

## Wealth Accumulation Strategy

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### ABSTRACT

Two investing success tactics are covered in this article: the “Financial and Economic” strategy and the “Logical and Psychological” strategy. The following tactics that can help investors increase their own capital are why I have named it the “Wealth Accumulation Strategy.” Investors can use the aforementioned tactics to locate profitable stocks on the market.

### Introduction

The main purpose of this concept is to reflect two strategies to succeed in investment: “Financial and Economic” as well as “Logical and Psychological” strategies. Nowadays, these being mentioned above approaches do appear to be the most effective within investment sector since both strategies as wings of a bird in portfolio management, and of course they are equally important. Therefore, I have called it as “Wealth Accumulation Strategy” due to the following strategies that can assist investors to increase own capital.

**Financial and Economic:** As it is known there are a wide range of formulas to analyze financial securities so here there have been given the most significant ones. First is well known ratio called as P/E (price to earnings) that is one of the best ratios to apply to pick up profitable securities. There is a formula below:

$$PE = \frac{\text{Stock Price}}{\text{Earnings Per Share}}$$

Stock price divided by earnings per share is the structure of P/E ratio. Keep in mind, in general, P/E ratio that is half the growth rate is very positive, one that is twice the growth rate is

very negative. Second is to pay attention to profit from selling goods or providing service, in other words, if a company's operating profit is higher than other sources of cash flow then the company's stocks are worth to invest in. Third is a Book Value of a company. To be more precise, the book value of a company is the net difference between that company's total assets and total liabilities, where book value reflects the total value of a company's assets that shareholders of that company would receive if the company were to be liquidated. Here is an illustrated formula that reflects how book value is calculated:



In order to find out book value (share capital + retained earnings), total assets (current assets + non-current assets) minus total liabilities (current liabilities + non-current liabilities). Keep in mind, current assets should exceed current liabilities at least 1.5 times, and then it is worth to consider business as a suitable for investment.

Next factor is OPEX, operating expenses include rent, equipment, inventory costs, marketing, payroll, insurance, step costs, and funds allocated for research and development. Operating expenses are necessary and unavoidable for most businesses. Some firms successfully reduce operating expenses to gain a competitive advantage and increase earnings. However, reducing operating expenses can also promise the integrity and quality of operations. Finding the right balance can be difficult but can yield significant rewards. In other words, as long as enterprise is looking for minimizing its operating expenses so in this case stocks of that company can be a promising choice for an investor. There is an illustrated example of OPEX below:

## Operating Expense Formula

$$\text{Operating Expense} = \text{Salaries} + \text{Sales Commissions} + \text{Promotional \& Advertising Cost} + \text{Rental Expense} + \text{Utilities}$$

During this tough times it is important to analyze stocks in all aspects, in other words, sometimes it is better to analyze products rather than financial reports of companies. Here is another important indicator that is necessary to be taken into consideration by every single investor before making any investment decision, so this is called as Real Value, reflecting the selling pace of any product or service. Apart from this, the real value does refer to explore CPI (Consumer Price Index) or Market Basket. Based on my research, companies that manufacture

goods and services included in Consumer Price Index appear to be appropriate objects to hedge capital; here is the list of sectors:

- Food and Beverages (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks).
- Housing (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture, chairs).
- Apparel (shirts and sweaters, pants, shorts, dresses, jewelry).
- Transportation (new vehicles, airline fares, gasoline, motor vehicle insurance).
- Medical Care (prescription drugs and medical supplies, physicians' services, eyeglasses and eye care, hospital services).
- Recreation (televisions, toys, pets and pet products, sports equipment, admissions).
- Education and Communication (college tuition, postage, telephone services, computer software and accessories).

Last but not least, so called leverage should also be analyzed, briefly, financial leverage results from using borrowed capital as a funding source when investing to expand the firm's asset base and generate returns on risk capital. Leverage is an investment strategy of using borrowed money—specifically, the use of various financial instruments or borrowed capital—to increase the potential return of an investment. Bear in mind, the higher-leveraged a company becomes, the more at-risk they are of defaulting, causing investors to charge more for loans in the form of higher interest for the additional risk they incur.

**Logical and Psychological:** Most financial analysts and institutional investors do underestimate logical and psychological aspects of analyzing financial securities consequently they fail to invest profitably since they only rely on financial reports and news. In this part of my article, I would like to provide fifteen pieces of advice how to pick up lucrative companies based on logical and psychological aspects.

**First** is to look for niches, that is to say, businesses that have own clients and of course when they have their own segments on the market. **Second** is to avoid following crowd because many investors make decisions relied on the crowd and eventually they lose their funds on the market. **Third** is to avoid high-growth industries since they can be overvalued by other market players that means bearish trend might occur in those industries. **Forth**, it is advisable to search for steady businesses because they can survive in any condition no matter what happens to the market. **Fifth**, always pay attention to insiders' reaction to stocks of companies where they work. If insiders make an attempt to purchase stocks of company where they work this means the company is likely to do well. **Sixth** is to buy back shares. By repurchasing own shares, a company might have fair future, that is to say, many companies are reported to buy back their stocks in order to raise the dividend this means they believe that they can do well in the future. **Seventh** is to find out familiar companies, in other words, prior to make an investment decision, an investor should be familiar with a type of business that company does. **Eighth** are rumors. Before making any investment decision, it is beneficial not to pay attention to rumors since majority is vulnerable to rumors and this result in losing capital.

**Ninth** is the percentage of institutional ownership. The lower is better. In other words, it is worth to look for companies with little or no institutional ownership. **Tenth**, big companies have small moves; needless to say small companies have big moves. **Eleventh** is looking for small

companies that are already profitable and have proven that their concept can be replicated. **Twelfth** is to look for small companies that are already profitable and have proven that their concept can be replicated. **Thirteenth**, companies that have no debt so they can't go bankrupt. **Fourteenth**, different categories of stocks have different risks and rewards. **Fifteenth** is to keep an open mind to new ideas. Finally, **sixteenth** is to be attentive to every small detail related to securities.

In conclusion, I would like to mention that these two strategies can be helpful for investors to find out lucrative stocks on the market. What is more, investment isn't a gambling, it is a business therefore every investor should study consistently so as to make fortune in this sector. Last but not least, patience also makes a sense.

### **The list of used literature**

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