



By Floret Capitals

The Everyday Investor's Guide to PSX

Learn the Pakistan Stock Exchange
before you invest a single rupee.

6 CHAPTERS

BEGINNER FRIENDLY

STOCK WORKSHEETS AND CHECKLISTS

Important Disclaimer

Please read this page before you read anything else.

This ebook is published by FloStocks, a brand of Floret Capitals, purely for general education and financial literacy. It is written for readers who are new to the Pakistan Stock Exchange and who want to understand how the market works before committing money to it.

1. This is not investment advice

Nothing in this book is a recommendation to buy, sell, hold, or subscribe to any security, fund, or financial product. No part of it should be treated as personalised financial, investment, legal, accounting, or tax advice. The authors do not know your income, obligations, family responsibilities, debts, tax position, or risk tolerance, and therefore cannot and do not advise you on what is suitable for you.

2. Every company named in the examples is fictional

To keep this book strictly educational, every company, share price, financial statement, and portfolio used in the worked examples is invented. Names such as "Ravi Textiles Limited" or "Indus Cement Company" do not refer to any real listed entity, and any resemblance to a real company is coincidental. The numbers were chosen because they make the arithmetic easy to follow, not because they reflect any real business.

3. Rules, rates, fees and taxes change

Trading hours, settlement cycles, circuit-breaker limits, brokerage commissions, capital gains tax rates, withholding tax rates, and filer/non-filer treatment in Pakistan change regularly, often with each annual Finance Act or through circulars issued during the year. Any rate, limit, or procedure described here is illustrative and may already be out of date by the time you read it. Always verify the current position with the Pakistan Stock Exchange, the Securities and Exchange Commission of Pakistan, the Central Depository Company, the National Clearing Company of Pakistan, the Federal Board of Revenue, or a qualified professional before acting.

4. Investing involves the risk of loss

Share prices go down as well as up. You can lose part or all of the money you invest. Past performance of a company, a sector, or the KSE-100 Index tells you what happened before; it does not tell you what will happen next. Leveraged products such as margin financing and futures can cause losses larger than the amount you originally put in.

5. No liability is accepted

FloStocks, Floret Capitals, and the contributors to this book accept no liability whatsoever for any loss or damage, direct or indirect, arising from any decision made or action taken on the basis of this material. You act on your own judgement and at your own risk.

6. Get licensed help for decisions that matter

If you want advice specific to your situation, deal only with persons and firms licensed or registered by the Securities and Exchange Commission of Pakistan, and verify their status directly with the regulator. Be extremely sceptical of anyone who guarantees returns, promises to "double your capital", or asks you to transfer money to a personal bank account.

READER'S UNDERTAKING

By reading further, you accept that this material is educational in nature, that you are responsible for your own investment decisions, and that you will independently verify any rule, rate, or figure before relying on it.

Contents

Section	What it covers
Important Disclaimer	Why you must read the fine print first
How to Use This Book	Signposts, structure, and expectations
Chapter 1 — What the PSX Really Is	Ownership, institutions, indices, how prices are set, and shareholder rights
Chapter 2 — Getting Started Properly	Brokers, accounts, documents, order types, ledgers, and your first trade
Chapter 3 — Understanding a Company	Statements, ratios, the working capital cycle, reading a bank, and the audit report
Chapter 4 — Price, Value and Valuation	P/E, P/B, yields against interest rates, cyclical traps, and results-day reactions
Chapter 5 — Building a Portfolio	Allocation, diversification, averaging, rebalancing, leverage, and bad years
Chapter 6 — Costs, Taxes, Rules and Safety	Cost stack, capital gains worked through, corporate actions, scams, complaints
Frequently Asked Questions	Sixteen direct answers to the questions beginners ask most
Company Analysis Worksheet	A five-part template to complete before buying anything
Formula Reference	Every calculation in the book, grouped and explained
Glossary	Eighty terms you will meet on a PSX screen
Final Checklist	Twenty questions to answer before you buy anything

How to Use This Book

Six chapters, in order, with a small task after each one.

This book assumes you know nothing about the stock market. It does not assume you are unintelligent — only that nobody has ever explained this to you in plain language, with real numbers, using examples from a Pakistani context rather than an American one.

It is written to be read in order. Chapter 3 makes little sense before Chapter 1, and Chapter 5 is easy to misuse if you skip Chapter 4. If you read one chapter a week and do the small task at the end of each, you will finish in six weeks, and you will finish knowing considerably more than the average person who opens a brokerage account in Pakistan.

The signposts you will see

WORKED EXAMPLE

A green box means arithmetic. Everything is shown step by step, in rupees, so you can follow the logic and repeat it with your own numbers.

WATCH OUT

An amber box is a warning: a common beginner mistake, a misleading number, or a place where people in Pakistan routinely lose money.

KEY IDEA

A grey box is the single idea from that section that is worth remembering even if you forget everything else.

What this book will and will not do

It will teach you the vocabulary, the mechanics, the arithmetic, the costs, the taxes, the rules, and the common traps. It will show you how to read a company's accounts well enough to hold an intelligent opinion, and how to build a portfolio that will not ruin you if you are wrong.

It will not give you stock tips, price targets, or a system for getting rich quickly. Those things are either sold by people who do not have them or given away by people who profit when you act on them.

What the PSX Really Is

Before you can invest sensibly, you need to know what you are buying, who is holding it for you, and who is watching over the whole arrangement.

1.1 A share is a slice of a business

Imagine your neighbour runs a small juice business in Rawalpindi. He has two shops, four staff, three second-hand juicers, a delivery bike, and a supplier who gives him mangoes on credit. He wants to open six more shops but does not have the eight million rupees it would take. He has two choices. He can borrow the money from a bank and repay it with interest whether the shops succeed or not, or he can sell part of his business to other people who will share both the risk and the reward.

Suppose he chooses the second route. He divides his business into 100,000 equal pieces and sells 40,000 of them to outsiders at Rs 200 each, raising Rs 8 million. Those pieces are shares. If you buy 1,000 of them, you own one per cent of the juice business — one per cent of the shops, the juicers, the bike, the brand, the supplier relationships, and, crucially, one per cent of every rupee of profit that business earns from now on.

That is the entire idea. A share of a listed company is not a lottery ticket, a betting slip, or a number that moves on a screen. It is a legal claim on a fraction of a real business that owns real assets, employs real people, and produces real profits or real losses. Everything else in this book — the ratios, the charts, the taxes, the order types — is machinery built on top of that single fact.

A stock exchange exists because those small ownership slices need somewhere to change hands. Without an exchange, if you owned one per cent of the juice business and needed your money back, you would have to find a buyer yourself, negotiate a price with no reference point, and hope the paperwork was honest. An exchange solves all three problems at once: it gathers buyers and sellers in one place, publishes the price at which they last agreed, and guarantees that the shares and the money actually change hands.

KEY IDEA

Buying a share means becoming a part-owner of a business. If you cannot explain what the business sells and how it makes money, you are not investing — you are guessing with extra steps.

1.2 From three exchanges to one

Pakistan's share market did not begin as a single institution. The Karachi Stock Exchange was established in 1947, shortly after independence, with a handful of listed companies. The Lahore Stock Exchange followed in 1970 and the Islamabad Stock Exchange in 1989. For decades these three operated in parallel, with overlapping listings, different trading floors, and separate memberships.

Two structural changes reshaped the market. The first was demutualisation, which separated ownership of the exchange from the right to trade on it. Under the old mutual model, brokers collectively owned the exchange they were regulated by, an arrangement with obvious conflicts of interest. Demutualisation converted the exchanges into companies with shares, distinct from trading rights.

The second was integration. On 11 January 2016, the three exchanges merged into a single national exchange: the Pakistan Stock Exchange Limited, or PSX. Today there is one order book, one set of listing rules, and one benchmark index for the whole country. A strategic stake was subsequently sold to a consortium including Chinese exchanges, and PSX itself is a listed company traded on its own platform.

This history matters for a practical reason. When you search online for information about Pakistani shares, you will still find references to "KSE", and the main index is still called the KSE-100 for historical continuity. KSE and PSX, in ordinary conversation, refer to the same market.

1.3 The four institutions you must know

Most beginners assume the exchange does everything. It does not. Four separate organisations divide the work between them, and knowing which does what will save you a great deal of confusion later — particularly when you are trying to work out who to complain to.

Institution	What it actually does
PSX	Operates the trading platform where buy and sell orders meet. Lists companies, sets listing rules, publishes prices and indices, and can suspend trading in a share.
SECP	The regulator. Licenses brokers, approves rules, investigates misconduct, prosecutes insider trading and manipulation, and protects investors. Sits above PSX, CDC and NCCPL.
CDC	The Central Depository Company holds your shares electronically. Your shares live in a CDC account in your name, not with your broker. You can view them independently.

Institution	What it actually does
NCCPL	The National Clearing Company settles trades — it makes sure shares move to the buyer and money moves to the seller, and it also computes and collects capital gains tax on your behalf.

A simple analogy: PSX is the marketplace, NCCPL is the cashier who reconciles every transaction at the end of the day, CDC is the vault where your certificates are kept in your own name, and SECP is the authority that licenses everyone in the building and can shut any of them down.

The CDC point deserves emphasis. In a properly opened account, your shares are recorded in a Central Depository System account tied to your CNIC, not pooled anonymously with your broker's assets. You can register for CDC's own electronic services and check your holdings without asking your broker anything. If a broker ever tells you that you cannot see your own holdings independently, treat that as a serious warning sign.

1.4 Who else is in the market with you

When you place an order, you are trading against a mixture of participants, each with different information, time horizons, and constraints.

- **Individual investors.** Retail participants like you. Collectively they account for a very large share of daily volume in Pakistan, and they tend to be the most emotional and the most concentrated in small companies.
- **Local institutions.** Mutual funds, insurance companies, pension funds, banks, and corporate treasuries. They move large amounts, are subject to their own regulations, and are often forced buyers or sellers when their own investors deposit or withdraw money.
- **Foreign investors.** Overseas funds whose decisions depend on Pakistan's macroeconomic story, currency stability, and how the country compares with other emerging and frontier markets. Their inflows and outflows can move the index sharply.
- **Companies themselves.** Sponsors and directors buy and sell their own shares, and companies sometimes buy back their own stock. These transactions must be disclosed.

It is worth being honest about what this means. On the other side of your trade there may be a fund manager with a research team, a company director who knows next quarter's numbers before you do, or simply someone who has been doing this for thirty years. You do not need to beat them. You need to avoid taking positions where their advantage over you is decisive — which mostly means avoiding short-term trading in thinly traded shares.

1.5 Indices: what "the market went up" actually means

An index is a single number that summarises the movement of many shares at once. When a news bulletin says the market rose 400 points, it is almost always referring to the KSE-100 Index.

- **KSE-100.** The benchmark. It includes the largest company by market capitalisation from each sector, plus the next largest companies by market capitalisation until 100 are selected. It is weighted by free-float market capitalisation.
- **KSE-30.** A narrower index of thirty companies, also free-float weighted, used as a liquidity-focused benchmark.
- **KMI-30 and the KMI All Share.** Shariah-compliant indices, screened for permissible business activity and for financial ratios such as debt and interest income relative to assets.
- **KSE All Share.** The broadest measure, covering essentially all listed companies.

Free float, and why it changes the arithmetic

Free float means the shares actually available for the public to trade. Shares held by sponsors, directors, associated companies, and the government are excluded, because they are not realistically going to be traded. Weighting an index by free float rather than total shares prevents a company that is ninety per cent owned by its founding family from dominating the index simply because of its size on paper.

WORKED EXAMPLE

Two fictional companies, both trading at Rs 100 per share:

- Indus Cement Company has 500 million shares in issue. Sponsors hold 70 per cent, so the free float is 150 million shares.
- Ravi Textiles Limited has 200 million shares in issue. Sponsors hold 20 per cent, so the free float is 160 million shares.

Total market capitalisation: Indus Cement is Rs 50 billion, Ravi Textiles is Rs 20 billion. On total size, Indus is two and a half times larger.

Free-float market capitalisation: Indus Cement is $150\text{m} \times \text{Rs } 100 = \text{Rs } 15 \text{ billion}$. Ravi Textiles is $160\text{m} \times \text{Rs } 100 = \text{Rs } 16 \text{ billion}$.

In a free-float weighted index, Ravi Textiles therefore carries slightly more weight than Indus Cement, despite being far smaller overall. A 10 per cent move in Ravi would push the index more than a 10 per cent move in Indus.

1.6 Primary market and secondary market

These two terms cause endless confusion, and the distinction is straightforward.

The primary market is where shares are created and sold by the company itself. When a company lists for the first time through an Initial Public Offering, or issues new shares later, the money paid by investors goes to the company and is used to build factories, repay debt, or fund expansion. This happens once per issuance.

The secondary market is where those shares are subsequently traded between investors. This is what happens every day on PSX. When you buy 500 shares of a listed company, the money goes to the investor who sold them to you – not to the company. The company receives nothing and its balance sheet does not change.

This is not a technicality. It explains why a company's share price can collapse without the company running out of cash, and why a rising share price does not by itself put a single rupee into the business. The share price matters to the company mainly because it affects the terms on which it can raise new money in future, the value of employee and sponsor holdings, and its standing with lenders.

1.7 How a trade actually completes

Between pressing "buy" and owning the shares outright, several things happen over more than one day. Understanding the sequence prevents most beginner panics.

The trading day begins with a pre-open session in which orders are entered but not immediately matched, followed by the regular session in which orders execute continuously, and ends with a closing procedure that establishes the official closing price. Trading takes place Monday to Friday, excluding public holidays, and the timings are shortened during Ramadan. Exact session times are published by PSX and are changed from time to time, so check the exchange's website rather than relying on a figure printed in any book.

Settlement in the ready market operates on a T+1 basis. T is the day you trade; the actual exchange of shares for cash occurs on the next working day. So a purchase on Monday settles on Tuesday, and the shares appear in your CDC account then.

This is a recent change, and worth knowing because a great deal of older material still describes the previous arrangement. Pakistan's capital market moved from a T+2 cycle to T+1 in February 2026, bringing PSX into line with markets such as the United States, Canada and China. The practical effect for you is simple: shares and sale proceeds become available a working day sooner, and the window during which either side of a trade is exposed to the other failing to deliver is halved.

WORKED EXAMPLE

You place an order on Monday to buy 1,000 shares of a fictional company at Rs 150.

- Monday (T): your order matches with a seller at Rs 150. The trade is executed. Rs 150,000 plus charges is blocked or debited by your broker.
- Tuesday (T+1): settlement. NCCPL completes the exchange, the seller's shares move out, and 1,000 shares are credited to your CDC sub-account. You are now the recorded owner.

Note that your ownership rights, and your profit or loss, date from Monday — not Tuesday. But if the company announces a dividend with a book-closure date falling before your settlement, you may not be on the register in time to receive it. This is why the ex-dividend date matters, and it is covered in Chapter 6.

WATCH OUT

Two mistakes beginners make in the first week:

- Panicking on the day of the trade because the shares are not yet visible in the CDC account. They appear at settlement, the next working day.
- Assuming money from a sale is available instantly for withdrawal. Sale proceeds also follow the T+1 settlement cycle before they can be paid out to your bank.

1.8 How a price is actually set

Nobody sets the price of a share. There is no committee, no announcement, and no official valuation. The price you see on the screen is simply the price at which the most recent transaction happened to occur, and it changes every time a new transaction occurs at a different price.

Underneath the single number on the screen sits an order book: a live list of everyone who currently wants to buy, with the price each is willing to pay, and everyone who currently wants to sell, with the price each is willing to accept. Orders are queued by price first and by time second — the best price gets priority, and among orders at the same price, whoever entered first is served first. When the highest bid meets the lowest offer, a trade executes and both orders are removed from the book.

WORKED EXAMPLE

A simplified order book for a fictional company at a given moment:

- SELLERS — 300 shares offered at Rs 102.00, then 500 at Rs 101.50, then 200 at Rs 101.00
- BUYERS — 400 shares bid at Rs 100.50, then 700 at Rs 100.00, then 1,000 at Rs 99.50

The highest anyone will pay is Rs 100.50; the lowest anyone will accept is Rs 101.00. Nothing trades, because no buyer and seller agree. The screen shows a last traded price from earlier, a bid of Rs 100.50, and an ask of Rs 101.00.

Now a buyer decides the share is worth having and enters a market order for 250 shares. It executes against the lowest offer: 200 shares at Rs 101.00, then 50 shares at Rs 101.50. The last traded price on the screen jumps to Rs 101.50, and the Rs 101.00 seller has disappeared from the book.

The 'price rose' — but nothing happened to the company. One person's willingness to buy immediately consumed the cheapest supply available. This is what almost every intraday price movement actually is.

This is why volume matters so much. In a heavily traded company, hundreds of thousands of shares sit at each price level, so one investor's order barely moves anything. In a thinly traded company, a single moderate order can move the price several per cent, in either direction, which cuts both ways: it is easy to push a price up when buying and painful to push it down when you need to sell.

It also explains what a price change actually communicates. A rising price does not mean the company earned more money today. It means that, at the old price, buyers were more eager than sellers, and the imbalance had to be resolved by moving the price until enough sellers were tempted. Prices are a record of changing expectations, and expectations change for reasons ranging from a genuine profit announcement to a rumour, a global oil move, an interest rate decision, or a large fund needing cash for redemptions.

