Standard

Online Share Trading

Education newsletter

Issue # 10
16th August 2007

Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble...to give way to hope, fear and greed.

Benjamin Graham

INVESTOR SHOWCASE
Cape Town

You are invited to attend the JSE General Companies Showcase in Cape Town.

Senior executives of JSE listed companies will present their businesses to you. Thereafter you will be able to meet them face to face.

Companies/executives presenting are;

- Cadiz Holdings Ltd (Ram Barkai, CEO)
- Sekunjalo Investments Ltd (Norman Noland, Deputy CEO)
- Invicta Holdings Ltd (Arnold Goldstone, CEO)
- PSG Group Ltd (Jannie Mouton, CEO)
- Capitec Bank Holdings Ltd (Riaan Stassen, CEO)
- Eastern Platinum Limited (Wayne Robinson, CEO)

The event is being held on Monday 20th August and to book log onto the website and you'll see the event under "special announcements".

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Client courses for the next few weeks

These courses are *exclusively for Online Share Trading clients* and are free (except for the Technical Analysis courses). To book for one of these courses log onto Online Share Trading and go to; Help & Education ➔ Face to face classes

Johannesburg

- Understanding Share Instalments (23 Aug)
- Advanced/Practical Technical Analysis (25 Aug)

Cape Town

- Introduction to investing (18 August)
- A practical guide on how to effectively use the website (21 Aug)
- The Truths of the Market and Trading Skills (22 Aug)
- Introduction to technical analysis (01 Sep)

Durban

- Introduction to technical analysis (18 Aug)
- Introduction to investing (25 August)
- A practical guide on how to effectively use the website (28 Aug)
- The Truths of the Market and Trading Skills (29 Aug)

TALK
From the editor

What a fortnight since the last newsletter. World markets have been bouncing all over the place and with this in mind we have a review of perhaps the best book on trading that I have ever read – Come into my Trading Room.

For investors we have three IPO's online. Those looking for some extra dividend yield we have the JoziBonds IPO as well as the new Satrix Dividend Plus product and we also have the new Property ETF IPO. All three are open for subscription online under the special announcement section

All the best
Simon Brown
Head: Education & Training
Online Share Trading

INVESTOR
Pick a strategy and stick with it

Different people use different methods to pick stocks and fulfill investing goals. There are many ways to be successful and no one strategy is inherently better than any other. However, once you find your style, stick with it.

An investor who flounders between different stock-picking strategies will probably experience the worst, rather than the best, of each. Constantly switching strategies effectively makes you a market timer, and this is definitely territory most investors should avoid.

Take Warren Buffett's actions during the dotcom boom of the late '90s as an example. Buffett's value-oriented strategy had worked for him for decades, and - despite criticism from the media - it prevented him from getting sucked into tech startups that had no earnings and eventually crashed.

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INVESTOR
Satrix Dividend Plus

Satrix will be listing a great new addition to its family of Satrix products in late-August 2007. The Satrix Dividend Plus will provide a means of investing in a portfolio of companies paying higher than average dividends on the JSE.

The Satrix Divi portfolio will invest in the FTSE/JSE Dividend Plus Index. This consists of 30 companies, selected from the JSE Top 40 and Mid-Cap indices that are expected to pay the best normal dividends over the forthcoming year. The unique features the Satrix Divi offers, are:

- It will appeal to investors seeking a high income portfolio on the JSE.
- It holds the promise of out performance, as the high dividend paying component companies in the Satrix Divi are likely to re-rated relative to the rest of the market.
- The Satrix Divi will have a low correlation with other indices on the JSE and accordingly, it provides an ideal product for diversifying investment portfolios.
- The high yield nature of the Satrix Divi provides a defensive investment for the risk adverse investor.

More About Satrix Dividend Plus (Satrix Divi)
The new Satrix Divi will track the FTSE/JSE Dividend Plus Index, similar to the way other Satrix products, track main FTSE/JSE indices. The Satrix Divi portfolio will consist of the 30 shares on the Dividend Plus Index, held in exactly the same weighting they constitute in the index calculations made by FTSE/JSE. In this way, the Satrix Divi will exactly replicate the performance of this index.

All dividends received from the constituent companies in the Dividend Plus index, will be distributed by Satrix to investors at the end of each quarter. In this way, Satrix will provide the capital return of the index, as well as the dividend yield, associated with this index.

The Satrix Divi is expected to commence trading at a price of around R1,40 per security (100th of the Dividend Plus index level) and to receive an annual dividend yield of around 4,5 percent.

