Financial Explorer

December 2017
Issue 8

USJP/FMSC/DOF/FE/8/2017

10+

years since the global financial crisis. Where are we now? Flip the pages to know more

FINTECH

Are we ready for the revolution?
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WHAT IS IT LIKE TO BE A WOMAN IN FINANCE?

- Rachini Rajapaksa-
President
CFA Society – Sri Lanka
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TWO FEATURED INTERVIEWS

Banking
Investing
Budgets
Stock Market
&
Personal Finance

ALL IN ONE MAG

FINANCIAL EXPLORER

-What's up in Finance?-

FINANCIAL EXPLORER

8th MAGAZINE

Issue Number
8

Month
December

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Sasithi Rambukkanage

USJP/FMSC/DOF/FE/8/2017

Editorial

As seen above, clearly, I, Sasithi Rambukkanage had the privilege of relaunching the Financial Explorer magazine that had 'a period of hibernation'. Waking up from hibernation wasn't easy, but here we are with the 8th issue of the magazine: now in colour and I am more sufficed than ever on behalf of the 4th year students of the Department of Finance in being able to produce this magazine in the year 2017.

This year we get to see the global financial crisis on retrospective on its 10th year anniversary; not meant to celebrate but meant to evaluate if the world has really recovered from the major downturn it was facing a decade ago and our magazine looks at it from students' points of view.

I believe most of our readers need to know what it is like to be in Finance and since this industry needs women who are strong, dynamic and formidable as apt, we got that covered as well.

My gratitude goes to all our contributors for their exceptional penmanship, to our lecturers for allotting resources and time, our printers for this fine print, our university for free education and opportunities and all other parties for their miscellaneous support.

Finally for the readers I would say,

"you are welcome".

Contributors

The wordsmiths, artists and creators are all here. See if you know them.

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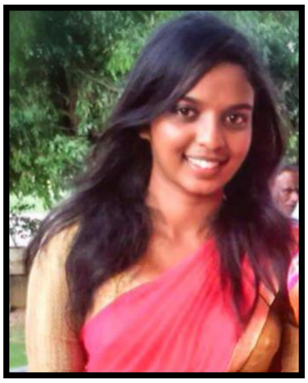

Wathsala Dharmakeerthi
4th year

Avin Fernando
4th year

Dinushi Sakunika
4th year

Images: Thecliparts.com and avatarmaker.com/sasithi

Who SAYS WHAT & WHERE?

Image: community.uservoice.com

READ

Impact of the Budget Proposal on the Stock Market

Words: Dinushi Sakunika Vithanage (4th year)

Stock Market is an important part of the economy of a country. Often it is like a mirror image of the economy. The stock market plays a pivotal role in the growth of the industry and commerce of the country and eventually affects the economy of the country to a greater extent. Hence, the government, the industries and even the central bank have to keep an eye on the happenings of the stock market. Out of those three parties, it is true, that industry is very much watchful about the condition of the stock market but government attention was not at an acceptable level in the past few years.

Nevertheless, it is a pleasure that from recent years, the government has also showed concerns about the performance of the stock market. Through the budget proposal 2017, the government has taken some measures to uplift the stock market with the aim of creating a good platform for investing.

Out of the policies that have been taken to transform the capital market, the spotlight is on the introduction of the new Securities and Exchange Act which is to be introduced in the 1st Quarter of 2017. The existing Act was enacted around 1985 which shows that the rules and the regulations in that Act are outdated and are not in line with the dynamic business and finance environments. Hence, government has taken initiatives to transform the ruling arm of the stock market.

Introduction of Demutualization Bill in the 1st Quarter of 2017 is the next important policy in the budget proposal for year 2017, which will result in converting Colombo Stock Exchange (CSE) into a company with shares. Currently, CSE is governed by 15 trustees. Under the demutualization process, the mutual organization, i.e. CSE, will undergo changes in the legal structure to form a stock company. This can be recognized as a major change in the capital markets, since CSE will be a company after the conversion, profit would be a very strong motive to work. Hence, efficiency and effectiveness of the stock market can be enhanced. As a result, investors and trading companies could gain more advantages.

Currently, stock market trades only shares and bonds which have shrunk the investment opportunities for investors. If the number of trading securities is to be increased, then, that will raise the turnover and subsequently, the return for the investors. With the aim of this, government has proposed in the 2017 budget proposals to implement the Securitization Act, thereby, facilitating diversified investment opportunities.

MORE FROM THE SL BUDGET

Main Board and Dirisavi Board are the two boards that are there in the stock market for the transactions of the listed companies; public companies incorporated under the Companies Act No. 07 of 2007 or any other statutory corporation, incorporated or established under the laws of Sri Lanka or established under the laws of any other state (subject to Exchange Control Approval).

But now in 2017, government wishes to introduce a new board with less stringent rules for **SMEs** to get listed on the **CSE**, so that, they can also raise capital through the stock market. This initiative will also increase the liquidity level of the stock market. SMEs are similar to small infant companies, but with a greater desire to reach high levels in the corporate sector in the future. Currently, they are not powerful in terms of wealth, value, market share etc. To show the supportive hand towards them, less stringent rules are being considered.

With the aim of increasing the liquidity level in the stock market, budget proposed to give tax incentives to new firms that will list on the stock market in 2017/18 and these firms will be entitled to a grant of an amount equal to 25% of the income tax paid for the last year prior to listing.

This would be a good motivating factor for companies that are willing to trade in the stock exchange because the tax expense is one of the most concerned expenses in one's organization. If such a relief is given at the initial stage then new companies would find it easier in an environment of stringent rules.

For a stock market to be a better market, it is necessary to have the representation of foreign companies. Currently, there is a less participation from the foreign companies in the stock market. Government wishes to increase the number of foreign companies so that a higher turnover as well as a good amount of liquidity will be there. There is hope that the budget would do justice to market performance.

References: LOLC Securities, 2017 – Budget Highlights Special Report as at 2016.11.11
Images : Avant8.com and pinterest.com
Original article has been edited by the editor

WHERE ARE THE SHARES?

A BRIEF LOOK IN TO SRI LANKA'S STOCK EXCHANGE

Words: Wathsala Dharmakeerthi (4th year)

Originated in 1896 by auctioning shares in an open land and then establishing a formal stock exchange in 1985, Colombo Stock Exchange (CSE) has a significant history among the South Asian stock exchanges. Being one of the most technologically advanced stock exchanges in the region and recently being declared as an emergent market, the question is whether Colombo Stock Exchange has been able to stay ahead of the game.

While Bombay Stock Exchange has a market capitalization over US$1 Trillion*, Karachi Stock Exchange US$89 Billion*, Dhaka Stock Exchange US$320 Billion*, Colombo Stock Exchange has been able to record only a market capitalization of nearly US$20 Billion*(LKR 3115.52 Billion) which is significantly lower than the other South Asian countries.

A vibrant stock market is an essential requirement in the journey to create Sri Lanka as an economic hub. Therefore catering to the local investors as well as the foreign investors is crucial for the development of CSE. In this case CSE has a disadvantage with regard to foreign investors as in 2016 Sri Lanka's senior unsecured foreign and local currency bonds and also the country ceiling have been downgraded to B+ from BB- by Fitch Ratings.

Increased refinancing risks and significant debt maturities have led to the downgrade and this condition hinders most international funds from investing in Sri Lankan equities as they are willing to invest only in BBB rated instruments. Therefore it is vital for the country to upgrade its ratings in order to stimulate foreign investments.

Even though the CSE is optimistic about foreign investments in 2017 as there was a growth in total foreign investor contribution from 34.4% in 2015 to 42.5% in 2016, the market exhibited adverse performance at the beginning of 2017.

Due to weakening Sri Lankan Rupee, interest rate volatility and policy uncertainties, foreign investors chose to sell about 1 billion rupees worth of stocks in the first four sessions in 2017 and this indicates the lack of confidence in foreign investors with regard to the market.

Therefore the economic status of the country has to be stabilized in order to encourage further foreign investments in CSE. Moreover in 2017 CSE is anticipating to launch a dollar denominated board for dollar denominated securities to support CSE achieve hub status in the region.

Although CSE is the sole stock exchange in the country, there are only 296 companies listed in CSE as at 03rd of August 2015. It is believed that the lack of proper valuation for stocks has been a major barricade in attracting new companies to be listed.

Therefore by encouraging the unlisted companies, it is important to broaden the listed company base in CSE to boost the investments.

In addition, advancements in infrastructure, undertaking demutualization process to convert CSE from not for profit member owned organization to profit oriented shareholder owned organization, enhancing education and awareness to create financially literate and self-protected investors and expanding the product portfolio from equity and debt instruments to financial derivatives would hopefully lead CSE to ensure a better performance and to be a game changer in the region.

References : CSE & Wikipedia.com 2017
Images : Shutterstock, freepik.com

APPs

Words: Sasithi Rambukkanage (4th year)

Is there a world beyond presentation slides and lecture notes? YES!

Despite the availability of a multitude of resources in this age of information, you might be running behind if you don't catch-up with fellow colleagues on the up-to-date events wherever you are at.

Sure, it is not feasible to carry your study materials whenever you want to understand what's happening in the world of finance and business. Hence, here is a list of web and mobile apps to carry with you on your smartphone. (We listed the FREE APPs only!)

1. StockTwits App

"Where the good stocks at?"
"Where did the gold go?"
Don't know yet?

With the free mobile app 'StockTwits' you can get updates on stocks, bonds, currencies, futures, oil, gold etc.

Beginners can learn more about investor sentiments and market sentiment via this app on Android, iOS and web.

2. Daily FT App

This app presents 'Sri Lanka's only English daily business journal': Daily FT as a mobile app.

It's best for local students to read business news together with reports and sector-wise analysis.

3. Investing.com App

This free app is customizable and offers alerts on new events. The app offers info on indices, indices futures, shares, bonds, commodities, ForEx and ETFs.

It also presents news, calendar-wise events and the ability to sync your portfolio with the app.

4. Rubicoin App

This is also a free app that focuses on the US stock market but the content is valuable to any beginner trying to learn about investing in stocks.

5. Robinhood App

Free Trading Platform!

That's what they are as of today. Sadly Sri Lankans are not yet entitled to pursue trading as the app is licensed to sell securities in the US, to US citizens and residents, till foreign jurisdiction approves it. The most prominent feature of the app is that users can buy or sell stocks commission-free

References: CNNMoney, 2016.06.14. Article by Heather Long
About page of Daily FT app, 2017
Images : Freepik.com, flaticon.com

Revolutionary Growth in FinTech

Words: Purindada Wijewickrama (4th year)

FinTech is the label assigned to financial service firms whose product or service is built on technology, often resulting in major innovations that have the capacity to change working practices. Tech entrepreneurs have invaded almost every other major industry, usually to the benefit of the consumer. The fact that it has taken so long for them to make any breakthrough in the financial sector may seem strange to some. Surveys often suggest widespread discontent among customers, who feel like they're getting a raw deal from their banks. However, the financial industry is one of the world's oldest industries. The ways of working are deeply entrenched, and the money and interests that riddle the sector mean those inside are highly motivated to resist change.