KEY IDEA

The price is not a fact about the company. It is the outcome of a negotiation between the most impatient buyer and the most impatient seller at that moment. Your job as an investor is to have an opinion about the business, and to treat the price as an offer you may accept or ignore.

1.9 What owning a share actually entitles you to

Shareholding carries a defined bundle of rights under the Companies Act and the listing regulations. Most retail investors never exercise them, but you should know what they are.

- **A claim on profits when distributed.** You are entitled to your proportionate share of any dividend the board declares and the shareholders approve. Note the conditionality: you are not entitled to a dividend, only to your share of one if it is declared. A profitable company may legitimately retain everything.
- **A vote.** Ordinary shares generally carry one vote per share on resolutions put to the annual general meeting: appointing directors, approving accounts, approving the final dividend, appointing auditors. You may attend in person or appoint a proxy.
- **Information.** You are entitled to the annual report, notice of general meetings, and the same public disclosures as everyone else. Material information must be announced to the exchange, not whispered selectively.
- **Participation in future issues.** Rights issues are offered to existing shareholders in proportion to holdings, and bonus shares are distributed the same way.
- **A residual claim.** If the company is wound up, shareholders receive whatever remains after employees, tax authorities, secured lenders and other creditors have been paid. In practice this is usually nothing, which is why 'the company still owns factories' is a weak argument for holding a failing business.
- **The right to sell.** Listed shares are freely transferable. This is, realistically, the most valuable right you hold, and it is worth remembering that it depends entirely on someone being willing to buy.

A note of realism about minority shareholding in Pakistan. Many listed companies are majority-controlled by a founding family or a group holding company. If sponsors own sixty or seventy per cent, your vote will not change any outcome, and you should not buy a share expecting to influence how the business is run. Your genuine protections are three: mandatory disclosure, which lets you see what is happening; regulation by the SECP, which sets limits on what controlling shareholders may do; and your ability to sell and walk away. Choose companies whose controlling shareholders have historically treated minority investors decently, because you are, in effect, becoming their passive business partner.

1.10 Why companies list in the first place

Understanding the seller's motive is useful whenever you buy anything, and a company listing its shares is selling something.

- **To raise capital.** Equity funding does not have to be repaid and carries no fixed interest burden, which matters enormously in an economy where borrowing costs swing violently.
- **To let early owners exit.** Founders, families, or private investors may want to convert part of an illiquid holding into cash. This is legitimate — but if an offering consists mostly of existing shareholders selling out rather than new money going into the business, ask why they are leaving.

- **To create a currency.** Listed shares can be used to acquire other businesses or to compensate employees.
- **For credibility.** Audited accounts, a public price, and regulatory oversight make a company more acceptable to lenders, suppliers and multinational partners.

There are real costs on the other side: continuous disclosure obligations, listing fees, public scrutiny of results every quarter, and dilution of the founders' control. This trade-off explains something you will notice quickly — relative to the size of Pakistan's economy, comparatively few companies are listed. Large parts of business activity remain in family-held, undocumented, or unlisted form. As an equity investor you can only buy what is listed, which means the market is not a perfect mirror of the economy, and entire sectors may be under-represented or absent.

1.11 Where investment returns actually come from

Ask most people how money is made in shares and they will describe buying low and selling high. That is one source of return, and it is the least reliable of the three. Total return from a share decomposes cleanly into three components, and separating them tells you a great deal about what kind of investor you are.

- **Dividends.** Cash the company pays out of profits. This arrives whether the share price rises or not, and it is the most predictable component for mature, profitable businesses.
- **Growth in earnings.** The business itself becoming larger and more profitable. If a company doubles its profits over five years and is valued on the same multiple, the share doubles. This is the component driven by the actual business.
- **Change in the valuation multiple.** The market deciding to pay more or less for each rupee of profit. This is driven by interest rates, sentiment, and confidence, not by anything the company does.

WORKED EXAMPLE

A fictional company held for five years. At purchase, the share costs Rs 100, earnings per share are Rs 10 (a P/E of 10), and it pays Rs 4 per share in dividends annually.

Over five years, earnings grow at 12 per cent a year, reaching Rs 17.62 per share. Dividends grow in step, totalling roughly Rs 25 per share received in cash.

Scenario one — the multiple stays at 10 times:

- Share price becomes $17.62 \times 10 = \text{Rs } 176$
- Capital gain Rs 76, plus Rs 25 of dividends = Rs 101 on a Rs 100 investment
- Roughly 15 per cent a year, almost all of it produced by the business

Scenario two — interest rates fall and the multiple expands to 14 times:

- Share price becomes $17.62 \times 14 = \text{Rs } 247$
- Total return Rs 172, or about 22 per cent a year

Scenario three — rates rise and the multiple compresses to 6 times:

- Share price becomes $17.62 \times 6 = \text{Rs } 106$
- Total return Rs 31, or about 6 per cent a year, despite profits having grown 76 per cent

The company performed identically in all three. The difference between a 6 per cent and a 22 per cent annual outcome came entirely from a variable neither you nor the company controls.

Two conclusions follow, and they shape everything in the later chapters. First, over long holding periods the earnings component dominates, because multiple changes are largely a one-time effect while earnings growth compounds year after year. This is the argument for patience. Second, the multiple you pay at entry sets a ceiling on how much help you can get from re-rating — buying at 20 times earnings leaves far less room for the multiple to expand than buying at 6 times. This is the argument for caring about valuation even when a business is excellent.

1.12 Nominal returns, real returns, and the rupee

A number that ignores inflation is not a return, it is a headline. In an economy that has experienced periods of very high inflation, the distinction between what your money says it earned and what it can actually buy is not academic — it is the whole question.

Real return is approximately nominal return minus inflation. A 20 per cent gain in a year when prices rose 25 per cent is a loss of purchasing power, even though every statement you receive shows a profit and you may owe tax on it.

WORKED EXAMPLE

Rs 1,000,000 invested for one year, in three different environments:

- Portfolio returns 20 per cent, inflation is 8 per cent. Nominal value Rs 1,200,000; purchasing power in start-of-year rupees about Rs 1,111,000. A real gain of roughly 11 per cent.
- Portfolio returns 20 per cent, inflation is 25 per cent. Nominal value Rs 1,200,000; purchasing power about Rs 960,000. A real loss of about 4 per cent — and capital gains tax is charged on the nominal gain regardless.
- Portfolio returns 0 per cent, inflation is 25 per cent. Nominal value unchanged; purchasing power about Rs 800,000. A 20 per cent real loss for doing nothing.

That third line is the one people forget. Holding cash is not a neutral, risk-free position in a high-inflation economy. It is a decision with a predictable cost.

This is the honest case for owning equities in Pakistan, and it is worth stating carefully. Companies own real assets and sell real goods at prices that generally rise with inflation. A cement plant's output is worth more in rupees when rupees are worth less. This gives shares a structural, though very imperfect and unreliable, tendency to preserve purchasing power over long periods in a way that fixed nominal amounts cannot. It is not a guarantee, the relationship breaks down badly over short periods, and highly indebted or price-controlled businesses can be hurt by inflation rather than helped. But it explains why long-horizon savings held entirely in cash have historically fared poorly here.

There is a second currency effect worth understanding if you have obligations in foreign currency — foreign education, imported goods, travel. A portfolio that gains 25 per cent in rupees during a year when the rupee weakens 25 per cent against the dollar has gained nothing measured in dollars. If your future spending is partly in another currency, your returns should be judged partly in that currency too.

1.13 What you should do after this chapter

Open the PSX website and find the KSE-100 Index. Note today's level. Then look up the list of listed companies and pick three whose products you personally use — a bank you hold an account with, a cement or fertiliser producer whose bags you have seen, a food company whose products are in your kitchen. Write down, in one sentence each, how you think that company makes money. You will test those sentences against real financial statements in Chapter 3.

THE FLOSTOCKS PRINCIPLE

You are not buying a ticker. You are buying a fraction of a business, held for you by a depository, in your own name, under a regulator's supervision. Understand that structure first and the rest of the market stops being mysterious.

Getting Started Properly

Accounts, documents, brokers, order types – and the arithmetic of your first trade, including every charge.

2.1 Before your first rupee

The most expensive mistakes in investing are made before any share is bought. They are made by people who invest money they will need soon, or money that is already owed to someone else.

Work through the following honestly. If you cannot answer yes to the first four, the stock market is not your next step.

- **Do you have an emergency fund?** Three to six months of essential household expenses, held in cash or a savings account you can access immediately. Without it, the first medical bill or job loss will force you to sell shares at whatever price is available on that particular day.
- **Have you cleared high-interest debt?** Credit card balances and personal loans in Pakistan frequently carry effective rates far above what any realistic equity return will give you. Repaying a 35 per cent debt is a guaranteed 35 per cent return; no share can promise that.
- **Is this money you will not need for at least three to five years?** Equity returns are lumpy. A market can fall for eighteen months and recover in three. If your time horizon is a year, you are exposed to timing more than to business performance.
- **Can you tolerate seeing this amount halve temporarily?** Not "would you like it to" – could you live with it without selling? A 40 to 50 per cent drawdown has happened in the KSE-100 more than once, and it will happen again.
- **Do you have a written goal?** "Rs 3 million for a house deposit in seven years" is a goal. "Making money" is not, because it gives you no way to judge whether your strategy is working.

2.2 Choosing a broker

You cannot trade on PSX directly. You must go through a broker – formally, a TREC holder, meaning a firm holding a Trading Right Entitlement Certificate and licensed as a securities broker by the SECP.

The single most important step is verification. Before you send anyone money, confirm that the firm appears on the current list of registered brokers published by PSX and licensed by the

SECP. Every year, people in Pakistan lose money to entities that were never brokers at all, or to individuals operating an unlicensed "account" on behalf of others.

What to compare

- **Commission structure.** Usually a percentage of trade value with a minimum charge per trade, or a fixed amount per share. Ask for the full schedule in writing, including custody and account maintenance charges.
- **Minimum trade and account balance.** Some brokers set minimums that make small monthly investing uneconomic.
- **The trading platform.** You will use the app or terminal constantly. Ask for a demonstration. Check whether you can see the order book depth, place limit orders easily, and download your ledger and tax certificates yourself.
- **Research and support.** Full-service brokers provide research reports and a dedicated dealer; discount brokers charge less and provide less. Neither is inherently better, but you should know which you are paying for.
- **Operational reliability.** How fast are withdrawals paid? Is there a real support line? Ask existing clients if you can.

WATCH OUT

Warning signs when choosing where to open an account:

- Any request to transfer money to an individual's personal bank account rather than the brokerage firm's designated client account.
- Any promise of guaranteed returns, fixed monthly profit, or "principal protection" on shares.
- Reluctance to give you your own CDC account credentials, or a claim that holdings are "managed collectively".
- Pressure to trade frequently. A broker earns commission on every transaction; your interests and theirs are not automatically aligned.

2.3 Documents you will need

Account opening in Pakistan is subject to Know Your Customer and anti-money-laundering requirements. Expect to provide the following, though the exact list varies by broker.

- A valid CNIC, or NICOP/POC for overseas Pakistanis, with a copy.
- A bank account in your own name — the IBAN is required, and payouts are made only to that account.
- Proof of source of income or funds: a salary slip, employer letter, business documents, or tax return.

- National Tax Number if you have one, and your filer status, which materially affects the tax deducted from you.
- Mobile number and email address registered in your name, used for trade confirmations and account alerts.
- Zakat declaration if applicable, and next-of-kin or nomination details.

Read the account opening form before signing it. Two clauses deserve particular attention: any authority allowing the broker to trade on your behalf without specific instruction, and any authority allowing your shares to be pledged. Unless you have deliberately chosen a discretionary arrangement, do not grant either.

2.4 Sub-account or Investor Account Services?

Your shares are held in the Central Depository System, but there are two ways to hold them, and beginners are rarely told there is a choice.

	Broker sub-account	CDC Investor Account (IAS)
Opened through	Your broker	CDC directly
Shares held	In a sub-account under the broker's participant account	In your own account with CDC
Cost	Usually included in brokerage charges	Separate CDC fee payable by you
Convenience	Simpler; integrated with trading	Extra step to move shares for selling
Control	Broker is the participant	Direct relationship with the depository

For most ordinary investors a sub-account is entirely normal and appropriate. What matters is not which you choose but that you register for CDC's electronic services so that you can independently view your own holdings and receive alerts whenever shares move in or out of your account. Treat that registration as compulsory, not optional.

2.5 If you live abroad

Overseas Pakistanis can invest in PSX without coming home. The Roshan Digital Account framework, offered through Pakistani banks, allows non-resident Pakistanis to open an account remotely and to fund a rupee account designated for investment purposes, from which shares can be bought. The process is digital, the paperwork is handled online, and the associated tax treatment and repatriation rules are specific to the scheme.

Because these arrangements are governed by State Bank of Pakistan regulations that are updated periodically, confirm the current requirements, permitted uses, and repatriation terms with the bank offering the account before transferring funds.

2.6 Reading the screen

A PSX quote screen shows a set of fields that look cryptic until someone explains them once.

Field	Meaning
LDCP	Last Day Closing Price — yesterday's official closing price, the reference for today's change.
Open	The price of the first trade of the session.
High / Low	The highest and lowest prices traded so far today.
Current	The price of the most recent executed trade.
Change	Difference from LDCP, in rupees and per cent.
Volume	Number of shares traded today. Low volume means you may struggle to buy or sell in size.
Bid / Ask	The highest price a buyer is currently willing to pay, and the lowest a seller will accept.
Spread	The gap between bid and ask. Wide spreads are an immediate cost to you.
Upper / Lower cap	The maximum the price may move today under the exchange's price limit rules.

The bid and ask deserve a moment. Suppose the highest bid is Rs 148.50 and the lowest ask is Rs 149.00. There is no single "price" of Rs 148.75; there is a price at which you can sell immediately (148.50) and a higher price at which you can buy immediately (149.00). That fifty-paisa gap is a real cost. In heavily traded companies the spread is trivially small; in small illiquid companies it can be several per cent, which means you are down several per cent the instant you buy.

2.7 Order types

Two order types cover almost everything a beginner needs.

A market order says: execute immediately at whatever price is currently available. You are guaranteed execution but not price. In a liquid share this is usually harmless. In an illiquid share it can be expensive, because your order will consume whatever offers exist, walking up through progressively worse prices.

A limit order says: execute only at my specified price or better. You are guaranteed price but not execution. If you place a limit to buy at Rs 148 and the share never trades below Rs 149 today, nothing happens and your order expires.

WORKED EXAMPLE

A thinly traded fictional company shows these sell offers on the order book:

- 200 shares offered at Rs 100.00
- 150 shares offered at Rs 102.50
- 400 shares offered at Rs 106.00

You place a market order to buy 700 shares. It executes against all three levels:

- $200 \times \text{Rs } 100.00 = \text{Rs } 20,000$
- $150 \times \text{Rs } 102.50 = \text{Rs } 15,375$
- $350 \times \text{Rs } 106.00 = \text{Rs } 37,100$

Total paid: Rs 72,475 for 700 shares — an average of Rs 103.54, not the Rs 100 you saw quoted. You have paid 3.5 per cent more than the screen price simply through order type.

Had you placed a limit order at Rs 100, you would have bought only 200 shares, at exactly Rs 100, and waited for the rest.

KEY IDEA

Use limit orders by default. The habit costs you nothing when the market is liquid, and protects you significantly when it is not.

2.8 Your first trade, with every rupee accounted for

Screen prices are never the whole cost. Below is a complete round trip using illustrative rates. Your broker's actual rates will differ, and taxes change with each Finance Act — the point is the structure, not the specific percentages.

WORKED EXAMPLE

Purchase: 1,000 shares of a fictional company at Rs 150 = Rs 150,000

- Brokerage commission at, say, 0.15% = Rs 225
- Sales tax on the brokerage service (provincial rate applies) $\approx$ Rs 29
- CDC / clearing and regulatory charges (small, often a few rupees per trade)
- Total cost of purchase $\approx$ Rs 150,260

Your true break-even is therefore about Rs 150.26 per share, not Rs 150 — and that is before the cost of selling.

Sale eighteen months later: 1,000 shares at Rs 180 = Rs 180,000

- Brokerage commission at 0.15% = Rs 270
- Sales tax on brokerage $\approx$ Rs 35
- Net sale proceeds $\approx$ Rs 179,695
- Gross gain $\approx$ Rs 29,435
- Capital gains tax, collected by NCCPL at the applicable rate for your filer status, is deducted from this gain.

If capital gains tax at 15 per cent applied, roughly Rs 4,415 would be deducted, leaving about Rs 25,020. Your headline gain looked like Rs 30,000 — a 20 per cent return. Your realised gain is closer to 16.7 per cent.

None of this makes investing unattractive. It makes frequent trading unattractive. Every round trip pays commission twice and tax on any gain. An investor who trades once a year pays these costs once a year; an investor who trades weekly pays them fifty times, and needs to be right far more often merely to break even.

WATCH OUT

Do not begin with penny stocks. Very low-priced shares of very small companies are attractive to beginners because a Rs 5 share "only needs to reach Rs 10 to double". In practice these companies often have weak or unaudited-looking fundamentals, wide spreads, thin volume, and a well-documented history of being manipulated through coordinated buying and promotional messages. Start with businesses large enough that their results are genuinely scrutinised.

2.9 Order validity, partial fills and amendments

A few practical mechanics that beginners meet on day one and find alarming only because nobody warned them.

