the type of the P/ E ratio. [28, 29, 30]

3.4.4.1 Trailing P/E Ratio

The trailing P/ E ratio is a sum of a company's price-to-earnings and it is calculated as taking the current stock price and dividing it by the trailing earnings per share for the past 12 months. The basic formula is [30]:

$$\text{Trailing P/ E Ratio} = \frac{\text{Current Share Price}}{\text{Trailing Twelve Months' Earnings per Share}}$$

3.4.4.2 Forward P/ E Ratio

The forward P/ E method can be defined as a valuation method used to compare a company's current share price to its expected earnings per share. The forward P/E ratio is based on the derivation of the Gordon model. The formula is [30]:

$$\text{Forward P/ E Ratio} = \frac{\text{Market value per share}}{\text{Forward Earnings Per Share (EPS)}}$$

3.4.4.3 Intrinsic Calculation

Indicator of forward P/ E ratio is a relative expression of the intrinsic value of the shares. By multiplying the previous formula of the forward P/ E by expected profit it is possible to gain absolute expression of the intrinsic value of shares [27]:

$$\text{Intrinsic Value} = \text{Forward P/E} \times \text{Estimated Net Profit for Future Year}$$

3.5 Benchmarking

It is sure that a performance of a fund cannot be evaluated separately and because of this it is necessary to develop an appropriate benchmark against which a performance of a fund can be compared. The definition is that it is “a standard against which the performance of a security, mutual fund or investment manager can be measured” [31]

Benchmarking is a method of quality control. It is a method of improving through learning from others. It is a constantly continuing activity that seeks to find the best practical procedures within organizations with similar functions and the purpose is to achieve better performance in the organization not only in investment companies. Benchmarking has become an important tool in improving of performance and basic steps were defined as:

- find an organization which is the best in the business
- analyse causes that led to the achievement of the best results
- create plans to improve the performance
- implement these plans
- monitor and evaluation results

The companies can be compared with another firm or with chosen standards. An index selection for a specific fund must correspond with the focus of the investment strategy of the fund otherwise it loses the explanatory power of such comparison. Most often it is a one of the market indices, or even a combination of several. [31]

3.6 Main Investing Ratios

3.6.1 Price to Sales Ratio

Price to sales ratio (P/S) is very similar stock valuation indicator as a price to earnings ratio. The difference is that in the P/S ratio it is measured the stock price per share divided by net sales per share. It also, as the P/E ratio, reflects how many times investors

are paying for every money unit, for example dollar, of sales of company. The formula is defines as [32]:

$$\text{Price/Sales Ratio} = \frac{\text{Stock Price per Share}}{\text{Net Sales (Revenue)per Share}}$$

3.6.2 Price to Book Ratio

Price to book ratio compares a company's stock price to its book value, or value of everything the company owes, free and clear of debt. The definition can be explained as the higher the price to book ratio, the more investors are paying up for the companies' assets and the ratio will rise and fall as investors get more or less konfident about the company and the stock market. The formula is [32, 33]:

$$\text{Price to book ratio} = \frac{\text{Company's stock price}}{\text{Shareholders' equity/number of shares outstanding}}$$

3.6.3 Dividend Yield Ratio

Dividend yield ratio refers to the percentage or ratio of dividend paid per share to the market price per share. This ratio throws light on the effective rate of return on investment, which potential investors may hope to earn. It is very often calculated as an annual percentage and the formula is following [32, 33]:

:

$$\text{Dividend Yield Ratio} = \frac{\text{(Annual)Dividend paid per equity share}}{\text{Market price per equity share}}$$

3.6.4 Beta Indicator

Beta (β) is a measurement of risk developed from portfolio theory. It is an expression of the “market sensitivity” of an investment, or how volatile it is compared with the “normal” volatility of the market. If a beta is equal to 1 it indicates that the changes in an investment's returns are corresponding exactly to overall market fluctuations. If a beta is lower than 1 it means that there is a low risk project whose returns are more stable than the overall market and if a beta is higher than 1 it indicates an investment whose returns are more volatile than can be expected from overall market movements. The beta of stock is formulated as [33, 34]:

$$\beta_s = \frac{cov(rs, rm)}{var(rm)}$$

Where:

B_s = Beta of Stock

r_s = Return on the Stock

r_m = Return on the Market

$cov(r_s, r_m)$ = covariance of the stock and the market

$var(r_m)$ = variance of the market.

4 PRACTICAL PART

4.1 Basic Facts about AKRO Investment Company

AKRO investiční společnost, a. s. is an independent fund management company located in Prague in the Czech Republic. It was established in 1993 as Raiffeisen Alfa investiční společnost, a. s. and later on in 1996 it was renamed to the current name. AKRO Investment Company manages nowadays four open- end mutual funds for the public with total net assets of 606.7 million CZK in the beginning of the year 2014. The company was established for an indefinite period. The objects of business of AKRO investment company is the creation and management of mutual funds in accordance with Czech law- Act No. 189/2004 Coll., on collective Investment as amended; management of investment funds based on a contract for management of funds; provision of services related to collective investments for other investment companies in accordance with the provisions of Act No. 189/2004 Coll., on collective investment, as amended. The appropriate bodies of the company are the General Meeting, the Board of Directors and the Supervisory Board. The General Meeting is of course the supreme body of the company. The Board of Directors is a statutory body which manages the company and act on behalf of the company. The Supervisory Board oversees the performance of the board of directors and company's business. Members of the Supervisory Board are entitled to consult all documents and records relating to the activities of the company and to check whether accounting records are properly kept in accordance with the financial status and whether business activity is carried out in accordance with the articles of association, the General Meeting instructions and relevant legislation. All activities of the company are supervised by the Czech National Bank according to the Czech law about the collective investment act. AKRO investment company is also a member of AKAT ČR which is the Czech Capital Market Association of the Czech Republic and it associate leading collective investment and asset management companies. The investment company also received, as a one of the first investment companies in the Czech Republic, a quality management system certificate ISO 9001:2008. The certification was carried out by Lloyds Register Quality Assurance. [35]

As one of the very important and beneficial issues of the company is, in the opinion of the Chairman of the Board of Directors and the Company's Director, that the AKRO

Investment Company is independent fund management firm. AKRO, as one of the few independent investment companies, does not face conflicts of interest, since it is not belong to any of the financial conglomerate. Ing. Jiří Trávníček, the director of the company said: “Our specialists negotiate with third parties highly favourable rates for service fee of funds and trading fees (for example exchange of the Czech crown and purchase of shares). The advantage of our independence is not only to minimize costs, that is the possibility of negotiations on the amount of fees, but also the rejection of low quality service for trading. As it was already mentioned, the high fees reduce the return on your investment. For an illustration our negotiated transaction fees are almost 5 times smaller than those that banks pay themselves!

Our independence also means that we do not have and neither does seek banking or corporate financial relationships with the companies in which we invest. In addition, AKRO does not have any purchasing department which would purchase the securities for AKRO and this could lead to a conflict of interest in buying the same shares in the funds in which the clients of AKRO already invested their money.” [36]

AKRO Investment Company administrates four open- end funds: AKRO Equity Fund of New Economies, AKRO Equity Fund of Global Equities, AKRO Equity Fund of Progressive Companies and AKRO Balanced Fund. [35]

4.2 Basic Facts about AKRO Equity Fund of New Economies

For the evaluation of investment strategy of a given fund was chosen “AKRO Equity Fund of New Economies, Open-end Mutual Fund, AKRO Investment Company“. The Czech official name is “AKRO akciový fond nových ekonomik, otevřený podílový fond, AKRO investiční společnost, a.s. “. The abbreviated form is only AKRO Equity Fund of New Economies. The Mutual Fund is an open-end mutual fund which is not a separate legal entity and this fund exists within the AKRO Investment Company that manages the mutual fund. The fund is a special securities fund within the meaning of act No. 189/2004 Coll. on collective investment, as amended.

The basic document of the fund is Statute where it is possible to find all information about the AKRO Equity Fund of New Economies according to the Czech Law.

The document introduces basic facts about the mutual fund and regulates the rights and obligations between the owners of the mutual fund's units- shareholders and the investment company that manages the mutual fund, it must also provide according to the Czech law certain information as the investment objectives and policy, limitations and distribution of risks, mutual fund's asset management, mutual fund's expenses and the consideration for management of assets, the mutual fund's unit determination as basic facts, issuance, redemption or suspension of units, general provisions, historical performance etc.