Traditional finance establishments are now taking notice though. Last year, global investment in FinTech ventures tripled to $12.21 billion across more than 730 deals - growth of 201% on 2015. This is compared to 63% growth in all venture capital investments. The gap in the market for disruptors to exploit is widening because of the distraction created by an influx of new regulations since the financial crisis, which banks are in a constant struggle to comply with if they are to avoid massive fines.

FinTech investment has manifested itself in several ways, with innovators developing technology to enter the market from every angle. Payment companies are seeing massive investment, accounting for 29% of deal volumes in 2016. FinTech is set to change the nature of financial transactions irrevocably. It's likely that the next few years will see money evolve from the paper and plastic we have today, into pure computer code. This will see some of traditional banks' and brokers' primary streams of income being removed, such as transfer fees and account management fees.

An example of a successful FinTech company is UK firm "Monitize", which connects banks & mobile operators to enable consumers to make payments directly from their phones." Monitize" has grown so significantly since it was founded in 2003, that it now provides mobile banking technology to 350 financial institutions worldwide. It has operations in the UK, US, India, Hong Kong and Indonesia, & had 24 million customers in 2013, with annual revenues exceeding £100 million.

Businesses must watch carefully for the way the wind is blowing, or risk falling behind the curve and losing their competitive edge. They must watch out for new products, not only innovations in payments which could help reduce costs, but lending too.

Crowdfunding is predicted to provide more money to projects than venture capital as of 2018, while P2P lending is also growing, which means organizations must re-examine how they seek investment.

While FinTech is growing rapidly, however, to count banks out would be foolish. Much of Fin Tech will help them to comply with regulations far more easily than before, allowing them to focus on other areas.

The sheer amount of money that they have also means they will be able to adapt quickly to new technologies, while their lobbying power should ensure that newcomers to the market face regulations in line with their own, in a way that, for example, the private car industry has not been able to with Uber.

Despite the rise of the FinTech tsunami, banks remain well protected by regulations particularly with regards to deposit holding. As a result, while FinTechs can pose a threat for part of the core business of banks, they also open avenues for innovation for other divisions of the organization. In short, adequately assessing the risk is what it all boils down to.

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2. First Data Holdings, company announcement ‘First Data Announces $3.5 Billion Private Placement Led By KKR’, 19 June 2014
3. http://www.forbes.com/sites/gnirckmarkus/2016/09/27/asian-fintech-sandboxes-can-they-work-and-do-we-need-them/#10f3fbf12e32
4. World Fin Tech Report 2017
Images: hrinasia.com, business.com

Ambiguity Aversion

Words: Dr. Chandana Gunathilaka
PhD (Finance) (UNiMAS), FCA (SL), MABE (UK)
Senior Lecturer
Department of Finance

Recently, I participated in a forum of finance specialists, in Colombo. One expert opinion was that market efficiency is no more appropriate, and the so-called strong-semi-weak form markets are some outdated topics to discuss! However, one should not narrow the market efficiency down to the classification of capital markets, and admit its survival despite the challenges posed by empirical evidence. Instead, it is highly appropriate to assess whether we really understand breadth of rational expectations and irrationality in markets, let us try to discuss a bit-of-a-bit of these in this article!

Rationality

We often assume rational market participants, and risk averseness in general. Some of the recent studies suggest that participants are irrational (Baker & Wurgler, 2006). Challengingly, behavioral decision theory tries to replace the concepts of classical decision theory. This discussion and applications are a sub-discipline now, the emergence of Behavioral Finance, from 1970s. Rather than how rational we should decide, behavioral approach models decisions made by individuals.

Risk & Uncertainty

How would you answer, risk and uncertainty are synonymous? Are they different concepts? Or risk is a result of uncertainty?
This looks like a silly question, but identification of this difference is important to understand the behavior of people. Risk corresponds to a multitude of possible outcomes whose probabilities are known. A decision leads to consequences that are not precisely predictable, but follows a known probability distribution is therefore, a risk. Suppose you decide on buying a lottery ticket, and we know that a winning is not predictable. But each lottery has a chance of (too low) winning and it has a known probability distribution. People buy tickets knowing that winning is a remote chance, and this buying behavior seems irrational that modern economics had failed to explain.
Uncertainty means that this probability distribution is unknown, at least partially.
Consider an example from Ellsberg Paradox (EP): You have a chance to win a prize by taking two steps.

(1) Choose a color: red or blue, and
(2) Draw a ball from a box containing 10 red and 20 green or blue balls.

Case 1: If the drawn ball is of the color you selected first, you win.
Which color do you choose in the step 01? Say red (this is what most people select), because you do not know how many blues inside. Since the number of blues is unknown, you would have guessed that there are less than 10 blues inside. If the drawn ball is red, you win it. Note that the distribution is unknown in this example, because the precise numbers (green/blue) are unknown. Hence, people select the option with ‘known’.

Case 2: Now let us change the winning method; if the ball is of the color you selected, you lose this time. Which color do you choose? Again, most people would select red. If you selected red, you win if either blue or green comes to your hand.
Is not it strange? In the first case you estimated that there must be fewer blues than reds, and hence selected red. Then in the second case, you should rationally have opted blue, because there is a high probability to get another color. Thus, the prize is actually a probability, and wining probabilities could be seen as prizes. What happens in this experiment is that people avoid uncertainty and prefer ‘sure’ option. In other word, they are *uncertainty-averse* rather than *risk-averse*. The person who selected red color in the first case has accepted the risk already, at a known chance of 10 out of 30.
People often tend to apply their way of dealing with risky options. Do you invest in stock market? Ask from few people, and notice their reasons. Many would postpone stock investments and would prefer bank account option for now. Some would select known stocks, may be their own company, rather than unknown stocks. Perhaps, other companies perform better than they do! They might show less knowledge about the chances and risks of market investments, thus they face a choice between a safe option (known risk) and an unknown risk. In other word, they have choice of a risk and an uncertain situation. This is, however, an active research area, the variants of EP.

Market Anomalies

Standard finance stands on the arbitrage principles, and considers that the markets are highly normative and analytical. But the findings of market anomalies like small-firm, value, and momentum effects, in a way, support behavioral explanations in finance. Recent Asian studies confirm that the momentum effect (momentum: the stocks which performed poorly (well) in the past continue to perform poorly (well) in the future) *arises only* during optimistic and mild periods. However, Fama (1998) observes that the reported anomalies are due to methodology issues, and tend to disappear with reasonable changes in techniques.

We are aware that the stock prices are responsive for information. Although stock prices are responsive to new information, there are other reasons. Shiller (1981) interprets excessive volatility in markets arguing that it has roots to investor sentiment. Identification of sentiment based predictable variation in returns is therefore a considerable debate in modern financial economics. Unfortunately, there have been limited (if available!) efforts in Sri Lankan market that explores behavioral component.

Speculation & Anchoring

Pricing anomalies also reveal the fact that the investor speculation and arbitrage contributes significantly. Behavioral studies could therefore resolve long-standing anomalies; it argues that many of the market phenomenons can reasonably be explained using models with adjustments for irrationality. Speculation induces demand shifts and results in overreactions in short to medium term, creating an ambiguity.

In reality, past prices are likely to be important determinations of prices today. The most recent remembered price becomes an anchor, and investors use this often. This enforces the similarity of stock prices from one day to the next. Anchoring could also explain why individual stock prices move together. Anchoring can indeed be a source of frustration in the financial world, as investors base their decisions on irrelevant figures and statistics.

For example, some investors invest in stocks that have fallen considerably in a short period. In this case, the investor is anchoring on a recent “high” that the stock has achieved and, consequently, believes that the drop in price provides an opportunity to buy the stock at a discount. We accept that the fickleness of the market can cause some stocks to drop substantially creating an opportunity of volatility.

But stocks may decline due to changes in their underlying fundamentals.

So what?

I tried to blend some classical decision theory examples with behavioral thoughts in this article. Many of the real-world decision consist of uncertainty, as the distribution of outcomes is uncertain. Thus, the decisions are taken under ambiguity, and they become ambiguity-averse. Identification of decision irrationality and limits to arbitrage is important in view of the volatility of markets today. Yet we are lack of related empirical studies in Sri Lankan market. Many of the gray concepts you learned in the classroom need revisits, with behavioral flavor, perhaps testing empirically.

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2. Fama, E. F. (1998). Market efficiency, long-term returns, and behavioural finance. *Journal of Financial Economics, 49* (1998), 283–306.
3. Shiller, R. J. (1981). Do stock prices move too much to be justified by subsequent changes in dividends? American Economic Review, 71, 421–436.

Images: Pinterest.com, freepik.com, flaticon.com

GEM

Once an undergraduate like you and me, and now a graduate who has successfully emerged from the blessings of valuable education received from the Department of Finance of University of Sri Jayewardenepura **Bineshka Deshanie** has reached pillars of success with added qualifications and experience colouring her world and her career.

To know more about the common yet different journey we share, I presented her with 10 questions. Hope our readers find their inspiration in her answers!

Interview : Sasithi Rambukkanage (4th year)

Bineshka Deshani

"Having nothing means having everything."

"Pursuing your motivation sets you on the path of unlocking who you are and your creativity."

"I love every moment of my life and do not have any regrets on what I have done so far."

-Her quotes-

Name	: K.P. Bineshka Deshanie
Current Designation	: Fund accountant
Company employed	: HSBC
Previous workplaces	:
	1 year experience as retail accountant at BATA Shoe Ceylon Company Ltd
	3 months experience as an investment research analyst at Investor Eye Pvt. Ltd.
Education	:
Primary	: Lanka Sabha Primary School, Baththaramulla
Secondary	: Devi Balika Vidyalaya, Colombo 08
Higher Education:	
Academic	: BSc. Finance (Special) from University of Sri Jayewardenepura
Professional	: CIMA passed finalist,
	AAT passed finalist.

Q1 - What was your best achievement as a student who went to a government school?

My biggest achievement as a 'student of life' is yet to arrive in the future. I'm always looking forward to achieve something more tomorrow than I did yesterday. It's true that some might see my biggest achievement as a government school student was becoming the All Island second and Colombo district first in the Advanced Level Commerce stream examination in 2010 but it can be stated as an achievement I gained when I was younger. Yet there are many goals to be achieved in the future.

Q 2 - What was your motivation to achieve such stature?

Having nothing means having everything. At the very beginning I didn't have anything. My parents were government employees who took lots of effort to make money to feed and educate me and my sister. There were times when I didn't have sufficient money to travel by bus. Nothing in the world can be gained without putting effort, feeling pain and difficulty.

I always follow the great human beings who had difficult lives and led them well. Achieving an Island rank opened the doors for me to enter into the best university for management in Sri Lanka together with many scholarships to complete my academic and professional qualifications as I wished for.

Q 3 - How did you choose your next academic move?

