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## Understanding Indonesia Capital Market
## OJK Financial Literacy Series – 2024

# What is Capital Market?

Hearing the word "Capital Market", typically people will associate this with high-risk activities. It can be a big profit; it can also lose all its assets. The lack of physical evidence in these capital market products makes the perception of such risks even more likely. In fact, if studied further, it turns out that capital market products are very diverse. There are products that are high risk, there are also those that are low risk. Even more importantly, if these capital market products can be used appropriately, they can improve society's wellbeing.

Capital Markets are the markets where companies and governments can obtain capital (funding) other than banks. This funding source will benefit governments and companies to undertake working capital improvements, business development and expansion, infrastructure development and thus ultimately enhance Indonesia's economic growth.

The products used to obtain funds from the public are generally divided into two types, namely:

- Funding through issuance of Debt Instrument or Bond
    - Bond is Debt statement letter from the issuer with promise to pay the debt principal and coupon in specified timeframe.
- Funding through issuance of an equity Instrument or Stock:
    - Stock is a statement letter of capital ownership to a company.

For the public, capital markets are a means to connect between the owner of capital and the party who needs capital. This means that the public can facilitate the company's need for funds by purchasing Bonds or Shares issued by the company through capital market brokering. The activity of buying shares and bonds is called Investments and the party doing it is called Investors.

By investing in Bonds, investors become the creditors who lend money to companies. The funds are then processed by the company for business development such as increase working capital, expansion, new product research, promotion, etc.

While investing in Stock, the difference is that, since the company is already a shareholder, it is not obliged to return the principal to the investor. The profits obtained from stock investors are dividends and stock price increases when the company performs well.

In carrying out the sale and purchase activities of capital market products, adequate time and expertise is required and sometimes there is not a small amount of capital. For people who do not have the above but want to benefit from investments in capital markets, they can still be investors by utilizing an investment instrument called a mutual fund.

Refer to Capital Markets Law No. 8 of 1995, article 1 paragraph (27) is defined that mutual funds are containers used to collect funds from the capital society to be subsequently invested in the securities portfolio by investment managers.

Thus, it is possible to invest directly in capital market products through the purchase of bonds and shares. While to invest indirectly in capital market products, it can be done through mutual funds.

# Why do you need to invest in Capital Market?

It is a fact that the price of goods increases year over year. A rise in the price of goods is commonly referred to as inflation, which is expressed as a certain percentage. Historically, inflation rates have been higher than deposit rates in banks.

This means that if we keep our wealth in the form of deposits, our wealth is not increasing but the value is decreasing as it grows lower than inflation rates.

Indonesia's rapid economic growth has been re-ported in various media outlets in recent years. One form of economic growth we directly experience such as year-over-year sales of cars and motors, ubiquitous malls and shopping malls and the use of state-of-the-art gadgets by different walks of life. It would be a shame to be a consumer. By investing, society is indirectly part of a company that benefits from the growth of Indonesia's economy.

So, the two main benefits of investing are as one alternative to growing wealth and as a tool to enjoy Indonesia's economic growth.

## Capital Markets Benefits

The Capital Markets provides many benefits, such as:

1. Provide alternative sources of funding to the business world. With capital markets in place, companies in Indonesia have new alternatives to sourcing funds for expansion activities other than bank loans.
2. Distribution of company ownership to the wider community. With capital markets in place, there is an opportunity for the wider community to participate in the company with a relatively small

amount of funds. Thus, the income earned by the company can also be enjoyed by the wider community who own the company's shares.
3. Openness and professionalism of companies that create a healthy business climate. Companies that are already owned by the wider community should be professional and open. Companies must also account for community funds by being open and performing well so that a healthy climate can be created.
4. Provide investment vehicles for investors. With capital markets in place, communities with excess funds can invest the money in hopes of achieving higher returns than saving with the bank.
5. Creating jobs/professions that are in the field of capital markets. Capital Markets are driving the industry to grow so it can absorb more labor. In addition, the capital markets themselves provide a variety of attractive professions, such as analysts, brokers (brokers), public accountants, legal consultants, investment managers, and other professions in the capital markets.

## Stock

Stock can be defined as a sign of investment of a person or party (entity) in a company or limited liability company. By including the capital, the rights of a stock investor include:

- Having a claim on the company's income.
- Having a claim on the assets of the company,
- Being able to be present and Voting at Shareholder General Meeting (RUPS).

Key Components of a stock include:

- Issuer: The company that issued the stock
- Dividend: The share of the company's profits given to shareholders

- Price: Last share transaction price reported through the Indonesia Stock Exchange

Some stock types include:

- Common Stock: Represent ownership in a company.
- Preferred Stock: Have additional rights over common stock, usually in the form of the right to earn preferred dividends even if the company is not in a condition to distribute dividends.
- Treasury Stock: Are common shares that are repurchased and held by the company.