The depository is under the control of COMMERZBANK Aktiengesellschaft with registered office in Prague based on a depository agreement. The main aim of the depository is to oversee the activities of the fund within the meaning of the Czech law. The control body of a depository is the Czech National Bank in the Czech Republic. All activities under the control of depository are characterized below in a literature overview in a chapter about a depository. [35]

4.2.1 Investment Objectives of the Fund

From the Statute it is possible to define basic investment objectives of the fund. It is managed by the specialist of the company in order to achieve capital growth in the long term horizon. It is possible to name this as an investing in a diversified global equity portfolio on markets which AKRO Investment Company deems to have a considerable growth potential.

The mutual fund is especially determine for an ordinary investor ranging from the general public who has basic experience in trading in securities and collective investment and is seeking professional help in the placement of their investments. The mutual fund's objective is that the fund may be recommended to an investor who is interested in participating in the long term, in the dynamic growth in equity markets of emerging economies and who is willing to accept higher than average investment risk ensuing from that. The expected yield on investment into the AKRO fund can be achieved in an investment horizon of five years and more. As an investment objective the Statute defines that the fund is interested in new markets where there is a high growth potential,

but also high risk, as it was already described in the literature overview, although the fund manages and invests in accordance with legal regulations. [35]

4.2.2 Investment Policy

The investment policy of AKRO Equity Fund of New Economies is also written down in the Statute of the fund. The mutual fund is defined as an open-end mutual fund and according to the Czech legislation it is a special securities fund. According to the funds classification binding for members of the AKAT (Czech Capital Market Association of the Czech Republic) this is an equity fund. The primary investments are purchases of securities as a special securities fund while most of the fund's investment is focused to instruments linked to stock markets. In accordance with the investment objective of the AKRO fund the company invests its assets in global capital markets and the management is interested especially to invest in countries which have not yet reached full economic development-emerging market but where there is the possibility to predict high growth potential. [35]

4.2.3 Fee Tariffs for Investors

If a person wants to invest in AKRO Fund of New Economies he or she has to expect some fees connected with issuing of units, redemption of units and also with the fee for a management of the fund and performance fee.

Table 1 shows the value of supplementary charge for issuing of mutual fund's units-entry fee. A value of supplementary charge depends on the size of investment as it is possible to see clearly in the table. If the investment is lower than 99,999 CZK the supplementary charge is 5 %. If the investment is between 100,000 – 499,999 CZK then the supplementary charge is 3 % and the lowest charge is 1.5 % with the investment higher than 500,000 CZK. [35]

Table 1- Fee Tarif for Issuing of Units

AKRO Fund of New Economies	
Sale (Issue) of Units	
Investment (CZK)	Supplementary Charge
To 99 999	5%
100 000 - 499 999	3%
500 000 and more	1.5%

Source: Own elaboration based on data from AKRO Investment Company [35]

There is no redemption fee, but if the investor wants to seel the units back to the company in the time shorter than 6 months from the sale of units, he or she has to pay the redemption fee - 3 % from the current value of units.

Every investor has to pay also fee for management of the fund, it is 2 % from the investor's units value per year. A performance fee is 15 % from the annual growth of the value of the investor's mutual units. The other services as for example statements about the value of units etc. are free of charge.

4.3 Evaluation of Investment Strategy of the Fund

Basicaly each company has its own strategy based on not only theory about the strategies, but also based on some experiences. The role is also played by where the company is located, which legislative has to follow, what is the size of the company, for whom the fund is created and also what are the expected returns etc.

From the investment objectives and policy which are delineated in the Statute it is possible to define basic investment strategy of the AKRO Investment Company. The fund is interested to buy shares in stock market. Equities are the main types of the investment of the fund. The mutual fund is managed to achieve capital growth in the long term by investing in a diversified portfolio of global equities markets, which are at the discretion of

the investment company characterized by significant growth potential. The management especially purchases equities in emerging market with no certain industry specialization.

Investments are directed in particular to countries that have not yet achieved full economic development, but which at the discretion of the AKRO Investment Company should provide high growth potential. The parameters which are used to find a suitable country to invest are following:

- country with lower level of income per capita (expressed as a gross domestic product per capita),
- country with a higher rate of economic growth in the long term (expressed as a gross domestic product),
- country with less developed political, economic and legal infrastructure,

compared to the Western European countries, USA, Canada, etc. It has exposure to emerging markets as China, Brazil, India, Poland and also faster growing developed markets as Hong Kong. The fund is administrated with a strategy focused on growth approach, not value approach. A mutual fund is a growth fund, all profits are reinvested within mutual fund management.

The fund was created with an idea of long- term investment horizon which means at least 5 years and more, it means that expected return on an investment in a mutual fund can be achieved in five years or more. Therefore, the mutual fund may not be suitable for an investor who intends to withdraw their cash means in less than the specified time of investment horizon. [35]

4.3.1 Risk Profile of the Fund

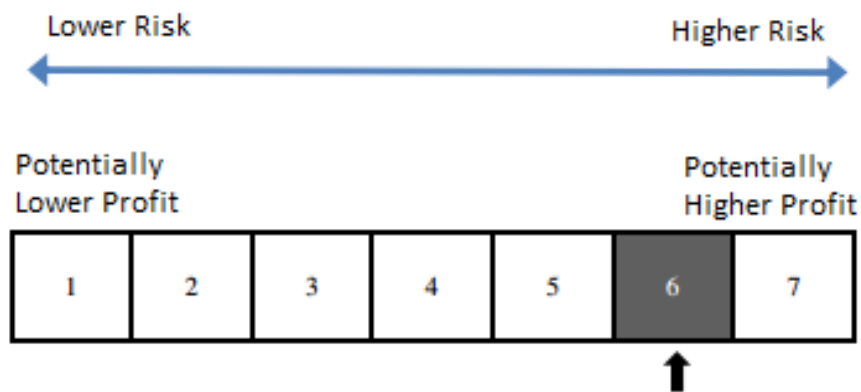
In the Czech Republic according to the legislative the level of risk of the fund has to be categorized and then publicly published. Picture 3 shows a risk profile of the AKRO Fund of New Economies. It is a synthetic indicator which represents the historical annual volatility of the mutual fund for the last five years. The purpose of this indicator is to enable investors to better understand the level of risk associated with potential profits and losses of their investment, depending on the riskiness of the investment strategy of the mutual fund. The fund is graded as a very risky one, but on the other hand with very high

profit potential. The value of investments may fall as well as rise and there is no guaranty of at least the same return as the amount which was originally invested.

The main risks of investment are following:

- **Market risk** - the risk arising from the impact of changes in the overall market prices and amounts of each type of property owned by the mutual fund,
- **Risk of Lack of Liquidity** - risk involved in that the particular property of mutual fund will not be monetized in a time at a reasonable price and the fund for this reason will not be able to meet the requests for repurchase of shares, or redemptions of units.may be suspended,
- **Risk of Emerging Markets** - risk arising from the nature of emerging markets- often smaller size of the market, high volatility and limited liquidity. Investments in emerging markets have especially political, economic and financial risks, because countries with emerging markets may not have fully developed legal and political infrastructure. Performance of the economy and economic policy of these countries may also be characterized by higher volatility, which may have an impact on the value of held securities. [35]

Picture 3- Level of Risk of AKRO Fund of New Economies



Source: Own Elaboration based on data from AKRO Investment Company [35]

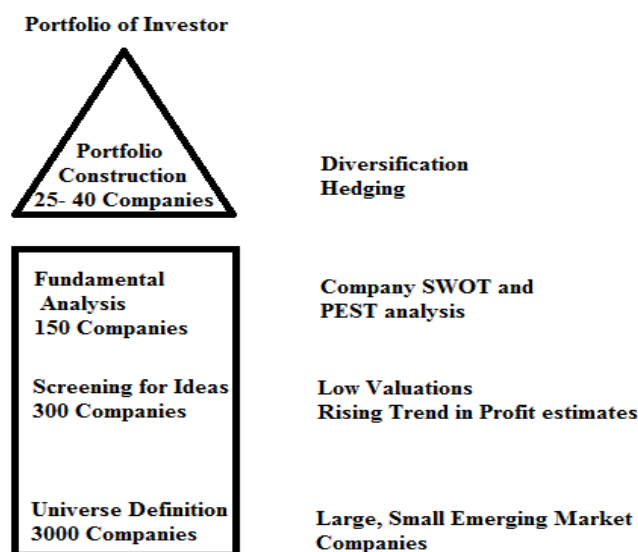
4.3.2 Investment Portfolio Process

When managers are deciding how to invest they use their investment process strategy (Picture 3). The first step for AKRO Equity Fund of New Economies investment is to find companies corresponding with fund's strategy as for example large or small emerging market companies. The average number of the companies which are in the first step of this process is 3000 firms.