At school after the Ordinary Level examination I examined thoroughly from one subject to the next looking for my passion. Although mathematics was always the most wonderful subject I've ever studied I just couldn't get sufficiently motivated by the other science subjects linked to mathematics stream. That led me to leave mathematics and select commerce stream for Advanced Level.

When I was given the opportunity for selecting the Department in the University I discovered that I'm truly motivated towards exploring finance subjects. Today I'm fortunate to say that I have in fact, found my passion and I'm doing what I love. It's important to follow your dreams and uncover the less obvious interests. Pursuing your motivation sets you on the path of unlocking who you are and your creativity.

Q4- How did you manage professional qualifications (evaluations) along with academic qualifications (examinations)?

Managing time in order to complete professional qualifications while completing my degree was the biggest challenge for me. At that time I was conducting classes for Advanced Level students as well. Every night I made a list including all the tasks I had to complete on the next day. I worked out the order of doing things and decided which tasks were urgent and how important each task was. If I were given a new task I added it to the list and decided when to do it; thus I prioritized my work upon their necessity.

I must say that these actions wouldn't have been possible without having the support from my family and my friends. Their support and motivation gave me the courage to achieve the goals in life so far.

Q5 – What was your biggest challenge as a finance degree undergraduate?

There were many challenges I faced as a finance undergraduate. First and foremost the subjects are pretty much difficult compared to the subjects of the other departments. Thus we had to give our utmost effort to get a good grade in our department subjects, but when time goes on we realized that though the subjects were very difficult it provided us with the relevant knowledge.

The next difficulty was having lectures on random time slots. During the time in 3rd and 4th year it was cumbersome to have one subject in the morning and the next in the night which gave us a lot of idle time and made it difficult to find internships as finance undergraduates as most of the companies don't prefer to recruit interns only for few hours in working days.

Q 6 - How did you overcome the challenges and obstacles you faced as an undergraduate?

Since the subjects were difficult we had to refer a lot of subject related books to gain the relevant knowledge. That provided the strong foundation for our future studies and career. There are friends of mine who have already started their MSc in finance and they say the MSc subjects are easier for them since they have gained a better fundamental knowledge from degree level finance subjects.

Though we were idle for most of our valuable time due to time table scheduling, it made our university life beautiful. We had time to engage in various extra activities.

We enjoyed our university life with our friends and went on a lot of journeys. We visited almost every batch mates' home. Now we do not have any regrets on spending that extra idle time since we were able to enjoy our university life at its finest.

Q 7 – How did you decide what to do once you graduated?

I thought I must do anything that's related to finance industry. So I became a fund accountant which is both finance and accounting related career choice.

As a fund accountant I'm responsible for calculating net asset values, yields, distributions for unit trusts and open ended investment trusts. These unit trusts and mutual funds invest on equity markets, bonds and derivatives such as forwards, futures and swaps.

We have the responsibility of reviewing the prices and promptly researching and correcting the variances and annually and semi-annually we are preparing the financial statements complying with accounting standards and financial regulations.

Q 8 – What are your plans for the future?

I'm planning to do an MSc in finance in near future. Moreover I would like to gain finance related experience from overseas as well.

Q 9 - Do you have a special message for the finance and management undergraduates?

Do not give up at any time.

Sometimes you may think your degree subjects are very difficult and you can't even handle one subject though you have 5 subjects per semester. When I was doing my degree I completed my professional qualification, did classes for advanced level students and did a job for one year.

At the time of coming out of university I had a decent paying job plus I was lucky to become a visiting lecturer in a reputed institution for professional exams. I completed the degree with good grades and was able to become a proud owner of a small car which was obtained by my own earned money.

Q 10 – Bonus question –
What is the biggest personal value gain from what you have achieved thus far?

There are many things I have achieved but my view is that achievement is not just having fame, popularity, having a lot of money, thousands of followers, luxury cars or a big palace near the city.

In reality, I've achieved some simple things in my life which are worth more than the aforementioned things. First of all I've managed to make as many friends at university who are worth more than 1 billion dollars. At university my notes were not the most popular but my recap sessions (kuppi) for semester exams were very popular among the batch mates. Those recap sessions made my life easier by making me a public speaker who can talk in front of 1000 students at my lectures without any hesitation.

I love every moment of my life and do not have any regrets on what I have done so far.

Images: talk.jewelry, amora-gems.com, pinterest.com/coolblue2200, gemrockauctions.com, pinsdaddy.com, thecliparts.com, howaboutorange.blogspot.com and Bineshka Deshanie 2017

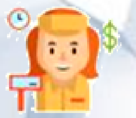
Fiascos in Finance

Words: Sasithi Rambukkanage (4th year)

Images: World Map Painting by Michael Tompsett © Redbubble
Freepik.com & Flaticon.com

Failures **and disasters in the finance world are nothing new to the world as history has repeated all over. Multiple organizations, people and their livelihoods have been affected due to the calamitous events that shook the world due to various reasons. Here we present some of such debacles from world-over. Some scandals even date back to Anno Domini period!**

1. ROMAN EMPIRE



Sale of Roman Empire in 193 A.D.

The unrest Roman Empire resulted in a financial fraud; where the Praetorian Guard offered the Roman Empire to the highest bidder "Julianus" for a present day value of 1 Billion Dollars!

2. SCOTLAND

Mississippi Scheme 1719

John Law convinced investors to back his "Louisiana development scheme" which showed gains from gold and silver from Louisiana: which was actually a 'swamp'!

3. UNITED KINGDOM

The Wright Fright 1900

Whitaker Wright made elites directors of his companies to appeal as an investment-worthy company to other elites. His companies stayed solvent in books through an under-running scheme that lent among his own companies to balance books!

4. UNITED STATES

Original Ponzi scheme 1920

Charles Ponzi purchased postal coupons at discounts and sold them abroad at full price with a hyperbole of returns of 50% profit in 45 days!

Investors lost 10 million dollars!

5. UNITED STATES

Madoff Ponzi scheme 2008

Bernard L. Madoff Investment Securities LLC carried out a ponzi scheme in their wealth management arm. CEO Madoff was found guilty for 11 counts of fraud including securities fraud, investment advisor trust fraud & money laundering and was imprisoned for 150 years!

6. UNITED STATES

Financial Crisis 2007-2009

Collateral Debt Obligations and sub-prime mortgages did most of the collateral damage!

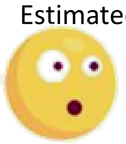
Lehman Brothers, Bear Sterns, Countrywide Financial, Wachovia, Washington Mutual and AIG together with companies world-over were hit!

7. AUSTRALIA

Storm by Storm 2009

Storm Financial Limited was accused and later found guilty for providing reckless advice to clients.

Estimated Loss: 3 Billion dollars!



8. IRELAND

Anglo Irish Bank 2009

The bank faced issues with the Irish property market downturn in 2008 & chairman hiding an 87 million Euros in loans.

The bank was nationalized at 1.5 billion Euros for a 75% stake.

9. SPAIN

Near collapse of Bankia 2012

Bankia had to face a banking bail-out after the bank raised 3.3 Euros in IPO and faced a drastic drop in share price. Bankia was nationalized and reported a loss of 24.7 billion dollars in 2012; largest in Spanish corporate history!

10. UNITED KINGDOM

LIBOR rigging scandal 2012

Manipulation of interest rates which are used to price financial products world-over was done by Barclays and other accused banks.

Estimated Loss: 9 Billion dollars!

11. PORTUGAL

Banco Espírito Santo 2014

Banco Espírito Santo was accused of disobeying the Bank of Portugal and disastrous management.

Bail-out: 4.4 billion Euros!

12. UNITED STATES

Fake account scandal 2016

Wells Fargo employees had created fake bank and credit card accounts to hit sales targets and bonuses.

The bank was fined 185 million dollars!

Other scandals around the world

2016

13. South Korea – Daewoo Ship building and marine engineering Co. Ltd was accused of accounting fraud of 1.27 billion dollars by South Korean board of audit and inspection.

2015

14. Germany- Volkswagen emission scandal rigged diesel emission tests in US and Europe (Est. Loss: $87B)

Japan- Toshiba accounting scandal inflated profits by $ 1.2 B over 7 years

2014

15. Russia- Due to oil prices taking a nosedive, collapse of Ruble and economic sanctions; their currency lost its value by 40% in 2014.

2011

16. Japan- Olympus accounting fraud spanned over a decade. (Est. Loss: $1.7B)

2009

17. Greece- Due to the weak economy and global recession, Greece is facing a sovereign debt crisis.

2002

18. USA- WorldCom accounting scandal inflated the company's assets by $11 billion via evasive and shifty accounting. (Est. Loss: $107B in assets)

2001

19. USA- Enron accounting scandal manipulated accounting systems using fraudulent schemes resulting in Sarbanes-Oxley act being passed. (Est. Loss: $74B)

References: CNNMoney, 2015.10.14 & 2016.09.09
The Economist, 2014.12.17 & 2017.02.16

WOMEN IN FINANCE

Rachini

President of CFA Society Sri Lanka

The number of women taking up finance has been increasing overtime. The best example is our own department of finance holding a majority of females as the student base. Cover person of this magazine tells us how it is like to be one of the leading women in finance. She is currently an independent non executive director of Nations Trust Bank.

COVER INTERVIEW with Ms. Rachini Rajapaksa- President of CFA Society Sri Lanka

Q1. What is your proudest achievement?
Becoming the first female president of CFA local society is one my proudest achievements since I consider it to be the best tribute to women in finance.

Q2. Which part of your career-life do you find the most satisfying?
I enjoy the present career best.

Q3. How did you overcome the challenges you faced at the organizations you worked for?
I have worked for various different organizations and at each place the challenges have been different and will continue to be different. At my first place of work I was able to get the initial foot hold in accountancy and finance. Though there weren't specific challenges and was a fun period, it was a great learning curve about upholding professionalism despite adversities later on in life. **Then** I moved to the unit trust industry when unit trusts were first established. The unit trust product and the concept of fund management were brand new to the country. Before selling the product we had to educate the investors. Teaching the model of unit trusts to the public was an unforgettable challenge. **Personally** too it was challenging to me as I was one of the very first female fund managers at the time although later on there were others who followed suit. So, being in a male dominated industry was wisdom gained and a challenge overcome. **Then** I moved to the corporate world and it was a whole different paradigm. There I had to deal with a lot of unprofessional and unethical staff members. So, standing on my feet as an ethical professional was a constant battle. I am really proud that I never yielded and was able demonstrate that professionalism pays off.

Q4. What's next for you?
As the president of CFA Society Sri Lanka my goal is to help the CFA brand name get better recognition and as a director of NTB I would like to help them grow to the next level.

Q5. What are you passionate about?

I take great pleasure in helping individuals and corporates to professionally excel.

Q6. What is next for the industry you operate in?

It would be to develop ethics and integrity of the market participants and create recognition for the deserving folks who advocate ethics and integrity.

