JOURNAL
OF EUROPEAN ECONOMY
Vol. 5 (№ 1). March 2006
Publication of Ternopil State Economic University

Financial and Banking Services Market

Oleksiy DZHUSOV

METHODS OF INCREASING INVESTMENT EFFICIENCY AT THE INTERNATIONAL STOCK MARKET

Abstract

The article presents fundamental and technical parameters of foreign stock which should primarily be analyzed when composing an investment portfolio. The author specifies the parameter-based stock selection techniques that could guard against losses and generate gains on investment.

Key words:

Foreign stock, gains on capital, investment portfolio, investment techniques, stock market, stock market analysts.

At present, the world knows no technique of stock selection that could guarantee 100% success in generating higher-than-average return on investment, which in case of the USA equals from 9 to 12%. The issue of foreign stock selection for investment portfolio composition has only recently gained recognition in our country. However, the development of such institutional investors as pension funds and insurance companies brings it to the foreground.

© Oleksiy Dzhusov, 2006.

Dzhusov Oleksiy, Cand. of Econ. Sciences, Assistant Professor, Dnipropetrovsk National University, Ukraine.

The novelty of the issue explains quite a limited number of the publications dedicated to national institutional investors' operations with foreign stock, as well as to the issue of combining the advantages of fundamental and technical analyses to optimize the selection of foreign stock for investment portfolio composition. In our country, these topics were covered in the works of E. L. Najman [1], A. N. Kutyrkin [2], I.L. Sazonets [3,4], at al.. Similar analysis was made by such Russian authors as V. V. Daragan [5], I. O. Zakaryan [6], V. V. Tvardovsky, and S. V. Parshykov [7].

The issue of making high and stable return on investment at the international stock market is very complicated. Thus, only two names – Peter Lynch and Warren Buffet – can be listed among those investors who have gained the most significant investment results. During years of time, these investors have managed to outperform the market *on a regular basis*.

Peter Lynch, who headed in 1977 a small (in terms of assets) *Magellan Fund*, reformed it by 1990 into the world's most powerful mutual fund. For thirteen years he has managed to receive an average annual ROI of about 30 % [8, 9]. Warren Buffet, who headed *Berkshire Hathaway Co.*, has managed to receive an investment return of about 20% per annum for 63 years, whereas in those same years the general return at the stock market was about 10% [10]. It should be noted however that there were the years when W. Buffet's investments were unprofitable.

Thus, when working with investment techniques, one should not strive to outperform the market, which no investor ever has managed to do continuously. We should only attempt to maximally protect ourselves from investment losses, which can contribute, in its turn, to generating above-market-average return.

The selection of stock for investing usually starts with the sector of the economy. One way to do it is to select those sectors of the economy that correspond to the estimated investment horizon and should, according to recommendations of analytical departments of the largest investment banks, in perspective, perform well. Thus, if a suggested investment horizon is short and includes from several months to one year, then in 2002–2003 and possibly in 2004, it might not have been feasible to invest, for example, in the US automobile industry. In view of the fact that mass dismissals accompanying the recession of 2000–2002, loss of wealth by millions of Americans as a result of stock market default, and uncertainty as for the future economic renovation created an atmosphere of uncertainty for an average American consumer, who evidently would not make any expensive purchases, e.g. a car, and would put money away for a rainy day. Accordingly, the automobile industry would not exhibit growth in the nearest future and, as a result, the shares of automobile companies would evidently fluctuate for some time around a certain low level. If the suggested investment horizon covers 5 to 10 years and more, then obviously these years are the best time for investment into the shares of this industry since the majority of them were trading at the levels of their long-term minimums. Thus, for example, the share price of Ford Motor Co., equal to $7.5–8 in the second half of 2002, corresponded to the level that had already been reached by that share in mid-1987.

Therefore, if the investment horizon makes 5–10 years and more, then the choice of the economic sector may be simply dropped, as it is impossible to perform an accurate and reliable forecast of the state of the world economy in such a long-term perspective and to determine the industry that will become the leader in 5 or 10 years.