The second step is focused on screening for “ideas” as low valuations or rising trend in profit estimates and through this portfolio manager find approximately 300 companies for further analysis. For the low valuation performance of the company managers use the estimated profit to earning ratio (P/E) and they monitor profit estimates by earnings per share estimation method- EPS trends. They are interested in the companies with low valuation and of course rising profit estimates.

The last steps are to choose at least 150 companies where to implement SWOT and PEST analysis and thereafter find around 25- 40 companies where AKRO Investment Company is interested to invest. The time for the investment- “buy signal” is when the estimation of profit is rising and there is relatively weak share price. All steps are illustrated on the picture below for easier comprehensibility of the process. [37]

Picture 4- Investment Portfolio Process of AKRO Investment Company



Source: Own elaboration based on data from AKRO Investment Company [37]

The portfolio management of the company avoid firms in financial distress where the shares may be worthless. For predicting this financial distress the company uses Altman Z- score in a proper form (formula for private firms) for each company which was already defined in a chapter of literature overview.

They control risk by using risk management written according to the Czech law in the Statute and they also use “rules of thumbs” which do not constitute legal guidelines. These rules are especially result of practice and experience rather than scientific research or theory. The rules of the company are that they have typically between 25- 40 stocks in its portfolio. No stock has more than 10 % of the fund. There is the diversification across the industries and also across the countries, the level of liquidity is adequate and there is the possibility of active currency hedging also with no open- derivate exposure. This process should result in a portfolio of stocks characterized by good value, strong fundamentals, improving industry background and diversification which also means the common sense criteria.

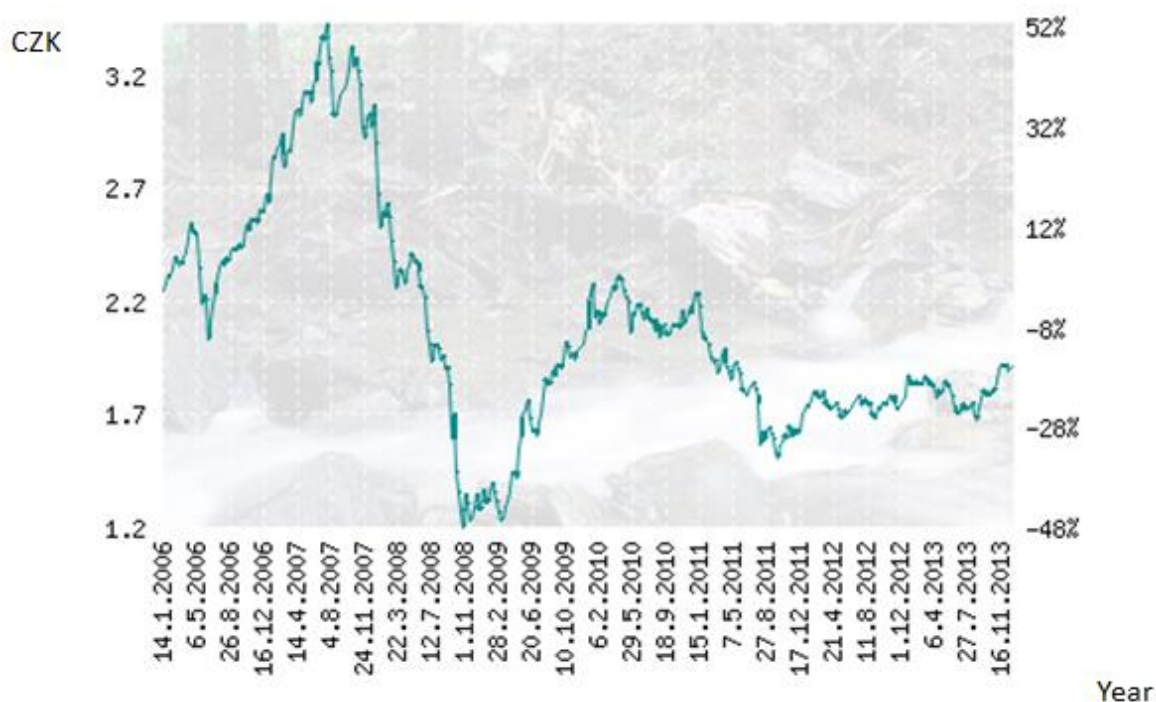
As a summary of the investment process the basic rules of AKRO Investment Company are that they are looking for rising profit estimates and low valuations, in other words they avoid companies with falling profit estimates and high valuations. They buy shares when valuations fall dramatically and they sell on the other hand when valuations rise significantly and as it was already mentioned they avoid firms in financial distress where the shares may be worthless. [37]

4.3.3 Analysis of the Performance of the Fund

The historical performance of the fund is significantly differentiated. All data below (Graph 2) shows the performance of the fund after the change of the Statute to the current version in the 1st May 2005. The net asset value per one unit was 1.771 CZK in the beginning of the current fund's management from the year 2005. The fund has peaked 3.38 CZK of the level of net asset value per one unit of the fund in July 2007 which is 52 % increase from the year 2005. The highest decline was in October 2008- the net asset value

per unit was 1.16 CZK and the percentage change was decreased by 48 % in total. The decreasing trend from the end of the year 2007 up to the November 2009 was caused by the global financial crisis. It was a total collapse of large financial institutions, national banks and also a time period with huge decline trend in stock markets around the world known as a great recession. After that the situation started to become better from March 2009, but from the beginning of the year 2011 the value per unit again decreased especially because of financial crisis in Europe. [38]

Graph 2- Historical Development of the Net Asset Value per Unit in CZK of AKRO Fund of New Economies

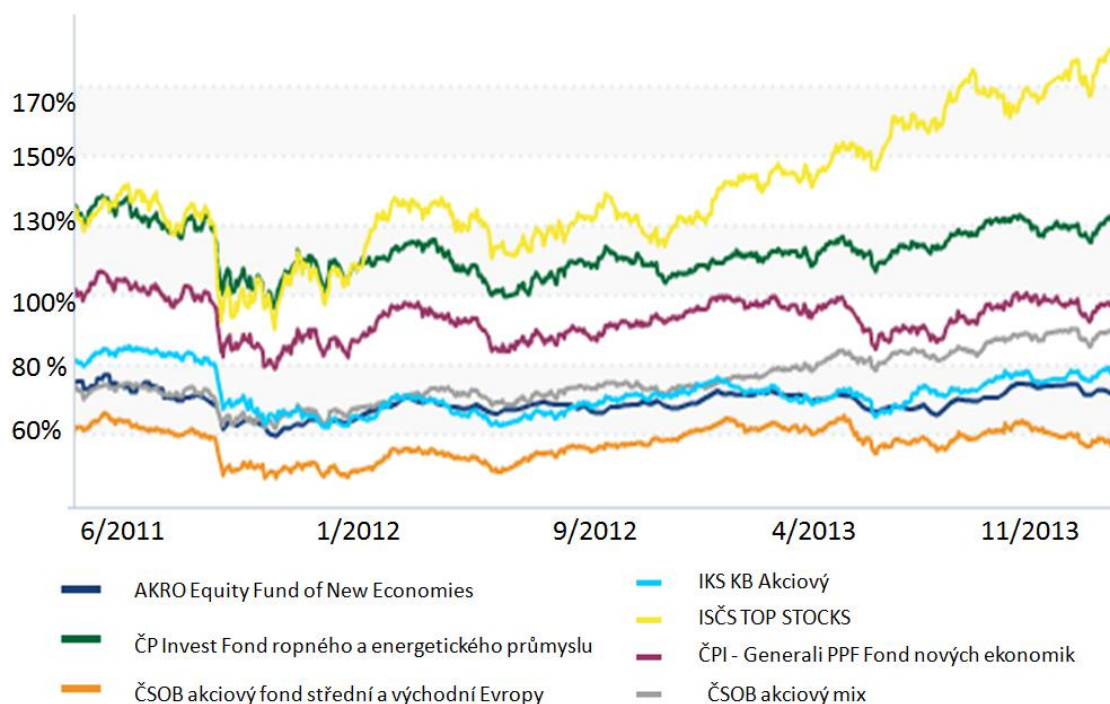


Source: Web pages of AKRO Investment Company [38]

AKRO Investment Company does not use strictly any benchmarking index. A management of the company of course compares a performance of the fund with some similar mutual funds administrated and managed in the Czech Republic as “IKS KB akciový“, “ČSOB akciový fond – Střední a Východní Evropa” etc. Graph 3 compares AKRO Equity Fund of New Economies performance since June 2011 with another 7

funds. It is significant that the line of a curve trend is very similar, the decline or increase of the performance is almost at the same time, but there is the difference in percentage performance. As it is possible to see the graph performance is not so high compared to another funds. On the other hand the AKRO fund has not so much high deviations of the performance. The curve is very constant which means lower risk of the losses, but also lower possibility of profits. But this observed period is not sufficient for drawing a conclusion about the performance of the fund. Also the fund is for long term horizon investment- more than five years and the graph shows only the period of two and half years. Graph 1 in supplement shows comparison of 13 funds with AKRO Equity Fund of New Economies from April 2005 to 2009.