Q7. Who do you get advice from or refer to as a role model?

Lord Buddha is my role model as in my opinion he is the first person who taught ethics and integrity to the world.

Q8. As a leading lady in business, what needs to be overcome to go forward?

It is important to be able face all challenges without fear and not to get disheartened by the actions of insecure people.

Q9. What is the best advice a 'finance and business undergraduate' could hear from you?

Sound education with proper fundamentals is the key to application of theory at work, in real life situations. It is difficult for others to challenge fundamentals. Ability to demonstrate sound knowledge earns respect of the others quite easily.

Q10. Bonus Question: If all your achievements added something to your personal life, what would that be?

I have become a more mature, more serene and more tolerant person, who likes to positively contribute to the growth of the investment management industry.

Images: Sasithi Rambukkanage 2017 & Fineartamerica.com
Camera equipment- Courtesy of Dimuth Jayewardene

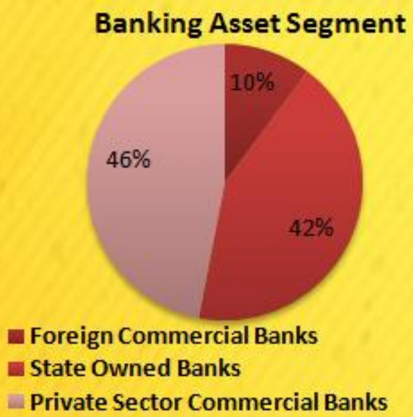
Banking Industry of Sri

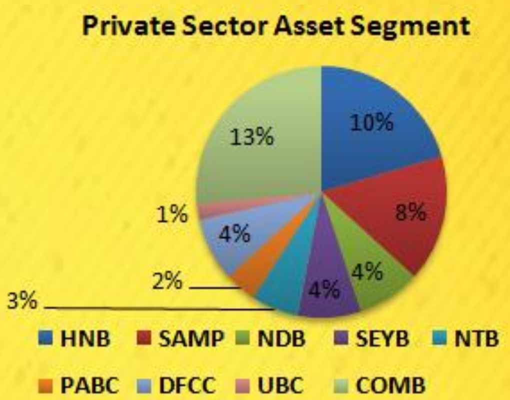
Words: Imali Wijesinghe (4th year)

The year 2016 was a difficult year for the banking sector of Sri Lanka where the economy shows a downturn trend with a declining growth limited to 4.1% and with the tax attack where the current tight monetary policy and tax increase are unlikely to help the GDP growth numbers to increase. However, VAT has been increased to 15% resulting in an incremental impact for the banking sector.

Regarding the credit growth, it is expected to slow down to 16%, where the **CBSL** is comfortable with the credit growth of 12%-15% in the sector. However, private sector credit growth shot up to 25% for 2015 amidst lose monetary stance. In terms of Non-Performing Loans (NPL) it can be expected to increase with the upward trend in the interest rate and weak economy conditions where NPL and GDP always have a negative relationship. Downturn in the economy growth, real exchange rate appreciation and the rise in real interest rate contribute to increase in the NPL.

Sri Lanka's Commercial Banking sector consists of 13 local banks and 12 foreign banks which account for LKR 6,900Bn (USD 48Bn) asset base. From the overall banking sector, private sector domestic commercial banks hold 46% of the market share and two of the giant state banks hold 44%.



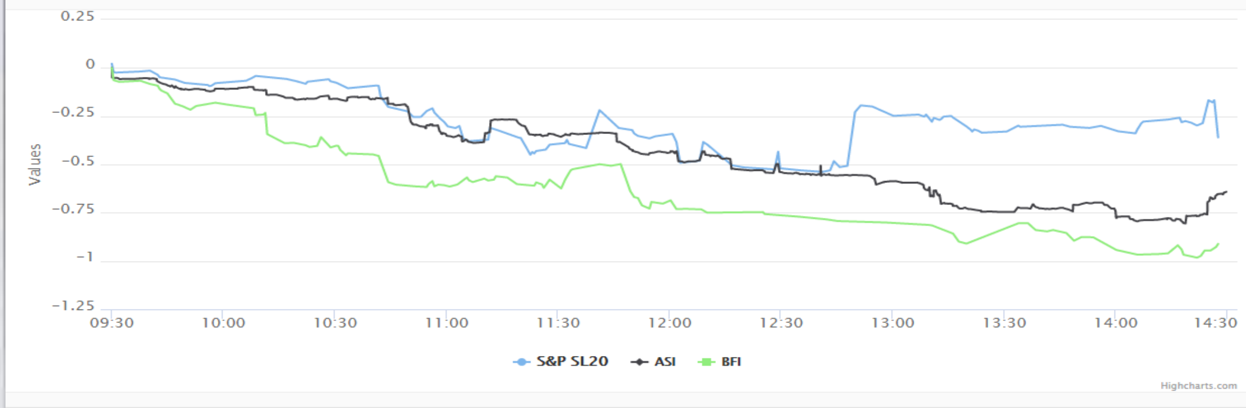


Banking sector registered 10% year on year (YoY) growth to reach LKR 97.0Bn in 2015, from LKR 88.0Bn on the back of heavy credit despite continued thin NIMs in the sector. Private Sector Credit leaps to 25%: The YoY growth of private sector credit accelerated to reach 25.1% by end 2015 from 8.8% at end 2014. Increased domestic demand, a part of which was transformed into high demand for imports, amidst continued low interest rates drove the demand for credit by the private sector. Broad money increased by 17.8%YoY, by end 2015 compared to a growth of 13.4% recorded at end 2014. The average broad money growth in 2015 was at 15.2% compared to 13.3% recorded in the previous year.

The performance of the Banking sector relative to the ASPI in an average day is reflected in the graph in the next page where the declining trends of the prices are higher than the decline in ASPI.

Comparing the individual performance of the banks that are having highest capital base and the market capitalization there is a trend that private banks are performing well in their industry despite of the economic downturn. Almost all the banks are moving into mobile banking and internet banking more in order to maintain their quality and the customer satisfaction. Comparing to 2015 the year 2016 has been a struggling year still in the way to be cost effective by improving the technology most of the banks have moved from paper based documentation to computerized documentation; hence the waiting time is drastically less. This has allowed certain banks to maintain an outstanding performance like Sampath Bank and HNB.

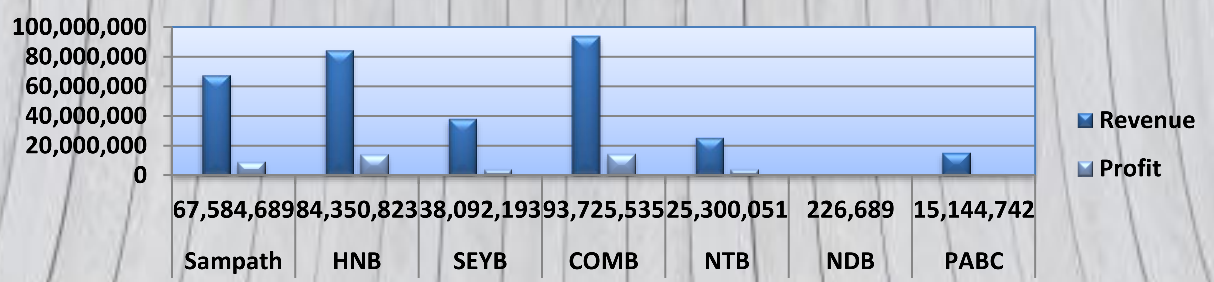
SECTOR	TURNOVER	INDEX	CHANGE(%)
ASI	0.00	-0.74	
S&P SL20	0.00	-0.36	
BFI	81,796,554.00	-0.95	



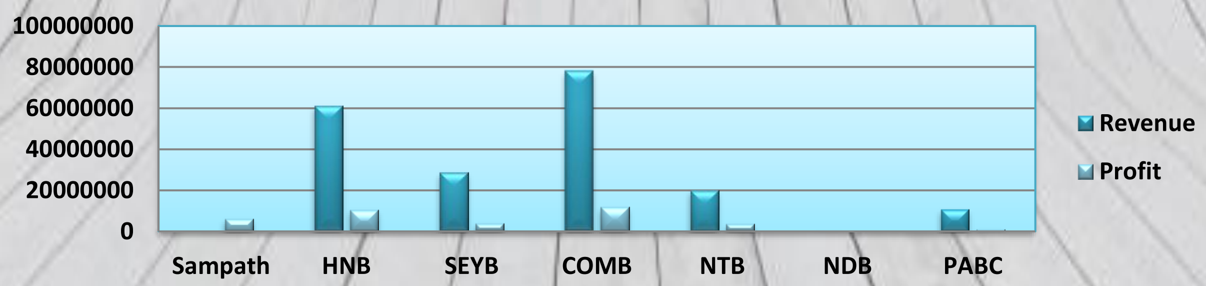
However Central bank has been implementing regulations to make the banking industry more strong and recently has introduced a rule to maintain the market capitalization over 20mn. Even though well-established banks like Sampath, Commercial and HNB will not be affected with this rule Pan Asia (PABC), NTB & NDB will have to increase their market capitalization. PABC now in position of 1.5mn, has mentioned in their annual report that they are going to have a right issue of 2mn but capitalization of rest of the equity has not been mentioned.

The main reason that the banks have increased their revenue is because of their credit card business which is generating an increasing revenue year on year. With the central bank increasing the statutory reserve requirement to reduce money supply in the country, the threatening factor has negatively impacted in their top line.

2016



2015



Almost all the banks have represented growth in their financials; Sampath bank and HNB achieving an attractive growth of 43% and 41% in their bottom line accordingly. Given indices have shown positive indices in the market and there is a positive sentiment for the future performance for the banking industry where even some equity researchers have also recommended to buy shares of Commercial Bank (Non-Voting), Sampath Bank and NTB where apart from NDB and HNB (Voting) other shares are recommended to hold hoping a better future performance in the share market despite the economic downturn.

References: Annual reports of commercial banks, 2016/ CSE 2017/ First Capital 2016

Images : freepik.com

Original article has been edited by the editor

MOVIES TO WATCH IN FINANCE

Words: Sasithi Rambukkanage (4th year)

Too Big to Fail 2011

This is a US film with a 98 minute running time.

It is about the 2008 economic crisis and is based the book of the

Inside Job 2010

This is a US film with a 108 minute running time.

It is about the late 2000's economic crisis and won an academy award for best

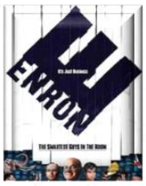
The Big Short 2015

This is a US film with a 130 minute running time.

It is about the 2008 housing bubble and is a comedy based on the book with the same name

Enron: The Smarte ys in the Room 2005

This is a US film with a 109 minute running time.



It is about the 2001 collapse of Enron corporation and is based the book of the same name.

Boiler Room 2000

This is a US film with a 120 minute running time.

It is about young overnight millionaires in stock brokering doing

The Wolf of Wall Street 2013

This is a US film with a 179 minute running time.

