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MANAGEMENT OF COMMON STOCKS

UDC 336.763
336.781.2
Received: 16.04.2003
Subject review

Common stocks are easier to describe than fixed-income securities such as bonds, but they are harder to analyse. Fixed-income securities almost always have a limited life and an upper kune limit on cash payments to investors.
Common stocks have neither. Although the basic principles of valuation apply to both, the role of uncertainty is larger for common stocks, so much so that it often dominates all other elements in their valuation.

Key words: common stock, value stocks, dividends, target firm, rights, beta.

INTRODUCTION

Common stock represents equity, or an ownership position in a corporation. It is a residual claim, in the sense that creditors and preferred stockholders must be paid as scheduled before common stockholders can receive any payments. In bankruptcy, common stockholders are in principle entitled to any value remaining after all other claimants have been satisfied.

The great advantage of the corporate form of organisation is the limited liability of its owners. Common stocks are generally "fully paid and nonassessable", meaning that common stockholders may lose their initial investment, but not more. That is, if the corporation fails to meet its obligations, the stockholders cannot be forced to give the corporation the funds that are needed to pay off the obligations. However, as a result of such a failure, it is possible that the value of a corporation's shares will be negligible. This will result in the stockholders' having lost an amount equal to the price previously paid to buy the shares.

1. THE CORPORATE FORM

A corporation exists only when it has been granted a charter, or certificate of incorporation, by a state. This document specifies the rights and obligations of stockholders. It may be amended with the approval of the stockholders, perhaps by a majority or a two-thirds vote, where each share of stock generally entitles its owner to one vote. Both the initial terms of the charter and the terms of any amendment must also be approved by the state in which the corporation is chartered.[1]

1.1. Stock Certificates

The ownership of a firm's stock has typically been represented by a single certificate, with the number of shares held by the particular investor noted on it. Such a stock certificate is usually registered, with the name, address, and holdings of the investor included on the corporation's books. Dividend payments, voting material, annual and quarterly reports, and other mailings are then sent directly to the investor, taking into account the size of his or her holdings.

Shares of stock held by an investor may be transferred to a new owner with the assistance of either the issuing corporation or, more commonly, its designated transfer agent. This agent will cancel the old stock certificate and issue a new one in its place, made out to the new owner. Frequently, a registrar will make sure that this cancelling and issuing of certificates has been done properly. Usually, banks and trust companies act as transfer agents and registrars. Many stockholders have chosen to avoid these rather cumbersome procedures. Instead, depository arrangements are used, which substitute computerised records for embossed certificates.

1.2. Voting

Because an owner of a share of common stock is one of the owners of a corporation, he or she is entitled to vote on matters brought up at the corporation's annual meeting, and to vote for the corporation's directors. Any owner may attend and vote in person, but most choose instead to vote by proxy. That is, the incumbent directors and senior management will typically solicit all the stockholders, asking each one to sign a proxy statement. Such a statement is a power of attorney authorising the designated party listed on the statement to cast all of the investor's votes on any matter brought up at the meeting. Occasionally, desired positions on specific issues are solicited on the proxy statement. However, most of the time the positions held by the incumbents are made known with the proxy solicitation. As the majority of votes are generally controlled by the incumbents via proxy statements, the actual voting turns out to be perfunctory, leaving little if any controversy or excitement.

1.3. Proxy Fight

Once in a while, however, a proxy fight develops. Insurgents from outside the corporation solicit proxies to vote against the incumbents, often in order to effect a takeover of some sort. Stockholders are deluged with literature and appeals for their

[1] The State of Delaware has captured a disproportionate number of corporate charters because it is particularly hospitable in this respect as well as in levying corporate taxes.

proxies.[2] The incumbents usually win, but the possibility of a loss in such a skirmish tends to curb activities clearly not in the stockholders' best interests.

When proposals are to be voted on, the number of votes given an investor equals the number of shares held. Thus when a yes or no vote is called for, anyone controlling a majority of the shares will be able to make sure that the outcome he or she favours will receive a majority of the votes.[3] When directors are to be elected, however, there are two types of voting systems that can be used, one of which does not give a majority owner complete control of the outcome. This type of voting system is known as a cumulative voting system, whereas the other type of voting system that does allow a majority owner to control the outcome completely is known as a majority voting system (or straight voting system).