The goal of this work is to examine the investment strategies of institutional investors mainly for long-term investing (which corresponds to the aims of non-state pension funds). Thus, the technique recommended below begins directly with the selection of shares to invest in. Earlier, certain parts of this methodology were published in [11–13, and others]. This paper presents its complete description.

To combine the advantages of the fundamental and the technical analyses, the technique consists of two main stages. At the first stage, the selection of shares is based on separate fundamental parameters of a company. At the second stage, the shares selected at the first stage are analyzed with instruments of technical analysis in order to select those of them considered to be most perspective for investing.

National institutional investors[1], such as pension funds and insurance companies, require minor-risk investment techniques in order to preserve their capital. Thus, the set of shares was limited to those belonging to Standard & Poor's 500 or Dow Jones Industrial Average. The most conservative institutional investors should not go beyond the thirty companies in the Dow Jones index.

The shares that belong to the calculated base of Standard & Poor's 500 represent 500 biggest and financially-stable corporations of the USA, which actually determine the position of this country's economy. But the structure of the index is occasionally reviewed. The companies experiencing economic difficulties are excluded from the index and substituted with the companies that grew to a proper level.

Therefore, the next step of share selection is to eliminate the companies that may be excluded from the index at next revision.

For that, it is necessary that the company under consideration meets the following conditions:

- it pays out dividends with its ordinary shares;
- it is highly capitalized (more than $10bln.).

Two additional selection criteria are:

[1] The investment portfolio of these organizations should include not only shares, but also bonds, cash, and other assets. However, the paper discusses only shares as a component of the investment portfolio.

- the size of the company's staff is large (≥ 30000 persons);
- the company's P/E ratio does not exceed 40.

As it is known, the dividends that are paid by shares show the financial position of a company, being an indirect indicator of satisfactory fundamental parameters.

High capitalization and large personnel size signify that the company takes the leading position in the industry. These two parameters are especially valuable when considered together. Thus, during the boom of Internet-companies at the US fund market in 1999–2000, the capitalization of some companies reached $10–20 bln. and more, but their personnel size was not high (from 500 to 3000 to 5000 persons). Such companies were Priceline.com Inc. (PCLN) with capitalization in summer 1999 of more than $18 bln., At-Home Corp. (ATHM) with capitalization of more than $12 bln., BMC Software (BMC) with capitalization of more than $10 bln., and some others. During the fall of the US stock market, which started with the shares of the technological sector in April 2000, the shares of these companies fell much in price, some of them losing nearly 90% of their value.

Therefore, large personnel size, being, on the one hand, a negative factor, meaning high salaries/wages expenditures, on the other hand, serves as an indicator of high capitalization that was achieved by the company, and is an outcome of continuous and steady work of many people, and not of the speculative operations of a small group.

Serious share price drops happened not only with Internet-companies. Similar cases may happen with highly capitalized, large staff companies in traditional industries. In this respect, the events with Enron Corp. should be mentioned.

By 2001, this company remained the most powerful buyer and seller of natural gas; it also implemented the laying of gas pipelines and guided the transportation of natural gas, construction of electric stations and facilities for production of the rarefied gas. The corporation realized all these operations both on the markets of the USA, as well as in Europe, China and Latin America. The shares of the corporation constituted a significant part of investment portfolios of the most powerful investment funds (such as Barclays Global, Fidelity, Vanguard, Morgan Stanley, and others) and several pension funds in the USA. Enron Corp. took the 7th position in the USA in terms of profits in the year 2000 rating of the *Fortune – 500*. As long ago as in August 2000, the shares of Enron Corp. were traded at $83–85, whereas its capitalization approximated $80bln. The corporation was tracked by the most authoritative analysts and investment companies, and its shares were highly evaluated. But for all that, in 2001 the company started to experience some difficulties; in October 2001, the situation got worse because of a serious conflict connected with its financial operations. As a result, Enron defaulted. On 30.11.2001, at exchange closing, the cost of its shares made only 26¢/share; in a day, on 02.12.2001, the company was declared bankrupt.

However, it should be noted that following the strict selection of the companies as suggested by the scheme, the shares of Enron Corp. would not be purchased, since, even with consideration for all its best fundamental parameters, its staff did not make 30000 persons (which is required by the method). Thus, according to the last company's report, the corporation employed only 20600 persons.