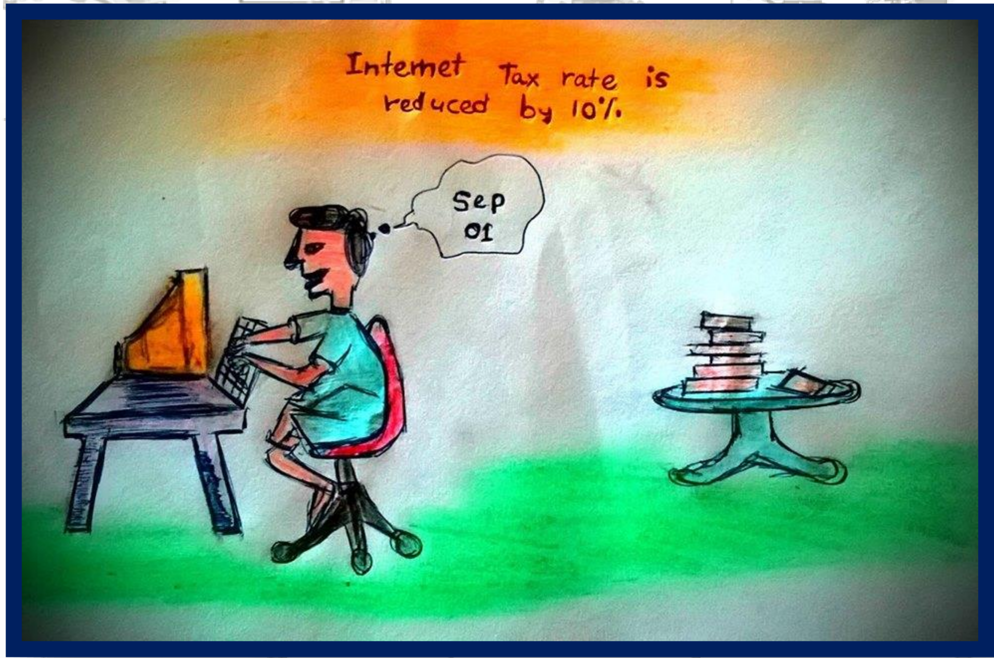
It is about the stockbroker named Jordan Belfort and is a biographical crime film based on

Here are some more movies and tv & shows:

- ✓ Margin Call 2011- 2007/08 financial crisis (109 Minutes)
- ✓ Trading places 1983- Commodities broker and street hustler (116 Minutes)
- ✓ Wall Street: Money Never Sleeps 2010- Sequel to Wall Street 1987 (133 Minutes)
- ✓ Chasing Madoff 2011 – Ponzi scheme (60 Minutes)
- ✓ White Collar 2009-2014 – TV series of police procedural drama genre (6 seasons)
- ✓ Silicon Valley 2014- 2017 – TV series of comedic genre- tech start-up (4 seasons)

References: Wikipedia and IMDB, 2017 Images: Freepik.com, flaticon.com, Wikipedia.com

FINEX Comic Stand



What is magazine without a sense of humour?!

This page is dedicated to cartoons and they are not just comics as they are based on current affairs!

Cartoon by Achala Gayashan- 4th year

Let's see if you can guess the back-story.

Cartoon by Achala Gayashan- 4th year

Images: picturesof.net

WHAT CAUSED THE WORLD FINANCIAL CRISIS AND DID THE GOVERNMENTS GET IT RIGHT IN RECOVERY?

Words: Avin Fernando (4th year)

On the 15th of September 2008, 'Lehman Brothers' collapsed; bringing down the world's financial system which led the global economy to face its most dangerous crisis since the 'Great Depression'. This global economic crisis was named "The Great Recession" due to its severe consequences. In US alone, roughly 8.7 million people lost their jobs and the US GDP contracted by 5.1%. Stock markets fell worldwide and large financial institutions collapsed or were bailed out by their governments.

Critics around the world questioned whether the governments were right to bail-out the organizations that were primarily responsible for the crisis. In this article, I will be analyzing what caused the crisis and did the governments

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The Financial crisis began with the collapse of the US sub-prime mortgage market together with the burst of the US housing bubble. In brief, banks were lending to anyone who was willing to take a mortgage; leading to a massive credit expansion. The banks did not worry about the repayment ability of the borrowers since they had properties as collateral. In fact, banks didn't worry much about the repayment capacity since housing prices have always been on the rise in the market. With that in mind, many banks lent to virtually anyone who wanted a mortgage thereby creating a housing bubble. House prices increased as demand was on the rise backed by subprime lending.

Subprime mortgages are mortgages of low quality which would have been rejected in normal circumstances. In order give out more mortgages and also to pass on the risk, the banks created a sophisticated investment instrument called the CDO (Collateralized Debt Obligation). The top layer was insured with credit default swaps; thereby the top layer received AAA credit ratings. The middle layer received BBB credit ratings and the bottom layer was unrated. These CDOs were sold to various kinds of investors and institutions worldwide.

These ticking time bombs accounted for a large part of the balance sheets of systematically important financial institutions. As expected some of the subprime borrowers defaulted their loans and banks foreclosed the properties and put them on sale. With the surge in defaults supply surpassed the demand of housing, bringing the prices down. At this stage the housing market was flooded and houses lost its value. Now, the borrowers who could afford to repay also defaulted as houses weren't worth anything close to what they were paying.

Billions of mortgages (CDOs) became worthless erasing billions of dollars off the balance sheets of key financial institutions. The US government bailed out 'Fannie Mae' and 'Freddie Mac', two major firms that had guaranteed billions worth of sub-prime mortgages. The US had to bail these two government sponsored giants in order to make sure that the financial system did not collapse overnight as most of the mortgages have been guaranteed by them. However, there was a complete collapse in market confidence when 'Lehman Brothers' who was heavily exposed to the subprime mortgage market, filed for bankruptcy.

The US government did not bailout the 4th largest investment bank in the country resulting in market chaos. An instant credit freeze was experienced as nobody knew who was going bankrupt next since CDOs were everywhere in economy. The entire economy was starving for liquidity as nobody was lending anymore. Non-Financial companies such as General Electronics and Chrysler almost fell apart due to the lack of liquidity before the government bailed them out.

Meanwhile in UK, HBOS UK's largest mortgage lender was rescued by Lloyds after a sharp drop in its share price. By the end of September, two more American banks collapsed (Washington Mutual and Wachovia) Goldman Sachs and JP Morgan Chase changed their status to banking holding companies, marking an end to its investment banking model.

Economic Chaos was seen globally; Ireland entered into recession and the Irish government promised to secure the liabilities of its banking system which they eventually failed to honour. At this point, the solvency of the whole banking system was in question.

These financial shocks could have easily led the global economy into a disastrous outcome similar to the great depression in 1929. However, that was not the case since the regulators handled the crisis in a satisfactory manner. Even though the response to the crisis cannot be label as great, it wasn't bad either.

Primarily the US authorities were able to stimulate and restore confidence in their economy a lot faster than anticipated. Fed pumped trillions of tax payer dollars into the economy to bail out troubled institutions and to ensure liquid market conditions.

Credit lines were put in place by broad-based guarantees of bank accounts, money market funds and liquidity by the Federal Reserve to ensure liquidity in the market and several large institutions identified as "Too Big to Fail" were bailed out through 'Troubled Asset

One prime example would be American International Group (AIG) who played a major role in insuring CDOs and other financial instruments. If AIG failed it could have led to a cascade of failures and a meltdown of the global financial system instantly as it was the world's biggest insurer.

The UK government led by the bank of England also followed a similar approach but in a smaller scale to counter the crisis. If the Fed and BOE only followed traditional fiscal and monetary stimulus, the financial system would have experienced a complete loss of confidence and the markets would have taken decades to recover. The effects could have been worse than the great depression 1929 as the financial systems are more interconnected than ever and banks play a significantly more important role in the modern economy.

In conclusion, I believe that the governments (US & UK) got it right when it came to fighting the financial crisis to curtail the damage. If the tax dollars had not been utilized in bailouts the financial system would have collapsed and confidence in the system would have been totally lost. In a case as such, it will take a long period of time to rebuild the confidence and restructure the economy. We would have experienced a depression greater than the 'Great Depression'. In case of a great depression the biggest victims will be the average citizen. However, it should be noted that the governments got it all wrong along the path leading to the great recession. The responsible authorities should have seen the crisis years ahead and taken corrective action. A bubble doesn't build up overnight even though it may burst overnight. In my view, the government of USA played a major part in forming the bubble as it massively promoted subprime mortgages. The US government intervened in the mortgage market by subsidizing and forcing to give out mortgages to people who couldn't afford

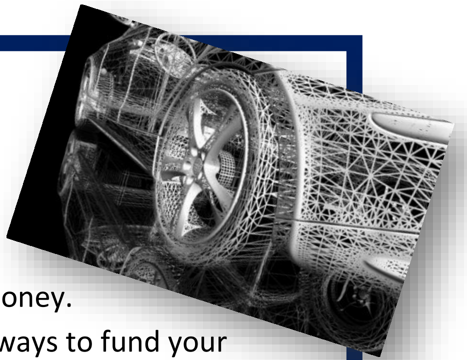
References: Financial Times, CNNMoney, Wall Street Journal, Forbes (2008-2016) / Images: 123rf.com, envato.com

ALREADY 21 & OVER?

It's time to make a smart move with those bucks in your tux OR if you want to at least keep the tux!

Words: Sasithi Rambukkanage (4th year)

Before you get into the world where you are your own boss, there are a few tips to get your finances in order.
Here are 5 tips for you to get your money-spinner running throughout your eternal youth!



1. What do I want?

A special cuisine meal? New book? A house? A car?
Or more investments in savings and stocks?
Set the goal for what you want and decide how you want to spend money.
In this way, you can streamline your spending expectations and find ways to fund your budget.

2. How do I fund my budget?

Pocket money? Scholarship fund money? A part time job or a full time job?
Trying to depend on one stream of income is risky. The more you grow-up and become matured enough to face expenses by yourself, make sure you have other streams of income beyond your salary.

3. How do I manage my daily wallet?

Try to find out how much your average daily expense is/ would be and save & spend money accordingly.
Once you start earning try to save from your salary and if possible, gain from the following sources of income. [2]

- ✓ Business profit income
- ✓ Capital gains
- ✓ Real estate rental income
- ✓ Dividends
- ✓ Royalty or patents income
- ✓ Interest income

It is quite important to lose the fear of investing and diversify your investments.
To learn more about investing, study investment and portfolio management and read about renowned investors' strategies.

4. Think long term

You may be 21? 22? 23? 24? Or ummm 25+? but it's never too late to set a target to achieve and improve a net worth target.

Here's Warren Buffett's net worth over the years. [2]

Age in years	20	30	40	50	60	70	80	86
Net worth in Dollars	20 000	1 Million	25 Million	350 Million	3.8 Billion	36 Billion	55 Billion	73 Billion

Can you get there?

Yes you can.