Benefit in investing in Stock: basically, there are two advantages to investors by buying or owning shares:

- Dividend are profit-sharing provided by a company and come from profits generated by a company. Dividends that a company distributes can be cash dividends or stock dividends.
- Capital Gain is the difference between the purchase and sale prices. Capital gain is formed by the trading activity of shares in the secondary market, for example investors buy ABC shares at a price per share of Rp 3,000 and then sell them at a price of Rp 3,500 per share which means that the capital gain of Rp 500 for each share sold.

Returns in stock investments are referred to as Yields or Returns, consisting of:

- Dividend Yield / Dividend Return: Profits derived from receiving dividends.
- Capital Gain Yield / Capital Gain Return: Profits derived from price increases.
- Total Return: Profits derived from dividends and price increases.

## Risk in investing in Stock:

As an investment instrument, stocks have risks including:

- Capital Loss: It is the opposite of Capital Gain, which is a condition in which investors sell shares lower than the purchase price. For example, shares of PT. XYZ purchased at the price of Rp 2,000,- per share, then the share price continues to decrease to Rp 1,400,- per share. For fear that the share price will continue to fall, investors sell at the price of Rp 1,400,- it suffers a loss of Rp 600,- per share. Stock price movements can also be influenced by a variety of external factors such as macroeconomic conditions such as interest rates, inflation, exchange rates, such as social and political conditions, and other factors.
- Liquidation Risk: A company whose shares are owned is declared bankrupt by the Court. In this case the claims rights of the shareholders are given the last priority after all obligations of the company can be settled (from the proceeds of the sale of the company's wealth). If there is any remaining proceeds from the sale of the company's wealth that balance is divided proportionally to all shareholders. Liquidity Risk in stocks occurs when the transactions of a stock are so rare that it is difficult to trade. To see if a stock falls into the liquid category, investors can use some of the available index benchmarks such as:
  - LQ 45 – Pool of 45 stocks whose transactions are the most liquid on the stock exchange.
  - Kompas 100 – Pool of 100 shares that are considered to have good fundamental performance and have liquid transactions based on Compass assessment.

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# When do you need Capital Market Product?

Times are different and increasingly modern. The developments of these times have caused one to rethink their financial condition. For example, if in ancient times, people were still accustomed to living together in one large family, today's generation would prefer to live alone apart from their parents as a sign of independence. By living at home alone, a person or a family will be charged a fee and installments for purchasing a house that may not be paid for until his or her old age. Other characteristics are consumptive lifestyles, quality education and longer life expectancy. With the latest gadgets and technology adorning our daily needs, from young children to adults having the latest, low-cost telecommunications devices. Tuition also continues to rise despite the choice of free public schools. This is because every parent wants the best education for their children.

Not to mention that with the development of treatment technology, lifespans are becoming longer so one should prepare more funds to fund a longer retirement. Not infrequently, many people retire unprepared, children still struggle to meet their own needs, extending their working life or having to work back to pay for their lives.

By simply relying on saving, the results of the development are not as good as the increase in the price of goods due to inflation. Investing in capital market products such as stocks, bonds and mutual funds shows better returns than deposits.

However, because it contains risk, investment returns should be made in the long term because in theory, in the long term the price of shares, bonds and funds will always rise. Investing in the long term is one way to minimize the level of risk in addition to diversifying by investing in multiple instruments at once.

In conclusion, the best time to make an investment is now. In fact, if you can, it was done 10 years ago.

# What do Capital Market Investor look like?

Capital market products are not suitable for everyone. Although there are professional management services through Investment Managers, understanding is still needed so that an investor is prepared for risk and volatility in the capital markets.

For that reason, to become a capital market investor, it is important to have a profile as follows:

1. Have clear financial goals that will be achieved through investment instruments.
2. Has the completeness of documents i.e. KTP, NPWP, Savings.
3. Financially sound with the following characteristics:
4. Revenue > expenses.
5. No consumptive debt (credit card, KTA).
6. Emergency funds 3-6 times expenses.
7. Get a productive instalment of up to 30% of monthly income.
8. Invest using own capital.

# How to become Capital Market Investor?

1. Conduct a Financial Check up to see if we are financially healthy or not.
2. Create clear and planned financial objectives.
3. Consult with a professional such as a financial planner or investment adviser if unable to perform steps 1 and 2 yourself.
4. Complete KYC document requirements such as ID card, NPWP and Savings Book (if not through bank)
5. Go to the Seller Agent of the capital market product e.g., Securities, Investment Manager or Selling Agent Bank
6. Check the legality of products, managers, and sales agents through OJK on the website: www.ojk.go.id, call center: (area code) 500 655, email: konsumen@ojk.go.id
7. Discuss between the financial goals we want to achieve and the offer from the company.
8. Complete the risk profile questionnaire.
9. Listen to recommendations from the sales agent regarding appropriate products in line with financial objectives and risk profile.
10. Make the funds deposit according to the sales agent's instructions.
11. Submit evidence of funds deposit along with account opening details
12. Request facilities to conduct investment monitoring. Generally available online.
13. Periodically evaluate every 6 months or 1 year to see if the return on investment is growing as we expect it to be or not.

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