The last requirement of the suggested method – the P/E ratio of less than 40 for the selected shares – was deduced empirically by observing average P/E ratios for different groups of shares during recent years. This limit helps to guard oneself against investments in the shares, the price of which by some reason grew significantly and is in disparity with the received income.

On the Reliability of Forecasts of Professional Stock Market Analysts

Many investors and mutual fund managers use recommendations of professional stock market analysts as a stock selection criterion. Such practice raises doubts because of two reasons:

1. The objectivity of analysts in setting the ratings;
2. The ability to change the ratings frequently.

The first remark was induced by several serious scandals in the USA in 2001–2003 connected with the analysts' activity: the scandal involved 10 of the most powerful investment, banking and broker Wall-Street companies. Legal investigations disclosed the facts of malpractice of the analysts of the biggest Wall-Street companies. They over-rated the shares of the companies regarded as clients or prospective clients of their investment and banking business. The investigators disclosed the cases when the analysts recommended buying the shares of their client-companies, regarding them in fact as rather disadvantageous. The analysts raised the ratings in order to satisfy the management of the companies and, thus, the interests of the investment and banking business of their own firms. The analysts were materially interested in servicing the investment and banking department of their own firms, since their financial reward depended on its profits. Besides, there were the cases of malpractice with IPOs (Initial Public Offerings). When placing the IPOs that were expected to grow significantly, the investment banks distributed such shares among the privileged clients.

After the scandal in the USA, measures were taken to prevent similar violations on the markets. Yet, even when all similar violations are liquidated, one more important factor remains and proves the inexpediency of listening to stock market analysts. Thus, if an analyst or several analysts assign a «strong buy» to a share, then obviously an investor who trusts such recommendations will purchase some quantity of these shares. Soon, due to some reasons, a company may show income in its quarterly report, which appears to be smaller than planned. As a rule, such an event leads to a significant fall in share price. If, in addition, a company provides a dubious forecast for the next quarter, this may cause an extreme drop in share price (up to 20% and more). In 1 or 2 days, the analysts will definitely reduce the company's rating by one or two points, to «neutral» or even «sell». If the investor listens to analysts' recommendation and sells the shares, he will lose 20% or more of his capital.

In addition to the above-mentioned example, there are many other cases when analysts changed their previous forecast and substantiated the new one with changing conditions or some other unexpected circumstances.

Thus, the fact that analysts can freely change stock ratings can bring severe financial losses to investors who are highly dependent on analyst recommendations.

When elaborating the stock selection technique presented in this section, we compared the forecasts of the stock market analysts with the actual year-end values of S&P 500 to study whether they coincide. The data on different analytical forecasts were accumulated from the materials published at www.k2kapital.com/news in 2000–2003. The actual value of the index was fixed at the close of the year's last trading session (usually December 30 or 31). The accumulated data were classified and presented in Table 1.

The Results of Fundamental Stage of the Investment Technique

In December 2000, we used the technique and the data of www.stockquest.com to select shares with minimal risk in terms of investing. The selection was done according to the following parameters:

1. A share should belong to the calculated base of Standard & Poor's 500;
2. Share dividends should be paid out;
3. Capitalization of the company should be no less than $10 bln.;
4. Personnel of the company should include no less than 30 000 persons;
5. The P/E ratio should not exceed 40.

At a result, we made up a list of the most powerful companies – the leaders in their industries. Considering the long-term perspective and the minimal risk, one can invest money into the shares of these companies (Table 2).