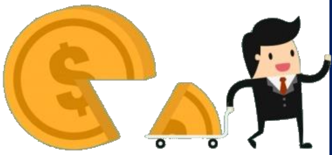
You only have to change your perspective.
Just as you consider your income in the long term, re-consider your expenses in the same way as well. Reorganize your payment plans and daily spending into an affordable budget. Whether you choose to have a luxurious or a simple life; maintain an emergency fund, just in case.

5. Frugal over prodigal!

Choose financial independence over displaying status. Every. Possible. Time.!

Every time you feel like making an unnecessary expense, calculate the impact of such expenses in the long term. Although you may have learnt about the present value and future value calculations, here's a simple way to predict the impact of expenses within a short period of time.

"To calculate a weekly expense compounded over 10 years, multiply the price by 752. For a monthly expense multiply by 173."[2]



Here are some tips that sum up the decisions you should make.
Give up today's consumption for tomorrow's wealth and avoid appearing wealthy by actually becoming wealthy.
Don't let the illusion of high-spending make you delusional.
Frugal are the wealthy. Wealthy are the frugal.

References: 1. CNNMoney. 'Sallie Krawcheck, Mind the gap'. Vasel, Katherin. 2017.03.08.
2. QuartzMedia. 'The millionaire nextdoor, Thomas J. Stanley'. Reis, Richard. 2017.02.17.
Images: Freepik.com. Nilza.net.knowledgehi.com.

Investors Seeking a Direction…

Words: Jayodya Sithari (4th year)

Peter Lynch, an American mutual fund manager has once said "The key to making money in stocks is not to get scared of them". The statement becomes more valid when the capital market is passing a difficult time, as this year; where most of the investors try to sell their shares and leave the market due to the bearish region.

However most of the economic factors are cyclical, hence there is a hope for recovery by this year end. The figure shows the short term behaviour of the market which shows a negative sign where the ASPI is being lower. Considering the downturn of year 2017 as at 22nd March, CSE continued its negative sentiment with ASPI, further declining below the key psychological support level of 6000.

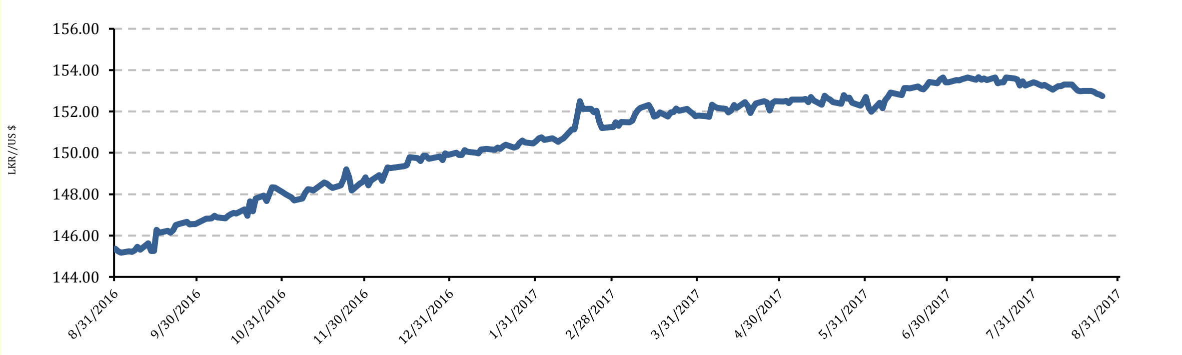
The above Bloomberg GP chart reflects the behaviour of ASPI during the last ten days ended by 1st of September 2017. The three parameters that are used to interpret the line chart are recognized as parabolic, MACD and Relative Strength Index (RSI).

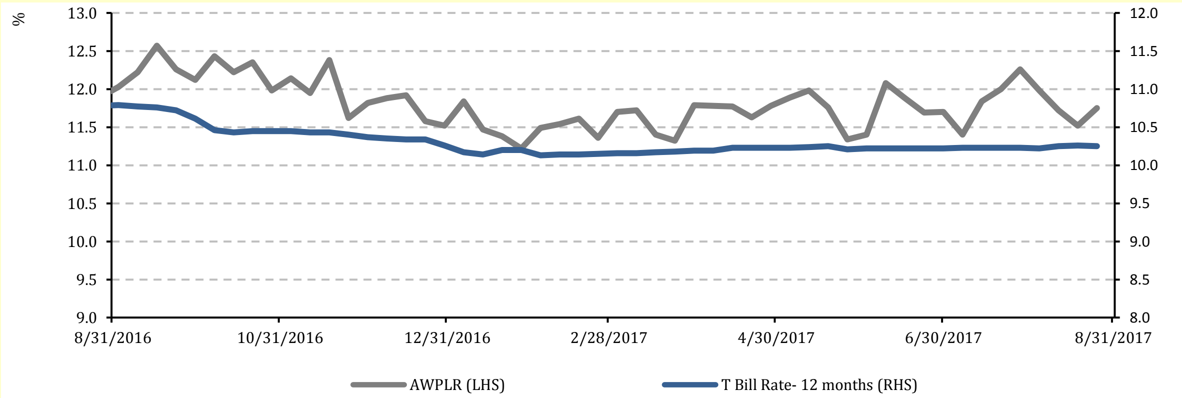
As for the parabolic line it is showing a neutral signal while ASPI standing at 1390.74 level. The line shows the behaviour of ASPI during last 10 days reflecting a volatile behaviour. The neutral signal is identified through the smoothen line towards the end of the chart giving a PTPS signal of 6394.13 which is very close to the last price.

Considering the MACD it is giving a positive signal with an upward trend and MACD signal being higher than the red line. Meanwhile Relative Strength index is in the bearish region showing negative investor sentiment with a score less than 50.

Accordingly short term technical indicators are giving overall a neutral signal with RSI also being close to the neutral region of 50. Therefore considering the cyclical behaviour of market the indicators can be expected to be in the bullish region in next few months.

Behaviour of AWPLR, Treasury bill Rate & Exchange Rate





Throughout the year that ended by 1st September 2017 ASPI and S&P SL 20 have shown a volatile behaviour. Accordingly, the market shows a 'wait and see' approach for the investors as in most of the days ASPI turns red. The following figure shows the ASPI behaviour over the year where the positive trend is holding in the long term. The following graph shows the behaviour of technical indicators during the last 12 months under the moving averages of 20, 50 and 100.

Even though the current factors show negative sentiments about the market since long term positive trend is holding & with the recovery of the economy, positive results can be expected where the Textile, Construction industries are likely to pick up in the market. Bearish market would be the best time to start investing as with the demand pressure later on the prices are expected to pick up.

References: Bloomberg 2017
Images : Under30changemakers website, Dcervin website

Are you good enough?

To work as a professional in the field of finance, it takes more than what you think.

As you move up the ladder, how do you manage to keep your core values growing? I sat down to discuss 10 questions with Mr. Ravi Abeysuriya, group director of Candor Group. Currently he is managing private equity investments.

Trailblazer Interview with Mr. Ravi Abeysuriya - Group Director of Candor Group

Interview and photography by Sasithi Rambukkanage (4th year)

Q1. When have you been most satisfied in your life?

I would say my most satisfying job was to help start-ups as a venture capitalist, where I had the opportunity to hand-hold entrepreneurs to succeed in their ventures by providing specialist knowledge they needed. Sometimes, entrepreneurs with strong technical skills that have great ideas do not have the finance or marketing, or people skills to commercialize their ventures; thus, you step in to help them build their support-team.

For an example, when I was at Lanka Ventures, I was able to help Mr. Wegapitiya, Group Chairman and Mr. Thilak De Silva Group Managing Director of Laugfs Gas to start their venture; to build that company by not only providing equity capital but also helping them to iron out various teething problems they encountered in making the business a success.

It is very gratifying when you look back at how the start-ups you nurtured like a child have blossomed into very successful companies that provide thousands of jobs. I am now into private equity which is late stage financing where we provide equity capital to entrepreneurs that have a good record of accomplishments to expand and grow their businesses in the region, if not the world.

Q2. What is the best career-wise achievement you've obtained or gained?

My best career-wise achievement was when I was selected to head Fitch Ratings Lanka (FRL). It was a very challenging assignment to start something completely new to Sri Lanka from scratch; to convince banks, finance companies and large corporates to get credit ratings and enlighten the depositors and investors the value of credit ratings. I was able to persuade a lot of companies to go for a rating and I established excellent relations with Chairmen and MDs as well as very senior officials of the government, regulatory agencies and multilateral development agencies. It was a great position to be in. FRL was a private public partnership. Central Bank of Sri Lanka, International Finance Corporation (World Bank), Fitch Ratings, USA and 14 large institutions in Sri Lanka comprising state and private banks, EPF & ETF collectively owned it.

Five years after heading FRL, I was head hunted and selected to head Amba Research Lanka (ARL) a start-up in Sri Lanka to provide Investment Research; outsourcing services to global bulge bracket investment banks and mutual funds. Later, ARL became a very successful multinational company establishing offices in India and Costa Rica. ARL provided a lot of opportunities to young graduates from our universities. I used to do career guidance seminars at Colombo, Kelaniya and Sri Jayewardenepura Universities and I was told that joining ARL was a dream come true for most graduates and a lot of them ended-up working at international financial centres such as London, New York and Sydney earning very lucrative salaries. Working for FRL & ARL gave me a strong sense of achievement when they became highly reputed and successful ventures and gave opportunities to talented individuals to grow.

"Working for Amba Research Lanka provided a spring-board for our finance graduates to build their career in the global financial centres"

Q3. What are the challenges you face as a leader of Candor?

Candor is challenged by the capital market in which it operates, specifically the equity and debt market. The equity market in Sri Lanka faces two major challenges, smaller size and lower liquidity. Solving this "size and liquidity" problem is imperative to unlock the potential of the Sri Lankan capital market and requires very bold and visionary supply and demand side reforms by the Government. On the supply side, major sectors are not reflected in our stock market. Public enterprise reforms and listing of key commercial private and public-enterprises are essential to increase the size of the stock market to a measurable degree. On the demand side, investors have lost confidence and trust in our stock market. They had invested based on wrong advice, got carried away by greed and lost their money. Pension and provident fund reforms to bring in professional management to Sri Lanka have not happened. Our pension funds and provident funds are all captive and the members who contribute to such funds get very poor returns. (E.g.: EPF, ETF etc.) Their money is not managed for their best interest.

A more broad-based and vibrant capital market is required for Sri Lanka to generate sustainable economic growth. To be most beneficial, the capital market must be able to function well, rewarding strong performers and encouraging those who are unable to deploy capital effectively to align their strategies for effective utilization of resources. Well-functioning capital markets do a very good job of selecting the most suitable recipients of capital and ensure that those who obtained the capital, generate the returns or economic benefits. If Sri Lanka is to realize its true potential, it must channel savings and investments into wealth creating projects. A competitive capital market performs this function.