Similar to other products in the Satrix family, the Satrix Divi is a listed security (Exchange Traded Fund) and its JSE code is STXDIV. In addition, Satrix Divi is registered as a Collective Investment Scheme with the Financial Services Board (FSB). The Satrix products are therefore registered and fall under the legislative control and regulation of both the JSE and the FSB, providing peace of mind for investors.

Details on the FTSE/JSE Dividend Plus Index
FTSE/JSE launched the new Dividend Plus Index in August 2006. The Dividend Plus is a yield weighted index designed to select and measure

the performance of the higher yielding shares on the JSE.

The index selects the top 30 high yield instruments based on a one year forecast dividend yield. The consensus forecast of stockmarket analysts, from both the buy and sell side of the industry, is collected in the McGregor BFA Survey. The analysts provide forecasts purely based on cash dividends, therefore excluding special dividends, capital reductions and capital repayments.

The index universe consists of companies in the FTSE JSE Top 40 and FTSE/JSE Mid-Cap indices, excluding property companies. Shares included in the Dividend Plus Index should be sufficiently liquid to enable the entire portfolio to trade by R50 million per day.

Satrix Divi – Performance Issues
The Satrix Divi, which is a passive index tracking portfolio, based on the highest sustainable dividend yielding products on the JSE Top 40 and Mid-Cap share universe, looks an exciting product for adding both income as well as capital returns to the investment options available to stock market and unit trust investors.

The dividend plus index has comfortably outperformed the All Share Index over the 5 year period for which data is available.

How to Participate in the Initial Public Offer
The initial offer for subscription to the public offer for Satrix Divi commences on Monday 30th July. The closing date for subscriptions is **23rd Thursday August 2007 at 4.0pm**. The new Satrix securities will be listed on the JSE on Thursday 30th August 2007.

If you wish to participate in the IPO process, please log onto the website and you'll see the offer under special announcements.

The minimum subscription is R1000 and in multiples of R1000 thereafter.

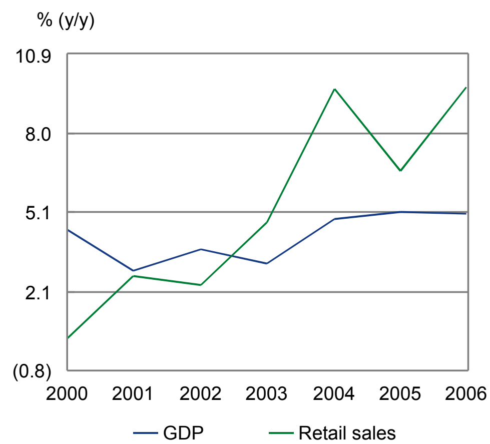
Subscription in the IPO does not incur brokerage, UST and other transaction charges **and investors are assured of receiving a full allocation of Satrix Divi securities**, for the cash amount they have subscribed, at the listing price of these securities.

Mike Brown
General Manager
Satrix Managers (Pty) Ltd
www.satrix.co.za

MARKETS
South African Retail sales

What is it?
Retail sales data analyse the performance of the retail trade sector of the economy. This sector along with wholesale trade and hospitality constitutes 14% of South African Gross Domestic Product (GDP). The performance of the retail trade sector provides an indication of how much consumers are spending and in turn provides an indication of how wealthy they feel and how confident they are about future economic conditions. Retail trade performance is, therefore, a barometer for future economic growth.

Figure 1: GDP and retail sales



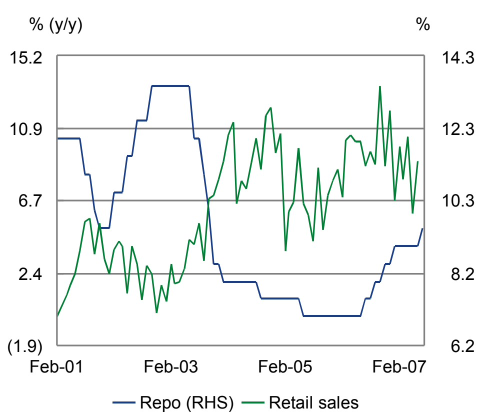
How is it calculated?
Retail trade sales data is compiled monthly by Statistics South Africa and is generally released 11 weeks after the survey is done i.e. June's retail sales data are released in August. The sector is made up of the following seven sub-sectors, whose performance are used in computing GDP estimates, with proportional contributions to total growth in brackets:

- ***General dealers (0.36)***: Non-specialised stores which predominately trade in food, beverages and tobacco;
- ***Specialised food, beverage and tobacco (0.12):*** Stores that specialise in the trade of either fruit and vegetables or meat or beverages or tobacco etc.;
- ***Pharmaceutical goods, cosmetics and toiletries (0.05)***;
- ***Clothing and footwear (0.19):*** Stores that trade predominantly in textiles, clothing and footwear;

- ***Furniture, appliances and equipment (0.08);***
- ***Hardware, paint and glass (0.07);***
- ***Other retailers (0.14):*** Stores that trade in reading matter, jewellery, sports and entertainment goods and other goods.