Table 1

Projected vs. Actual Values of S&P 500

<table>
<tr><th rowspan="2">Name of Financial Institute, Name of Analyst</th><th colspan="2">2000</th><th colspan="2">2001</th><th colspan="2">2002</th><th colspan="2">2003</th></tr>
<tr><th>Projected value</th><th>Actual Value</th><th>Projected value</th><th>Actual Value</th><th>Projected value</th><th>Actual Value</th><th>Projected value</th><th>Actual Value</th></tr>
<tr><td>UBS Wartburg
Ed Kershner</td><td>1600</td><td rowspan="11">1320</td><td>1715</td><td rowspan="11">1148</td><td>1570</td><td rowspan="11">880</td><td>975–1025</td><td rowspan="11">1112</td></tr>
<tr><td>Goldman Sachs
Abby Josepf Cohen</td><td>1525</td><td>1650</td><td>1300–1425</td><td>1150</td></tr>
<tr><td>Salomon Smith Barney Tobias Levkovitch</td><td></td><td></td><td>1300–1350</td><td>1075</td></tr>
<tr><td>Lehman Brothers
Jeffrey Applegate</td><td></td><td></td><td>1350</td><td></td></tr>
<tr><td>Morgan Stanley
Steve Galbraith</td><td></td><td></td><td>1250</td><td>1000</td></tr>
<tr><td>Banc of America Sec.
Thomas Mac Manus</td><td>1600</td><td>1200</td><td>1200</td><td>1000</td></tr>
<tr><td>JP Morgan
Douglas Cliggott</td><td></td><td>1000</td><td>950–1100</td><td>800–900</td></tr>
<tr><td>Merrill Lynch
Richard Bernstein</td><td></td><td></td><td>1200</td><td>860</td></tr>
<tr><td>Prudential Securities
Ed Yardeni</td><td></td><td></td><td>1300</td><td>1025</td></tr>
<tr><td>Bear Stearns
Francois Trahan</td><td></td><td></td><td></td><td>950–1050</td></tr>
<tr><td>Deutche Bank</td><td></td><td></td><td></td><td>830</td></tr>
</table>

Table 2

Companies with Minimal Investment Risk (December, 2000)

Ticker Symbol	Company	Share Price, USD	Dividend Income, %	P/E	Person-nel Size, persons	Capitaliza-tion, thou. USD
1	2	3	4	5	6	7
ABT	Abbott Laboratories	50.06	1.52	29.24	57100	77435590
AA	Alcoa Inc.	32.19	1.55	17.79	107700	27841370
ALL	Allstate Corporation	43.94	1.55	15.97	52000	32131860
AXP	American Express Comp	56.50	0.57	28.09	88378	75143870
AHP	American Home Products	54.82	1.68	20.56	51656	71844080
T	AT&T Corporation	20.50	4.29	11.57	147800	76944910
BAC	Bank of America Corp.	43.44	5.16	9.11	155906	70696950
BAX	Baxter International Inc.	83.81	1.39	35.69	45000	24652760
BLS	BellSouth Corporation	41.88	1.82	20.19	99027	78225600
BA	Boeing Company	68.38	0.82	26.09	195000	60747770
BMY	Bristol-Myers Squibb Co.	66.94	1.64	32.93	54500	130887890
BNI	Burlington Nrth/Santa Fe	26.44	1.82	10.97	41600	10437720
CAH	Cardinal Health Inc.	91.50	0.13	35.53	42200	25539390
CAT	Caterpillar Inc.	42.38	3.21	14.49	67510	14566410
CMB	Chase Manhattan Corp.	42.50	3.01	10.89	74801	55690300
CHV	Chevron Corporation	81.50	3.19	11.86	36490	52308090
CI	CIGNA Corporation	128.50	0.96	21.62	41900	19724750
C	Citigroup Inc.	52.88	1.06	19.92	108800	237542530
CL	Colgate-Palmolive Co.	56.55	1.11	34.36	37200	32360000
CPQ	Compaq Computer Corp.	20.24	0.49	22.29	67100	34509200