- **Day validity.** Orders on PSX are generally valid for the trading day. An unexecuted limit order does not survive into tomorrow by default — you re-enter it. Do not assume a limit placed on Monday is still working on Thursday.
- **Partial execution.** If you order 1,000 shares and only 400 are available at your price, you get 400 and the balance of 600 stays in the queue. You may end the day owning 400 shares, having paid commission on a smaller trade than intended, possibly hitting a minimum commission that raises your effective cost.
- **Amending and cancelling.** An unexecuted order can normally be modified or withdrawn, but be aware that changing the price usually sends you to the back of the queue at the new price level.
- **Executed is final.** A trade that has executed cannot be undone because you changed your mind. This is worth internalising before you place your first market order in a volatile share.

WORKED EXAMPLE

You place a limit order to buy 2,000 shares at Rs 75. Through the day, sellers appear intermittently.

- 11:14 — 600 shares execute at Rs 75
- 12:40 — 300 shares execute at Rs 75
- Close — 1,100 shares remain unexecuted and the order lapses

You own 900 shares, not 2,000. If your broker charges a minimum commission of Rs 100 per trade, and these executed as separate contracts, your commission cost as a percentage is higher than you modelled.

The lesson is not that limit orders are bad. It is that in illiquid shares you should size orders realistically against the volume actually trading, and check your executions at the end of the day rather than assuming the order filled.

2.10 Reading your ledger and reconciling it

Your broker maintains a ledger — a running account of every cash movement — and issues a trade confirmation for each executed transaction. Separately, CDC records the shares themselves. These two records should always agree with each other and with your own notes. Checking that they do, once a month, takes ten minutes and is the single most effective protection against both errors and dishonesty.

What to look at each month:

- Every trade in the ledger is one you actually placed, at a price consistent with that day's trading range.
- Commission and charges match the schedule your broker gave you in writing.

- Share quantities in your CDC statement match the cumulative buys and sells in your ledger.
- Dividends you were entitled to have actually been credited, net of tax.
- No unexplained debits, transfers, or pledges of your shares appear anywhere.

WATCH OUT

If you find a trade you did not authorise, raise it in writing immediately — the same day if possible. Complaints about unauthorised trading are far harder to pursue months later, because the natural response will be that you saw the confirmations and did not object. Silence gets read as consent.

2.11 How much to start with

There is no correct amount, but there is a correct principle: your first year of investing is tuition, and you should not pay more tuition than the lesson is worth.

Almost every new investor makes the same set of mistakes — buying something because it had already risen, concentrating too much in one idea, panicking at the first sharp decline, trading too frequently. These errors are far cheaper on a portfolio of fifty thousand rupees than on one of five million. The value of starting small is not that it protects your capital; it is that it lets you observe your own behaviour under real financial pressure, which is information you cannot obtain any other way.

Two practical suggestions. First, do not deploy a lump sum on your first day. If you have Rs 600,000 to invest, consider investing Rs 50,000 a month over a year — you will experience several different market conditions during the process, and the discipline will outlast the money. Second, keep the amount at a level where a fifty per cent temporary decline would be annoying rather than devastating. If you can watch that happen without acting rashly, you have learned something genuinely valuable about yourself, and you can scale up with confidence.

A word on paper trading. Recording hypothetical trades in a spreadsheet for a month or two is useful for learning mechanics, ratios and vocabulary. It is close to useless for learning temperament, because nothing in it is real — you will hold through an imaginary 30 per cent decline with perfect serenity and conclude that you are unshakeable. Use paper trading to learn the machinery, and small real amounts to learn yourself.

2.12 The account opening process, step by step

Written out in sequence, so you know what is coming and roughly how long each stage takes. Timelines vary by broker.

Stage	What happens	Typical time
1. Shortlist and verify	Compare two or three brokers on commission, platform and support. Confirm each appears on the PSX register of TREC holders and is licensed by the SECP.	A few days
2. Request the forms	Account opening form, KYC form, and the full written schedule of charges. Read the authorities you are granting before signing anything.	Same day
3. Submit documents	CNIC copy, bank IBAN, proof of source of income, tax status, mobile and email in your own name, nomination details.	Same day
4. Verification	The broker completes KYC checks and opens your CDC sub-account. You receive account and CDS numbers.	2 to 7 working days
5. Platform access	Login credentials for the trading terminal or app, plus your CDC credentials. Change every default password immediately.	1 to 2 days
6. Fund the account	Transfer from your own bank account to the brokerage firm's designated client account. Never to an individual.	1 working day
7. Register with CDC	Enrol for the depository's own electronic services so you can view holdings and receive movement alerts independently of your broker.	Do this immediately

Two points that trip people up. First, the bank account you nominate must be in your own name – payouts to third-party accounts are not permitted, and this is a protection, not an obstacle. Second, do not skip the CDC registration at the end because the account is already working without it. That registration is what gives you an independent view of your own shares, and it is the single most useful thing you will do during the whole process.

2.13 Deciding what to look at first

A new investor facing several hundred listed companies experiences a specific kind of paralysis, and it is usually resolved badly – by buying whatever someone mentioned most recently. A filtering method solves this. The point is not that the filters below identify good investments; it is that they eliminate, quickly and defensibly, the companies where a beginner is most likely to be harmed.

Work down the funnel in order. Each stage should remove a large fraction of what survived the previous one.

- **Filter one – size and liquidity.** Restrict yourself initially to larger companies that trade actively every day. This removes the illiquid small caps where spreads are punishing,

manipulation is easiest, and exiting is hardest. You are giving up little: no beginner has ever been ruined by owning only large companies.

- **Filter two — a business you can explain.** If you cannot describe in two sentences what the company sells and who pays for it, you cannot form a view on whether its profits will continue. Skip it without regret; there are others.
- **Filter three — a record you can inspect.** At least five years of published accounts, audited without qualification. A company with a short or interrupted history gives you nothing to judge.
- **Filter four — survivable finances.** Look for interest coverage comfortably above two and debt that has not been rising rapidly. This single filter removes most companies that go on to destroy shareholder capital.
- **Filter five — a dividend record.** Not because dividends are the only route to returns, but because a company that has actually distributed cash for years has demonstrated something an income statement alone cannot: that the profits were real and convertible.
- **Filter six — a price you can justify.** Only now look at valuation. Compare the P/E and P/B against the company's own history and against two competitors, and ask what the market seems to be assuming.

Notice what this funnel deliberately excludes. It ignores anything that rose sharply last week, anything that appeared in a message, anything described as being about to announce something, and anything whose main attraction is a low share price. Those four categories account for a very large proportion of first-year losses.

WATCH OUT

One more filter, applied last and ruthlessly: if you cannot state, in a single written sentence, what would make you sell this share, do not buy it. An investment you have no exit condition for is a position you will hold all the way down, because there will never be a moment that clearly qualifies as the time to leave.

2.14 What you should do after this chapter

Shortlist two brokers and obtain their complete written schedule of charges. Verify both on the PSX and SECP registers. Do not fund an account yet. Then, on paper or in a spreadsheet, record a hypothetical purchase of one company, with the full cost stack calculated as above, and track it for four weeks without acting on it.

THE FLOSTOCKS PRINCIPLE

Verify the broker, read the charges, place limit orders, and start with an amount whose loss would teach you something rather than ruin you. Nobody has ever regretted beginning carefully.

Understanding a Company

How to read a set of accounts well enough to hold an opinion you can defend.

3.1 The kiriyana store test

Financial statements intimidate people because of the vocabulary, not the ideas. Every idea in a company's annual report exists, in miniature, in a neighbourhood kiriyana store.

The shopkeeper wants to know three things. First, did I make money this month — what came in from sales, what went out on stock, rent, electricity and wages, and what was left? That is the profit and loss statement. Second, what do I own and what do I owe right now — the stock on the shelves, the cash in the drawer, the fridge, minus the money owed to suppliers and to the bank? That is the balance sheet. Third, did actual cash come in, or are my "sales" sitting in a notebook of customers who buy on credit? That is the cash flow statement.

A company's accounts answer exactly the same three questions, for a bigger shop, using standardised terms so that different shops can be compared.

3.2 The profit and loss statement

Also called the income statement. It covers a period — a quarter or a year — and works downwards from sales to the profit that belongs to shareholders.

Line	What it means
Revenue / Turnover	Total value of goods or services sold. The top line.
Cost of sales	Direct cost of producing what was sold: raw material, fuel, direct wages.
Gross profit	Revenue minus cost of sales. Shows the basic economics of the product.
Operating expenses	Selling, distribution and administrative costs — salaries, marketing, offices.
Operating profit	Gross profit minus operating expenses. Profit from running the business.
Finance cost	Interest paid on borrowings. Critical in Pakistan, where policy rates swing widely.
Profit before tax	Operating profit, adjusted for finance cost and other income.

Line	What it means
Taxation	Corporate tax and applicable levies.
Profit after tax	The bottom line — what belongs to shareholders.
Earnings per share	Profit after tax divided by the number of ordinary shares.

3.3 The balance sheet

A snapshot at one instant, always obeying one equation: assets equal liabilities plus equity. Everything the company controls was funded either by someone it owes, or by its owners.

- **Non-current assets.** Things used for years: land, plant and machinery, long-term investments.
- **Current assets.** Things expected to turn into cash within a year: inventory, trade receivables, cash.
- **Current liabilities.** Owed within a year: trade payables, short-term borrowings, current portion of long-term loans.
- **Non-current liabilities.** Long-term loans, deferred tax, staff retirement obligations.
- **Equity.** Share capital plus reserves plus accumulated profits — the owners' residual claim. Equity divided by share count gives book value per share.

3.4 The cash flow statement

This is the statement beginners skip and experienced investors read first. Profit is an accounting opinion shaped by judgements about when to recognise revenue and how fast to depreciate assets. Cash is a fact.

It has three sections. Operating cash flow is cash generated by the core business. Investing cash flow covers money spent on or received from assets — new plant, acquisitions, disposals. Financing cash flow covers borrowings raised or repaid, dividends paid, and shares issued.

The single most useful habit is to compare operating cash flow with profit after tax over several years. If a company consistently reports handsome profits but never converts them into operating cash, something is wrong: receivables may be ballooning because customers are not paying, or inventory may be piling up because goods are not selling. In Pakistan this is a live issue in sectors exposed to government payment delays, where profits are booked long before cash arrives.

WATCH OUT

Profit without cash is the most common warning sign in a set of accounts. If profit after tax rises for three consecutive years while operating cash flow stagnates or turns negative, stop and find out exactly why before going further.

3.5 A complete worked set of accounts

Below is a simplified but internally consistent set of accounts for a fictional company, Ravi Textiles Limited. Every ratio in the next section is calculated from these figures, so you can follow the arithmetic yourself.

Profit & Loss (Rs million)	FY24	FY25
Revenue	18,000	21,600
Cost of sales	(14,400)	(17,064)
Gross profit	3,600	4,536
Operating expenses	(1,440)	(1,728)
Operating profit	2,160	2,808
Finance cost	(720)	(648)
Profit before tax	1,440	2,160
Taxation at 30%	(432)	(648)
Profit after tax	1,008	1,512

Balance Sheet (Rs million)	FY25
Property, plant & equipment	9,000
Inventory	4,200
Trade receivables	2,600
Cash	700
Total assets	16,500
Trade payables	2,300
Short-term borrowings	3,400
Long-term loans	2,200
Total liabilities	7,900
Total equity	8,600

Additional facts: Ravi Textiles has 240 million ordinary shares in issue. The share currently trades at Rs 42. The company declared a total dividend of Rs 2.50 per share for FY25. Operating cash flow for FY25 was Rs 1,340 million.

3.6 The ratios that matter, calculated

Earnings per share (EPS)

Profit after tax divided by shares in issue. Rs 1,512 million ÷ 240 million shares = Rs 6.30 per share. This is the profit attributable to each share you own — not the cash you receive, but the profit earned on your behalf.

Book value per share

Total equity divided by shares in issue. Rs 8,600 million ÷ 240 million = Rs 35.83 per share. In crude terms, this is the accounting value of the assets that would remain for shareholders if liabilities were settled at balance sheet values.

Return on equity (ROE)

Profit after tax divided by equity. Rs 1,512m ÷ Rs 8,600m = 17.6 per cent. This answers the question that matters most to an owner: for every hundred rupees of shareholders' money tied up in this business, how many rupees of profit did management generate this year? A business that consistently earns a high ROE without excessive borrowing is, in general, a better business.

The critical comparison in Pakistan is against the risk-free alternative. If government treasury bills are yielding a high rate, a company earning 17.6 per cent on equity is doing far less impressive work than the same company would be in a low-rate environment. Always judge ROE against what your money could earn elsewhere with no risk.

Gross and net margin

Gross margin is gross profit divided by revenue: Rs 4,536m ÷ Rs 21,600m = 21 per cent. Net margin is profit after tax divided by revenue: Rs 1,512m ÷ Rs 21,600m = 7 per cent. Margins tell you how much pricing power a business has. Rising revenue with falling margins usually means the company is buying growth by cutting prices.

Debt to equity

Total borrowings divided by equity. Short-term borrowings of Rs 3,400m plus long-term loans of Rs 2,200m gives Rs 5,600m, against equity of Rs 8,600m — a ratio of 0.65. Meaning: for every hundred rupees the owners have in the business, the company has borrowed sixty-five.

Debt is not automatically bad; it magnifies returns when things go well. It is dangerous in Pakistan specifically because the policy rate has historically moved by very large margins within short periods. A company comfortable at one interest rate can be crippled at another without anything changing in its actual operations.

Interest coverage

Operating profit divided by finance cost. Rs 2,808m ÷ Rs 648m = 4.3 times. Operating profits could fall by roughly three-quarters before the company struggled to pay interest. A coverage figure below about two should make you look carefully at the debt profile.

Dividend and payout ratio

The dividend is Rs 2.50 per share against EPS of Rs 6.30, a payout ratio of 40 per cent. The remaining 60 per cent is retained in the business. Neither high nor low payout is inherently better: a young company reinvesting profits at high returns creates more value by retaining, while a mature company with nowhere good to deploy capital should return it to shareholders.

Cash conversion

Operating cash flow of Rs 1,340m against profit after tax of Rs 1,512m gives conversion of about 89 per cent. Reasonable. Note that inventory of Rs 4,200m and receivables of Rs 2,600m together tie up Rs 6,800m — a very large sum relative to profit, which is characteristic of textile businesses and a reason such companies borrow heavily for working capital.

WORKED EXAMPLE

Summary scorecard for Ravi Textiles FY25:

- EPS: Rs 6.30 — up 50 per cent on FY24's Rs 4.20
- Book value per share: Rs 35.83
- ROE: 17.6 per cent
- Gross margin: 21 per cent, net margin: 7 per cent
- Debt to equity: 0.65; interest coverage: 4.3 times
- Dividend Rs 2.50; payout ratio 40 per cent
- Cash conversion: 89 per cent

This is a moderately leveraged, working-capital-heavy business with improving profitability, decent cash conversion, and enough interest cover to survive a rate shock — but with 40 per cent of assets locked in inventory and receivables, it would suffer quickly if export demand weakened.

3.7 The numbers do not tell you everything

Two companies with identical ratios can be entirely different investments. The qualitative side matters at least as much, and in Pakistan possibly more.

- **Sponsor holding and behaviour.** Do the founding family or major shareholders own a substantial stake? Are they buying or selling? Disclosed director dealings are informative.
- **Governance and board composition.** Are there genuinely independent directors, or is the board entirely family? Who audits the accounts, and has the auditor changed unexpectedly?
- **Related-party transactions.** Look at the note in the accounts. Substantial sales to, purchases from, or loans to associated companies owned by the same family deserve scrutiny – value can leak out of a listed company through such transactions.
- **Dividend track record.** A company that has paid dividends consistently through difficult years is demonstrating something that no ratio captures.
- **Disclosure quality.** Does management hold analyst briefings and explain bad quarters, or does it go silent? Companies that explain themselves in bad times are usually more trustworthy.
- **Sector structure.** Is the industry a handful of large players with pricing power, or dozens of small ones competing on price alone?

3.8 Where to find all of this

Every listed company in Pakistan is required to publish quarterly and annual financial statements and to disclose material information to the exchange. The company announcements section of the PSX website carries results, dividend and bonus declarations, board meeting notices, and changes in shareholding. The company's own website carries full annual reports, which contain the director's report, the auditor's opinion, the notes to the accounts, and the pattern of shareholding.

Read the notes. The headline numbers are on one page; the explanation of what those numbers actually consist of is in twenty pages of notes, and that is where contingent liabilities, related-party dealings, pledged assets, and tax disputes are disclosed.

3.9 The working capital cycle, measured in days

Ratios expressed as percentages are useful, but converting balance sheet items into days makes them intuitive. Three measures matter, and together they explain why some profitable companies are permanently short of cash.

- **Inventory days.** Inventory divided by cost of sales, multiplied by 365. How long stock sits before it is sold.
- **Receivable days.** Trade receivables divided by revenue, multiplied by 365. How long customers take to pay you.
- **Payable days.** Trade payables divided by cost of sales, multiplied by 365. How long you take to pay your suppliers.

The cash conversion cycle is inventory days plus receivable days minus payable days. It tells you how many days of operating cost the company must fund out of its own pocket between paying for materials and being paid by customers.

WORKED EXAMPLE

Using the Ravi Textiles FY25 figures:

- Inventory days: $4,200 \div 17,064 \times 365 = 90$ days
- Receivable days: $2,600 \div 21,600 \times 365 = 44$ days
- Payable days: $2,300 \div 17,064 \times 365 = 49$ days
- Cash conversion cycle: $90 + 44 - 49 = 85$ days

For roughly eighty-five days, Ravi Textiles is financing its own operations. That gap has to be funded, and the balance sheet shows exactly how: Rs 3,400 million of short-term borrowings.