I have been trying to encourage the government to bring about capital market reforms pertinent to Sri Lanka. Unfortunately, this is yet to happen as successive governments have failed to implement inclusive reforms to have a properly functioning capital market. The problem is that governments do not have the political will to implement the reforms for the long-term benefit of the people of the country as they will be at first perceived as unpopular policy decisions.

The people in this country are still hanging on to archaic concepts from old Soviet Union, such as "state ownership of non-strategic assets will serve a public good", little do they know that state owned enterprises (SOEs) are highly politized and are used by most politicians to line-up their pockets to win the next election and look after their henchman by appointing them to the boards of these SOEs. For example, cumulative losses of SOE from 2006 to 2015 in Sri Lanka were 636 Billion Rupees, which is over 80% of our budget deficit. The people of this country ultimately pay all this money, even when a poorest person buys a packet of milk.

The old model of privatizing SOEs by successive regimes here also failed as the valuable state property were given to henchman considerably undervalued for political gain. The right way to make SOEs perform is listing them in the Colombo Stock Exchange. Studies done in 24 countries since 1980 have shown that listing SOEs, in other words public ownership have led to significant improvement in performance, efficiency and transparency, governance standards, capital market development and public investment in the stock market.

"Can you eat a cake that is half baked?
No:
our capital market is also a half-baked cake"

Q4. What is the direction you wish to take Candor towards?

We believe, the true purpose of finance "is to put resources to productive use, to transform maturity; thereby contributing to economic growth and stability and ultimately for the wellbeing of people: in other words to enrich the society. For most people the capital market offers the means to participate as an owner in the growth of the companies that make up the Sri Lankan economy. What makes it powerful is that companies are motivated to grow their businesses over time. Stock ownership is the way for individuals to participate in that growth. Of course, investing takes optimism about future opportunities. It requires investing wisely, taking a reasonable amount of risk and a long-term view and most importantly getting professional help. Making investment decisions is only a part of the process. For us, having the required skills to understand client requirements and recommend optimum solution is certainly the most important part to investing. The path towards investment brilliance is the driving force that every investor pursues to conquer from their financial advisors in their euphoria towards investment success. Candor always looks at new ways to cater to our clients, whilst rolling out our plans. Candor strives to provide unsurpassed service to our clients, always having the client's best interest at heart.

We are fully conversant of all regulatory requirements and we are one of the most ethical and highly regarded companies by both the Securities and Exchange Commission of Sri Lanka and Colombo Stock Exchange with an impeccable regulatory track record. We will always safeguard our repute.

Q5. Which areas stand as your concern in general?

Sri Lanka has one of the lowest participation rates of domestic investors in our capital market. (See Chart TB 1) . Although we have around 765,000 CDS accounts (or around 583,000 if you exclude duplication due to joint accounts) a recent study has revealed that, around 350,000 are plantation worker accounts and another 100,000 are student's accounts that are dormant. In actual fact, active trading happens in only about 9,000 CDS accounts today. My main concern is Investors have lost confidence and trust in our Capital Market. They lump all companies operating in the capital market as crooks, however ethical we are, doesn't help until we restore investor confidence and trust and attract more investors to the capital market where all capital market intermediaries and market practitioners look after their clients.

Because of the trust issue there will be social problems in the future. For example, our culture has been for adult children to look after their aged parents. But in the future, it may not happen because people want to enjoy a 'better life style'. The 'inter-generational stress' will increase as consumerization grows. Today, people seems to be going after material things, borrowing, and buying cars, houses, TVs etc. and aged parents could become burden for some, because aged parents may not have their own savings to live. We see in the news that this is already happening in Sri Lanka. (See Slide TB 2)

"If you are in the financial industry, your client's interest should come first"

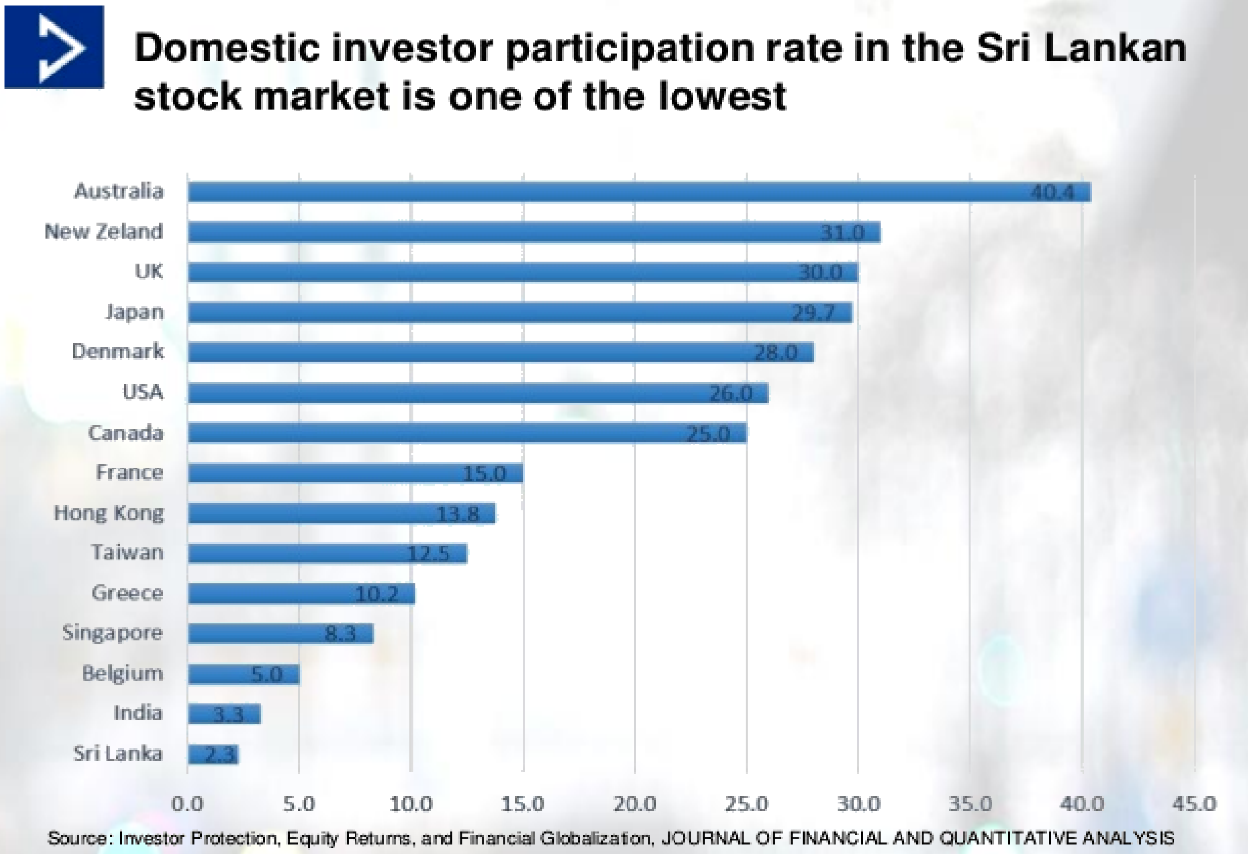


Chart TB1

Slide TB2

Above chart and slide were provided by the interviewee- Ravi Abeysuriya 2017

Q6. What are your predictions for the future of the industry your organization operates in?

In the future, the capital market in Sri Lanka will play an increasingly important role in providing funding for the most successful state and private enterprises and generate investment returns needed to support an ageing population.

With concerted efforts of public awareness and education campaigns emphasizing the need to reform the unions, investors would have clearly understood the greater public good of long term investing for retirement with professional pension fund management. Therefore, the retirement savings system would be reformed to provide account portability and at least two or three choices as to how the funds are managed for the beneficial owners (i.e. individuals who contribute should have the flexibility to choose how their funds are managed and types of investments best suited to their respective risk profile).

Similarly, retail investors will have more financial literacy and right attitudes to seek proper investment advice, carefully evaluate the future potential of their investments and allocate their savings to capital market investments that provide best returns to commensurate with the risk they are willing to assume rather than blindly following price movements. Minority shareholder rights will be enforced by Institutional investors such as Unit Trusts, Pension Funds, Insurance Companies using their proxy votes at listed company AGMs and EGMs to bring about a greater degree of market discipline.

The government would have had the political will and sincerity to undertake indispensable SOE reforms to bring about a mixed ownership structure and more transparency, management efficiency and reduce the dependence on taxpayers. This in turn would have led to the CSE being classified as a more developed and mature "Emerging Market" that is tracked by foreign investors and considered to be active and liquid than a "Frontier Market".

CSE would be included in the MSCI Emerging Market Index with the listing of a few SOEs and many large & successful companies. As a result, foreign investors managing about USD 8 trillion in assets that replicate the MSCI Emerging Market Index would be investing in Sri Lanka. Several new products such as Real Estate Investment Trusts (REITS) and Exchange Traded Funds (ETF), would have been listed in the CSE, providing retail investors wider flexibility and an avenue to gain entry into the real estate market with a small amount of capital and liquidity to exit. These would have led to increasing the depth and breadth of the market and increasing the market capitalization of the CSE as a percentage of GDP.

Market Intermediaries would have 'changed for the good' and embrace a cultural transformation that fosters transparency and high professional standards while minimizing conflicts of interest. These changes would become key value drivers and differentiators of the future as society assesses the social utility of capital markets and its participants. The 'change for the good', will restore confidence in the very institutions we depend upon for capital formation and economic growth.

The business models of traditional capital market participants will go through a fundamental shift to become more agile with the adoption of "Financial Technology" and the introduction of multi-asset class broker-neutral platforms for capital markets participants and their clients to use a single provider to trade in many asset classes. The regulators would have also embraced technology where ordinary investors could verify at the SEC website the regulatory compliance and governance of market intermediaries and individual Registered Investment Advisors like in other countries.

Q7. Who is your role model and what motivated you to choose this career path?

My motivation came after studying for CFA. Once I became a CFA Charter holder I realized that there are serious deficiencies in the field of finance here and Sri Lanka has a long way to go before we can have properly functioning capital markets; particularly through the emphasis CFA places on ethics and social impact of capital markets.

CFA also helped me to get the first job in Finance. I was selected as the MD of FRL and thereafter ARL because I had the CFA qualification. Thereafter, the Supreme Court of Sri Lanka appointed me as a director of Sri Lanka Insurance Corporation as I was considered the most qualified financial expert to manage over 60 billion of asset under management. All these came by because I was accepted as a true finance professional with high level of integrity.

I don't have a particular role model but late leader Lew Kuan Yew of Singapore and late prime minister D. S. Senanayake can be highlighted.

Q8. What is your advice to finance and business undergraduates?

I think their first role should be to demand for properly functioning capital markets and help improve financial literacy. They should also strive to be ethical and educate the public on capital markets and what is going on at SOEs and importance of listing SOEs. It is much to do with increasing public ownership such that people can participate in the long-term investment opportunities of these enterprises. If we have a proper capital market not only the finance and business graduates will have good careers but also the whole society will benefit.

