Standard

Online Share Trading

Education newsletter

Issue # 12
20th September 2007

The only thing that gives me pleasure is to see my dividend coming in.

John D. Rockefeller

Investment outlook for the JSE

Not clear on where the JSE will be in 6 months time?

Not sure what is happening to the Rand?

Want to get an expert view of the market and what to buy or sell?

We are pleased to invite you to a JSE Investment Outlook presentation. This will be presented by one of Standard Bank's well respected economists and one of Standard Financial Markets traders and will focus on the outlook for the JSE for the next 3 to 12 months.

The presentation will also provide recommendations on JSE listed shares as well as forecasts of their performance.

Cape Town – 25 September
Durban – 26 September
Johannesburg – 01 October

To book log onto the website and on the menu go to ➔ Help and education ➔ face to face classes.

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

- Basics of Single Stock Futures (26 Sep)

Pretoria

- Half day detailed warrants course (29 Sep)
- Intro to Fundamental Investing (03 Oct)
- Understanding company financials and announcements (05 Oct)

Durban

- Intro to Fundamental Investing (27 Sep)
- Understanding company financials and announcements (29 Sep)

TALK
From the editor

Well the FOMC cut rates by more then expected and world markets have rushed upwards as if they don't have a care in the world. What many have been asking is who is this FOMC? We cover that in this editions jargon busting.

Lastly don't forget the Investment Outlook presentation next week (Cape Town and Durban) and the week after in Johannesburg. It'll be an excellent event and is free to our clients.

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

INVESTOR
Investors adopt a long-term perspective

Large short-term profits can often entice those who are new to the market. But adopting a long-term horizon and dismissing the "get in, get out and make a killing" mentality is a must for any investor. This doesn't mean that it's impossible to make money by actively trading in the short term. But, as we already mentioned, investing and trading are very different ways of making gains from the market. Trading involves very different risks that buy-and-hold investors don't experience. As such, active trading requires certain specialized skills.

Neither investing style is necessarily better than the other - both have their pros and cons. But active trading can be wrong for someone without the appropriate time, financial resources, education and desire. Most people don't fit into this category.

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ECONOMICS
Balance of Payments

What is it?
The Balance of Payments (BOP) of a country is its balance sheet and income statement with the rest of the word. It measures the country's economic activity with other countries, and is a record of exchanges in goods, services, assets and financial claims between residents and their international counterparts. The BOP comprises of a country's exports and imports, payments and liabilities to foreigners and its foreign exchange reserves. Thus it is an indictor of a country's status in international trade.

How is BOP calculated?
The components of the BOP can be represented by the following equation:

Current account + Capital account = Change in official reserves where the:

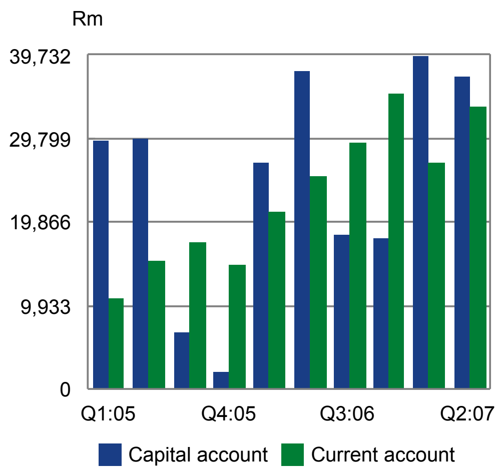
- ***Current account***: is the sum of the: *Trade Balance*, which is the difference between the amount of goods and services a country imports and exports; *Net Factor Income*, the difference between interest and dividends paid to and received from foreigners; and *Net Transfers*, which is foreign aid, grants and gifts receive from, and granted to other countries.
- ***Capital account:*** is the sum of net *Foreign Direct Investments*, when a company sets up offices or builds a plant or factory in a foreign country; net *Portfolio flows*, which include the trade in stocks and bonds; and net *Other investments*, which include transactions in currency and bank accounts in foreign banks.
- ***Official reserves:*** are the stock of gold and foreign currency reserves and IMF Special drawing rights (a potential claim on the freely usable currencies of IMF members).