Now consider what happens if the policy rate rises sharply. Nothing changes in the factory, the orders, or the product — but the cost of financing that eighty-five-day gap rises immediately, and profit falls. This is the mechanism by which interest rates hurt manufacturers, and it is why working-capital-heavy businesses are more rate-sensitive than their debt-to-equity ratio alone suggests.

It also explains a warning sign. If receivable days climb from 44 to 70 over two years while revenue grows, the company may be booking sales by extending generous credit to weaker customers. Profit rises; cash does not; and eventually some of those receivables are written off.

3.10 A second worked example: reading a bank

Banks are the largest sector on the PSX by market capitalisation, and their accounts look nothing like a manufacturer's. A bank's product is money, so the vocabulary shifts entirely. It is worth learning, because banks are frequently among the first shares a Pakistani investor considers.

Consider a fictional institution, Jhelum Bank Limited, with the following simplified figures for a full year, in rupees million.

Jhelum Bank Limited (Rs million)	Year
Interest earned	62,000
Interest expensed	(38,000)
Net interest income	24,000

Jhelum Bank Limited (Rs million)	Year
Fee, commission and other income	6,000
Operating expenses	(14,000)
Provisions against loans	(2,000)
Profit before tax	14,000
Taxation	(6,860)
Profit after tax	7,140
Total deposits	500,000
Total advances (loans)	250,000
Shareholders' equity	40,000

Jhelum Bank has 1,000 million shares in issue and the share trades at Rs 60.

Working through the numbers

Net interest income of Rs 24,000 million is the core of the business: what the bank earned on loans and government securities, less what it paid depositors. The gap between those two rates is called the spread, and it is the single most important variable in a bank's profitability.

Earnings per share is $\text{Rs } 7,140\text{m} \div 1,000\text{m} = \text{Rs } 7.14$. Book value per share is $\text{Rs } 40,000\text{m} \div 1,000\text{m} = \text{Rs } 40.00$. At Rs 60, the share trades on a P/E of 8.4 times and a price-to-book of 1.5 times. Return on equity is $\text{Rs } 7,140\text{m} \div \text{Rs } 40,000\text{m} = 17.9$ per cent.

The advances-to-deposits ratio is $\text{Rs } 250,000\text{m} \div \text{Rs } 500,000\text{m} = 50$ per cent. This means half of depositors' money is lent to customers; the remainder is typically invested in government securities. In Pakistan this ratio is often modest, because lending to the government has historically been safe and attractive, which is a comfortable arrangement for banks but tells you something about how much genuine credit risk they are taking.

What actually to examine in a bank

- **Deposit mix.** Current accounts pay no interest, so a bank funded largely by current and low-cost savings accounts earns a wider spread than one dependent on expensive term deposits. This is the closest thing to a durable competitive advantage in banking.
- **Non-performing loans and coverage.** What proportion of loans have gone bad, and how much has been provided against them? Rising bad loans with falling coverage is a serious warning.
- **Capital adequacy.** Regulatory capital relative to risk-weighted assets. A thinly capitalised bank has less room to absorb losses and less room to grow.

- **Rate sensitivity.** Banks generally benefit from rising rates, but the effect varies with the maturity profile of their assets and liabilities. Read management's own commentary on this.
- **Cost-to-income.** Operating expenses of Rs 14,000m against total income of Rs 30,000m gives 47 per cent. Lower is better, and the trend matters more than the level.

Notice what is absent from this analysis: inventory, receivable days, gross margin, and capital expenditure. Applying a manufacturer's checklist to a bank produces nonsense. Every sector has its own vocabulary, and part of learning to invest is learning which questions are the right ones for the business in front of you.

3.11 The auditor's report, and the notes nobody reads

Two parts of an annual report carry more information per page than everything else combined, and both sit past the point where most readers stop.

The auditor's opinion

An unqualified, or clean, opinion means the auditors believe the accounts present a true and fair view. Anything else deserves your full attention. A qualified opinion means the auditors disagreed with something specific. An emphasis of matter draws attention to something important without qualifying the opinion — most significantly, doubt about the company's ability to continue as a going concern, which is as close to a formal alarm as accounting language permits. Key audit matters describe the areas the auditors found most difficult or judgemental, and they are effectively a list of where the numbers are softest.

Also note who the auditor is and whether they have changed. An unexplained change of auditor, particularly one that coincides with a disagreement or a delayed result, is worth understanding before you invest.

The notes to the accounts

- **Contingent liabilities.** Tax demands, court cases, guarantees given on behalf of others. These do not appear on the balance sheet but can become very real. A company with contingencies worth several times its equity is carrying risk you cannot see in any ratio.
- **Related party transactions.** Sales to, purchases from, loans to, and guarantees for companies owned by the same family. Large or unusual related-party dealings are the most common route by which value leaves a listed company.
- **Pledged and charged assets.** Which assets are already committed to lenders.
- **Segment information.** Where revenue and profit actually come from, which is often very different from the impression the chairman's review creates.
- **Subsequent events.** Anything significant that happened after the year end but before publication.

- **Accounting policy changes.** A change in how revenue is recognised or how assets are revalued can improve reported profit without anything improving in the business.

KEY IDEA

The front of an annual report is written by the company's marketing function. The back is written by accountants under professional liability. Read the back.

3.12 Comparing two companies properly

Ratios in isolation mean very little. A return on equity of 17 per cent is neither good nor bad until you know what comparable businesses earn, what the company itself earned in previous years, and what a completely risk-free alternative pays. Comparison is where analysis actually happens.

Below, Ravi Textiles from earlier in this chapter is placed against a fictional competitor, Chenab Mills Limited, for the same year. Both are textile exporters of broadly similar size.

Measure	Ravi Textiles	Chenab Mills
Revenue (Rs m)	21,600	19,400
Profit after tax (Rs m)	1,512	1,940
Gross margin	21.0%	26.5%
Net margin	7.0%	10.0%
Return on equity	17.6%	14.9%
Debt to equity	0.65	0.18
Interest coverage	4.3x	16.0x
Receivable days	44	31
Cash conversion (OCF/PAT)	89%	104%
Dividend payout	40%	55%
P/E ratio	6.7x	9.4x
Price to book	1.17x	1.40x

Reading the comparison

Ravi shows the higher return on equity, and a beginner reading only that line would conclude it is the better business. Look at how each company achieves its return. Chenab earns a materially higher margin on every rupee of sales — 26.5 per cent gross against 21 per cent —

which suggests better products, better customers, or better cost control. Ravi's higher ROE is produced partly by leverage: it has borrowed three and a half times as much relative to equity, and borrowed money magnifies returns on the shareholders' smaller base.

Now consider what happens when conditions deteriorate. Chenab covers its interest sixteen times over; Ravi four times. A sharp rise in the policy rate, a bad cotton year, or a slowdown in export orders would be an inconvenience for Chenab and a serious problem for Ravi. Chenab also collects from customers thirteen days faster and converts more than all of its profit into operating cash, while Ravi converts 89 per cent.

The market has noticed. Chenab trades at 9.4 times earnings against Ravi's 6.7, and at a higher multiple of book value. The premium is not irrational — it is what investors pay for lower risk and better quality. The real question is not which company is better, which is fairly clear, but whether the forty per cent valuation premium is too much, about right, or not enough.

KEY IDEA

A higher return on equity achieved through borrowing is not the same achievement as the same return earned without it. Always ask how a ratio was produced, not just how large it is.

3.13 Real growth and the inflation illusion

This concept matters more in Pakistan than in most markets, and almost nobody explains it to beginners.

A company reports that revenue grew 22 per cent. In a year when general prices rose 25 per cent, that company sold fewer goods than the year before. Its rupee figures went up because rupees went down. Reported growth in a high-inflation economy is a mixture of two entirely different things: selling more, and charging more because everything costs more.

WORKED EXAMPLE

A fictional consumer goods company across two years, with inflation running at 20 per cent:

- Year 1: sells 10 million units at Rs 100 = revenue Rs 1,000 million
- Year 2: sells 9.5 million units at Rs 122 = revenue Rs 1,159 million

Reported revenue growth: 15.9 per cent. Management may reasonably describe this as growth.

Volume change: down 5 per cent. The company sold half a million fewer units — its products are becoming less affordable and customers are buying less.

This distinction predicts the future far better than the headline. A company growing revenue only through price increases is eventually constrained by what its customers can pay. A company growing volumes is genuinely expanding.

The place to find this is the director's report and the analyst briefing, where volumes, capacity utilisation and despatches are usually disclosed. Cement companies report tonnes, fertiliser companies report bags or tonnes, autos report units sold. Track those numbers, not just the rupees.

The same illusion appears in profits. A company whose profit rises 18 per cent in a year of 20 per cent inflation has become slightly less profitable in real terms, even though every headline describes a record year. Apply the same test to your own portfolio: a 15 per cent annual return during a period of 20 per cent inflation has made you poorer, however satisfying the statement looks.

3.14 A fifteen-minute quarterly review

Full annual reports deserve hours. Quarterly results do not, and treating every quarter as a major event is a reliable route to overtrading. Here is a disciplined routine for each company you hold, once a quarter.

- **Revenue, and volumes if disclosed.** Is the business selling more, or only charging more?
- **Gross margin.** Compare with the same quarter last year, not the previous quarter, because most Pakistani businesses have seasonal patterns. A margin falling steadily over four quarters is the earliest reliable warning of trouble.
- **Finance cost.** Rising faster than debt suggests refinancing at worse rates. Rising alongside rising debt is a different and more serious signal.
- **Receivables and inventory.** Growing much faster than revenue means cash is being absorbed. This is the number that most reliably precedes a bad surprise.
- **Any dividend declared, and any change in policy.** A cut, or a first omission after a long record, is a significant management statement about how they see the year ahead.

- **One question.** Is the reason I wrote down when I bought this still true? If yes, do nothing at all. If no, that is a decision to make deliberately, not today, in writing.

Doing nothing is a legitimate and usually correct outcome of this review. The purpose of examining results is to detect genuine deterioration, not to generate activity. An investor who reviews six holdings each quarter and takes no action for two years, because nothing has broken, has run the process correctly.

3.15 What you should do after this chapter

Take one of the three companies you listed in Chapter 1. Download its most recent annual report. Find revenue, profit after tax, total equity, total borrowings, and shares in issue. Calculate EPS, book value per share, ROE, and debt to equity yourself. It will take an hour the first time and fifteen minutes thereafter.

THE FLOSTOCKS PRINCIPLE

An hour with an annual report is worth more than a year of watching prices. The accounts are the only place where a company has to tell you the truth in a form it can be held to.

Price, Value and Valuation

What a share is worth, what it costs, and why the two are rarely the same number.

4.1 Price is not value

Beginners routinely believe a Rs 20 share is "cheap" and a Rs 900 share is "expensive". This is one of the most expensive misunderstandings in the market, and it is easy to dispel.

The price of one share tells you nothing on its own, because it depends entirely on how many slices the company was cut into. A business worth Rs 10 billion divided into 500 million shares gives a price of Rs 20. The same business divided into 11 million shares gives a price of Rs 900. Nothing about the underlying business has changed.

WORKED EXAMPLE

Two fictional companies, both earning Rs 1 billion in annual profit:

- Company A: share price Rs 20, with 2,000 million shares in issue. Market capitalisation = Rs 40 billion.
- Company B: share price Rs 900, with 20 million shares in issue. Market capitalisation = Rs 18 billion.

The market is asking Rs 40 billion for A's billion of profit, and Rs 18 billion for B's identical billion of profit. The Rs 900 share is, by this measure, less than half as expensive as the Rs 20 share.

Market capitalisation — price multiplied by total shares — is the price of the whole company. That is the number that means something.

4.2 The price-to-earnings ratio

The P/E ratio is share price divided by earnings per share. For Ravi Textiles from Chapter 3: Rs 42 ÷ Rs 6.30 = 6.7 times.

The most useful way to read it is as a payback period. At 6.7 times, you are paying Rs 6.70 for every rupee of annual profit — or, put differently, if profits stayed exactly flat and were entirely paid out to you, it would take about 6.7 years for the company's earnings to add up to what you paid.

A low P/E is not automatically good and a high P/E is not automatically bad. The ratio compresses three separate judgements into one number: how fast profits are expected to grow, how certain those profits are, and what returns are available elsewhere. A company expected to grow rapidly deserves a higher multiple. A company whose profits depend on a single volatile commodity deserves a lower one.

Why Pakistani shares often show low P/E ratios

It is common to see single-digit P/E ratios across large parts of the PSX. This is not a straightforward bargain signal. It reflects, among other things, high domestic interest rates — when risk-free government securities pay a high yield, investors demand a correspondingly high earnings yield from shares — along with currency risk, political uncertainty, periodic balance-of-payments stress, and limited foreign participation. When interest rates fall, multiples across the market tend to expand, and when they rise, multiples compress, often regardless of how individual companies are performing.

WATCH OUT

The value trap. A share on three times earnings may be cheap, or the market may simply be right. Ask why it is cheap. Common answers: profits are at a cyclical peak and about to fall; the company is heavily indebted; the sponsor has a history of not paying dividends; the sector is in structural decline; or the accounts are not trusted. A cheap share that stays cheap for a decade is not a bargain, it is dead money.

4.3 Price to book

Share price divided by book value per share. For Ravi Textiles: $\text{Rs } 42 \div \text{Rs } 35.83 = 1.17$ times. You are paying Rs 1.17 for each rupee of net assets on the balance sheet.

This measure is most meaningful where assets are financial and marked close to their real value — banks in particular, where the balance sheet consists largely of loans, deposits and securities. It is far less meaningful for a technology or services company whose real assets are people and software, which barely appear on a balance sheet at all.

Relate P/B to ROE. A bank earning 25 per cent on equity should trade at a higher multiple of book value than one earning 8 per cent, because each rupee of book value is producing three times as much profit. A high P/B with low ROE is a warning; a low P/B with sustained high ROE deserves a second look.

4.4 Dividend yield

Annual dividend per share divided by share price. Ravi Textiles: $\text{Rs } 2.50 \div \text{Rs } 42 = 5.95$ per cent.

Dividend yield is the cash actually reaching your bank account, which makes it psychologically valuable — it pays you for waiting. But three cautions apply. First, dividends

are not guaranteed and can be cut in a bad year. Second, a very high yield sometimes means the share price has collapsed for good reason. Third, the correct comparison is again the risk-free rate: a 6 per cent dividend yield is generous when bank deposits pay 5 per cent and unremarkable when they pay 15 per cent.

Ex-dividend, book closure, and why the price drops

When a company declares a dividend, it also announces a book-closure period. To receive the dividend, you must be on the shareholder register before that period begins — which, given the T+1 settlement cycle, means buying at least a working day earlier. The first day the share trades without entitlement to the dividend, it is said to trade ex-dividend, and the price typically falls by roughly the dividend amount.

WORKED EXAMPLE

A share trades at Rs 100 and declares a dividend of Rs 5 per share.

On the ex-dividend date the price will typically open around Rs 95, because a buyer that day is no longer buying the right to receive the Rs 5.

Nothing has been lost or gained. The value simply moved from inside the company to outside it. Buying just before an ex-date to 'capture' a dividend is not free money — and after tax on the dividend, it is often marginally worse than not doing it.

4.5 Enterprise value and EV/EBITDA

Market capitalisation prices the equity. Enterprise value prices the whole business, including its debt: market capitalisation plus net debt. EBITDA is earnings before interest, tax, depreciation and amortisation — a rough measure of operating cash generation.

EV/EBITDA is useful when comparing companies with very different debt levels, or capital-intensive businesses like cement where depreciation charges are large and vary with the age of the plant. A company can look cheap on P/E while carrying enormous debt that a buyer of the whole business would have to assume.

4.6 The macro dials that move the PSX

In many markets, individual company results dominate share prices. In Pakistan, a handful of national-level variables can override company performance entirely for months at a time. You do not need to forecast them — nobody can — but you must understand the transmission mechanism, because it explains why a good company's share price sometimes falls for reasons that have nothing to do with the company.

Dial	How it feeds through to share prices
Policy interest rate	Higher rates raise finance costs for indebted companies, make fixed-income alternatives more attractive, and compress valuation multiples. Falling rates do the reverse and are usually the single strongest driver of a broad market rally.
Inflation	Erodes consumer purchasing power and squeezes margins where companies cannot pass on costs. Drives the policy rate.
The rupee	Depreciation helps exporters and hurts importers; it also raises the rupee cost of servicing foreign debt and imported inputs such as fuel and machinery.
External accounts and IMF programmes	Reserve adequacy and programme status shape currency stability, sovereign risk perception, and foreign investor appetite for the whole market.
Global commodity prices	Oil affects exploration companies and refiners positively and transport and fertiliser users negatively. Coal drives cement costs. Cotton drives textile costs.
Government budget and Finance Act	Annual changes to corporate tax, super tax, capital gains tax and sector levies can re-rate entire industries within a single day.
Politics and security	Affects risk premium, foreign inflows, and the credibility of long-term policy.

4.7 A sector cheat-sheet

Different sectors respond to entirely different variables. Knowing the one or two things that dominate each helps you avoid holding five shares that all depend on the same underlying factor.