Q9. How did/ do you handle a disappointing moment in your career life?

By never giving up on your principles and values no matter what the situation is.

Q10. Out of all the achievements gained/ reached, what was the most important one that added value to your personal life?

ARL was a very satisfying job, seeing young people prospering and blossoming and getting much better jobs elsewhere. ARL wasn't subjected to any political constrains. It was able to stand on its own because ARL was serving overseas clients and not those in Sri Lanka. It was managed as high professional organization and was an absolute meritocracy. Personally, I benefitted as I was not constrained by the politics in Sri Lanka.

"It's your sheer effort that gives you results.
Your effort reaps you benefits"

Images: Sasithi Rambukkanage 2017, amazingpics.net, inspirationseek.com, freevector.com, pinterest.com, fineartamerica.com
Camera equipment- Courtesy of Dimuth Jayewardene

The next financial collapse?

Words: Sasithi Rambukkanage (4th year)

Banks are slowly becoming the depositors' nightmare. Throughout the history of financial institutions, decisions made by banks have been the primary cause of financial crisis. Hence, whatever the next step a bank takes which results in a drastic change would alarm all stakeholders enough to start inquiring about the consequences of such decisions and activities.

With the limitations available due to the legal boundaries and financial standards, banks have tried to innovate to roll out new products to the market. Nearing the first two decades of the 21st century, there is a new challenge to banks, i.e. "shadow banks".

Off-balance sheet activities have been used over the time and the term "shadow bank: also describes "risky off-balance sheet vehicles devised by banks to sell loans repackaged as bonds". Nowadays the term has gone beyond the scope a bank covers, into the domain of non-banks like "mobile payment systems, pawnshops, peer to peer lending websites, hedge funds and bond trading platforms set up by technology firms". This non-bank and informal lending sector and cash-rich sector claims an asset-worth above 80$ trillion globally as of 2014 according to the Financial Stability Board.

The problem is the lack of regulation of such a large sector.

As banks are subjected to heavy scrutiny and regulation, the deficit units are eager to fund their financial gaps using such shadow banks.

Shadow banks thus far, have worked well for deficit units, solely due to the benefits reaped from the absence of regulations itself.

These shadow banks allow clients who can't afford or reach a bank loan to finance their pecuniary needs through "bank loans in disguise" which consists mostly of the money of investors and credit taken by such lending institutions. Not to forget; the emergence of crypto currencies backed by blockchain systems with the emergence of FinTech has also given rise to the unregulated money circulation.

If the system fails, the dominoes effect is apparent in the process of lending and borrowing itself.

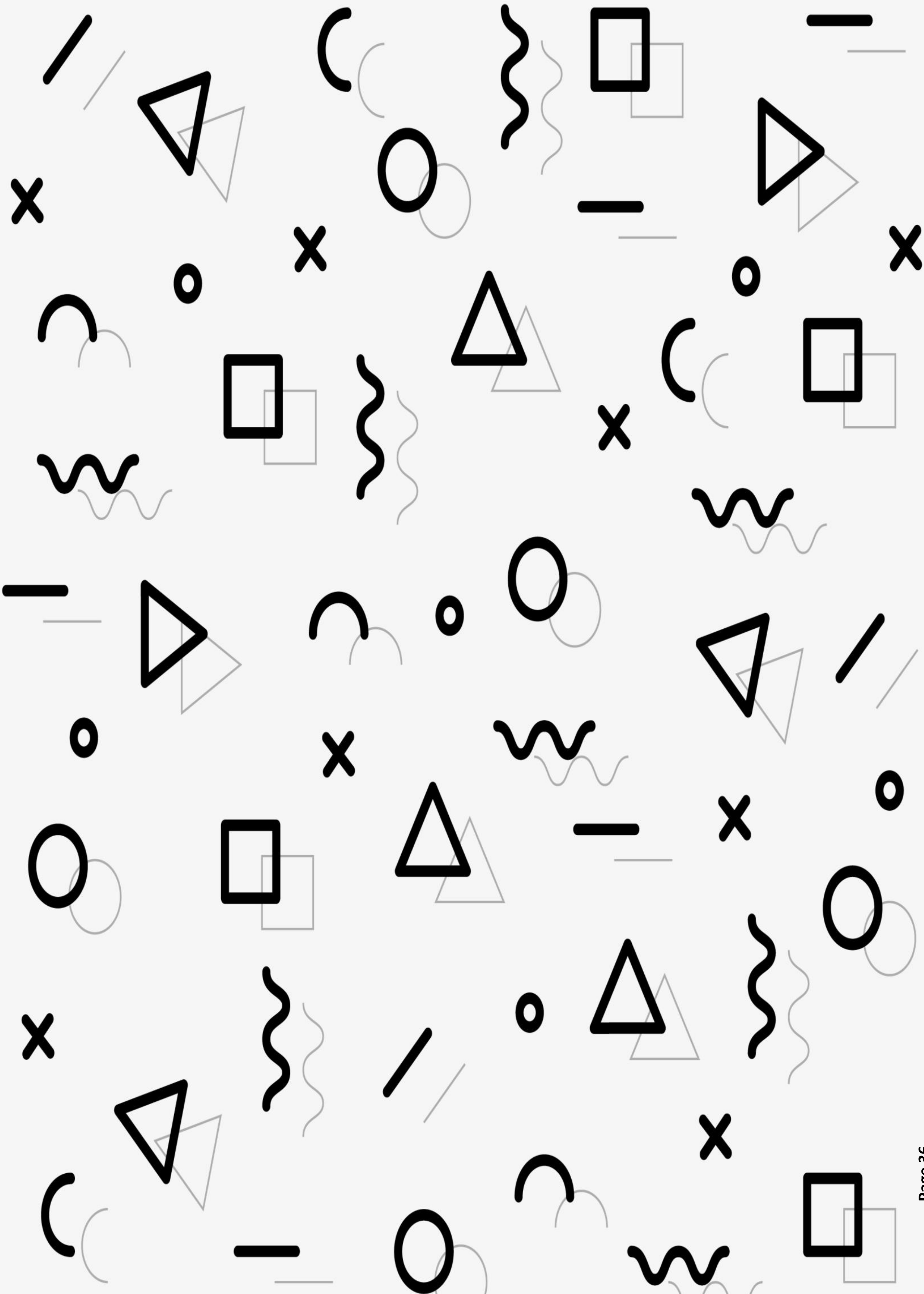
What drives the shadow banks against the big banks, are the "maturity mismatch and expense" or absence of formal banking methods. Yet authorities over the world have raised their concern as shadow banks sell their loans to financial institutions or banks and those entities, then resell those bundled as securities to other investors.

Such structures of inter-connections are the reason behind the financial crisis of 2007-08 which triggered a recession all throughout the world.

Declaration of structured investment vehicles on balance sheets, leverage levels and maintaining a must-have minimum net worth level among others have thus far been implemented to protect banks and global financial system.

We are yet to see its success or the next thing you see would be Robot-Advisors using Artificial Intelligence to construct future investment orientation.

References : The Economist, 2016.02.02
Images : theclipart.com



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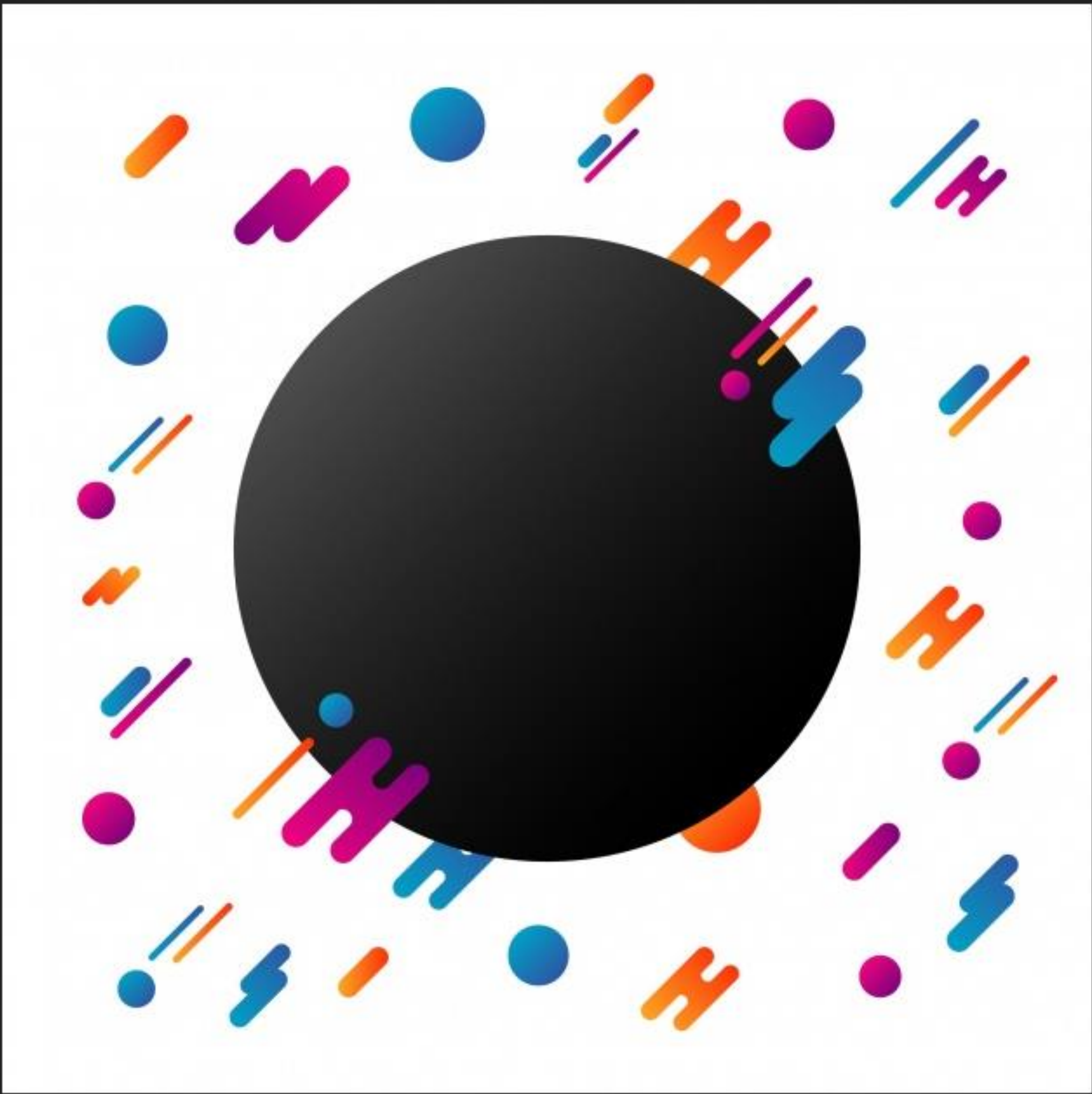

Financial Explorer 8

Image: freepik.com/memphis