Under both systems, the winners of the election are those candidates who have received the highest vote totals. Thus if six candidates were running for the three directorships, the three receiving the largest number of votes would be elected.

Majority Voting System. With both voting systems, a stockholder receives a total number of votes that equals the number of directors to be elected times the number of shares owned. However, with the majority voting system, the stockholder may give any one candidate, as a maximum, only a number of votes equal to the number of shares owned. This means that in a situation where three directors are to be elected, a stockholder with 400 shares would have 1,200 votes but could give no more than 400 of these votes to any one candidate. Note that if there are a total of 1,000 shares outstanding and one stockholder owns, or has proxies for, 501 shares, then he or she can give 501 votes to each of the three candidates he or she favours. In doing so, this stockholder will be certain that they are elected, regardless of how the remaining 499 shares are voted. The majority shareholder's candidates would each have 501 votes, whereas the most any other candidate could receive is 499 votes. Thus with a majority voting system, a stockholder owning (or controlling with proxies) one share more than 50% is certain of electing all the candidates that he or she favours.

Cumulative Voting System. The cumulative voting system differs from the majority voting system in that a stockholder can cast his or her votes in any manner. As a result, a minority stockholder is certain of having some representation on the board of directors, provided that the number of shares owned is sufficiently large. In the previous example, the minority owner of the 400 shares could now cast all of his or her 1,200 votes for one candidate. Imagine that this owner wanted to elect director A, but the majority owner of 501 shares wanted to elect candidates *B, C,* and *D*.

In this situation, the minority stockholder could give all 1,200 votes to A and be certain that A would be one of the three directors elected, regardless of what the majority stockholder did. Why? If the majority owner held the remaining 600 shares, he or she would have 1,800 votes. There is no way that candidate A, favoured by the

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[2] Michael C. Jensen and Richard S. Ruback, "The Market for Corporate Control: The Scientific Evidence," *Journal of Financial Economics,* 11, nos. 1-4 (April 1993): 5-50.

[3] Richard Roll, "The Hubris Hypothesis of Corporate Takeovers," *Journal of Business,* 59, no. 1, pt. 2 (April 1996): 197-216.

minority stockholder, can come in lower than second place in the vote totals. This is because A will receive 1,200 votes, and there is no way that the 1,800 votes of the majority stockholder can be cast to give more than one of his or her favoured candidates a vote total in excess of 1,200. Thus the minority stockholder is assured that A will be elected, whereas the majority stockholder is assured that only two of his or her favourites will be elected.

How many shares, as a minimum, must a stockholder own in order to be able to elect a specific number of candidates under a cumulative voting system? In general, the formula for making such a determination is

$$n = \left(\frac{ds}{D+1}\right) + 1 \qquad (1)$$

where:

n = minimum number of shares that must be owned,
d = number of directors the stockholder wants to be certain electing,
s = number of shares outstanding,
D= number of directors to be elected.

Thus the minimum number of shares a stockholder needs in order to ensure the election of one director when three are to be elected and there are 1,000 shares outstanding is 251 { = [(1 X 1,000) / (3 + I)] + 1}. Because in the example the minority stockholder owned 400 shares, it can be seen from the formula that he or she is certain of being able to elect one director. Note that the minimum number of shares that must be owned in order to be certain of electing two directors is 501 { = [(2 X *1,000)* / (3 + 1)] + 1}. The minimum number owned to be certain of electing all three directors is 751 { = [(3 X 1,000) / (3 + 1)] + 1 }.

In summary, the cumulative voting system gives minority stockholders the right to have some representation on the board of directors, provided that the number of shares owned is sufficiently large In contrast, the majority voting system does not give minority stockholders the right to such representation, even if 49.9% of the shares are owned by the minority stockholder.

The voting system that a corporation decides to use depends not only on the desires of the corporate founders but also on the state in which the firm is incorporated. Some states require cumulative voting systems. In Delaware, however, there is no cumulative voting unless it is specifically stated in the corporate charter.