Graph 3- Comparison of Performance of Equity Funds in the Czech Republic



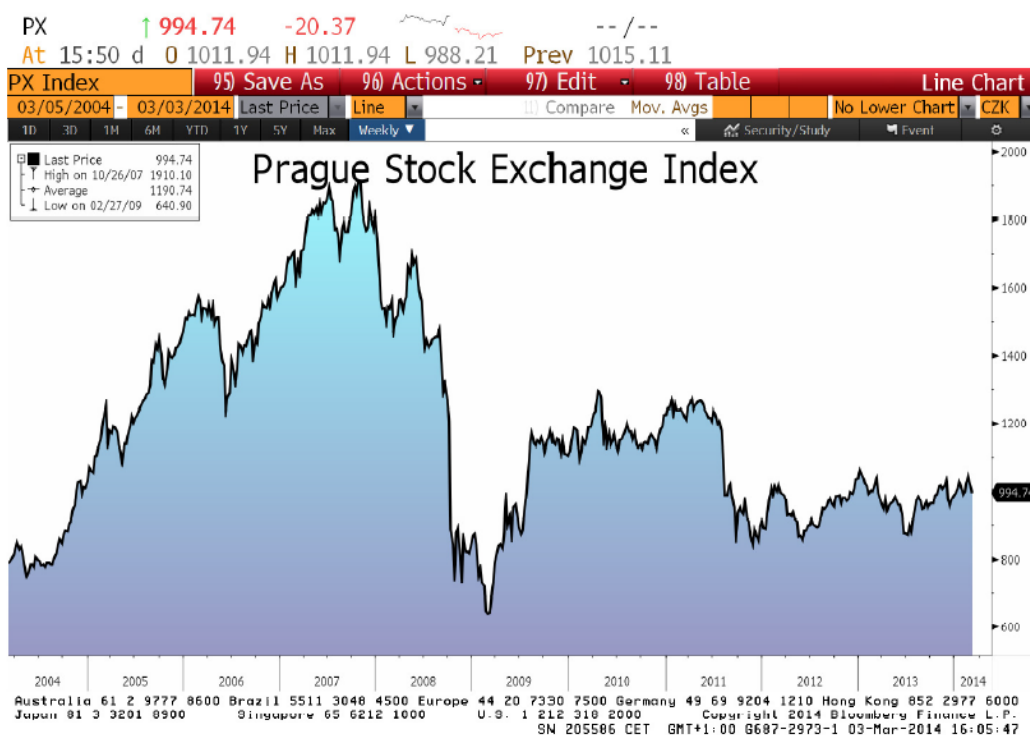
Source: Podílové fondy. *Penize.cz* [online]. 2014 [cit. 2014-01-13]. Available at:

<http://www.penize.cz/srovnani/podilove-fondy>

For another good illustration and comparison of a performance of the fund it is possible to use Prague Stock Exchange index as a benchmark index for our analysis. After

the comparison of the graph 2 and graph 4 there is significantly very similar development trend, the peaks are for example at the same time also as the declining trend of the Prague Exchange index.

Graph 4- Historical Development of Prague Stock Exchange Index



Source: Bloomberg Professional, 2014

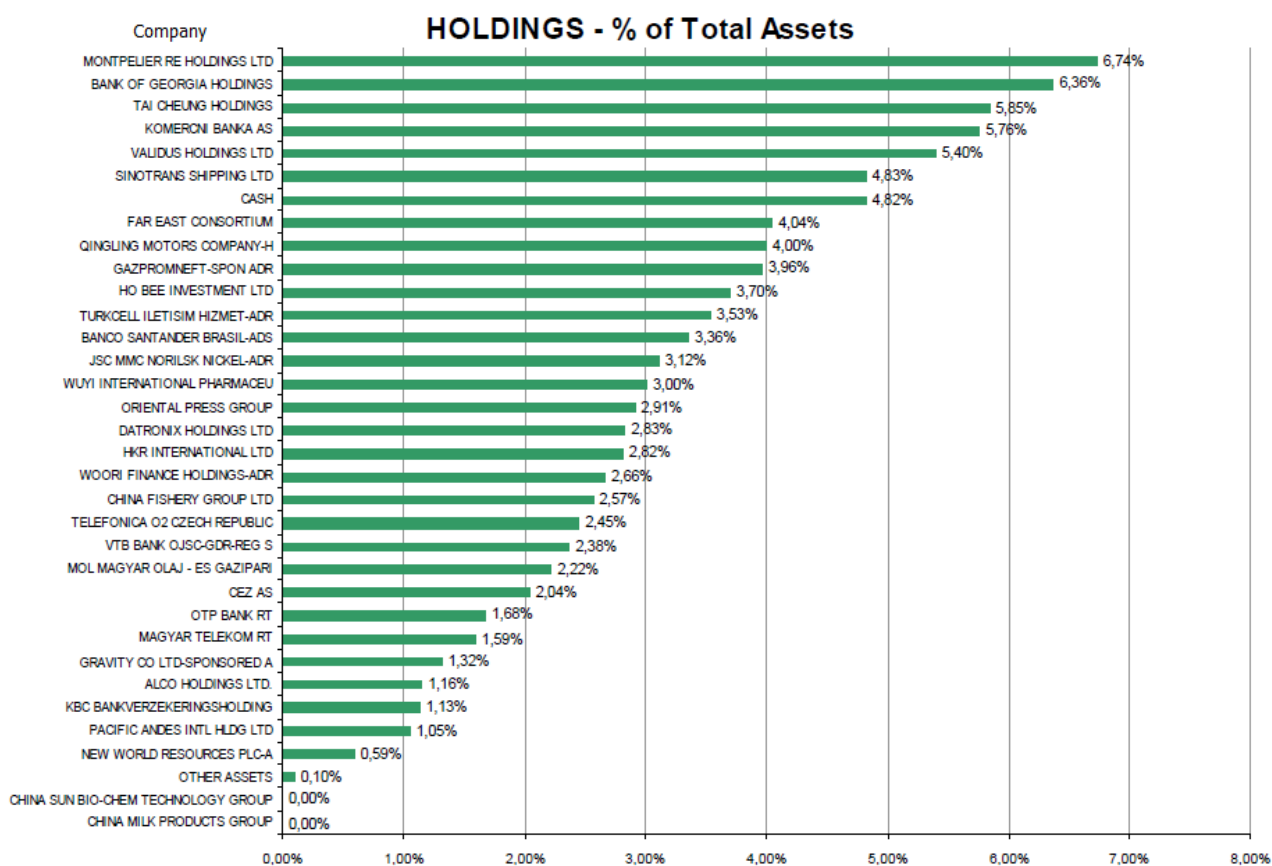
4.3.4 Evaluation of Portfolio of the Fund

As a result of an implementation all chosen investment strategies the professional manager of AKRO forms the portfolio of the company. For the evaluation of the fund portfolio there were chosen data of the current date. The portfolio below is evaluated from the end of the year 2013, precisely it is the situation of the 31st December 2013. The value of the portfolio is 171 486 340 CZK and with cash and other assets the value of total assets is 180 373 653 CZK.

In the graph 5 below it is possible to see all investments of the fund kept on a certain date. The highest share of the portfolio holds Montpelier Re Holdings LTD Company with 6.74 % of total assets, the second position was filled by the company Bank

of Georgia Holdings with 6.36 %. Tai Cheung Holdings has the third highest share with 5.85 % of total assets. On the other hand two last companies which are included in the graph - China Sun Bio – Chem Technology Group and China Milk Products Group have 0 % of total assets. It means that there are no revenues in this time, there is no positive growth of the company.