What does it mean?
When a country imports are more (less) than it exports, pays more (less) interest and dividends to foreigners and grants (receives) foreign aid, the current account is in deficit (surplus).However, if foreigners own more (less) domestic assets than citizens own foreign assets, (i.e. if more foreigners open offices in a country than the country's citizens do in other countries, and invest more in shares and bonds) the capital account will be in surplus (deficit). If the current account deficit (surplus) is larger than the capital account surplus (deficit), the currency will depreciate (appreciate). Monetary authorities will have to sell (buy) the domestic currency in exchange for foreign currency, in order to finance the imports (exports).

Why does the BOP matter?
The current account is the most newsworthy of the BOP components and predominantly consists of the trade balance. Therefore the current account is determined by changes in the domestic currency, domestic economic growth and global growth. If the domestic currency is weak (depreciates) that

country's goods and services become relatively cheap, boosting exports. A decrease in domestic economic growth reduces the demand for foreign goods, thus reducing imports. While an increase in global economic growth increases international demand for domestic goods, thus increasing exports. Therefore the equation above implies that if a country consumes more than it produces (current account deficit) it has to borrow from other countries to fund its consumption (capital account surplus), else the domestic currency will have to depreciate (change in reserves).

Figure 1: Current* and Capital account balance



Note: For comparability, these are the absolute values of the current account balance

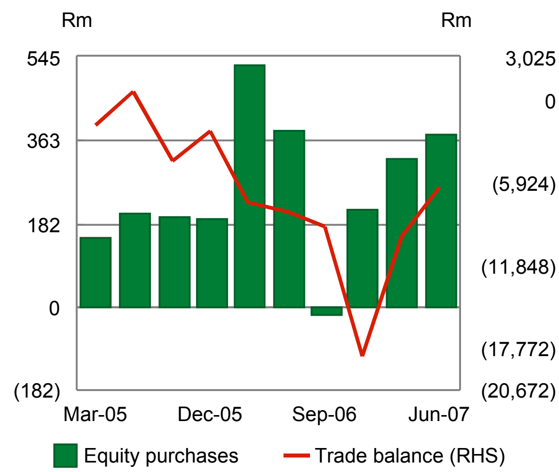
Recent BOP data

Balance of payments data is released quarterly as part of the SARB's Quarterly Bulletin. The latest BOP data, for Q2:07, showed that the current account deficit moderated from 7.0% in Q1:07, as a percentage of GDP, to 6.5% and remained adequately financed by the capital account. South Africa has been posting large current account deficits since 2006 when the government began investing in expanding the country's infrastructure and the private sector began expanding its productive capacity. With R416bn allocated to infrastructure spending, the current account is likely to remain in deficit over the medium term.

The latest current account data showed that despite an appreciation of the currency, the trade deficit contracted on the back of buoyant global and decreased domestic demand. Double digit economic growth in Asia increased exports while the domestic interest rate hikes since June 2006 slowed demand for imports. The reduction in the trade balance was counteracted by a significant increase in net factor income. The JSE, whose foreign ownership is increasing, reached record highs in Q2:07 resulting in increased dividend and interest pay-outs.

Although the current account deficit remains high, it is still being adequately financed by capital inflows. Net foreign direct investment doubled to R4bn in Q2:07 from R2bn in Q1:07 on the back of private equity deals, and portfolio inflows increased by R42bn as equity markets continued to provide double digit returns. This indicates that foreign investors are still attracted to South Africa's solid growth and economic fundamentals.

Figure 2: Trade balance and foreign equity purchases



The latest BOP data revealed that the current account deficit is moderating. This trend is likely to persist over the forthcoming quarters as domestic demand moderates further on the back of the 300 bps interest rate increases to date. In addition, the capital account is still adequately financing the current account deficit, as foreign investors continue to regard South Africa as an attractive investment destination. Therefore, it is not necessary for the domestic currency to depreciate. The next Quarterly Bulletin is due in November 2007.

Ayanda Olifant
Analyst
Standard Bank CIB: Global Markets Research

USING THE WEBSITE
New feature – company news

We've upgraded two features of the Online Share Trading quotes pages of JSE listed shares.

The first is an upgraded of the Company News section. In the past this was a manual process but it is now fully automated and as such it is delivering much better content.

The system now searches a list of websites looking for the companies name and if there's a match then we publish the introductory paragraph, the name of the website, date and time of the article and a link to the article.