1.4. Takeovers

Periodically, a firm or a wealthy individual who is convinced that the management of a corporation is not fully exploiting its opportunities will attempt a takeover. This is frequently done with a tender offer being made by a bidder to a target firm. Before this offer is announced, some of the target firm's shares are usually acquired by the bidder in the open market through the use of brokers.[4] Then in its quest to acquire a substantial number of the target's shares, the bid is announced to the public. Advertisements to purchase shares are placed in the financial press, and material describing the bid is mailed to the target's stockholders. The bidder generally offers to buy at a stated price some or all shares offered ("tendered") by the current stockholders of the target. This buying offer is usually contingent on the tender of a minimum number of shares by the target's stockholders by a fixed date. When the buying offer is first made, the offered price ("tender price") is generally set considerably above the current market price, although the offer itself usually leads to a subsequent price increase.

Management of the target firm frequently responds to tender offers with advertisements, mailings, and the like, urging its stockholders to reject the bidder's offer. Sometimes a white knight will be sought, meaning that another firm that is favourably inclined toward current management will be invited to make a better offer to the target's stockholders. Another type of response by management is to pay greenmail to the bidder, meaning that any shares held by the bidder will be bought by the target firm at an above-market price. Still another type of response is for management of the target firm to issue a tender offer of its own, known as a repurchase offer, where the firm offers to buy back some of its own stock. (Repurchase offers are also made by firms that have not received tender offers from outside bidders.)

Other types of corporate defences include the PacMan defence, where the initial target turns around and makes a tender offer for the initial acquirer; the crown jewel defence, where the target sells its most attractive assets to make the firm less attractive; and the use of poison pins, where the target gives its shareholders certain rights that can be exercised only in the event of a subsequent takeover and that, once exercised, will be extremely onerous to the acquirer.

1.5. Ownership versus Control

Much has been written about the effect of the separation of ownership and control of the modern corporation. This separation gives rise to what is known as a principal-agent problem. In particular, stockholders can be viewed as principals who hire management to act as their agent. The agent is to make decisions that maximise shareholder wealth as reflected in the firm's stock price. No problem would exist if stockholders could monitor the managers costlessly, because the stockholders would then be capable of determining for certain whether or not management had acted in their best interests. However, monitoring is not castles, and complete monitoring of every decision is, practically speaking, impossible. As a result, some, but not complete, monitoring is done. This gives management considerable latitude in making decisions and leaves open the possibility that some decisions will not be in the stockholders' best interests.' However, the possibility of a proxy fight or tender offer provides at least some check on such decisions.

[4] See, M. Stigum, *The Money Market*, 3.rd ed., Richard D. Irwin, Ind., Homewood, Illinois, 1990.

To align the interests of management with their own, stockholders frequently offer certain incentives to management. An example is the use of stock options. These options are given to certain high-level managers and allow them to purchase a specified number of shares at a stated price (often above the market price when the options are initially issued) by a stated date. Thus they motivate these managers to make decisions that will increase the stock price of the firm as much as possible. Furthermore, given their relatively long initial lifespan, stock options implicitly exert pressure on management to take a long-term view in making decisions.

1.6. Stockholders' Equity

Par Value. When a corporation is first chartered, it is authorised to issue up to a stated number of shares of common stock, each of which will often carry a specified par value. Legally a corporation may be precluded from making payments to common stockholders if doing so would reduce the balance-sheet value of stockholders' equity below the amount represented by the par value of outstanding stock. For this reason the par value is typically low relative to the price for which the stock is initially sold. Some corporations issue no-par stock. (If so, a stated value must be recorded in place of the par value.)

When stock is initially sold for more than its par value, the difference may be carried separately on the corporation's books under stockholders' equity. Frequently the entry is for "capital contributed in excess of par value" or "paid-in capital. " The par value of the stock is carried in a separate account, generally entitled simply "common stock," with an amount that is equal to the number of shares outstanding times the par value per share (for no-par stock, the stated value).

Book Value. With the passage of time, a corporation will generate income, much of which is paid out to creditors (as interest) and to stockholders (as dividends). Any remainder is added to the amount shown as cumulative retained earnings on the corporation's books. The sum of the cumulative retained earnings and other entries (such as "common stock" and "capital contributed in excess of par value") under stockholders' equity is the book value of the equity. The book value per share is obtained by dividing the book value of the equity by the number of shares outstanding.

