Four approaches to information technology infrastructure investment

[Technology](), [Information Technology]()

FOUR APPROACHES TO INFORMATIONTECHNOLOGYINFRASTRUCTURE INVESTMENT Presented by: Kemeasoudei Fanama (u0856287) WHAT IS INFORMATION TECHNOLOGY? Information technology is defined as the study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware. IT deals with the use of electronic computers and computer software to convert, store, transmit, process, protect and securely retrieve information. APPROACHES TO INFORMATION TECHNOLOGY INFRASTRUCTURE INVESTMENT 1.

Fundamental Approach: The basic tenets of the fundamental approach, which is perhaps most commonly advocated by investment professionals, are as follows: There is an intrinsic value of a security and this depends upon underlying economic (fundamental) factors. The intrinsic value can be established by a penetrating analysis of the fundamental factors relating to the company, industry, and economy. At any given point of time, there are some securities for which the prevailing market price would differ from the intrinsic value.

Sooner or later, of course, the market price would fall in line with the intrinsic value. ? ? ? Superior returns can be earned by buying under-valued securities (securities whose intrinsic value exceeds the market price) and selling over-valued securities (securities whose intrinsic value is less than the market price). APPROACHES TO INFORMATION TECHNOLOGY INFRASTRUCTURE INVESTMENT (continued) 2. Psychological Approach: The psychological approach is based on the premise that stock prices are guided by emotion, rather than reason.

Stock prices are believed to be influenced by the psychological mood of the investors. When greed and euphoria sweep the market, prices rise to dizzy heights. On the other hand, when fear and despair envelop the market, prices fall to abysmally low levels. Since psychic values appear to be more important than intrinsic values, the psychological approach suggests that it is more profitable to analyse how investors tend to behave as the market is swept by waves of optimism and pessimism which seem to alternate. The psychological approach has been described vividly as the ‘ castles-in-air’ theory by Burton G.

Malkiel. Those who subscribe to the psychological approach or the ‘ castles-in-the-air’ theory generally use some form of technical analysis which is concerned with a study of internal market data, with a view to developing trading rules aimed at profit-making. The basic premise of technical analysis is that there are certain persistent and recurring patterns of price movements, which can be discerned by analysing market data. Technical analysts use a variety of tools like bar chart, point and figure chart, moving average analysis, breadth of market analysis, etc.

APPROACHES TO INFORMATION TECHNOLOGY INFRASTRUCTURE INVESTMENT (continued) 3. AcademicApproach: Over the last five decades or so, the academic community has studied various aspects of the capital market, particularly in the advanced countries, with the help of fairly sophisticated methods of investigation. While there are many unresolved issues and controversies stemming from studies pointing in different directions, there appears to be substantial support for the following tenets. Stock markets are reasonably efficient in reacting quickly and rationally to the flow of information.

Hence, stock prices reflect intrinsic value fairly well. Put differently: Market price = Intrinsic value Stock price behaviour corresponds to a random walk. This means that successive price changes are independent. As a result, past price behaviour cannot be used to predict future price behaviour. In the capital market, there is a positive relationship between risk and return. More specifically, the expected return from a security is linearly related to its systematic risk. Stock price behaviour corresponds to a random walk. This means that successive price changes are independent.

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However, since there are uncertainties associated with fundamental analysis, exclusive reliance on fundamental analysis should be avoided. Equally important, excessive refinement and complexity in fundamental analysis must be viewed with caution. ? Technical analysis is useful in broadly gauging the prevailing mood of investors and the relative strengths of supply and demand forces. However, since the mood of investors can vary unpredictably excessive reliance on technical indicators can be hazardous.

More important, complicated technical systems should ordinarily be regarded as suspect because they often represent figments of imagination rather than tools of proven usefulness. The market is neither as well ordered as the academic approach suggests, nor as speculative as the psychological approach indicates. While it is characterised by some inefficiencies and imperfections, it seems to react reasonably efficiently and rationally to the flow of information. Likewise, despite many instances of mispriced securities, there appears to be a fairly strong correlation between risk and return. ? THANK YOU!!!