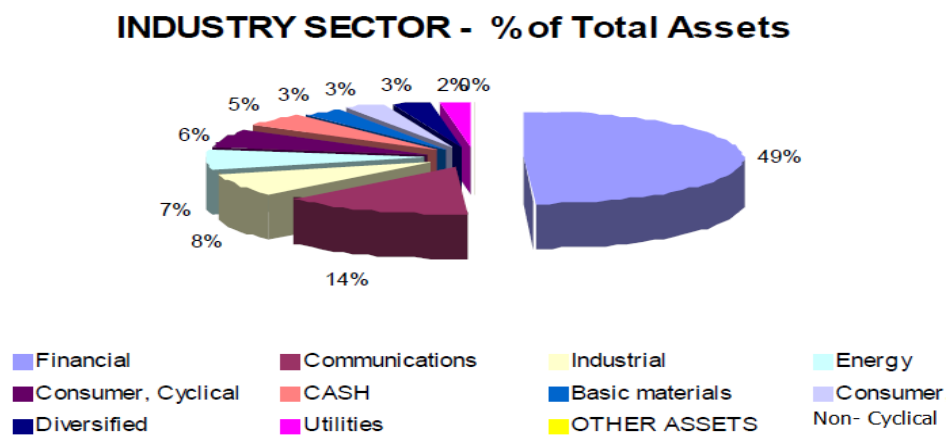
Graph 5 – Portfolio Composition of AKRO Fund of New Economies- 12/2013



Source: MONK, Jeremy. *Fourth Quarter, 2013 Investment Review*. Prague, 2014. [39]

As it was already mentioned the AKRO Investment Company do not use any strict investment strategy regarding some special industry sector. The portfolio in the end of the year 2013 especially contained financial sector companies with 49 % of total assets- graph 6. The companies from the financial sector are for example already mentioned Bank of Georgia Holding, the Czech company Komerční banka a.s. or KBC Bankverzekerings Holding.

Graph 6- Industry Sector Portfolio Composition of AKRO Equity Fund of New Economies

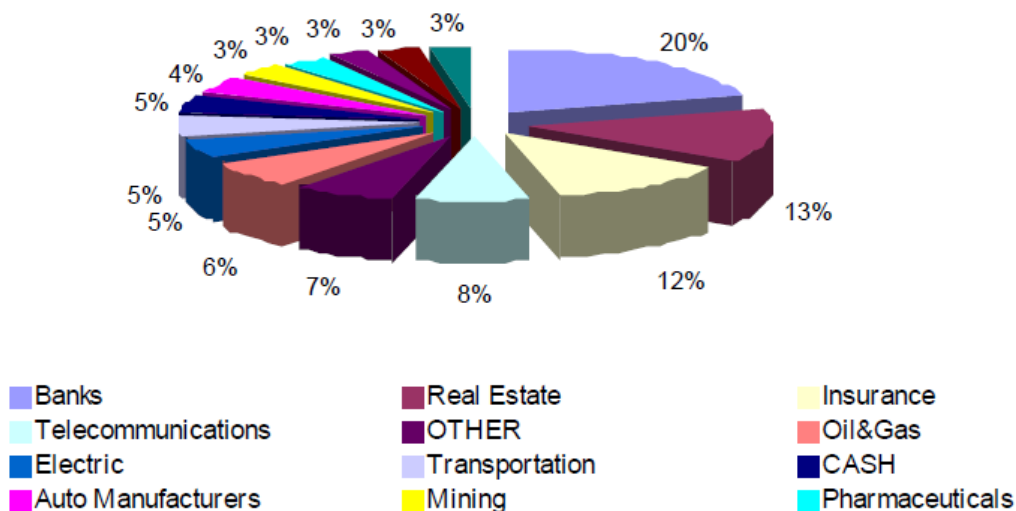


Source: Own elaboration based on data from AKRO Investment Company [39]

The industry group proportion of firms in the portfolio according to the percentage of total assets is connected with the industry sector division. As it is possible to see on the graph 7 below banks have share of 20 % of total assets of industry group division. When we compare the main shares of industry sectors and industry groups, it is evident that banks are from the financial sector and both these categories have the highest share of the % of total assets. Both real estate and insurance companies have also relatively high share in the whole industry group distribution- 13 % and 12 % of total assets. The AKRO Investment Company management is also interested in pharmaceutical industry sector with low share- only 3 % of the total assets, but the industry group is nowadays very popular which was already mentioned in a chapter of literature overview.

Graph 7- Industry Group Portfolio Composition of AKRO Equity Fund of New Economies

INDUSTRY GROUP - % of Total Assets

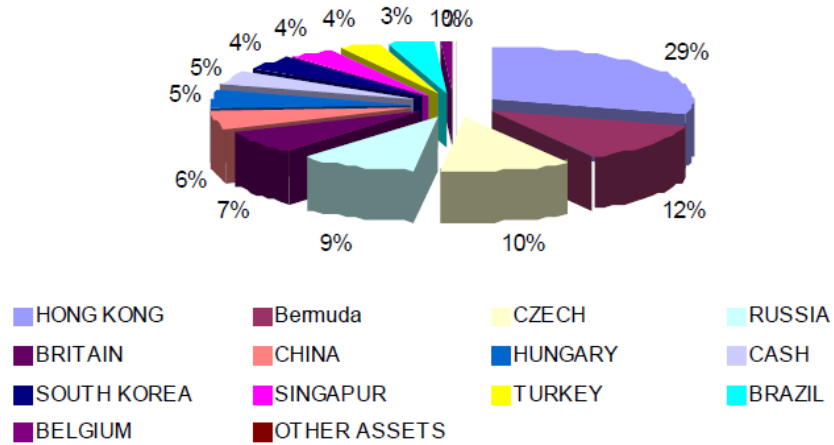


Source: Own elaboration based on data from AKRO Investment Company [39]

According to the geographical strategy of the fund (graph 8) the portfolio managers are especially interested in emerging markets. They are especially interested in Hong Kong in China, the share of total assets is 29 % and when we sum the Hong Kong share also with the other places in China it is together 35 % of total assets which is more than one third in total. The second highest share of total assets has Bermuda with 12 %. The following country is the Czech Republic with only the difference of 2 % compared to Bermuda, the share of the Czech Republic is 10 % of total assets. Russia holds 9 % of total assets and the rest countries are for example the United Kingdom, Hungary etc.

Graph 8- Country Portfolio Composition of AKRO Equity Fund of New Economies

COUNTRY - % of Total Assets

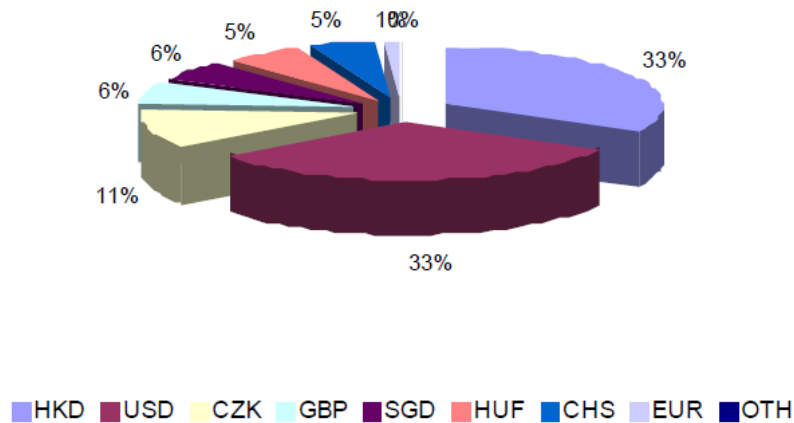


Source: Own elaboration based on data from AKRO Investment Company [39]

As it was already mentioned the country share of China of total assets is higher than one third in total. The graph 9 shows almost same results. The Hong Kong dollar share of total assets according to the currency is 33%. But in this case the U. S. dollar has the same share as Hong Kong dollar- 33%. The following currency is Czech Crown with 11% of total assets.