Reserved and Treasury Stock. Typically, a corporation will issue only part of its authorised stock. Some of the remainder may be specifically reserved for outstanding options, convertible securities, and so on. However, if a corporation wishes to issue new stock in excess of the amount originally authorised, the charter must be amended. This requires approval by both the state and the stockholders.

Sometimes a corporation will repurchase some of its outstanding stock, either in the open market through the services of a broker or with a tender offer. Afterward, this stock may be "held in the treasury." Such treasury stock is not entitled to voting rights or dividends and is equivalent economically (though not legally) to unissued stock.

A major study of over 1,300 stock repurchases found that nearly 90% of the repurchases analysed were executed in the open market, with the remainder being "self-tender offers."' There were two types of self-tender offers that occurred with approximately equal frequency. The first type is a "fixed-price" selftender offer, where the corporation makes an offer to repurchase a stated number of shares at a set, predetermined price. The second type is a "Dutchauction" self-tender offer, where the corporation again makes an offer to repurchase a stated number of shares, but at a price that is determined by inviting existing shareholders to submit offers to sell. The ultimate repurchase price is the lowest offered price at which the previously stated number of shares can be repurchased from those shareholders that have submitted offers.

Why do firms repurchase their stock? Previously it was mentioned that one motive was to repel a takeover attempt. Two other explanations have been offered. First, management may be attempting to send a signal to the shareholders (and the public) that the corporation's stock is undervalued in the marketplace. Second, it may be beneficial taxies to the current shareholders for the firm to use excess cash to repurchase stock instead of using it to pay a cash dividend.

For example, consider a shareholder who bought 10 shares of stock at Kn40 per share that are now worth Kn50 per share, resulting in an unrealised capital gain of Kn10 per share, or Kn100 in total. Furthermore, the shareholder could receive a Kn10 per share cash dividend from the firm as part of a general disbursement of excess cash. As a result, the stock price will drop Kn10 per share, removing the capital gain, but all of this dividend will be treated as taxable income to the shareholder.

Alternatively, the corporation could spend the same amount to repurchase its stock. If the shareholder tenders his or her pro rata share, then the investor will receive Kn100 for two shares of stock (= Kn100 cash dividend/Kn50 share price, assuming perfect markets) and have to pay capital gains on only the amount of Kn100 that exceeds the Kn80 (= 2 shares X Kn40) cost of the two shares that were repurchased. Hence the shareholder would have to pay capital gains taxes on only Kn20 of the Kn100 at that time but would have unrealised capital gains of Kn10 per share on the eight shares still owned (as the stock price would remain at Kn50 per share), upon which capital gains taxes will have to be paid at some later date when they are sold. Thus the shareholder benefits taxies from a repurchase in two ways in that a smaller amount is taxed at that time at a capital gains tax rate which is potentially a lower rate than the ordinary income tax rate.

Classified Stock. Some corporations issue two or more classes of common stock. For example, class A stock might have a preferred position in regard to dividends but might not have any voting rights. In contrast, class B stock might have full voting rights but a lower position in regard to dividends. Often this is equivalent to an issue of preferred stock, along with a normal issue of common stock.[5]

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[5] An interesting example involves Canadian corporations. Canadian firms are allowed to have class A and class B shares. The only difference between the two classes is that class A shares receive cash dividends whereas class B shares receive stock dividends. Furthermore, owners of either class can swap their shares one-for-one for shares of the other class at any time.

Letter or Restricted Stock. Security regulations require that most stock be registered with the Securities and Exchange Commission - SEC before it may be sold in a public offering. Under some conditions, unregistered stock may be sold directly to a purchaser, but its subsequent sale is restricted. Such letter stock must be held for at least two years and cannot be sold even at that time unless ample information on the company is available and the amount sold is a relatively small percentage of the total amount outstanding. (Indeed, it is called letter stock because the purchaser must provide the SEC with a letter indicating that the shares will be held as an investment and will not be for resale.) However, under certain circumstances large institutional investors are allowed to trade non-public securities issued under this rule among themselves at any time after their issuance.