- **Banks.** Thrive on higher interest rates, which widen the spread between what they pay depositors and earn on lending and government securities. Watch deposit growth, non-performing loans, and holdings of government paper. Judge on P/B against ROE.
- **Cement.** Driven by construction demand, capacity utilisation, retention prices, and coal and power costs. Highly cyclical and capital-intensive; heavy debt is common during expansion phases.
- **Fertiliser.** Depends on gas availability and pricing, urea and DAP prices, subsidies, and the agricultural cycle. Historically a strong dividend-paying sector.
- **Oil and gas exploration.** Follows international crude prices, production volumes, reserve additions, and — importantly in Pakistan — the circular debt problem, which delays cash receipts.
- **Oil marketing.** Volumes, inventory gains or losses when prices move, and regulated margins.

- **Power generation.** Contracted returns look stable on paper, but circular debt means reported profit and received cash can diverge for long periods.
- **Textiles.** Export demand, cotton and yarn prices, energy tariffs, currency, and working-capital financing costs.
- **Automobiles.** Import costs of parts, currency, financing rates for car buyers, and duty structures.
- **Technology.** Export earnings in dollars, client concentration, and talent costs. Smaller and typically more volatile.

WORKED EXAMPLE

Following one macro change through a company. Suppose the policy rate is cut sharply.

- A cement company with Rs 5,000 million of floating-rate debt sees its annual finance cost fall materially, which flows straight to profit before tax.
- Cheaper mortgages and construction financing lift housing and infrastructure activity, raising cement demand and helping capacity utilisation.
- Fixed-income alternatives become less attractive, so investors accept lower earnings yields on shares — the P/E multiple the market is willing to pay expands.
- Combined effect: earnings rise and the multiple applied to those earnings rises at the same time. This is why rate-cutting cycles can produce very large moves in cyclical sectors.

The same mechanism runs in reverse when rates rise — which is why leverage should be examined before, not after, a tightening cycle begins.

KEY IDEA

Valuation is not a formula that produces a correct answer. It is a way of making your assumptions explicit, so that when you are wrong you can identify which assumption failed.

4.8 Earnings yield and the risk-free rate

There is a way of thinking about valuation that makes the Pakistani market immediately comprehensible, and it requires nothing more than turning the P/E ratio upside down.

The earnings yield is earnings per share divided by price — the inverse of the P/E. Ravi Textiles at Rs 42 with EPS of Rs 6.30 has an earnings yield of 15 per cent. That is the profit the business generates each year, expressed as a percentage of what you pay for it. It is directly comparable to the yield on a bank deposit or a government treasury bill, which is exactly the comparison the whole market is constantly making.

WORKED EXAMPLE

The same company, in two different interest rate environments.

Environment A — treasury bills yield 21 per cent.

- A risk-free 21 per cent is available. Why accept a 15 per cent earnings yield from a textile company exposed to cotton prices, export demand and currency swings?
- Investors sell equities until the earnings yield becomes competitive. If the price falls to Rs 25, the earnings yield rises to 25 per cent and the P/E compresses to 4.0 times.

Environment B — treasury bills yield 11 per cent.

- Now a 15 per cent earnings yield with the possibility of growth looks attractive against 11 per cent with none.
- Money moves toward equities. If the price rises to Rs 63, the earnings yield falls to 10 per cent and the P/E expands to 10 times.

The company did not change. Its profits, factories, customers and management are identical in both scenarios. The share price moved by 150 per cent purely because the alternative available to investors changed.

This is the single most important thing to understand about the PSX. Sustained falls in the policy rate have historically been associated with broad market re-ratings, and sustained rises with the opposite — largely independent of individual company performance.

The gap between the earnings yield on shares and the yield on government paper is a rough measure of the extra return investors demand for accepting equity risk. When that gap is unusually wide, equities are cheap relative to bonds; when it disappears, they are not. This does not tell you what will happen next month, and it is not a timing tool. But it does stop you concluding that a share is cheap merely because the P/E is a small number.

4.9 Cyclical businesses and the trap of peak earnings

Cement, steel, autos, chemicals and commodity producers share a characteristic that makes conventional valuation actively misleading: their profits swing enormously with the cycle, and the P/E ratio therefore looks most attractive at precisely the wrong moment.

At the top of a cycle, capacity is full, prices are high, margins are fat, and earnings per share is at a maximum. Divide a share price by that maximum and you get a very low P/E. At the bottom of a cycle, plants are idle, prices are being cut, and earnings collapse toward zero — dividing by a tiny number produces an enormous P/E, or a negative one, which looks like the most expensive share in the market.

WORKED EXAMPLE

A fictional cement producer through one full cycle. Earnings per share by year:

- Year 1 (trough): Rs 1.00
- Year 2: Rs 3.00
- Year 3: Rs 6.00
- Year 4 (peak): Rs 12.00
- Year 5: Rs 7.00
- Year 6 (trough): Rs 1.00

Average across the cycle: Rs 5.00 per share.

At the peak, the share trades at Rs 60. On peak earnings of Rs 12, that is a P/E of 5.0 times — apparently very cheap. On mid-cycle earnings of Rs 5.00, it is 12 times — unremarkable.

At the trough, the share trades at Rs 20. On trough earnings of Rs 1.00, that is a P/E of 20 times — apparently expensive. On mid-cycle earnings, it is 4 times — genuinely cheap.

An investor who buys the low P/E and sells the high one has systematically bought the top and sold the bottom, while believing throughout that they were being disciplined about valuation.

The defences are straightforward. Use average earnings across a full cycle rather than the latest year. Lean on price-to-book, which is far more stable than earnings, and on asset-based measures such as enterprise value per tonne of capacity for cement. Watch capacity expansion across the whole industry, because a wave of new plants commissioned near a peak is what usually causes the next downturn. And be sceptical of any commentary that describes a cyclical peak as a permanent structural improvement.

4.10 What actually happens on results day

A company announces excellent results and the share falls. This confuses beginners more than almost anything else, and the explanation is simple: prices already contain expectations.

By the time a result is announced, the market has spent three months forming a view. Analysts publish estimates, the sector's conditions are visible, and the share price has already moved to reflect the consensus. What moves the price on the day is not whether the news is good, but whether it is better or worse than what was already assumed.

WORKED EXAMPLE

Three fictional announcements, all reporting higher profits than last year:

- Company A reports profit up 30 per cent. The market expected 45 per cent. The share falls 6 per cent.
- Company B reports profit down 10 per cent. The market feared 25 per cent. The share rises 4 per cent.
- Company C reports profit up 40 per cent, exactly as expected, but declares no dividend when a payout was anticipated. The share falls sharply.

Company C illustrates something particular to Pakistan: for many investors here, the dividend announcement accompanying a result carries as much weight as the profit figure itself, because a large part of the shareholder base holds shares specifically for income.

There is a practical consequence. Buying a share immediately before a results announcement because you expect good numbers is not investing, it is betting on a two-sided outcome where the other side is better informed about expectations than you are. If your reason for owning a company is sound over three years, a single quarter should rarely change it — and if a single quarter does change it, that tells you the position was always shorter-term than you admitted.

4.11 A short note on what valuation cannot do

Every method in this chapter compresses an unknowable future into a single present number, and each does so by smuggling in assumptions. The P/E assumes current earnings are representative. Price-to-book assumes the balance sheet reflects reality. Dividend yield assumes the dividend continues. None of them is a measurement in the way that weighing a bag of rice is a measurement.

What valuation genuinely provides is discipline. It forces you to state what you are assuming, in numbers, before you commit money. Then, when the investment disappoints, you can look back and identify which assumption was wrong — the growth rate, the margin, the multiple, or the interest rate environment. Investors who never write down an assumption never learn anything from being wrong, because there is nothing specific to be wrong about. That, rather than precision, is the point of the exercise.

4.12 Valuing a company from scratch

Everything so far has compared a price to a number the company already reported. Valuation proper works the other way round: you form a view of what the business will earn, decide what that stream of earnings is worth, and only then look at the price to see whether the market agrees with you. It is less precise than it sounds, and more useful than it looks.

The simplest workable method has four steps. Estimate earnings a few years out. Apply a multiple you can justify. Add the dividends you will collect along the way. Compare the total with what you would pay today.

WORKED EXAMPLE

A fictional fertiliser company. Today: share price Rs 120, EPS Rs 15, dividend Rs 9 per share, so a P/E of 8.0 and a yield of 7.5 per cent.

Step one — estimate earnings in four years. Assume 8 per cent annual growth, roughly in line with nominal demand growth and price increases, with no capacity expansion:

- Rs 15.00 → 16.20 → 17.50 → 18.90 → Rs 20.40 in year four

Step two — choose an exit multiple. The company has traded between 6 and 10 times earnings historically. Take 8 times, the middle of its own range, rather than assuming the market will suddenly value it more generously:

- Estimated price in year four: $20.40 \times 8 = \text{Rs } 163$

Step three — add dividends collected. Assuming the payout ratio holds at about 60 per cent, dividends over four years total roughly Rs 43 per share.

Step four — compare. Total expected value: $\text{Rs } 163 + \text{Rs } 43 = \text{Rs } 206$, against Rs 120 paid today. That is a gain of about 72 per cent over four years, or roughly 14.5 per cent a year.

Now the honest part. Is 14.5 per cent a year adequate compensation for the risk of holding a single company exposed to gas pricing, subsidy decisions, and the agricultural cycle — when a government treasury bill might pay a substantial return with no risk at all? That comparison, not the calculation, is the actual decision.

The value of the exercise lies in what it exposes. Every number above is an assumption, and each can be tested. If growth turns out to be 3 per cent rather than 8, year-four earnings are Rs 16.90 and the outcome is far less attractive. If the multiple compresses to 6 times because interest rates rise, the exit price is Rs 122 and four years produce almost nothing but the dividends. Run the calculation three times — a pessimistic case, a base case, and an optimistic case — and you will know something far more useful than a single number: you will know which assumption the entire investment depends on.

4.13 Margin of safety

Since every input above is an estimate, and estimates about Pakistani macroeconomic conditions are unusually error-prone, the sensible response is to require that the price be not merely fair but clearly below your estimate of value.

Suppose your work suggests a company is worth Rs 200 per share. Buying at Rs 195 means everything must go approximately as forecast for the investment to work. Buying at Rs 140 means growth can disappoint, the multiple can compress somewhat, and one of your

assumptions can simply be wrong, and you may still do acceptably. That gap is the margin of safety, and it is the closest thing to a durable principle in a market where the interest rate can move by many percentage points inside a year.

The practical implication is uncomfortable: much of the time, you should not be buying. If nothing you have analysed is available at a price meaningfully below your estimate of value, the correct action is to hold cash and wait. Most investors find waiting almost unbearable, which is precisely why the opportunities appear — they appear when everyone else has already committed.

4.14 Why a company is worth its future cash, in plain terms

Underneath every valuation method sits one idea, and it is worth stating without algebra. A business is worth the cash it will hand to its owners over its remaining life, adjusted for the fact that cash arriving later is worth less than cash arriving now.

Two adjustments make this real. First, delay: Rs 100 received in five years is plainly less valuable than Rs 100 today, because today's Rs 100 could have been earning something in the meantime. The higher the return available elsewhere, the more heavily distant cash is discounted. Second, uncertainty: Rs 100 that a stable, established business will almost certainly pay is worth more than Rs 100 a fragile, indebted business might pay.

This single idea explains most of what appears puzzling about market behaviour. It explains why the policy rate matters so much — raising the return available on risk-free alternatives reduces the present value of every distant rupee, and hits companies whose profits lie furthest in the future hardest. It explains why stable, predictable businesses command higher multiples than volatile ones earning the same profit. It explains why a company with heavy debt is valued cautiously even when profitable, because lenders are paid before owners. And it explains why a business that never distributes cash and never will is, ultimately, worth very little to a minority shareholder, however impressive its reported assets.

KEY IDEA

You are buying a future stream of cash, discounted for time and doubt. Every ratio in this chapter is a shortcut for estimating that stream. When a shortcut and common sense disagree, common sense is usually right.

4.15 What you should do after this chapter

Take the company you analysed in Chapter 3. Calculate its P/E, P/B and dividend yield at today's price. Then find two competitors in the same sector and calculate the same three ratios for them. Write one paragraph explaining why you think the market values them differently. You are not looking for a right answer — you are building the habit of asking why the price is what it is.

THE FLOSTOCKS PRINCIPLE

Price is what the crowd will pay today. Value is what the business will earn over years. You will only ever profit from the gap between them if you have separately formed a view of each.

Building a Portfolio

Position sizing, diversification, regular investing, leverage, and the discipline of selling.

5.1 Start with the goal, not the share

Most beginners start with the question "which share should I buy?" That is the last question, not the first. The first question is what the money is for and when you will need it, because that determines everything else.

Write down the goal in one line, with an amount and a date. A house deposit of Rs 4 million in seven years. Retirement in twenty-two years. A child's university fees in eleven years. Then separate two things that people constantly confuse: your risk capacity, which is your objective ability to absorb loss given your income, savings and obligations, and your risk tolerance, which is your emotional ability to watch your money fall without acting rashly. You must respect the smaller of the two. A young person with a secure salary has high capacity, but if a 30 per cent fall would keep them awake and make them sell at the bottom, their effective tolerance governs.

5.2 Where equities sit among your options

Shares are one option among several available to a Pakistani saver, and the honest comparison is worth making explicitly.

Option	Character
Bank deposits / savings	Highly liquid, nominal capital preserved, returns often below inflation. Essential for your emergency fund, poor for long-term growth.
Government securities & national savings	Backed by the state, predictable income, subject to reinvestment risk when rates fall.
Mutual funds	Professionally managed, diversified, accessible in small amounts, subject to management fees and manager skill.
Listed shares	Ownership of businesses, historically the strongest long-run growth potential, with substantial volatility and the possibility of permanent loss in individual companies.
Gold	Traditional store of value, tends to hold up when the currency weakens, produces no income.

Option	Character
Property	Familiar and tangible, but illiquid, requires large lump sums, carries transaction and documentation costs, and is difficult to sell in a hurry.

A sensible portfolio usually contains more than one of these. Shares should be the portion of your savings with the longest time horizon, because that is where their advantages are real and their volatility is survivable.

5.3 Diversification, done properly

Diversification means owning enough different things that no single failure destroys you. It does not mean owning many shares. Owning eight cement companies is not diversification; it is one bet on cement placed eight times.

Real diversification requires that your holdings respond to different underlying drivers. Banks benefit from rising interest rates while indebted manufacturers suffer; exporters benefit from a weaker rupee while importers suffer. A portfolio containing both has internal balance.

WORKED EXAMPLE

An illustrative Rs 500,000 portfolio for a beginner, structured by driver rather than by name. This is a teaching example, not a recommendation.

- Banking — Rs 100,000 (20%): benefits from higher rates
- Fertiliser — Rs 75,000 (15%): domestic demand, dividend income
- Cement — Rs 75,000 (15%): construction cycle, benefits from lower rates
- Oil & gas exploration — Rs 75,000 (15%): global oil prices
- Consumer / food — Rs 75,000 (15%): defensive domestic demand
- Technology or export-oriented — Rs 50,000 (10%): dollar earnings
- Cash held for opportunities — Rs 50,000 (10%)

Two structural rules embedded in this example: no single company exceeds 10 per cent of the portfolio, and no single sector exceeds 20 per cent. If one holding goes to zero — which does happen — the maximum damage is 10 per cent of your capital, which is recoverable. A portfolio with 60 per cent in one 'high conviction' idea is not recoverable when that conviction proves wrong.

For a portfolio below roughly Rs 200,000, buying eight or ten individual shares is often impractical: fixed minimum commissions make small trades expensive and the research burden is disproportionate. A diversified mutual fund or an exchange-traded fund listed on PSX may achieve better diversification per rupee at that size.

5.4 Investing regularly beats timing

Nobody reliably identifies market tops and bottoms. The practical alternative is to invest a fixed rupee amount at fixed intervals, which mechanically buys more shares when prices are low and fewer when they are high.

WORKED EXAMPLE

Investing Rs 10,000 per month in the same share for six months as its price fluctuates:

- Month 1 — price Rs 100 → 100 shares
- Month 2 — price Rs 80 → 125 shares
- Month 3 — price Rs 62.50 → 160 shares
- Month 4 — price Rs 80 → 125 shares
- Month 5 — price Rs 100 → 100 shares
- Month 6 — price Rs 125 → 80 shares

Total invested: Rs 60,000. Total shares acquired: 690. Average cost per share: Rs 86.96.

The simple average of the six prices was Rs 91.25 — but your average cost is Rs 86.96, because the fixed rupee amount automatically bought more units at lower prices. Note also that the fall to Rs 62.50 in month three, which felt like a disaster at the time, was the month that did the most good.

5.5 Investing, trading, and speculating

These three words are used interchangeably and mean entirely different things.

- **Investing.** Buying part of a business because you believe its future profits justify today's price. Your return comes from the business performing. Horizon: years.
- **Trading.** Buying because you believe the price will rise, largely irrespective of the business. Your return comes from another participant paying more. Horizon: days or weeks. This is a professional activity with a real skill component and a high failure rate among amateurs.
- **Speculating.** Buying because of a rumour, a message in a group, or a story about an upcoming announcement. Your return depends on the rumour being both true and not already reflected in the price.

There is nothing dishonourable about trading, provided you know that is what you are doing and have accepted the costs of doing it. The genuine danger is drifting between categories: buying for a quick gain, then, when it falls, redefining yourself as a long-term investor to avoid taking the loss. Decide which you are before you buy, and write it down.