Ticker Symbol	Company	Share Price, USD	Dividend Income, %	P/E	Personnel Size, persons	Capitalization, thou. USD
1	2	3	4	5	6	7
CAG	ConAgra Foods, Inc.	23.44	3.84	24.57	85000	12501310
CVS	CVS Corporation	52.19	0.44	29.32	97000	20446530
DOW	Dow Chemical Company	33.38	3.48	14.77	39239	22643270
EK	Eastman Kodak Comp.	39.56	4.45	7.32	80650	11875630
EDS	Electronic Data Systems	56.94	1.05	31.44	121000	26625970
LLY	Eli Lilly &Co.	92.88	1.12	33.15	31300	104695570
EMR	Emerson Electric Co.	76.50	2.00	23.17	116900	32677740
XOM	Exxon Mobil Corp	85.75	2.05	22.55	123000	296083280
FBF	FleetBoston Financial	35.94	3.67	12.89	59200	32526770
F	Ford Motor Company	23.68	5.03	7.48	364550	45272640
GCI	Gannett Co., Inc.	56.88	1.55	16.09	45800	14997480
GPS	Gap. Inc.. The	25.56	0.35	22.17	140000	21720750
GD	General Dynamics	73.63	1.41	16.86	43400	14669340
GM	General Motors Corp.	51.56	3.88	5.65	388000	29130520
G	Gillette Company. The	32.00	2.03	27.47	39800	33705600
HNZ	H.J. Heinz Company	42.81	3.67	23.03	46900	14848790
HWP	Hewlett-Packard Comp	33.13	0.97	19.20	84400	65501040
HD	Home Depot. Inc.. The	45.13	0.35	39.38	201000	104747530
HON	Honeywell International	55.19	1.36	31.63	120000	44011880
IBM	IBM	95.00	0.55	23.15	307401	166666090
ITW	Illinois Tool Works. Inc.	60.63	1.32	19.70	52800	18316210
INTC	Intel Corporation	37.44	0.21	25.04	70200	251957730

Ticker Symbol	Company	Share Price, USD	Dividend Income, %	P/E	Person-nel Size, persons	Capitaliza-tion, thou. USD
1	2	3	4	5	6	7
IP	International Paper Co.	37.63	2.66	25.68	99000	18111550
JNJ	Johnson & Johnson	95.63	1.34	28.98	97800	132921630
KMB	Kimberly-Clark Corp.	65.15	1.66	20.13	54800	34784560
LOW	Lowe's Compa-nies Inc.	41.81	0.34	19.67	70000	16009030
LU	Lucent Tech-nologies Inc.	16.69	0.48	28.48	153000	55729740
MMC	Marsh & McLennan Co's	126.94	1.58	38.72	52900	34918870
MCD	McDonald's Corporation	29.94	0.72	20.41	314000	39257880
MRK	Merck & Co.. Inc.	90.63	1.50	32.22	62300	208993480
MER	Merrill Lynch &Co.. Inc.	72.25	0.89	17.67	67200	58184800
MMM	Minnesota Min-ing & Mfg.	115.25	2.01	24.33	70549	45458060
MWD	Morgan Stanley Dean Witt.	77.81	1.03	15.18	55288	87206040
MOT	Motorola. Inc.	21.63	0.74	30.67	150000	47237000
NCC	National City Corporation	26.75	4.26	12.28	38054	16274650
OMC	Omnicom Group. Inc.	87.69	0.80	33.69	43000	15526040
PEP	PepsiCo. Inc.	47.06	1.19	33.62	118000	67940010
MO	Philip Morris Companies	39.66	5.44	10.73	137000	86717670
PG	Procter & Gam-ble Co.	69.06	2.03	27.80	110000	90042960
RTN.B	Raytheon Com-pany	29.81	2.68	30.15	105300	10133740
RD	Royal Dutch Pe-troleum Co	54.94	2.55	16.12	57600	117803550
SLE	Sara Lee Corp.	24.19	2.40	18.99	154000	20167230
SBC	SBC Communi-cations Inc.	50.81	2.00	20.76	204530	172000530
S	Sears. Roebuck & Co.	34.77	2.65	7.63	326000	11619470

Ticker Symbol	Company	Share Price, USD	Dividend Income, %	P/E	Person-nel Size, persons	Capitaliza-tion, thou. USD
1	2	3	4	5	6	7
SO	Southern Com-pany. The	28.81	4.65	14.14	32949	18753750
FON	Sprint FON Group	23.81	2.10	11.91	64900	21057740
STI	SunTrust Banks. Inc.	54.56	2.71	13.99	30222	16162270
SYY	Sysco Corpora-tion	53.38	6.52	36.43	40400	17839100
TGT	Target Corpora-tion	33.31	0.66	24.99	281000	29839120
TXN	Texas instru-ments	51.88	0.16	32.50	38197	89741160
TYC	Tyco Int'l. Ltd. (NEW)	57.88	0.09	21.89	182000	101405340
UNP	Union Pacific Corp.	46.88	1.71	12.82	64200	11617130
UTX	United Tech-nologies	72.25	1.25	25.67	148300	33838940
VZ	Verizon Com-munications	55.13	2.79	13.96	260000	148787720
WMT	Wal-Mart Stores. Inc.	51.38	0.47	37.09	1140000	229474860
WFC	Wells Fargo & Company	49.75	1.93	20.13	92178	82120840