Information, tools and links	
Company Profile (P)	Directors Dealings
Results Summaries	Company Directors
Detailed Forecasts-New	Company News-New
Research Reports (R)	Company Activities
Price Chart (C)	Share Forum
Price History (H)	SENS News (S)
Dividend History	Add to Watchlist (W)

Please note that the links send you to an external site that is not within our control and as such we do not endorse or guarantee the products, services, information or recommendations provided on that site.

Simon Brown

USING THE WEBSITE
New feature – detailed forecasts

The second section that has under gone an upgrade is the consensus data or "detailed forecasts".

In the past all that we had was the current recommendation (buy, hold or sell) and then three year forward data for Earnings per Share (EPS) and Dividend per Share (DPS). From these two numbers we were able to calculate the forward PE, EY and DY.

Now instead of a few lines of information we're publishing three pages of content on covered stocks (importantly not all shares listed on the JSE are covered, however the full list is more then 120 stocks).

We will go over many of the added features in the weeks and months ahead. But the first immediate feature is that not only do we list the consensus view of buy, hold or sell. Now we also list exactly how many analysis suggest a buy, hold or sell.

See image below. This is for Standard Bank and shows 6 analysis rate Standard Bank as a buy and 2 as a hold.

Simon Brown

INVESTOR
Hedging with single stock futures

Most people view futures with trepidation, considering the instrument to be high-risk and designed only for short-term traders. This assumption is correct, but there is a very useful investing aspect of Single Stock Futures (SSF's) that is often overlooked — hedging.

Hedging is the practice of offsetting the price risk inherent in any cash market position by taking an equal but opposite position in the futures market. I.e. you reduce the risk of downside in stocks you own by selling SSF's in the same stock.

For example: you own 1,000 Anglo (AGL) shares and you are concerned about the Anglo price dropping over the next few months. You could either just ride out the fall, or you could go short (by selling AGL SSF's, any fall in price will equate to a profit on the SSF) 10 SSF contracts on AGL (each SSF contract is equal to 100 shares).

In this way, any loss on the AGL shares would be offset by gains in the SSF contracts.

Importantly, any profit from Anglo would also be offset by losses in the SSF position. So the bottom line is that if you do a full hedge, you lock in the current Anglo price and you will neither make nor lose money.

Let's look at some of the nuts and bolts:

AGL price = R415.00
AGL quantity = 1,000
Sell 10 SSF contracts short at R415.00
You are now hedged at R415.00 on AGL and will make no profit or loss above or below this price.

Outcome 1
Anglo falls to R350
Loss on AGL shares = R65,000
Profit on AGL SSF = R65,000
Net profit/loss = R0.00

Outcome 2
Anglo rises to R450.00
Profit on AGL shares = R35,000
Loss on AGL SSF = R35,000
Net profit/loss = R0.00

So, by hedging ones Anglo shares, you effectively lock in the current price of Anglo, and if Anglo does fall, you will not lose any money while, if Anglo rises, you will not add to your profits.

Some important points:

- You will be required to put down margin (a “good faith deposit”) when entering the SSF position. This will be equal to around 15% of the value of the stock you are hedging.
- If the SSF futures position goes against you, you will be required to add to the margin deposit.
- Learn more about SSF’s online. Log onto the website and on the menu go to ➔ help and education ➔ single stock futures.
- Attend a face to face class. Log onto the website and on the menu go to ➔ help and education ➔ face to face classes ➔ find one in your area.

Simon Brown

TRADER
Instalment Positions Post a Roll

It is very important to note that when Share Instalments roll that they roll on a rand for rand basis and not on an equivalent exposure (effective gearing) basis.

To work out the effective gearing of a share instalment one uses the following formulae:

(Share Price of underlying/price of share instalment) * Delta of the share instalment.

And to work out the number of new share Instalments that you will receive post a roll one uses the following formulae:

Number of new Instalments =
(Cash settlement amount / Calculated Price of new Instalment)*Number of old Instalments

Where cash settlement amount = (the closing price of the underlying share on expiry date – the exercise price of the expiring Instalment)
Where calculated price of new Instalment = closing price of the new Instalment on the expiry date of the old Instalment as per the matrix offer price based off the closing price of the underlying share. This may differ from the closing price of the Instalment on the JSE as this level is set before the official close of the market at 5.00 p.m.

Please note:

1. Any fractions will be rounded down and the cash amount paid into your trading account.
2. The new Instalments will take around 5 business days from the expiration date of the old series to be delivered into your trading account.