5.6 Funds, ETFs, and Shariah-compliant options

You do not have to pick individual shares. Mutual funds pool investors' money under a professional manager, are regulated by the SECP, and are available in equity, income, money-market and balanced varieties. Exchange-traded funds are listed on PSX and traded like shares, typically tracking an index, usually with lower fees than actively managed funds.

For investors who require Shariah compliance, PSX maintains Islamic indices such as the KMI-30 and the KMI All Share, which screen companies on both business activity and financial ratios — excluding, among others, conventional banking, alcohol, and gambling, and applying limits on interest-bearing debt and interest income relative to assets. Shariah-compliant mutual funds and Islamic ETFs are also available. Compliance status is reviewed periodically and a company can be added or removed, so it should be checked rather than assumed.

5.7 Leverage: why beginners should stay away

The Margin Trading System and futures contracts allow you to control a larger position than your capital would otherwise permit. They are legitimate, regulated instruments. They are also the fastest route to a total loss for an inexperienced investor, because leverage multiplies both directions and forced liquidation removes your ability to wait.

WORKED EXAMPLE

You have Rs 100,000 and use leverage to take a Rs 300,000 position, borrowing Rs 200,000.

- The share rises 20 per cent: position worth Rs 360,000. After repaying Rs 200,000 plus financing cost, your Rs 100,000 has become roughly Rs 155,000 — a 55 per cent gain.
- The share falls 20 per cent: position worth Rs 240,000. After repaying Rs 200,000 plus financing cost, roughly Rs 35,000 remains — a 65 per cent loss.
- The share falls 33 per cent: the position is worth Rs 200,000, exactly the borrowing. Your entire capital is gone.

Worse, you will not usually be permitted to wait for a recovery. Once the collateral value breaches the required threshold, you face a margin call, and if you cannot meet it the position is liquidated at the worst possible moment — locking in the loss precisely when patience would have helped.

WATCH OUT

Never borrow money to invest in shares. This includes margin facilities, personal loans, credit card advances, borrowing from family, and committee or savings-pool money that belongs to others. Equity investing works because you can wait; debt removes the ability to wait, which removes the only genuine advantage a small investor has.

5.8 When to sell

Buying is discussed endlessly and selling is barely discussed at all, which is why most investors sell badly — usually in panic near a bottom, or in euphoria far too late.

There are four defensible reasons to sell.

- **The reason you bought is no longer true.** You bought a company for its debt-free balance sheet and it has taken on heavy borrowing; you bought for its dividend and the dividend has been cut. The thesis is broken, so the position should go.
- **The price now exceeds any reasonable estimate of value.** If a share doubles without any improvement in the business, you are now paying twice as much for the same earnings.
- **You need the money.** A legitimate and unglamorous reason. Goals are why you invested in the first place.
- **Rebalancing.** One holding has grown to 30 per cent of your portfolio, breaching your own concentration limit. Trimming back to the target is risk management, not market timing.

And one reason that is not defensible: selling only because the price fell. A falling price is information about market sentiment, not necessarily about the business. Ask whether anything has changed in the company's earnings power. If nothing has, the fall may be an opportunity rather than a signal — provided your original analysis was sound.

5.9 Keep a written record

Maintain a simple file, on paper or in a spreadsheet, with one entry per purchase: the date, the price, the number of shares, and — most importantly — three or four sentences explaining exactly why you bought and what would make you sell.

This is the highest-value habit in this entire book, and almost nobody does it. Memory rewrites itself. Eighteen months later, you will be certain you bought for reasons you never actually held, and you will be unable to tell whether your process is working or whether you have simply been lucky. A written thesis makes you accountable to your past self.

5.10 Traps that cost Pakistani investors money

- **WhatsApp and Telegram "tips".** If a stranger is sending you a share name, ask what they gain from your buying it. Usually they already own it and need buyers. This is the mechanism of a pump-and-dump.
- **Anchoring to your purchase price.** The market does not know or care what you paid. "I will sell when it gets back to my cost" is not a strategy.
- **Loss aversion.** Selling winners quickly to book a gain while holding losers indefinitely to avoid admitting a mistake. Over time this systematically leaves you holding your worst decisions.
- **Averaging down mechanically.** Buying more of a falling share is sound only if the business is unchanged and the fall is sentiment. If the fall reflects deterioration, you are increasing your exposure to a mistake.
- **Overtrading.** Each round trip costs commission twice plus tax on gains. Activity feels like diligence but is usually just cost.
- **Confusing a rising market with skill.** In a strong bull run almost everything rises. The test of a process is a falling market.

5.11 Core and satellite

A structure that solves a genuine problem for beginners: how to keep learning and taking some risk without letting an inexperienced judgement damage your savings.

Divide the portfolio in two. The core, perhaps seventy to eighty per cent, holds large, established, well-covered businesses with long dividend records, or a diversified fund. You are not trying to be clever here. You are trying to own the economy's more durable companies and be left alone. The satellite, the remaining twenty to thirty per cent, is where you express opinions: a smaller company you have researched, a sector you believe is turning, a recovery situation.

The arithmetic of this is what makes it valuable. If your satellite holdings fall by half, the damage to the whole portfolio is ten to fifteen per cent, which is recoverable. If they do well, the effect on total returns is meaningful. And you have created a bounded space in which to make the mistakes that everyone makes, without those mistakes reaching the money you actually need.

Review the two parts differently. The core should be examined once or twice a year, unemotionally. The satellite deserves closer scrutiny, and a written note when a position is closed explaining what happened and why — that note is where most of your learning will come from.

5.12 Rebalancing, with the arithmetic

Prices move at different rates, so a portfolio that started balanced will not stay balanced. Rebalancing means periodically restoring your intended weights, which mechanically forces you to sell some of what has done well and buy more of what has not — a discipline almost nobody follows voluntarily, because it always feels wrong at the time.

WORKED EXAMPLE

The Rs 500,000 portfolio from section 5.3, one year later. Values have drifted:

- Banking: Rs 100,000 → Rs 150,000 (target 20%, now 27.1%)
- Fertiliser: Rs 75,000 → Rs 82,500 (target 15%, now 14.9%)
- Cement: Rs 75,000 → Rs 60,000 (target 15%, now 10.8%)
- Oil & gas: Rs 75,000 → Rs 97,500 (target 15%, now 17.6%)
- Consumer: Rs 75,000 → Rs 78,000 (target 15%, now 14.1%)
- Technology: Rs 50,000 → Rs 35,000 (target 10%, now 6.3%)
- Cash: Rs 50,000 (target 10%, now 9.0%)
- Total: Rs 553,000

Restoring the targets against the new total of Rs 553,000:

- Banking target is Rs 110,600 — sell Rs 39,400
- Cement target is Rs 82,950 — buy Rs 22,950
- Technology target is Rs 55,300 — buy Rs 20,300
- Oil & gas target is Rs 82,950 — sell Rs 14,550
- Others are within tolerance and left alone

You are selling banking after it rose 50 per cent and buying technology after it fell 30 per cent. Every instinct will resist this. But the alternative is allowing a single sector to grow into a third of your wealth on the strength of one good year, which is how concentrated risk accumulates without anyone deciding to take it.

Three practical qualifications. Rebalancing generates transactions, so it costs commission and may trigger capital gains tax — once a year is generally sufficient, and rebalancing monthly would destroy the benefit through costs. Use a tolerance band rather than exact precision: only act when a weight has drifted more than about five percentage points from target. And distinguish rebalancing from thesis change — if you are selling banking because it has grown too large, that is rebalancing; if you are selling because the business has deteriorated, that is a different decision and the money should not automatically go back into the same sector.

5.13 What a bad year actually feels like

Every book on investing tells you to stay calm during declines. Almost none describes what a decline is actually like, which is why the advice fails when it is needed.

Here is the honest version. The index falls fifteen per cent over two months, and your portfolio falls more, because you own smaller companies than the index does. Every explanation you read is credible and pessimistic: the currency, the external account, the political situation, rates, a global sell-off. Nothing you own has announced anything specifically bad, but everything is down. Someone you know tells you they exited months ago. The financial press is uniformly negative, because negative sells. You open your portfolio several times a day and each time the number is worse.

Then it falls another fifteen per cent, and something changes psychologically. It stops feeling like volatility and starts feeling like evidence — evidence that you were naive, that this market is different, that the people who warned you were right. The urge to sell at this point is not weakness or stupidity. It is the entirely rational response of a person who has concluded that their original analysis was wrong. That is precisely why so many people sell near the bottom: not because they panic, but because they have quietly revised their beliefs at the worst possible moment, and it feels like prudence.

What actually helps, in order of usefulness:

- **Decisions made in advance.** A written policy stating what you will do in a decline, drafted when you were calm, is worth more than any amount of resolve summoned in the moment.
- **Automatic contributions.** A standing monthly investment removes the daily decision entirely, and it buys most when prices are lowest.
- **Looking less often.** Checking prices daily during a decline provides no information you can act on and steadily erodes judgement. Weekly is plenty; monthly is better.
- **Rereading your thesis.** Go back to what you wrote when you bought. Ask specifically: has the business changed, or only the price? If the earnings power is intact, a lower price is a better entry, not a verdict.
- **Money you do not need.** Everything above collapses if you are invested with money you might need this year. Then you are not choosing to hold; you are hoping not to be forced to sell.

None of this means declines are always temporary or that patience is always rewarded. Individual companies do fail permanently, and holding a deteriorating business through a decline is not fortitude, it is denial. The distinction — between a falling price and a failing business — is the entire reason the previous chapters spent so long on financial statements. Analysis is what lets you tell the difference when it matters most.

5.14 Twelve months, in practice

Principles are easy to agree with and hard to apply. This is one concrete way of putting the whole chapter into practice with Rs 25,000 a month, for a person starting from nothing. It is an illustration of method, not a recommendation of any allocation.

Months	Action	Purpose
1–2	Invest nothing. Complete the emergency fund and open the account. Read the annual reports of five large companies.	You cannot make good decisions about businesses you have not read about.
3–4	Invest Rs 25,000 monthly into two large, established companies from two different sectors.	Learn the mechanics of trading with real but small amounts.
5–6	Continue monthly. Add a third sector. Write the one-page thesis for each holding.	Build the habit of recording reasons before results are known.
7–8	Continue monthly. Read the quarterly results of everything you own. Take no action unless something has broken.	Practise inaction, which is the hardest discipline.
9–10	Continue monthly. Add a fourth and fifth sector as amounts justify the transaction costs.	Diversification arrives gradually, funded by contributions rather than by selling.
11–12	Continue monthly. Review the full year: costs paid, taxes deducted, decisions made well and badly.	Convert twelve months of experience into a revised written policy.

After a year you would have invested Rs 250,000 across roughly five holdings, paid a modest amount in commission, experienced at least one uncomfortable decline, and accumulated a written record of your own reasoning. Whether the portfolio is up or down at that point matters far less than it feels like it does. What matters is that the process is now established and you know how you behave under pressure.

5.15 A record you can actually maintain

A tracking sheet does not need to be sophisticated. It needs to exist, and it needs to contain the one column everybody omits: why.

Column	What to record
Date	When you bought.

Column	What to record
Company and quantity	What and how much.
Price and total cost	Including commission and charges, so your true break-even is visible.
Sector	So concentration is obvious at a glance.
Weight	This position as a percentage of the whole portfolio.
Thesis	Three or four sentences: what the business does, why you think it will do well, what you are assuming.
Sell conditions	The specific circumstances that would end the investment. Written before you own it.
Review notes	Dated one-line entries each quarter. What changed, what did not.

Add a second sheet recording dividends received and taxes deducted, which will save you considerable trouble at the end of the tax year and will show you something surprising after a few years: how much of your total return arrived as cash rather than as price movement.

5.16 When you need the money

Investment writing is overwhelmingly about accumulation and almost silent about the day you actually need to spend. That day comes for everyone, and handling it badly can undo years of good decisions.

- **Plan the exit before the deadline.** If you will need the money in eighteen months for a specific purpose, begin moving toward cash gradually rather than facing a single forced sale on a date the market does not know about.
- **Sell for reasons, in order.** When you must raise cash, sell first what you would sell anyway — an overweight position, a holding whose thesis has weakened, a satellite idea that did not work. Do not simply sell whichever holding shows a gain, which is how people systematically dispose of their best businesses.
- **Account for settlement and costs.** Sale proceeds follow the T+1 settlement cycle before reaching your bank, and capital gains tax is deducted from realised gains. Raising 'Rs 500,000' means selling somewhat more than that.
- **Never let a deadline force the price.** The worst possible position is needing a specific sum on a specific day from a volatile asset. This is the entire reason short-horizon money should never have been in shares.

5.17 Three portfolios, three outcomes

Abstract principles land better when attached to people. The three fictional investors below each began with Rs 600,000 and reasonable intentions. Their differences are entirely behavioural, not intellectual — none of them was less clever than the others.

Investor one: the concentrated conviction

Ahmed researched carefully and concluded that one sector was clearly undervalued. He was right about that, and he put eighty per cent of his money into three companies in it, reasoning that diversification dilutes returns when you have genuinely done the work.

For a year he was substantially ahead of everyone he knew, and he attributed this to his research. Then a regulatory change hit the sector, and one of his three holdings was hit hardest because of debt he had considered manageable. His portfolio fell forty per cent, at which point the position sizes made every subsequent decision emotional. He could not add to the losers without concentrating further, and could not sell without crystallising a loss that would take years to recover.

What actually went wrong: nothing in his analysis. He was correct about the sector's valuation and wrong about a risk he had not identified — which is the normal condition of investing. Concentration meant that one unidentified risk determined the outcome of everything.

Investor two: the constant activity

Bilal opened his account and traded. He bought what was moving, sold when it stopped moving, and took small profits frequently because taking profits felt disciplined. Over a year he made roughly ninety round trips.

His gross performance was slightly positive. His net performance was clearly negative, and when he finally worked out why, the arithmetic was uncomfortable: ninety round trips at even a modest all-in cost per trade consumed a substantial share of his capital in commissions, sales tax, and spreads, before any tax on the gains he did make. He had also, by selling winners quickly and holding losers hopefully, ended the year owning a portfolio composed largely of his worst decisions.

What actually went wrong: he confused activity with diligence. Every trade felt like a decision being made well, and the cumulative cost of those decisions was invisible because it arrived in small pieces.

Investor three: the boring one

Sana invested Rs 50,000 a month across eight companies in five sectors, wrote a short thesis for each, read the quarterly results, and rebalanced once a year. She made two clear mistakes: one holding she should not have bought and did not sell quickly enough, and one she sold too early because she was uncomfortable.

She checked prices roughly monthly. During a sharp market decline in her second year she continued her monthly contributions, not because she was confident but because the transfer was automatic and she had written down beforehand that she would. Those contributions bought the most shares of the whole period.

What went right: nothing exceptional. She was not a better analyst than the other two. She had simply constructed a system in which her worst instincts had fewer opportunities to act.

KEY IDEA

The variable that separated these three was not intelligence, information, or effort. It was structure — how much any single decision was allowed to matter, and how often decisions had to be made at all.

5.18 What you should do after this chapter

Write your investment policy on a single page: your goal and date, the monthly amount you will invest, your maximum position size per company, your maximum exposure per sector, and the circumstances in which you will sell. Sign it and date it. Read it before every purchase for the first year.

THE FLOSTOCKS PRINCIPLE

A portfolio is a structure for being wrong safely. Diversify so that no single error is fatal, avoid leverage so that time stays on your side, and write down why you bought so that your future self can learn something.

Costs, Taxes, Rules and Staying Safe

What the market takes from you, what the state takes from you, and how not to be defrauded.

Every rate, threshold and procedure in this chapter is illustrative. Pakistani tax law changes with each Finance Act and often through circulars in between; exchange rules change through notices. Verify everything current with the FBR, the SECP, PSX, NCCPL, your broker, or a tax professional before relying on it.

6.1 The full cost stack

Buying a share costs more than the share price. The components are individually small and collectively significant, particularly for frequent traders and small trades.

Charge	Applies	Nature
Brokerage commission	Both sides	Percentage of value or per-share rate, subject to a minimum per trade
Sales tax on brokerage	Both sides	Provincial sales tax charged on the brokerage service
CDC / custody charges	Periodic	Depository charges for holding and moving securities
Clearing & regulatory fees	Both sides	Small per-trade amounts collected via NCCPL and SECP
Capital gains tax	On sale	Deducted from realised gains, computed and collected by NCCPL
Withholding tax on dividends	On payout	Deducted at source by the company before payment

Charge	Applies	Nature
WORKED EXAMPLE		
Why small trades are inefficient. Assume brokerage of 0.15 per cent with a minimum of Rs 100 per trade.		
- Trade of Rs 5,000: 0.15% would be Rs 7.50, but the Rs 100 minimum applies — a cost of 2.0 per cent. A round trip costs 4 per cent before any tax. - Trade of Rs 50,000: commission Rs 100 (minimum still binding) — 0.2 per cent. Round trip 0.4 per cent. - Trade of Rs 200,000: commission Rs 300 — 0.15 per cent. Round trip 0.3 per cent.		
This is why investing Rs 5,000 across six different companies every month is poor practice. Accumulate and invest in fewer, larger transactions, or use a fund where the fee structure suits small regular amounts.		

6.2 Tax, in outline

Capital gains tax

Tax is payable on gains realised when you sell, not on gains on paper. For listed securities, NCCPL centrally computes gains across your accounts and collects the tax, and your broker provides an annual certificate showing what was deducted. The applicable rate depends on the law in force, on when the security was acquired, and — significantly — on whether you appear on the Active Taxpayers List.