The Technical Stage of the Investment Technique

At the next stage of this technique, from the table including 76 stock positions we have to select only those traded near the lower range of their price values. This is done to increase the probability of gain on share price increase. This may be achieved by selecting the shares, which have recently passed through correction.

Besides, only those companies should be selected, the shares of which have been traded already for a long period of time. Investing into new companies is definitely a risky business, which is unacceptable for the national non-state pension funds. The Law «About Non-State Pension Provision» clearly sets a 10-year trading period [14]. This figure seems to be credible and needs no revision.

This parameter is technical; thus, it can easily be followed with technical analysis. This can be done by means of 10-year charts. These charts help to select the companies the shares of which are traded at the stock market for no less than the fixed time. Share price charts of such companies will be found on the very left border. Share price charts of the companies that do not meet this parameter will be found somewhere between the left and the right borders of the chart, i.e. between 1990 and 2000.

The selection of shares, which have recently been corrected, is also produced by means of technical analysis. Weekly charts and a 200-day simple sliding mean, which corresponds to 40-week simple sliding mean on the weekly chart (40 weeks x 5 working days per week = 200 days), are most convenient for defining the current phase of the shares within a multiple-year trend.

Thus, using www.bigcharts.com, we constructed 10-year charts with 1-week interval and 40-week simple sliding means for all 76 companies. The shares that meet the following conditions are considered to be suitable for investment:

1. Shares of the company should be traded for no less than 10 years;
2. A share follows a prolonged (2-3 years) side adjustment trend, or after the adjustment at the level of no less than 18-20% (better 30–35%), that is lower from its maximum price values;
3. 40-week simple sliding mean is sloping upward and the price chart is below the sliding mean.

Figure 1 depicts the charts of three companies; one of them, Caterpillar Inc., fits all requirements and is recognized as being suitable for investing; the other two, Eastman Kodak and Boeing, do not meet all the requirements and thus cannot be put onto the investment list.