2. CASH DIVIDENDS

Payments made in cash to stockholders are termed dividends. These are typically declared quarterly by the board of directors and paid to the stockholders of record at a date specified by the board, known as the date of record. The dividends may be of almost any size, subject to certain restrictions such as those contained in the charter or in documents given to creditors. Thus even though this is unusual, dividends may even be larger than the current earnings of the corporation. (If so, they are usually paid out of past earnings.)

Compiling a list of stockholders to receive the dividend is not as simple as it may initially seem, because for many firms the list changes almost constantly as shares are bought and sold. The way of identifying those stockholders who are to receive the dividend is by use of an ex-dividend date. Because of the time required to record the transfer of ownership of common stock, major stock exchanges specify an ex-dividend date that is four business days prior to the date of record. Investors purchasing shares before an ex-dividend date are entitled to receive the dividend in question; those purchasing on or after the ex-dividend date are not entitled to the dividend.

For example, a dividend may be declared on March 15 with a date of record of Friday, April 15. In this situation Monday, April 11, would become the ex-dividend date. If an investor bought shares on Friday, April 8, he or she would subsequently receive the cash dividend (unless the shares were sold later in the day on the 8th, in which case the new owner would receive the dividend). However, if the shares were bought on Monday, April 11, the investor would not receive the cash dividend. Besides a declaration date (March 15), an ex-dividend date April 11), and a date of record (April 15), there is also a fourth date, the "payment date." On this date (perhaps April 25) the checks for the cash dividends are put in the mail or deposited electronically in the accounts of custodian banks.

3. STOCK DIVIDENDS AND STOCK SPLITS

Occasionally, the board of directors decides to forgo a cash dividend and "pays" a stock dividend instead. For example, if a 5% stock dividend is declared, the owner of 100 shares receives five additional shares that are issued for this occasion.

The accounting treatment of a stock dividend is to increase the "common stock" and "capital contributed in excess of par" accounts by an amount equal to the market value of the stock at the time of the dividend times the number of new shares issued. (The "common stock" account would increase by an amount equal to the par value times the number of new shares. The remainder of the increase would go into the "capital contributed in excess of par" account.) In order to keep the total book value of stockholders' equity the same, the "retained earnings" account is reduced by an equivalent amount.

A stock split is similar to a stock dividend in that the stockholder owns more shares afterward. However, it is different in both magnitude and accounting treatment. With a stock split, all the old shares are destroyed and new ones are issued with a new par value. Afterwards the number of new shares outstanding is usually larger than the previous number of old shares by 25% or more, with the exact amount depending on the size of the split. In contrast, a stock dividend usually results in an increase of less than 25%. Whereas a stock dividend results in adjustments to the kuna figures in certain stockholders' equity accounts, no adjustments are made for a split. For example, if a Kn1 par value stock is split 2-for1, the holder of 200 old shares will receive 400 new Kn.50 par value shares, and none of the kuna figures in stockholders 1 equity would change.

A reverse stock split reduces the number of shares and increases the par value per share. For example, in a reverse 2-for-1 split, the holder of 200 Kn1 par value shares would exchange them for 100 Kn2 par value shares. Again there would not be any change in the kuna figures in stockholders' equity.

Stock dividends and splits must be taken into account when following the price of a company's shares. For example, a fall in price per share may be due solely to a large stock split. To reduce confusion, most financial services provide data adjusted for at least some of these changes. Thus if a stock split 2-for-1 on January 30, 1999, prices prior to that date might be divided by 2 to facilitate comparison.

3.1. Ex-Distribution Dates

Similar to the payment of cash dividends, the corporation specifies three dates associated with either stock dividends or stock splits: a declaration date, a date of record, and a payment date. However, there is now an ex-distribution date instead of an ex-dividend date. For stock dividends of less than 20%, the procedure is identical to the one described previously for cash dividends-the exdistribution date is four business days before the date of record, meaning that if you buy the stock after that date, you do not get the additional shares.

For larger stock dividends and all stock splits, the procedure is a bit different in that the ex-distribution date is usually the business day after the payment date (which, in turn, is after the date of record). Hence if a 25% stock dividend is declared on March 15 with a date of record of April 15 and a payment date of April 25, then anyone buying the stock before April 26 will receive the stock dividend. However, those who wait until April 26 to buy the stock will not receive the stock dividend.