Graph 9- Currency Portfolio Composition of AKRO Equity Fund of New Economies

CURRENCY - % of Total Assets



Source: Own elaboration based on data from AKRO Investment Company [39]

Table 2- Quaterly Data of Chosen Investment Ratios of AKRO Equity Fund of New Economies- 2009- 2013

AKRO Equity Fund of New Economies- Quaterly Data					
	P/E	Beta	P/B	Dividend Yield (%)	Total Market Value(CZK)
1Q 2009	15.43	0.90	1.26	4.29	199 461 765
2Q 2009	16.41	0.93	1.13	4.56	192 467 257
3Q 2009	19.70	1.00	1.29	3.54	215 513 249
4Q 2009	13.96	1.03	1.46	3.72	224 090 699
Average 2009	16.375	0.965	1.285	4.026	207 883 243
1Q 2010	12.52	1.03	1.43	4.02	239 451 538
2Q 2010	8.74	1.00	1.15	3.61	225 042 232
3Q 2010	9.86	0.96	1.19	3.73	220 670 852
4Q 2010	10.82	0.99	1.17	4.11	210 005 301
Average 2010	10.485	0.995	1.235	3.868	223 792 481
1Q 2011	11.71	1.01	1.14	4.30	200 878 786
2Q 2011	11.04	0.81	1.03	4.72	167 522 441
3Q 2011	10.20	0.88	0.99	5.15	165 762 240
4Q 2011	10.22	0.92	0.84	5.10	164 820 449
Average 2011	10.793	0.905	1.000	4.818	174 745 979
1Q 2012	13.22	0.92	0.85	5.03	178 522 586
2Q 2012	14.77	0.92	0.96	4.28	171 664 415
3Q 2012	13.05	0.88	0.80	6.25	176 952 828
4Q 2012	14.59	0.87	0.85	5.35	175 290 819
Average 2012	13.908	0.898	0.865	5.226	175 607 662
1Q 2013	12.54	0.87	0.80	3.80	172 611 033
2Q 2013	11.43	0.78	0.85	3.87	167 644 995
3Q 2013	13.80	0.91	0.85	3.80	165 677 479
4Q 2013	11.62	0.89	0.81	4.40	168 888 554
Average 2013	12.348	0.863	0.828	3.967	168 705 515
Total Average	12.782	0.925	1.043	4.381	190 146 976

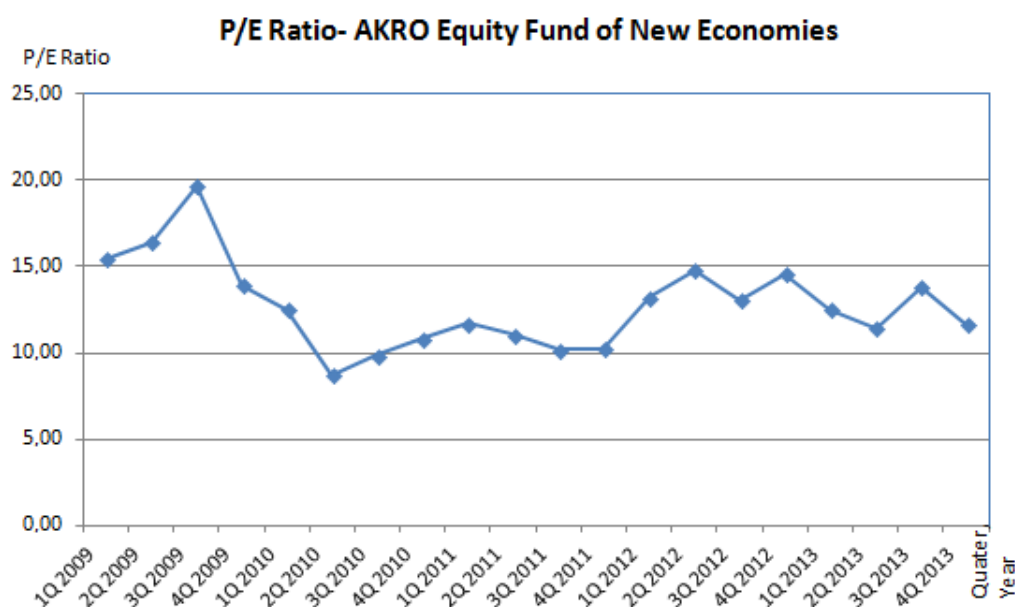
Source: Own elaboration based on gathered data from AKRO Investment Company

Table 2 shows the level of some investment ratios as P/E ratio, P/B, ratio, Beta indicator, dividend yield and also the total market value of AKRO Equity Fund of New Economies for the last five years (2009- 2013)for each quarter of the year. The table also shows the average data for each of the five years and total average for the analysed period.

The values of P/E ratio in the range between 8 to 15 are usually identifies as a correct valuation of shares. So from the table it is possible to see that almost all data are in

this range. The lowest value of the P/E ratio - 8.74 was reached in the second quarter of 2010 and the two highest values were 19.7 in the third quarter of 2009 and 16.41 in the second quarter of 2009. These values plus also value 15.43 from the first quarter of 2009 are only the values which exceeded the correct valuation. The reason is that it was the time when the fund performance started very slowly to increase after the financial crisis peak. The total average value of P/E for the last five years is 12.782. Graph 10 shows the curve of the development of the P/E ration for the last five years.

Graph 10- Values of P/E Ratio of AKRO Equity Fund of New Economies



Source: Own elaboration based on gathered data from AKRO Investment Company

From the beginning of the year 2009 up to the second quarter of 2011 beta indicator was higher than 1 and it indicates an investment whose returns are more volatile than can be expected from overall market movements. After the second quarter of 2011 up to the end of 2013 all values are lower than 1 and it means that the company is not so much sensitive compared to the overall market fluctuations.

The values of P/B ratio are from the beginning of the year 2009 up to the first quarter of 2011 higher than 1 and it means that the market value of the company is higher than the valuation of equity in the financial statement in the balance sheet. The total average of P/B

ratio for year 2011 is equal to 1 so both market value and own valuation of equity in the financial statement are equal. But from the second quarter of 2011 the ratios are lower than 1. The total average of P/B ratio for the last five years is 1.043.

Basically the dividend yield should be still increasing in the time. The total average of the dividend yield for the last five years is 4.381 %. The highest market value- 239 451 538 CZK was in the first quarter of 2010. The last published market value is 168 705 515 CZK. It is possible to see relatively high difference compared to these two numbers.

4.4 Income Model- Intrinsic Value

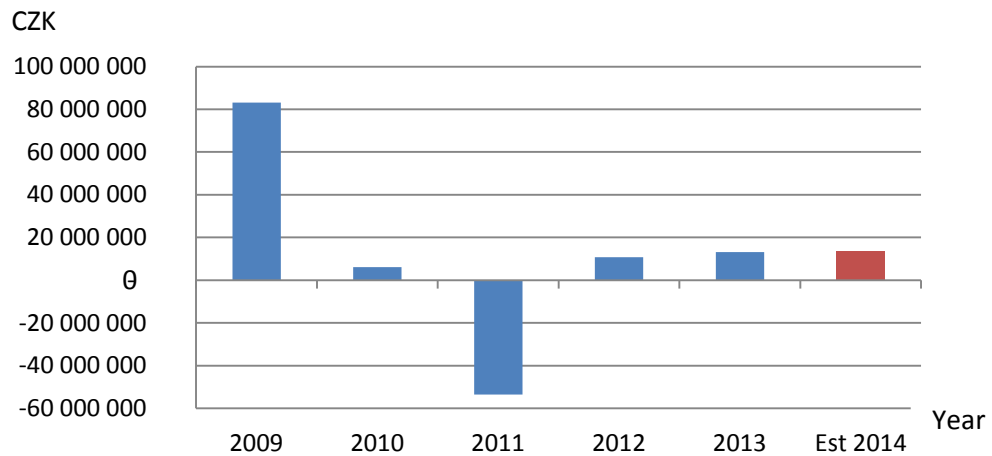
4.4.1 Calculation of Intrinsic Value

Now it is also necessary to calculate the intrinsic value and then compare it with the market value. For the calculation of income model the formulas already defined in the theoretical review were used. The primary data were provided by AKRO investiční společnost a.s.

For the income model it is also necessary to know the estimated net profit for the future year, it means for year 2014. When we compare last five years (Graph 11, Table 3) the net profit is very different. In 2009 the net profit was 83 132 000 CZK. The fund has relatively very high net profit compared to next years. The percentage change of the net profit in 2010 compared to year 2009 was minus 92.74 %. The reason of this huge decrease was caused especially because of the financial crisis. The consequences of the financial crisis persisted also for the next year- 2011 where the company made a loss -53 503 000 CZK. From the year 2012 to 2013 it is possible to see that the performance of the fund increased and the company make profits, 10 7350 CZK in 2012 and 13 128 00 CZK in 2013.

The estimation of the net profit of the AKRO Equity Fund of New Economies for the future year – 2014 is basically determined as a net profit of a current year (2013) + 5 % according to the management of the company. The estimated value is 13 784 400 CZK.