Filer versus non-filer

Pakistan's tax system applies materially higher withholding and collection rates to persons not on the Active Taxpayers List. For an investor, being a filer usually means lower deductions on both capital gains and dividends. If you intend to invest seriously, filing your return and maintaining active status is one of the highest-return administrative actions available to you.

Dividends

Tax on dividends is deducted at source by the company, so the amount credited to your bank account is already net of tax. Rates differ by filer status and, in some cases, by the type of company paying. Keep the dividend advice or certificate for your records.

Bonus shares and rights

The tax treatment of bonus issues has changed more than once in recent years. Rights issues involve subscribing to new shares at a set price, which affects your cost basis for future capital gains computation. Because both areas have shifted repeatedly, confirm the current treatment before assuming anything.

Records to keep

- Annual capital gains tax certificate from your broker or NCCPL.
- Dividend deduction certificates.
- Your ledger showing every purchase and sale with dates and prices.
- CDC account statements at each financial year end.

6.3 Corporate actions, with numbers

Companies periodically do things that change the shares you hold. None of the following, by itself, creates or destroys value — but each changes the arithmetic, and beginners regularly misread them.

Cash dividend

Cash paid per share out of profits. Holding 1,000 shares with a declared dividend of Rs 3 per share gives Rs 3,000 gross, less withholding tax. The share price typically falls by about the dividend amount on the ex-date.

Bonus shares

Additional shares issued free, capitalising reserves. A 20 per cent bonus on 1,000 shares gives you 200 more, so you hold 1,200. But the company is worth no more than before, so the price adjusts down proportionally: a share at Rs 120 before a 20 per cent bonus would be expected to trade near Rs 100 afterwards. Your holding value: $1,000 \times 120 = \text{Rs } 120,000$ before; $1,200 \times 100 = \text{Rs } 120,000$ after. Identical.

Right issue

An offer to existing shareholders to buy new shares, usually below market price, so the company can raise capital. A 30 per cent right issue at Rs 25 when the market price is Rs 40, for a holder of 1,000 shares:

WORKED EXAMPLE

- Existing: 1,000 shares at Rs 40 = Rs 40,000
- Right entitlement: 300 new shares at Rs 25 = Rs 7,500 additional investment
- After subscribing: 1,300 shares, total invested Rs 47,500
- Theoretical price after the issue: $\text{Rs } 47,500 \div 1,300 = \text{Rs } 36.54$

If you subscribe, your total value is unchanged in theory and you have simply put more money into the company. If you do not subscribe, your ownership percentage falls — you are diluted — and the price adjustment means you bear a loss unless you sell the right entitlement where that is permitted.

The real question a rights issue poses is: why does the company need this money? Funding a promising expansion is very different from repairing a strained balance sheet.

Stock split

Reducing the face value of shares so that one share becomes several. A holder of 100 shares at Rs 500 after a five-for-one split holds 500 shares at Rs 100. Nothing has changed except the denomination and, usually, improved liquidity.

Buyback, merger, delisting

A buyback is the company purchasing its own shares, reducing the share count and increasing each remaining holder's proportional stake. A merger or acquisition may result in your shares being exchanged for cash or for shares in another entity. A delisting removes the share from the exchange, after which selling becomes very difficult; when a delisting is proposed, read the announcement carefully and note the deadlines, because missing them can leave you holding an unlisted security.

6.4 Market rules you will actually encounter

- **Price limits.** A share's price movement in a single session is capped in both directions by exchange rules. When a share reaches the limit, trading may effectively dry up — sellers cannot find buyers at the floor, which is precisely when you would want to exit. The exact percentage limits are set by PSX and have been revised over time.
- **Market halts.** Large index moves can trigger a temporary suspension of trading across the market, intended to cool panic and allow information to disseminate.
- **Closed period.** Directors and designated employees are barred from trading their company's shares for a defined period before results are announced.
- **Insider trading.** Trading on unpublished price-sensitive information is a criminal offence. If someone tells you they know a result or a deal before announcement, acting on it exposes you to prosecution, not just risk.

- **Disclosure of substantial holdings.** Shareholders crossing defined thresholds must disclose their holdings; these announcements are public and worth watching.

6.5 Frauds and how to recognise them

Financial fraud in Pakistan follows a small number of recurring patterns. Learning them once will protect you for life.

- **Pump and dump.** A small, illiquid share is accumulated quietly, then promoted aggressively through messaging groups, social media, and "insider news" claims. Retail buyers push the price up; the organisers sell into that buying and disappear. The share then falls, often further than where it began, and the last buyers cannot exit because there are no bids.
- **Guaranteed-return schemes.** Anyone offering a fixed monthly percentage on stock market investment is describing something that does not exist. Equity returns cannot be guaranteed. These arrangements typically pay early investors with later investors' money until they collapse.
- **Unlicensed portfolio management.** An individual offers to "trade your account for you" and share profits. Managing others' money requires SECP licensing. Handing over your credentials, or transferring money to a personal account, leaves you with no regulatory protection at all.
- **Fake platforms and forex or crypto "signals".** Slick apps showing rising balances that cannot be withdrawn, often introduced through a friendly relationship built over weeks on a messaging app.
- **Cheque and payout pressure.** Any resistance or delay when you request a withdrawal to your own registered bank account is a serious warning sign requiring immediate escalation.

WATCH OUT

Three rules that prevent nearly all of it:

- Money moves only between your own bank account and the brokerage firm's designated client account. Never to an individual.
- Verify licensing directly with the SECP and PSX registers — not through a link the person sends you.
- Register for CDC electronic services and check your own holdings independently. If your shares are where they should be, in your name, most scams cannot touch you.

6.6 If something goes wrong

There is a defined escalation path, and using it in order matters because each stage will ask whether you completed the previous one.

- **Step one.** Complain to the broker in writing — email, so it is timestamped and recorded. State the facts, the amounts, the dates, and what you want done. Keep every trade confirmation and ledger.
- **Step two.** If unresolved, escalate to the Pakistan Stock Exchange's investor complaint mechanism, which handles disputes between investors and TREC holders.
- **Step three.** Escalate to the SECP through its investor complaint service. The regulator has powers over licensed persons that the exchange does not.
- **Step four.** Where the matter involves fraud or misappropriation, the Investor Protection Fund framework may be relevant, and criminal complaints to law enforcement agencies may also be appropriate. Take legal advice.

Documentation determines outcomes. Investors who keep written records and email trails are dramatically more likely to obtain redress than those relying on phone conversations and memory.

6.7 A worked capital gains computation

Most investors acquire the same share more than once, at different prices, and then sell part of the holding. Working through how a gain is computed in that situation removes a great deal of anxiety at tax time.

WORKED EXAMPLE

Purchases and a partial sale of a fictional company:

- January: buy 1,000 shares at Rs 100 = Rs 100,000
- June: buy 1,000 shares at Rs 130 = Rs 130,000
- March the following year: sell 1,200 shares at Rs 160 = Rs 192,000

You still hold 800 shares; the gain is computed only on the 1,200 sold. Applying a first-in, first-out basis, the shares disposed of are the whole January lot and 200 from the June lot:

- 1,000 shares from January at cost Rs 100 = Rs 100,000
- 200 shares from June at cost Rs 130 = Rs 26,000
- Total cost attributed to the sale = Rs 126,000
- Proceeds = Rs 192,000
- Gain = Rs 66,000

If capital gains tax at 15 per cent applied, roughly Rs 9,900 would be collected, leaving about Rs 56,100. The remaining 800 shares carry forward at their original cost of Rs 130 and are untaxed until sold.

Note that the Rs 30,000 unrealised gain on the shares you still hold is not taxed. Tax attaches to realisation, not to appreciation, which is one reason long holding periods are efficient: unrealised gains keep compounding on money that would otherwise have gone to tax.

Two important qualifications. The method for attributing cost, the applicable rate, and any distinction based on holding period or acquisition date are all set by law and applied centrally by NCCPL across your accounts — you do not compute this yourself, and you should not assume the arithmetic above matches the current rules. Second, transactions across multiple brokers are aggregated, so opening a second account does not create a separate tax position. Obtain your annual certificate and reconcile it against your own records.

6.8 Anatomy of a pump and dump

This deserves a full narrative rather than a warning line, because the pattern is remarkably consistent and recognising it in progress is a skill worth having.

Stage one, accumulation. A small company with limited daily volume, few shareholders and minimal analyst coverage is selected — typically one where a modest amount of money can move the price. The organisers buy quietly over several weeks, absorbing what little supply exists. The price drifts up gently. Nothing looks unusual.

Stage two, the story. A narrative appears. A new contract, a foreign partner, a plant restart, an imminent announcement, a change in ownership. It is often vague, sometimes partly true,

and always unverifiable from public disclosures. It arrives through messaging groups, social media accounts with confident tones, and friends who heard it from someone reliable.

Stage three, the visible move. The price begins to rise sharply on rising volume. This is the crucial phase, because now the price itself becomes the evidence. Every day of gains recruits new believers, and the story acquires credibility purely from the chart. People who were sceptical at Rs 12 buy at Rs 25 because they have watched it double and concluded they were wrong to hesitate.

Stage four, the distribution. As enthusiasm peaks and volume is heaviest, the organisers sell into the buying. This is invisible to the participants, because heavy volume with a rising price feels like confirmation. Their selling is precisely what allows the newest buyers to get filled.

Stage five, the collapse. Buying dries up, the price stalls, and early holders begin to exit. The decline accelerates. And here the market's structure turns against the remaining holders: as the share hits its lower price limit, there are no buyers at the floor, so selling becomes effectively impossible. The share can fall day after day with holders unable to exit at any price they would accept.

Stage six, silence. The groups go quiet or move to a new name. The promised announcement never materialises, or materialises as something trivial. The share settles well below where the accumulation began, and the last buyers hold a position they cannot sell and will not admit to.

WATCH OUT

The recognisable signatures, any two of which should stop you:

- A small, illiquid company you had never heard of before someone recommended it.
- A story that cannot be verified in the company's own announcements on the PSX website.
- Urgency — 'buy before Monday', 'the announcement is coming this week'.
- The price has already risen substantially, and that rise is being used as the argument.
- The recommender benefits from your buying and is not accountable if you lose.
- Screenshots of other people's profits, which are the oldest recruitment device there is.

The defence is unexciting and completely effective: buy only companies whose accounts you have read, and never buy anything because of a message.

It is worth being clear about the legal position too. Market manipulation and the dissemination of false information to move prices are offences under Pakistan's securities laws, and the SECP has pursued such cases. But enforcement happens after the fact, and

recovering money from an organiser who has already sold is a slow and often fruitless process. The regulator can punish the conduct; it cannot restore your capital. Prevention is the only reliable remedy.

6.11 Initial public offerings

An IPO is the first sale of shares to the public. They attract beginners disproportionately, partly because they are heavily marketed and partly because subscribing feels like getting in early. Both instincts deserve examination.

How the mechanics work

The company publishes a prospectus, a comprehensive document setting out its business, financials, risk factors and use of proceeds. Shares are offered through a book-building process for institutional and high-net-worth participants, which establishes a price, followed by a retail portion offered to the general public. If the retail portion is oversubscribed, allotment is scaled down or balloted, and unsuccessful applicants receive their money back. Shares are then listed and begin trading.

What to examine in the prospectus

- **Where the money goes.** Is the company raising new capital for expansion, or are existing shareholders selling their holdings and taking the proceeds? Both are legitimate, but they are entirely different propositions. A large offer-for-sale component means insiders are reducing exposure at this price.
- **The risk factors section.** Written by lawyers to protect the company, which makes it the most candid part of the document. Read it before the glossy sections.
- **The financial history.** Several years of audited accounts, and specifically whether profitability improved sharply in the year immediately before listing. It is not unknown for results to look their best when a company is being sold.
- **The valuation implied.** Divide the offer price by earnings per share and compare with listed competitors. If the IPO is priced above comparable listed companies, ask what justifies the premium.
- **Lock-in arrangements.** Whether sponsors are restricted from selling for a period after listing, and what happens when that period ends.

WATCH OUT

Two things worth remembering about IPOs. First, the seller chooses the timing, and rational sellers choose moments when conditions favour them – strong markets, strong recent results. Second, the excitement around a listing is a marketing product, and listing-day gains are neither typical nor guaranteed. A company that is genuinely good will still be listed and analysable in six months, by which time you will have two quarters of results as a public company to judge it on. There is very rarely a penalty for waiting.

6.12 Announcements: what you will see, and what matters

Listed companies must disclose material information to the exchange, and the announcements page of the PSX website is where every genuine piece of news appears first. Learning the categories takes ten minutes and permanently reduces your dependence on second-hand summaries.

Announcement	What it signifies
Board meeting notice	The date the board will consider results. Dividends are usually declared at the same meeting.
Financial results	Quarterly, half-yearly or annual accounts. The primary event in a company's calendar.
Dividend / bonus / right	Entitlement announcements, always accompanied by book-closure dates.
Book closure	The period defining who is entitled. Critical for dividend timing given settlement.
Material information	Anything price-sensitive: contracts, plant shutdowns, expansions, regulatory actions, litigation outcomes.
Change in shareholding	Directors, sponsors or substantial shareholders buying or selling. Worth watching consistently.
Free float / index changes	Additions to or removals from indices, which can cause fund-driven buying or selling.
Auditor or director changes	Governance events. Unexplained resignations deserve attention.
Suspension or delisting notices	Trading halts, defaults, or proposed removal from the exchange. Time-sensitive; read immediately.

Make a habit of reading the announcement itself rather than a description of it. The gap between what a company actually announced and what a message claims it announced is where a substantial share of retail losses originates.

6.13 Records, nomination and the practical side of ownership

Two unglamorous administrative matters that cause real difficulty when neglected.

First, records. Keep a permanent folder — physical or digital — containing your account opening documents, annual capital gains certificates, dividend certificates, annual CDC statements, and your own ledger of transactions. Tax positions can be queried years later, and reconstructing a decade of purchases without records is close to impossible. Storage is free; reconstruction is not.

Second, nomination. Your account opening documentation includes provision for nominees and next of kin. Complete it properly, keep it updated after any change in family circumstances, and — critically — tell someone in your family that the account exists and where the records are kept. Shares held in a depository account that nobody knows about are, practically speaking, lost. Every year, holdings sit unclaimed because the only person who knew about them is no longer able to say so.

Related: keep your registered mobile number, email address and bank details current with both your broker and CDC. Dividends are paid electronically to the registered bank account, and if that account is closed, payments fail and take considerable effort to recover.

6.14 Your ongoing routine

Once you are invested, the work becomes a rhythm rather than a constant activity. A workable routine for an ordinary investor looks like this.

Frequency	What you do
Monthly	Invest your fixed amount. Check that your CDC holdings match your records. Nothing else.
Quarterly	Read each holding's quarterly results. Ask one question: is my original reason for owning this still true?
Annually	Read the full annual report for each holding. Rebalance if any position or sector has breached your limits. Collect tax certificates.
When news breaks	Read the actual company announcement on the PSX website, not a summary in a group chat.
Never	Check prices every hour. It changes no decision and reliably damages judgement.

6.15 A twelve-month plan for a complete beginner

- **Months 1–2.** Build or complete your emergency fund. Clear high-interest debt. Read this book fully. Do not open an account yet.

- **Month 3.** Compare brokers, verify their registration, and open your account. Register for CDC electronic services. File your tax return if you have not, to secure filer status.
- **Months 4–6.** Invest a small fixed amount monthly — an amount you would be genuinely willing to lose — in two or three large, well-established companies, or a diversified fund. Write your one-page thesis for each.
- **Months 7–9.** Read one full annual report per month. Recalculate your ratios. Increase the monthly amount only if your behaviour during any market fall has been steady.
- **Months 10–12.** Review the year honestly. Which decisions were good process, and which were merely lucky? Rebalance to your written limits. Rewrite your one-page policy for year two.

KEY IDEA

The investor who survives the first three years is usually not the cleverest one. It is the one who stayed diversified, avoided leverage, kept costs low, wrote things down, and kept investing when it was uncomfortable.

THE FLOSTOCKS PRINCIPLE

Costs are certain, taxes are certain, and scams are predictable. Returns are none of these things. Control the certainties ruthlessly and the uncertain part will take care of more of itself than you expect.

Frequently Asked Questions

The questions new investors in Pakistan ask most often, answered directly.

How much money do I need to start?

Less than most people assume, but the more useful question is how much you can afford to lose while learning. Minimum trade sizes and minimum commissions make very small trades inefficient, so accumulating and investing a somewhat larger amount monthly is usually better than many tiny transactions.

Is investing in shares halal?

Views differ, and this is a matter for your own religious guidance rather than for a publisher. Practically, PSX maintains Shariah-compliant indices such as the KMI-30 and KMI All Share, which screen companies on business activity and on financial ratios including interest-bearing debt and interest income. Shariah-compliant mutual funds and Islamic ETFs also exist. Compliance status is reviewed periodically, so it should be checked rather than assumed.

Can I lose more than I invest?

Not through ordinary share purchases — the worst case is that a holding goes to zero. You can lose more than your capital through leveraged products such as margin financing and futures, which is a central reason this book advises beginners to avoid them entirely.

What happens to my shares if my broker fails?

Your shares are held in the depository system in your own account, not owned by the broker, which is the structural protection. This is precisely why you should register for CDC electronic services and verify independently that your holdings are recorded correctly. An Investor Protection Fund framework also exists for certain categories of claim.