3.2. Reasons for Stock Dividends and Splits

Why do corporations issue stock dividends and split their stocks? Nothing of importance would appear to be changed, as such actions do not increase revenues or reduce expenses. All that happens is that there is a change in the size of the units in which ownership may be bought and sold. Moreover, because the process involves administrative effort, and costs something to execute, one wonders why it is done.

It is sometimes argued that stockholders respond positively to "tangible" evidence of the growth of their corporation. Another view holds that splits and stock dividends, by decreasing the price per share, may bring the stock's price into a more desirable trading range and hence increase the total value of the amount outstanding.

4. PREEMFTIVE RIGHTS

Under common law (and most state laws), a stockholder has an inherent right to maintain his or her proportionate ownership of the corporation. The existence of these preemptive rights means that when new shares are to be sold, the current stockholders must be given the right of first refusal in regard to the purchase of the new shares. This is accomplished by issuing a certificate to each stockholder that indicates the number of new shares he or she is authorised to purchase. This number will be proportional to the number of existing shares currently owned by the stockholder. Usually, the new shares will be priced below the current market price of the stock, making such rights valuable. The stockholder can exercise the rights by purchasing his or her allotted amount of new shares, thereby maintaining his or her proportional ownership in the firm, but at the cost of providing additional capital. Alternatively, the rights can be sold to someone else.

For example, if a firm needs Kn10,000,000 for new equipment, it may decide to sell new shares in order to raise the capital. Given that the current market price of the stock is Kn60 per share, a rights offering may be used to raise the capital, where the subscription price is set at Kn 50 per share. Accordingly, 200,000 (= Kn 10,000,000/Kn 50) new shares are to be sold. Assuming that the firm has 4,000,000 shares outstanding, this means that the owner of one share will receive the right to buy 1/20 (= 200,000/4,000,000) of a new share. Because the number of rights received is equal to the number of shares owned, it can be seen that 20 shares must be owned in order to be able to buy one new share. Thus if a stockholder owns 100 shares, he or she will receive 100 rights allowing him or her to buy 5 [= (1/20) X 100] new shares. These rights are valuable because their owner can buy stock at Kn50 a share when the market price is significantly higher. The current owner of 100 shares can either use the 100 rights by coming up with cash equal to Kn250 (= 5 X Kn50) or sell the 100 rights to someone else. But this raises a question: What is a fair price for the rights?

Rights are distributed in a manner similar to cash dividends. That is, there is a date of record and, four business days earlier, an ex-rights date. Before the ex-rights date, the value of a right can be calculated by using the following equation:

$$C_o - (RN + S) = R \qquad (2)$$

where:

C_o = "rights-on" market price of stock,
R = value of a right,
N = number of rights needed to buy one share,
S = subscription price

Equation (2) can be interpreted in the following manner. If an investor purchases one share before the ex-rights date, by definition he or she pays the market price of C_o, shown on the left-hand side of the equation. Alternatively, the investor could purchase the number of rights necessary to buy one share of the new stock at a cost of RN and set aside an amount of money equal to the subscription price S. The total cost of doing this is (RN + S). The only difference between the two alternatives is that the first one gives the investor not only one share of stock but also one right. Thus, the difference in the cost of the two alternatives, C_o - (RN + S), must equal the value of a right R, as shown in Equation (2).

Equation (2) can be rewritten as:

$$R = \frac{C_o - S}{N + 1} \qquad (3)$$

Thus in the previous example, the value of a right when the stock is selling for Kn60 would be equal to approximately Kn.48 [= (Kn60 - Kn50) / (20 + 1)].

On or after the ex-rights date, the value of a right can be calculated by using the following equation:

$$Ce - (RN + S) = 0 \qquad (4)$$

where Ce is the ex-rights market price of the stock. The reasoning behind this equation is similar to the reasoning behind Equation (2). That is, an investor can purchase one share by either buying it in the open market at a cost of Ce or purchasing the requisite number of rights and setting aside the subscription price, for a total cost of *RN* + S. Because the purchase of one share ex-rights means that the investor does not receive a right, the two alternatives provide the investor with the same item. Thus the cost of these two alternatives should be equivalent, so the difference in their cost should be zero.