Graph 11- Net Profit of AKRO Equity Fund of New Economies



Source: Own elaboration based on data from AKRO Investment Company

The total number of the mutual fund's units is according to the historical data still decreasing. The last three years (2011- 2013) it is possible to see in table 3 the decreasing trend, approximately each year about minus 10 %. AKRO Investment Company expects that the total number of the mutual fund's units for the end of year 2014 will decrease also by 10 % from the previous year. After the calculation the estimation of the total number of units for the end of the year 2014 is 94 139 240 pieces.

Table 3- Total Number of Units and Net Profit of AKRO Equity Fund of New Economies

AKRO Equity Fund of New Economies		
	Total Number of Units(Pcs)	Net Profit (CZK)
2009	102 717 686	83 132 000
2010	102 766 016	6 034 000
2011	96 255 979	-53 503 000
2012	95 146 350	10 735 000
2013	94 139 240	13 128 000
Est 2014	93 197 847	13 784 400

Source: Own elaboration based on data from AKRO Investment Company

The next step which is necessary to know is to calculate the earnings per share (EPS) according to the formula already defined in the literature overview:

$$EPS = \frac{13\,784\,400}{93\,197\,847} = 0.15 \text{ CZK}$$

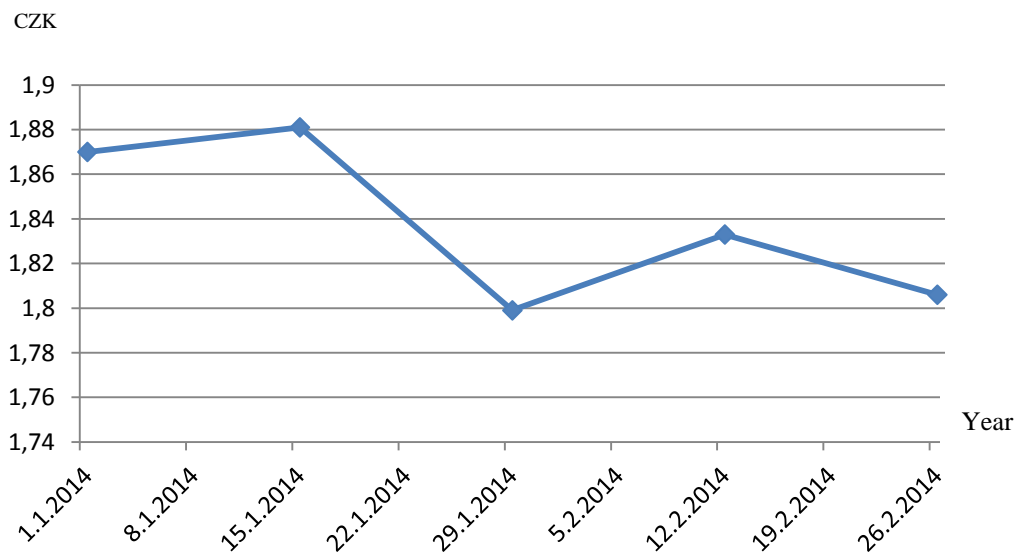
The value of EPS is equal to 0.15 CZK. Thereafter the value of P/ E was estimated as an average of quarter data between years 2009 to 2013 from table 3. The value of the estimated P/E for year 2014 was calculated as 12.782.

The intrinsic value is calculated as a multiplication of calculated EPS and the P/ E value. The intrinsic value is 1.917 CZK.

4.4.2 Market Value

For the comparison of already calculated intrinsic value for year 2014 it is possible to use only the current data of the beginning of the year 2014. Table 4 and graph 12 shows the markets value per one unit in certain dates. The market value from the 1st January 2014 is 1.870 CZK per one unit and the other values are shown in the table below.

Graph 12- Performance of the Fund (1.1. 2014- 26.2.2014) - Market Value per Unit in CZK



Source: Own elaboration based on data from AKRO Investment Company

Table 4- Market Values of Unit of AKRO Equity Fund of New Economies and Comparison with Intrinsic Value

Date	Market Value of Unit (CZK)	Comparison	Result
1.1.2014	1.870	Market Value < Intrinsic Value	Overvalued
15.1.2014	1.881	Market Value < Intrinsic Value	Overvalued
29.1.2014	1.799	Market Value < Intrinsic Value	Overvalued
12.2.2014	1.833	Market Value < Intrinsic Value	Overvalued
26.2.2014	1.806	Market Value < Intrinsic Value	Overvalued

Source: Own elaboration based on data from AKRO Investment Company

4.4.3 Results of Comparison- Intrinsic Value x Market Value

The results of the part of the fundamental analysis which was calculated above are following: the intrinsic value of one mutual fund's unit for 2014 is 1.917 CZK. The market value from the 1st January 2014 is 1.870 CZK per one unit and the other values are shown in the table 5 above. The values were already compared and the result shows that from the beginning of the year 2014 up to the end of February 2014 the units of AKRO Equity Fund of New Economies are overvalued. In this situation, where the shares are overvalued, the fundamental theory recommends to sell the shares and on the other hand if the investor is interested in buying the advice is to wait.

5 RESULTS AND RECOMMENDATIONS

The main objective of the diploma thesis was to analyze and evaluate an investment strategy of AKRO Equity Fund of New Economies (mutual fund) of AKRO Investment Company. The investment strategy is focused on stock market. Equities are the only types of the investment of the fund. The mutual fund is managed to achieve capital growth in the long term horizon – 5 years and more by investing in a diversified portfolio of global equities markets, which are at the discretion of the investment company characterized by significant growth potential. The management especially purchases equities in emerging markets with no certain industry specialization. Investments are directed in particular to countries that have not yet achieved full economic development- emerging markets, but which at the discretion of the AKRO Investment Company should provide high growth potential. The fund is especially interested in emerging markets as China, Brazil, India, Poland and also faster growing developed markets as Hong Kong. The fund is administrated with a strategy focused on growth approach, not value approach. The dividends are not paid out. A mutual fund is a growth fund, all profits are reinvested within mutual fund management.

Each company has its own strategy based on not only theory about the strategies, but also based on some experiences etc.

In the Czech Republic, according to the legislative, the level of risk of the fund has to be categorized according to the investment strategy and then openly published. The fund is graded as a very risky one, but on the other hand with very high profit potential.

Every potential investor has to expect fee for issuing of mutual fund's units- entry fee. A value of supplementary charge depends on the size of the investment, the range is from 1.5 % up to 5 % from the total invested amount. There is no redemption fee, but if the investor wants to sell the units back to the company in the time shorter than 6 months from the sale of units, he or she has to pay the redemption fee - 3 % from the current value of units. Every investor has to pay also fee for management of the fund, it is 2 % from the investor's units value per year. A performance fee is 15 % from the annual growth of the value of the investor's mutual units which is relatively high amount, but on the other hand if the fund is not prospering there is no performance fee. The other services as for example statements about the value of units etc. are free of charge.

The portfolio process management of the company is very precise. As a summary of the investment portfolio process, the basic rules of AKRO Investment Company are that they are looking for rising profit estimates and a low valuations, in other words they avoid companies with falling profit estimates and high valuations. They buy shares when valuations fall dramatically and they sell on the other hand when valuations rise significantly and they avoid firms in financial distress where the shares may be worthless. The value of the portfolio was 171 486 340 CZK and with cash and other assets the value of total assets was 180 373 653 CZK in the end of the year 2013. The highest share of the portfolio held Montpelier Re Holdings LTD Company from France with 6.74 % of total assets, the second position was filled by the company Bank of Georgia Holdings with 6.36 %. Tai Cheung Holdings had the third highest share with 5.85 % of total assets. The portfolio in the end of the year 2013 especially contained financial sector companies with 49 % of total assets. According to the geographical strategy of the fund, the portfolio managers are especially interested in Hong Kong in China, the share of total assets was 29 % and when we sum the Hong Kong share also with the other places in China it was 35 % of total assets in the end of 2013 which is more than one third in total. The Hong Kong dollar share of total assets according to the currency was 33 %. But in this case the U. S. dollar had the same share as Hong Kong dollar- 33 %. The following currency was Czech Crown with 11 % of total assets.

The values of almost all P/E ratios from the last five years (2009- 2013) were in the range between 8 to 15 which is usually the identification of a correct valuation of shares. The lowest value of the P/E ratio - 8.74 was reached in the second quarter of 2010 and the two highest values were 19.7 in the third quarter of 2009 and 16.41 in the second quarter of 2009. These values, plus also value 15.43 from the first quarter of 2009, are the only values which exceeded the correct valuation. The reason is that it was the time when the fund performance started very slowly to increase after the financial crisis peak. The total average value of P/E for the last five years is 12.782.