Why do retail sales matter?
Retail trade is the third-largest sector of South Africa's economy and thus its performance is important to the health of the economy. Therefore buoyant growth in retail sales, which in turn implies buoyant economic growth, indicates possible pipeline inflationary pressures in the economy. As increased demand, higher GDP, is associated with higher inflation. In addition, although two-thirds of retail sales data comprises semi-and non-durable products, retail sales provide an indication of whether monetary policy impacts consumer spending behaviour. This is because as a large proportion of South Africans finance their spending through debt. Therefore, despite the data being historic, the SARB pays close attention to retail sales when evaluating monetary policy.

Figure 2: Retail sales and Repo rate



Recent data
Retail sales surprisingly rebounded in May (9.0% y/y) following a significant moderation in April (5.9% y/y). Although May's retail sales figures are dated and represent sales activity before the June 50 bps hike and the implementation of the National Credit Act, the data indicates that consumer spending continues, despite last year's 200 bps interest rate increases. This remains a concern for inflation. In general, monetary tightening has a six- to 18-month lag before affecting consumer spending behaviour. Retail sales grew across the board in May, excluding those of medical goods and clothing and footwear. Increased employment and real disposable income may partially explain why households have not reduced their spending.

June's retail sale's figure is expected to have moderated from May but to still remain buoyant. This data, in conjunction with credit extension data, will show the SARB that consumers are not feeling the pinch of last year's interest rate hikes. In addition, these data along with manufacturing data, bar the June figure, will indicate to the monetary authorities that the economy can withstand further monetary tightening. Therefore, Standard Bank is of the opinion that the SARB will raise interest rates by 50 bps at the August Monetary Policy Committee meeting.

Ayanda Olifant
Analyst
Standard Bank CIB: Global Markets Research

TRADER
Instalments and the delta

At times like this when markets are in turmoil and shares are falling like a stone it's worth addressing the underlying structure of Standard Bank Share Instalments. In the structuring of Standard Bank Share Instalments the bank prices in some share price protection for the purchaser. What this means is that in a worst case scenario, if a share over which a Share Instalment is issued falls below the exercise price of the Share Instalment, that the maximum amount the client will lose is the amount invested in the Share Instalment.

This is achieved by including a put option as part of the structure with an exercise price and expiry date the same as that of the Share Instalment. Think of the put option as built-in insurance that limits your maximum potential loss to the amount initially paid for the Share Instalment.

The embedded put results in the net delta of the Share Instalment coming out (at issue) at slightly less than 1 for Share Instalments that are geared two times (ordinary Share Instalments). At issue In the case of Turbo Share Instalments, their higher levels of gearing means that the net delta at issue date will be in the region of 0,9 or 90%.

Delta is defined as the change in the price of an option for a 1% change in the underlying. It can range from 0 to 1, an option with a delta of 1 will move 1 cent for every 1 cent that the underlying moves, an Instalment with a delta of 0,9 will move 0,9 cents for a 1 cent movement in the underlying.

Depending on the movement of the share price post listing, the delta of the Share Instalment will also change – if the share price moves up, the delta will move back up towards 1, whilst if it falls it will move down towards a delta of 0,5 or 50% around the strike and towards zero if it falls lower. What this practically means is that in a falling market that a clients' exposure to the market will reduce as the delta of the Share Instalment falls and then rise again as the share price recovers and the delta heads back towards one.

What one needs to be aware of is that whilst for every 1 Share Instalment or Turbo Share Instalment that a person holds that they will receive one shares worth of dividend (when its paid), but that the movement of the Share Instalment will be dictated by its delta. So a Share Instalment with a delta of 0.5 or 50% will move 50 cents for a R1 movement in the price of the underlying.

Brett Duncan
Standard Bank Equity Derivatives

- Need more information? Call us on 0800 111 780 or email derivatives@standardbank.co.za.
- Online - log onto the website and on the menu ➔ help & education ➔ warrants course (this flash presentation also includes instalments.
- More online - log onto the website and on the menu ➔ help & education ➔ how to guides. Under the other guides section you'll find more on instalments.
- Face to face – we have presentations on instalments. To view dates and to book log onto the website and on the menu ➔ help & education ➔ face to face classes and select share instalments from the event type drop down.