How long should I hold a share?

As long as the reason you bought it remains true. That is a genuine answer rather than an evasive one — it is why writing the reason down at purchase matters so much. In practice, for ordinary investors, holding periods measured in years work considerably better than periods measured in weeks, because costs and taxes are incurred per transaction.

Should I check prices every day?

No. Daily price movement contains almost no information relevant to a multi-year decision, and watching it reliably degrades judgement by making short-term noise feel significant. Quarterly results and annual reports are the appropriate rhythm.

The market fell sharply. Should I sell?

Ask a different question first: has anything changed in the earnings power of the businesses you own, or has only the price changed? If the businesses are intact, a lower price is a worse feeling and a better entry. If a business has genuinely deteriorated, that is a decision to make on the evidence, not on the price move.

Is a cheap share better value than an expensive one?

The price of one share tells you nothing by itself, because it depends entirely on how many shares exist. A Rs 20 share can be far more expensive than a Rs 900 one relative to the profits you are buying. Compare market capitalisation to earnings, not price to price.

Should I buy IPOs?

Approach them exactly as you would any other company: read the prospectus, check where the proceeds go, examine the valuation against listed competitors, and remember that the seller chose the timing. Waiting until two quarters of public results are available costs you very little.

Can I invest from abroad?

Yes. The Roshan Digital Account framework allows non-resident Pakistanis to open accounts remotely and invest in listed securities. Requirements and repatriation rules are set by the State Bank of Pakistan and are updated periodically, so confirm the current position with the bank offering the account.

Do I have to file a tax return to invest?

You can invest without being on the Active Taxpayers List, but you will generally face materially higher rates of deduction on gains and dividends. For anyone investing seriously, filing and maintaining active status is one of the highest-return administrative decisions available.

What is the difference between a mutual fund and buying shares directly?

A fund pools money under a professional manager and gives you immediate diversification for a small amount, in exchange for management fees and no control over holdings. Direct shares give you control and no management fee, in exchange for requiring your own research and larger amounts to diversify properly. Neither is superior; they suit different situations and are frequently combined.

Someone offers to trade my account and share the profits. Is that allowed?

Managing other people's money requires licensing by the SECP. Handing your credentials to an individual, or transferring money to a personal account, leaves you outside the regulatory protections entirely. Verify any such arrangement directly with the regulator before considering it, and treat guaranteed-return promises as conclusive evidence of a problem.

How do I know if a tip is a manipulation attempt?

Ask three questions. Is the company small and thinly traded? Can the claim be verified in the company's own announcements on the PSX website? Does the person telling you benefit from your buying? Two yes answers is sufficient reason to decline.

How many shares should I own?

Enough that a single failure is survivable, few enough that you can genuinely follow each one. For most individual investors that means somewhere between eight and fifteen holdings across different sectors. Below five is concentrated; beyond twenty, most people are no longer following the businesses they own.

What if I make a mistake?

You will, repeatedly, and so does everyone. The objective is not to avoid mistakes but to size positions so that no single one is permanent, and to record your reasoning so each one teaches you something specific. An investor who cannot name three of their own errors has either not been investing long or has not been paying attention.

The Company Analysis Worksheet

One page per company. Complete it before you buy, and keep it.

Print or copy this for each company you consider. The discipline of filling in every field is the point – a blank you cannot complete is telling you something important about how well you understand the business.

Part one – the business

- Company name, sector, and market capitalisation.
- What it sells, in two sentences, without jargon.
- Who its customers are, and whether it depends heavily on a small number of them.
- Its three largest competitors, and what distinguishes it from them.
- The one or two external variables that most affect its profits.

Part two – the numbers

- Revenue and profit after tax for the last five years. Is the trend genuine growth, or price inflation?
- Gross and net margin over five years. Rising, stable, or falling?
- Earnings per share, book value per share, return on equity.
- Debt to equity and interest coverage. Could it survive a sharp rate rise?
- Operating cash flow versus profit after tax over five years.
- Inventory days, receivable days, payable days, and the cash conversion cycle.
- Dividend per share and payout ratio over five years.

Part three – the price

- Current P/E, and how it compares with the company's own five-year range.
- Current price-to-book, and how it compares with return on equity.
- Dividend yield, compared with the current risk-free rate.
- The same three measures for two competitors.
- What the current price appears to assume about future growth.

Part four – the risks

- Sponsor shareholding, and any recent director dealings.
- Auditor, opinion type, and any change of auditor.
- Contingent liabilities, related-party transactions, pledged assets.

- The three most plausible ways this investment fails.
- What would have to be true for this to be a mistake?

Part five — the decision

- Why I am buying, in three or four sentences.
- Intended position size, and the percentage of portfolio it represents.
- Intended holding period.
- The specific conditions under which I will sell.
- Date and signature.

THE FLOSTOCKS PRINCIPLE

The worksheet is not paperwork. It is the difference between an investment you can defend and a purchase you will later describe as a feeling. Anyone can buy a share; being able to explain, a year later, exactly why you did is what separates an investor from a participant.

Formula Reference

Every calculation used in this book, in one place.

Per-share measures

Measure	Calculation	What it tells you
Earnings per share	$\text{Profit after tax} \div \text{shares in issue}$	Profit earned on your behalf per share
Book value per share	$\text{Total equity} \div \text{shares in issue}$	Accounting net assets per share
Dividend per share	$\text{Total dividend} \div \text{shares in issue}$	Cash actually paid to you per share
Market capitalisation	$\text{Share price} \times \text{total shares}$	The price of the whole company
Free-float market cap	$\text{Share price} \times \text{publicly tradable shares}$	The basis of index weighting

Valuation

Measure	Calculation	What it tells you
P/E ratio	$\text{Share price} \div \text{earnings per share}$	Rupees paid per rupee of annual profit
Earnings yield	$\text{Earnings per share} \div \text{share price}$	Profit as a percentage of price; compare to T-bills
Price to book	$\text{Share price} \div \text{book value per share}$	Rupees paid per rupee of net assets
Dividend yield	$\text{Dividend per share} \div \text{share price}$	Cash return at the current price
Payout ratio	$\text{Dividend per share} \div \text{earnings per share}$	Proportion of profit distributed
Enterprise value	$\text{Market capitalisation} + \text{net debt}$	Price of the whole business including debt
EV / EBITDA	$\text{Enterprise value} \div \text{EBITDA}$	Valuation independent of capital structure

Profitability

Measure	Calculation	What it tells you
Gross margin	Gross profit ÷ revenue	Basic product economics
Net margin	Profit after tax ÷ revenue	Profit retained from each rupee of sales
Return on equity	Profit after tax ÷ total equity	Profit generated on owners' capital
Cost to income	Operating expenses ÷ total income	Efficiency, especially for banks

Financial strength

Measure	Calculation	What it tells you
Debt to equity	Total borrowings ÷ total equity	How much is borrowed per rupee of owners' money
Interest coverage	Operating profit ÷ finance cost	How far profits can fall before interest is at risk
Cash conversion	Operating cash flow ÷ profit after tax	Whether reported profit becomes real cash
Current ratio	Current assets ÷ current liabilities	Short-term ability to meet obligations

Working capital, in days

Measure	Calculation	What it tells you
Inventory days	Inventory ÷ cost of sales × 365	How long stock sits before selling
Receivable days	Trade receivables ÷ revenue × 365	How long customers take to pay
Payable days	Trade payables ÷ cost of sales × 365	How long you take to pay suppliers
Cash conversion cycle	Inventory days + receivable days - payable days	Days of operations you must self-fund

Returns

Measure	Calculation	What it tells you
Total return	(Price change + dividends) ÷ purchase price	The only performance figure that matters

Measure	Calculation	What it tells you
Real return	Nominal return - inflation	Change in actual purchasing power
Position weight	Position value ÷ total portfolio value	Concentration in a single holding
Break-even price	(Cost + all charges) ÷ shares held	The price at which you are genuinely level

THE FLOSTOCKS PRINCIPLE

None of these formulas is difficult. What separates investors is not the arithmetic but the willingness to actually perform it before committing money, and to write down the answer so that a future disappointment can be traced to a specific assumption rather than to bad luck.

Glossary

Eighty terms you will meet on a PSX screen, in an annual report, or in a broker's ledger.

Term	Meaning
Active Taxpayers List (ATL)	FBR list of persons who have filed returns. Being on it generally means lower tax deduction rates.
Ask / Offer	The lowest price at which someone is currently willing to sell.
Balance sheet	Statement of assets, liabilities and equity at a single point in time.
Bid	The highest price a buyer is currently willing to pay.
Bonus shares	Free additional shares issued from reserves; price adjusts down proportionally.
Book closure	Period during which the shareholder register is fixed to determine entitlement to a dividend or other action.
Book value per share	Total equity divided by shares in issue.
Capital gains tax (CGT)	Tax on realised gains from selling securities, computed and collected centrally by NCCPL.
CDC	Central Depository Company – holds shares electronically in investors' names.
Circular debt	Chain of unpaid dues across Pakistan's energy sector, delaying cash receipts for affected companies.
Closed period	Window before results in which directors and designated employees may not trade the company's shares.
Corporate action	Company event affecting shares: dividend, bonus, right issue, split, buyback, merger.
Cost of sales	Direct cost of producing the goods or services sold.
Delisting	Removal of a company's shares from the exchange.
Dividend	Cash distributed to shareholders out of profits.
Dividend yield	Annual dividend per share divided by share price.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Enterprise value	Market capitalisation plus net debt – the price of the whole business.

Term	Meaning
EPS	Earnings per share: profit after tax divided by shares in issue.
Equity	Owners' residual claim: assets minus liabilities.
ETF	Exchange-traded fund — a listed, tradable fund usually tracking an index.
Ex-dividend date	First day a share trades without entitlement to the declared dividend.
Filer / Non-filer	Whether a taxpayer appears on the Active Taxpayers List; affects deduction rates.
Finance cost	Interest and related charges on borrowings.
Free float	Shares genuinely available for public trading, excluding sponsor and government holdings.
Fundamental analysis	Assessing a company through its financial statements, business and industry.
Gross profit	Revenue minus cost of sales.
IPO	Initial Public Offering — a company's first sale of shares to the public.
Insider trading	Illegal trading on unpublished price-sensitive information.
Interest coverage	Operating profit divided by finance cost.
Investor Account Services (IAS)	A CDC account held directly by the investor rather than through a broker sub-account.
KMI-30	Shariah-compliant index of thirty companies.
KSE-100	Benchmark index of 100 companies, weighted by free-float market capitalisation.
LDCP	Last Day Closing Price — the previous session's official close.
Limit order	Order to execute only at a specified price or better.
Liquidity	The ease of buying or selling without moving the price significantly.
Margin call	Demand for additional funds when a leveraged position's collateral falls below the required level.
Market capitalisation	Share price multiplied by total shares in issue.
Market order	Order to execute immediately at the best available price.
MTS	Margin Trading System — regulated leveraged buying facility.
Mutual fund	Pooled, professionally managed investment vehicle regulated by the SECP.

Term	Meaning
NCCPL	National Clearing Company of Pakistan — settles trades and handles capital gains tax computation.
Operating cash flow	Cash actually generated by the core business during a period.
Operating profit	Gross profit minus operating expenses.
Payout ratio	Dividend per share divided by earnings per share.
P/B ratio	Share price divided by book value per share.
P/E ratio	Share price divided by earnings per share.
Penny stock	Very low-priced share, typically of a small, illiquid and higher-risk company.
Portfolio	The complete collection of investments you hold.
Primary market	Where new shares are issued and the company receives the money.
PSX	Pakistan Stock Exchange Limited, formed in 2016 from the merger of the Karachi, Lahore and Islamabad exchanges.
Rebalancing	Restoring a portfolio to its intended weights after price movements distort them.
Right issue	Offer of new shares to existing shareholders, usually at a discount to market price.
Roshan Digital Account	Framework allowing non-resident Pakistanis to open accounts and invest remotely.
ROE	Return on equity: profit after tax divided by shareholders' equity.
Secondary market	Where existing shares trade between investors; the company receives nothing.
SECP	Securities and Exchange Commission of Pakistan — the regulator.
Settlement (T+1)	Completion of a trade on the working day after execution. PSX moved from T+2 to T+1 in February 2026.
Spread	The gap between the bid and the ask price.
Sponsor holding	Shares held by founders, directors and associated companies.
Stock split	Division of shares into a larger number at proportionally lower price.
TREC holder	A firm holding a Trading Right Entitlement Certificate, i.e. a licensed broker.
Book closure period	Days during which share transfers are suspended to fix entitlement to a corporate action.

Term	Meaning
Cash conversion cycle	Inventory days plus receivable days minus payable days; days of operations a company self-funds.
Contingent liability	A potential obligation disclosed in the notes but not recorded on the balance sheet.
Earnings yield	Earnings per share divided by share price; the inverse of the P/E ratio.
Going concern	The assumption that a company will continue operating; doubt about it is a serious audit signal.
Key audit matters	Areas the auditors found most difficult or judgemental, disclosed in the audit report.
Margin of safety	The gap between your estimate of value and the price you actually pay.
Market depth	The volume of orders queued at each price level in the order book.
Order book	The live list of all outstanding buy and sell orders, ranked by price and time.
Prospectus	The disclosure document published before an IPO, containing financials and risk factors.
Real return	Return after adjusting for inflation; what your money can actually buy.
Rebalancing band	The tolerance, often five percentage points, before a drifted weight is corrected.
Related party	A person or company connected to the sponsors, directors or management of the company.
Spread cost	The immediate loss incurred by buying at the ask and being able to sell only at the bid.
TREC	Trading Right Entitlement Certificate — what makes a firm eligible to trade on PSX.
Volume	Number of shares traded in a period; a key indicator of liquidity.
Withholding tax	Tax deducted at source, for example on dividends before payment.

The Twenty-Point Checklist

Answer all twenty before you buy anything. If you cannot answer one, you are not ready to place that order.

1. Do I have an emergency fund covering three to six months of expenses?
2. Have I cleared all high-interest debt?
3. Is this money I will not need for at least three to five years?
4. Could I emotionally withstand this holding falling by half?
5. Have I written down my goal, with an amount and a date?
6. Is my broker verified on the PSX and SECP registers?
7. Do I have my own CDC access to independently view my holdings?
8. Am I on the Active Taxpayers List?
9. Do I know the full commission and charge schedule in writing?
10. Can I explain in one sentence how this company makes money?
11. Have I read its most recent annual report, including the notes?
12. Do I know its EPS, ROE, debt-to-equity and interest coverage?
13. Have I compared its P/E and P/B with at least two competitors?
14. Do I understand what would have to go wrong for this to be a bad investment?
15. Is this position no more than 10 per cent of my portfolio?
16. Is this sector no more than 20 per cent of my portfolio?
17. Have I written down why I am buying and what would make me sell?
18. Am I using only my own money, with no borrowing of any kind?
19. Have I accounted for commission, taxes and the bid-ask spread in my expected return?
20. Am I buying because of my own analysis, and not because someone in a group told me to?

Where to verify everything in this book

Rules, rates and registers change. These are the only sources you should rely on, and you should go to them directly rather than through a link someone sends you.

- **Pakistan Stock Exchange.** Listed companies, company announcements, indices, trading hours, market rules, the register of TREC holders, and the investor complaint mechanism.
- **Securities and Exchange Commission of Pakistan.** Licensing status of brokers, advisers and asset managers; investor complaint service; regulations and circulars; investor education material.
- **Central Depository Company.** Your own holdings, electronic account services, movement alerts, and Investor Account Services.
- **National Clearing Company of Pakistan.** Settlement, capital gains tax computation and certificates.
- **Federal Board of Revenue.** Active Taxpayers List, return filing, and current tax rates.
- **State Bank of Pakistan.** Monetary policy decisions, the policy rate, and rules relevant to overseas investment accounts.
- **The company itself.** Annual and quarterly reports, director's report, auditor's opinion, notes to the accounts, and pattern of shareholding.

A Final Word

If you take only one thing from this book, take this: the stock market rewards ownership of good businesses held patiently far more reliably than it rewards cleverness, speed, or information advantages you do not actually possess.

Almost everything that destroys ordinary investors in Pakistan comes from a short list – borrowing to invest, concentrating everything in one idea, trading on messages from strangers, chasing shares that have already risen sharply, and selling in panic at the bottom. You now know each of these by name. Recognising them is most of the protection.

The rest is arithmetic and patience. You know how to calculate what you own, what it earns, what it costs you to buy, and what the state will take from the gain. You know which institutions hold your shares and who to complain to when something goes wrong. That is a genuinely better starting position than most people who open an account this year will have.

Go slowly. Invest amounts you can afford to be wrong about while you are learning. Write down your reasons. Read the annual reports. And treat every promise of a guaranteed return as what it is.

DISCLAIMER, ONCE MORE

This publication is educational material produced by FloStocks, a brand of Floret Capitals. It is not investment, legal, accounting or tax advice, and it is not a recommendation to buy or sell any security. All companies, prices and financial statements used in examples are fictional. Rates, rules, fees and taxes described here change frequently and may already be out of date. Investing in shares involves the risk of loss, including total loss of capital. Verify all current information with PSX, SECP, CDC, NCCPL and FBR, and seek advice from a professional licensed by the SECP before making any investment decision. Neither FloStocks nor Floret Capitals accepts any liability for decisions taken on the basis of this material.



Learn the Pakistan Stock Exchange before you invest a rupee.