The historical performance of the fund is diverse. The net asset value per one unit was 1.771 CZK in the beginning of the current fund's management from the year 2005. The fund has peaked 3.38 CZK of the level of net asset value per one unit of the fund in July 2007 which is 52 % total increase from the year 2005. The highest decline was in October 2008- the net asset value per unit was 1.16 CZK and the percentage change was

decreased by 48 % in total. The decreasing trend from the end of the year 2007 up to the November 2009 was caused by the global financial crisis. It was a total collapse of large financial institutions, national banks and also a period with huge decline trend in stock market around the world known as great recession. After that, the situation started to become better from March 2009, but from the beginning of the year 2011 the value per unit again decreased especially because of financial crisis in Europe. The current value (1st January 2014) is 1.870 CZK per unit. The company management expects 5 % increase of performance of the fund for the year 2014.

AKRO Investment Company do not strictly use any benchmarking index, but management of the company of course compares a performance of the fund with some similar mutual funds administrated and managed in the Czech Republic as “IKS KB akciový“, “ČSOB akciový fond – Střední a Východní Evropa” etc. From the comparison of the funds it was significant that the line of a curve trend is very similar, the decline or increase of the performance was almost at the same time, but there is the difference in percentage performance where the AKRO fund performance is not so high compared to other funds. On the other hand, the AKRO fund has not so much high deviations of the performance compared to other funds. The curve is very constant which means lower risk of losses, but also lower possibility of profits.

The results of the part of the fundamental analysis which was calculated are following: the intrinsic value of one mutual fund's unit for 2014 is 1.917 CZK. The market value from the 1st January 2014 is 1.870 CZK per unit. The calculations show that the units of the AKRO Equity Fund of New Economies of AKRO Investment Company are overvalued.

The recommendation for the current investors of the fund is to sell the units and on the other hand advice for the new potential investors is to wait to purchase mutual fund's units. The best time to buy the units is when they are undervalued- intrinsic value is higher than market value. The mutual fund is also not suitable for an investor who intends to withdraw their financial means in less than the specified time of investment horizon (5 years). And it is also necessary to mention that the value of investments may fall as well as rise and there is no guaranty of at least the same return as the amount which was originally invested.

6 CONCLUSION

The objective of the diploma thesis was to analyze and evaluate an investment strategy of AKRO Equity Fund of New Economies of the Czech investment company AKRO investiční společnost, a. s. from the point of view of a potential investor.

The literature overview provides a potential investor with the knowledge of basic types of marketable financial securities, collective investment, investment strategy, fundamental analysis and investing ratios. The diploma thesis deals with the methods of calculation of an intrinsic value of the share with a focus on income model and P/E ratio to establish the correctness of the valuation of the share.

The practical part defines the basic facts about AKRO Investment Company and AKRO Equity Fund of New Economies as the investment objectives and policy, investment strategy, investment portfolio processes and also the analysis and evaluation of a portfolio structure. The other partial aims of the diploma thesis were to calculate, evaluate and compare the historical performance of value of unit with the current value of unit by using intrinsic value and to calculate and compare historical development of investment valuations ratios of the fund. These aims were fulfilled.

AKRO Equity Fund of New Economies is a mutual fund with a tradition from the year 1993 in the Czech Republic. The fund is suitable for the beginning investors who are interested in long term horizon – 5 years and more of investment and they are willing to accept a relatively high risk but with the possibility of higher returns from the investment.

The historical performance of the fund was negatively influenced by the financial crisis in 2007- 2008, the net asset value per unit fell down from the historical highest value- 3.38 CZK per one unit to the historical lowest value- 1.16 CZK per one unit. The prediction of a portfolio manager is an increase by 5 % of the the net asset value per unit for year 2014 compared to the net asset value per unit in the year 2013.

It was also demonstrated that the value of unit for the current time- beginning of the year 2014 is overvalued. The recommendation for the current investors of the fund is to sell the units and on the other hand the advice for the new potential investors is to wait to purchase mutual fund's units. The mutual fund is also not suitable for an investor who intends to withdraw their financial means in less than the specified time of investment horizon (5 years).

As a conclusion collective investment is nowadays a very popular approach how to increase a value of money among the people worldwide as well as in the Czech Republic, but it is also necessary to mention that the value of investments may fall as well as rise and there is no guaranty of at least the same return as the amount which was originally invested.

7 BIBLIOGRAPHY

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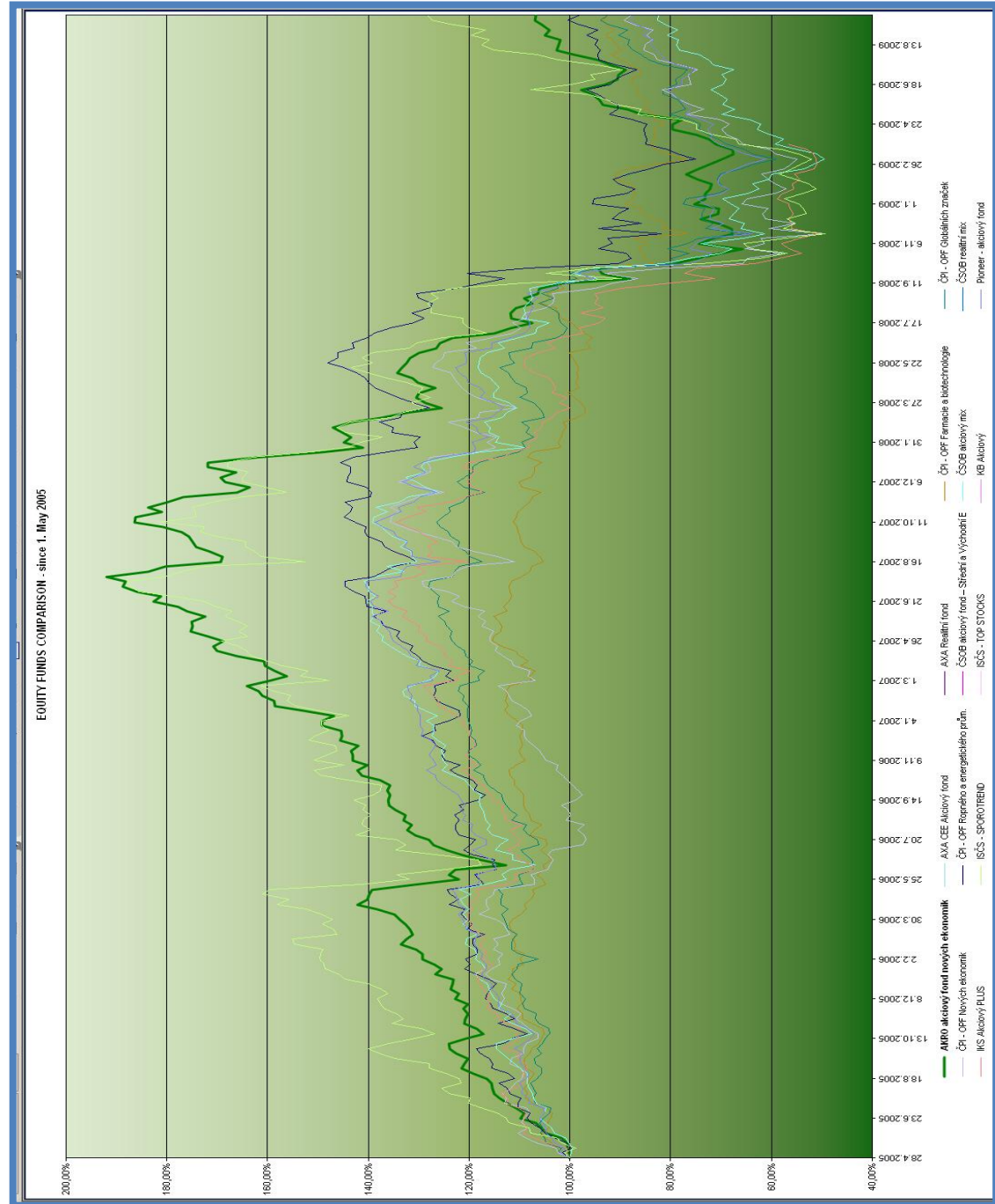
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8 SUPPLEMENTS

Supplement 1- Comparison of Performance of Equity Funds in the Czech Republic from 2006 to 2009



Source: MONK, Jeremy. A Paradigm for Performance. Prague, 2009