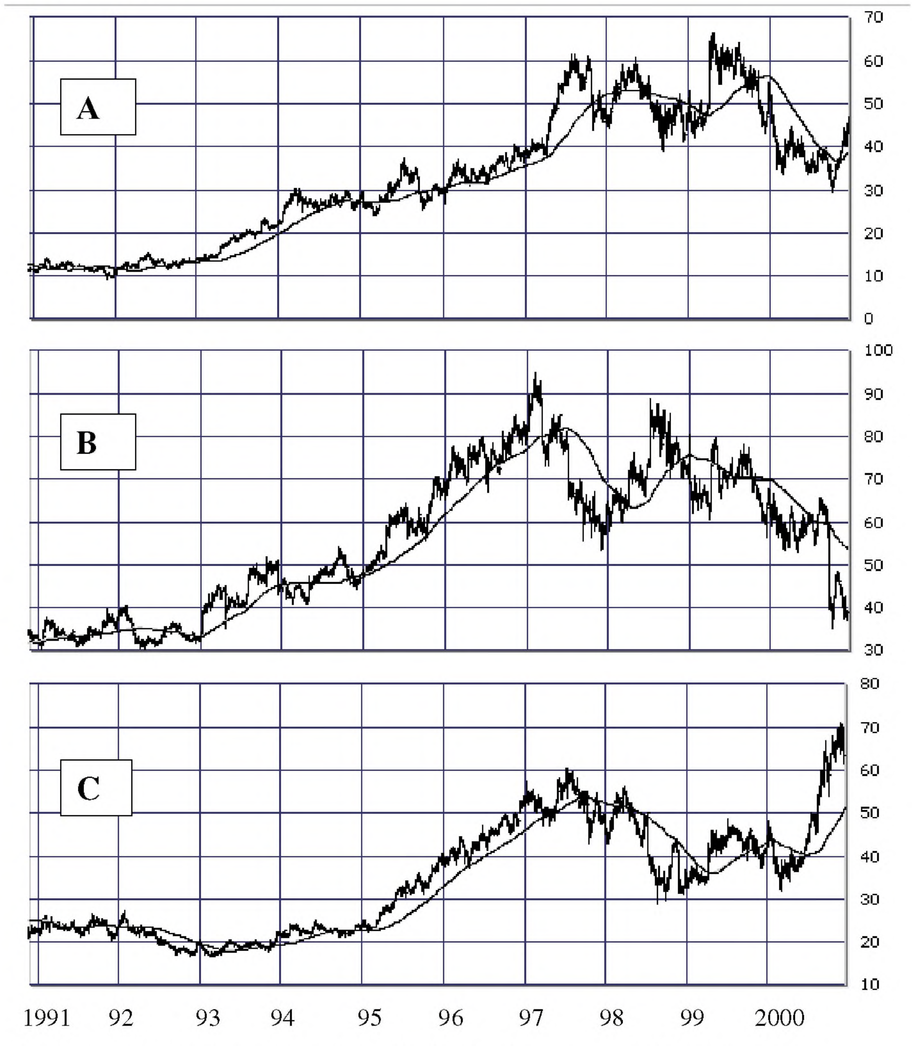
Thus, the shares of Eastman Kodak Co. satisfy the first and the second requirements – they are traded for no less than 10 years and move in the adjustment trend at 58% of their historical price maximum, but they do not meet the third requirement – the 40-week simple sliding mean (40wSM) is downward-sloping. The shares of Boeing Co. satisfy the first and the third requirements – they are traded at the market for no less than 10 years and their 40wSM is upward-sloping, but they contradict the second requirement – the share price is at its historical maximums level.

Therefore, having analyzed all 76 companies, only 12 shares were selected that satisfied all the above-mentioned requirements (Table 3).

In December 2000, these shares were brought together in a virtual investment portfolio worth $120000. Long positions for the value of $10000 were opened for each share. At the end of the experiment, on 21.11.2005, all the positions were closed simultaneously. The sale of all shares produced $167351, i.e. the total gain made 39.46%. The main stages of the experiment on share purchase, share quantity and sale are shown in Table 3.

Figure 1

10-Year Weekly Share Price Charts
for A – Caterpillar Inc.(CAT); B – Eastman Kodak Co. (EK);
C – Boeing Co. (BA).



Note: Curve on the diagrams – 40-week simple sliding mean (40wSM).

Table 3

Results of Investing into the Selected Shares

Ticker Symbol	Share Price 12.2000, USD,	Invested Funds, USD	Total Shares Bought, units	Share Price 21.11.05, USD	Value of Shares Sold 21.11.05, USD
BNI	26.44	10000	378	66.34	25076
CAT	42.38	10000	236	57.71	13620
CAG	23.44	10000	427	22.65	9672
HNZ	42.81	10000	234	35.06	8204
HON	55.19	10000	181	36.65	6634
MMM	57.63*	10000	174	79.23	13786
NCC	26.75	10000	374	33.82	12649
MO	39.00	10000	256	71.61	18332
PG	34.54*	10000	289	57.64	16658
SLE	24.19	10000	413	17.96	7418
Sears**	34.77	10000	288	66.80	19238
UNP	46.88	10000	213	75.42	16064
Total USD		120000			167351
%		100.00			139.46

Note:

*) The actual price of these shares on the date indicated made $115.25 for MMM and $69.08 for PG; but MMM in 2003 and PG in 2004 performed a 2:1 share split, which is reflected in the price indicated in the table.

**) Currently, Sears, Roebuck & Co. is currently not traded under «S» symbol.

During this period, S&P 500 indicated negative growth or decrease of 9.06% (in December 2000, the average value of S&P 500 made 1380, and closing on 21.11.2005 at 1255). Therefore, during the period of no more than 5 years, the return exceeded average market return for the same period by 48.52%.