Equation (4) can be rewritten as:

$$R = \frac{C_e - S}{N} \qquad (5)$$

In the previous example, if the stock is selling for Kn56 after the ex-rights date, then the value of a right at that time would be approximately Kn.30 [= (Kn56 - Kn50)/20].

5. EX ANTE AND EX POST VALUES

Equilibrium theories such as the Capital Asset Pricing Model and the Arbitrage Pricing Theory imply that in the opinion of well-informed investors, securities with different attributes will have different expected returns. Thus the focus of these theories is on future or *ex ante* (Latin for "before the fact") expected returns. However, only historical or *ex post* (Latin for "after the fact") actual returns are subsequently observed. These historical returns are undoubtedly different from the expected returns, making it extremely difficult to tell whether security attributes and expected returns do in fact go together in the manner implied by either the CAPM or the APT. Moreover, such theories are relatively silent concerning simple ways in which a security's future expected return and attributes might be estimated by examining historical returns.

To bridge this gap, investigators have used the average historical return of a security as an estimate of its expected return. This requires an assumption that the expected return did not change over some arbitrary time period and that this time period contains a sufficient number of historical returns to make a reasonably accurate estimate of the expected return. However, an objection may be made in that expectations almost certainly would have changed over the time period needed to obtain a useful estimate of the expected return for any given security. Despite this objection, it is worthwhile to examine historical returns to see how they might be used to come up with meaningful predictions about the future. The next section explores the prediction of a firm's beta. It begins by discussing the estimation of the firm's historical beta by use of the market model.

CONCLUSION

Common stock represents an ownership position in a corporation. Common stockholders possess a residual claim on the corporation's earnings and assets. Furthermore, their liability for the corporation's obligations is limited.

Common stockholders elect the corporation's directors through either a majority or a cumulative voting system.

Corporations may at times repurchase some of their outstanding stock either in the open market or through a tender offer. Such actions may involve an attempt to repel a takeover, a signal to shareholders that the stock is undervalued, or a taxwise distribution of cash to shareholders.

Stock dividends and splits involve the issuance of additional shares of common stock to current stockholders, proportional to their ownership positions. No change in the total value of the corporation is caused by a stock dividend or split.

Preemptive rights give existing stockholders the right of first refusal to purchase new shares. Such shares are purchased in a rights offering.

Daily information regarding transactions in publicly traded stocks can be found in business newspapers and the business sections of most local newspapers.

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Sažetak

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Iako se redovite dionice mogu lakše opisati od vrijednosnih papira koji nose fiksnu dobit dospijeća kao npr. dionice, teže ih je analizirati. Vrijednosni papiri fiksne dobiti gotovo uvijek imaju ograničeni vijek te gornju kunsku granicu za gotovinska plaćanja investitorima.
Redovite dionice nemaju niti jedno od ovih svojstava. Iako se temeljna načela vrednovanja primjenjuju na oba oblika, kod redovitih dionica je uloga nesigurnosti veća, tako da ona često dominiraju nad ostalim elementima vrednovanja.

Ključne riječi: redovite dionice, vrijednosne dionice, dividende, ciljno poduzeće, prava, beta (mjera tržišnog rizika).

Zusammenfassung

DAS MANAGEMENT DER ORDENTLICHEN AKTIEN

Es ist viel einfacher die ordentlichen Aktien zu beschreiben als die Wertpapiere mit dem fixen Fälligkeitsgewinn wie z.B. Aktien, jedoch ist es schwieriger sie zu analysieren. Die Wertpapiere mit dem fixen Gewinn haben fast immer eine begrenzte Lebensdauer und die oberste Grenze der Kuna für die Barzahlungen an Investoren.
Die ordentlichen Aktien haben keine dieser Eigenschaft. Obwohl man die Grundprinzipien der Bewertung an beiden Formen anwendet ist bei den ordentlichen Aktien die Unsicherheitsrolle größer, sodaß sie oft über den anderen Bewertungselementen dominiert.

Schlüßelwörter: ordentliche Aktien, Wertpapieraktien, Dividenden, Zielunternehmen, Rechte, Beta (Marktrisikomaß).