REVIEW – BOOK
Come into my Trading Room

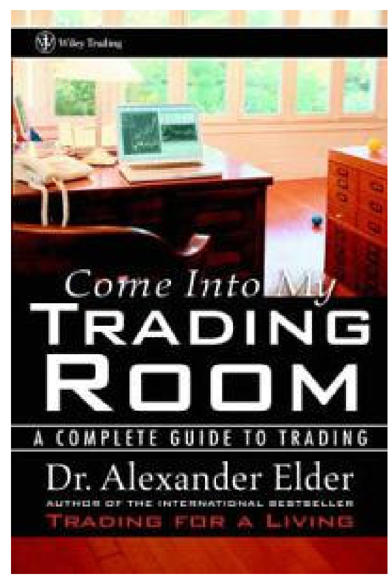
Come Into My Trading Room:
A Complete Guide to Trading
by Alexander Elder

I'd like to start by commenting on the idea of successful traders writing books on how to trade. Logic dictates that if you're a good trader, you'll make a lot more money trading than writing a book (and potentially find trading easier than writing a book). This may be true, but in the case of *Come Into my Trading Room* the lessons are of such value that, frankly, the motives of the author are secondary.

I had read Elder's first book, *Trading for a Living*, in the mid 90's. At that stage, my personal trading was questionable and, whilst I was sure the book had value, I was unable to enact what I had read. In truth, I wasn't convinced that trading needed to be as rigid as Elder suggested. It was another five years before my trading turned consistently profitable. This is the lesson for new traders: when an experienced and successful trader gives advice, take heed, for successful trading is an acquired skill.

Let me say right upfront — this is one of the top books on trading I have ever read. In short, if you want to be a successful trader, this book is a must-read.

Elder goes through the entire ambit of trading — from technical analysis, system design, his triple-screen system, a number of unique indicators he has designed, and how to put it all together. However useful these sections are, the true strength of the book is the last few sections that covers money management and record-keeping (a much neglected aspect of trading).



The section on technical analysis is not a comprehensive look at the subject, there are enough books covering this in detail. Rather, Elder highlights a few key areas and indicators that he feels are worth considering and gives some suggestions as to what fits together and works best; basically he suggests a trend-following system. On that point, Elder is not a fan of day trading; he says that the costs, slippage and stress make for very few successful day traders, and I full agree with him.

The most valuable part of the technical analysis section is his triple-screen concept which he suggests regardless of system type or chart period. The idea is that if you trade on the end-of-day chart, start with the weekly chart and only trade within the primary direction from the weekly chart. Or if you're a day trader, use five-minute bars to trade, then use the 30-minute chart for the major trend. This increases the probability of each trade being profitable and is something I have used (in an adjusted format) with great success over the last three years.

I stress that while Elder does offer some trading systems, this is not the book's intention, Rather, he is attempting to pass on skills to aspirant traders so that they can tweak and/or design their own trading system.

The last two sections of the book cover the crucial areas of money management and record-keeping. I suspect (and I speak from personal experience) that this is the section that most newbies neglect the most. Yet both are vital to any successful trader.

The bottom line is that trading is all about managing risk, and money management is the biggest part of risk management. Without it, a trader will go bust.

As for record-keeping, this is equally critical as it enables a trader to spot errors and learn from the past. Effective record-keeping gives one a snapshot of the time you entered the trade and are able to return to only if you have excellent record–keeping in action.

Elder goes into detail on both these two subjects and the book is worth its asking price just for these two sections.

To end at the beginning. The book starts with a comment; "You can be free. You can live and work anywhere in the world. You can be independent from routine and not answer to anybody…" Well yes, no, maybe. You can live anywhere, have no boss and work how and when you want. But routine is a major part of being a successful trader, and success is not a walk in the park. In fact, the vast majority of aspirant traders find successful trading very much harder than they thought. Trading requires discipline, and takes times to succeed.

Buy this unmissable read from *kalahari.net* for R534.00

Simon Brown

ROAD SHOWS
Getting started in shares

Online Share Trading is hosting free one and a half hour educational seminars to the public. The seminars are designed to get you started on how to invest in shares and are open to the general public.

By attending one of the seminars, you will learn:

- Investing and returns
- Why invest in the share market
- How to develop an investment strategy
- Understanding the share market
- What determines the share price
- How to make money in the market
- How to choose companies to invest in
- How do you buy shares
- Next steps

Tell your friends and help them get started on the path to creating wealth.

Dates & cities

- Cape Town – 30 August
- Johannesburg – 04 September
- Pretoria – 06 September
- Durban – 13 September

To book send us an email to seminars@standardbank.co.za telling us which city/date you wish to attend and please include your name and contact details. All venues are central and start at 6.00pm.