The presented stock selection technique is not perfect. Thus, in following the requirements of the method made us dismiss the shares that exhibited high growth during the indicated interval. These shares include Burlington North/Santa Fe (BNI) with growth of 150.9%, the Altria Group (previously Philip Morris Co.) (MO) – 80.56%, General Dynamics (GD) – 58.9%, Target Corporation (TGT) – 64.88%, Union Pacific Corp. (UNP) – 60.88%, and some others.

But the main advantage of these methods consists in the rejection of shares which in case selected and invested in during December 2000 to November 21, 2005, would generate considerable losses. These are the shares of Lucent Technologies Inc. (LU) – loss of 82.56%, Bristol-Myers Squibb Co. (BMY) – loss of 66.7%, Ford Motor Company (F) – loss of 64.86%, Electronic Data Systems (EDS) – loss of 57.71%, General Motors Corp. (GM) – loss of 54.27%, Baxter International Inc. (BAX) – loss of 53.74%, SBC Communications Inc. (SBC) – loss of 52.04%, Tyco Int'l (TYC) – loss of 50.52%, and some other shares which showed much smaller price decreases.

Conclusions

1. Generating capital gains, which would exceed average annual return on leading indices, is a very complicated task to perform on a regular basis.

2. For long-term investing, the choice of economic sector is not conclusive.

3. Yet, consideration for such corporate parameters as capitalization and personnel size is of great analytical importance when searching for least risky stock.

4. Stock selection based only on analyst recommendations may result in considerable financial losses. It is reasonable to consider only the number of financial institutions tracking the share and the absence of highly negative analytical comments on the activity of the company.

5. The suggested fundamental- and technical-parameter based methods of stock selection allow protecting from investment losses and generating capital gains.

Bibliography

1. Найман Э. Л. Трейдер-Инвестор. – М.: Вира-Р, 2003. – 640 с.
2. Кутыркин А. Н. Финансовый рынок с элементами технического анализа. – Донецк: ИЭП НАН Украины, 1998. – 192 с.
3. Инвестиционная стратегия корпораций и институциональных инвесторов: Монография / Под ред. Сазонца И. Л. – Днепропетровск: Наука и образование, 2003. – 132 с.
4. Сазонец И. Л., Джусов А. А. Депозитарные расписки Standard & Poors как составная часть инвестиционного портфеля пенсионных фондов и страховых компаний // Економіка промисловості. – 2002. – №1. – С. 86–89.

5. Дараган В. А. Игра на бирже. Изд 3-е. – М.: Едиториал УРСС, 2002. – 232 с.

6. Закарян И. Практический Интернет-трейдинг. – М.: Акмос-Медиа, 2001. – 396 с.

7. Твардовский В. В. Паршиков С. В. Секреты биржевой торговли: Торговля акциями на фондовых биржах. – М.: Альпина Паблишер, 2003. – 530 с.

8. Гейсст, Чарльз, Р. 100 лет Уолл-стрита./ гр. «ДАРНЕЛ», 2000. – 180 с.

9. Красс Питер. Книга инвестиционной мудрости / – М.: «ИК «Аналитика», 2002. – 504 с.

10. Бернстайн Л. А. Анализ финансовой отчетности: теория, практика и интерпретация: Пер. с англ. / Научн. ред. перевода чл.-корр. РАН И. И. Елисеева. Гл. редактор серии проф. Я. В. Соколов. – М.: Финансы и статистика, 2002. – 624 с.

11. Джусов А. А. Метод формирования инвестиционного портфеля пенсионных фондов и страховых компаний с целью защиты средств от финансовых рисков // Экономические проблемы и перспективы стабилизации экономики Украины: Сб. научн. трудов ИЭП НАН Украины. – Донецк, – 2001. – Т. 2. – С. 177–184.

12. Джусов А. А. Обеспечение сохранности средств пенсионных фондов и модель их эффективного инвестирования // Донецк: Донецкий национальный технический университет. – 2003. – С. 177–182.

13. Джусов А. А. Пенсионная реформа в Украине: стратегия и тактика международного инвестирования. – Днепропетровск: Наука и образование, 2003. – 36 с.

14. Закон України «Про недержавне пенсійне забезпечення». http://www.rada.gov.ua/. – Стр.: http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi.

The article was received on October 19, 2005.