What one has to consider is that when a share instalment rolls that the terms of the new instrument are reset for the year going forward i.e. one has a new strike and a longer expiry date for the new instalment compared the old one.

What this practically means is that the effective gearing and exposure that a holder has will change over the roll.

Below are two examples.

	FSRSTA	**FSRSTB**
Quantity	10,000	11,430
Delta	1.00	0.83
FSR price	2285c	2285c
Instalment Price	1010c	884c
Gearing	2.26x	2.23x
Exposure	22,600 FSR	25,489 FSR

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	OMLSTA	**OMLSTB**
Quantity	10,000	6,310
Delta	1.00	0.81
OML price	2133c	2133c
Instalment Price	483c	766c
Gearing	4.42c	2.30x
Exposure	44,200 OML	14,513 OML

The first point to note is that your Rand for Rand position remains the same pre and post the roll.

- FSRSTA = R10.10* 10,000 = R101,000.00
- FSRSTB = R8.84*11,430 = R101,041.00
- OMLSTA = R4.83*10,000 = R48,300.00
- OMLSTB = R7.66 *6310 = R48,334.60

The 2nd point to note is that the exposure pre and post the roll changes.

- On FSR it increases.
- On the OML it decreases.

Your exposure is calculated by:

- Quantity of Instalments * Effective gearing
- FSRSTA = 22,600 FSR; FSRSTB = 25,489
- OMLSTA = 44,200 OML; OMLSTB = 14,513 OML

Why is this case?

- Because when we roll an instalment we do a rand for rand and not an effective gearing switch.
- So whilst the rand value of your position over a roll will remain the same the effective gearing will change depending on the terms of the new instalment compared to the old (expiring) instalment.

<u>This is important point to realise as it will affect one's returns going forward.</u>

So what do I do if I wish to maintain my exposure pre and post the roll?

- FSRSTB sell out some instalments
- OMLSTB buy in some instalments

The calculation for this is

- (Initial Exposure/Effective gearing of new instalment) – Number of new instalments.
- FSRSTB (22600/2.23) – 11,430 = sell 1,295 FSRSTB
- OMLSTB (44,200/2.3)-63,10 = buy 12,907 OMLSTB

Or just contact us and we will do the calculation for you.

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.

JARGON BUSTING FOMC

Federal Open Market Committee (FOMC)

The branch of the Federal Reserve Board that determines the direction of monetary policy. The FOMC is composed of the Board of Governors, which has seven members, and five reserve-bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate in their service of one-year terms.

The FOMC meets eight times per year to set key interest rates, such as the discount rate, and to decide whether to increase or decrease the money supply, which the Fed does through buying and selling government securities. For example, to tighten the money supply, or decrease the amount of money available in the banking system, the Fed sells government securities. The meetings of the committee, which are secret, are the subject of much speculation on Wall Street, as analysts try to guess whether the Fed will tighten or loosen the money supply, thereby causing interest rates to rise or fall.

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- Basically the FOMC is the same as our local MPC (discussed in issue 2) who meet every two months to set the Repo rate, effectively setting the countries prime lending rate.

- On the web at www.federalreserve.gov/monetarypolicy/fomc.htm

  http://en.wikipedia.org/wiki/FOMC

PRESENTATIONS
AltX showcases – Cape Town

AltX, the Alternative Exchange at the JSE, invites you to learn more about the companies listed on AltX.

These outstanding presentations, which have been very well received by our clients in the past.

The two AltX Showcases in Cape Town are on 26 and 27 September.

Presenting on 26 September

- Vox Telecom, Tony van Marken, Executive Chairman
- Blue Financial Services, Dave van Niekerk, CEO
- OneLogix, Ian Lourens, CEO
- Beige Holdings, Mark di Nicola, CEO
- Kagisano, Eugéne van Niekerk, CEO
- SilverBridge, Jaco Swanepoel, CEO
- WG Wearne, John Wearne, CEO

Presenting on 27 September

- Ansys, Allan Holloway, CEO
- African Dawn, Marius van Tonder, CEO
- Rare Group, David Scheepers, CEO
- SAFIC Holdings, Fred Platt, CEO
- StratCorp, David Harington, CEO
- Telemasters, Mario Pretorius, CEO
- Esor, Bernie Krone, CEO

To book log onto the website and go to help & education ➔ face to face classes and scroll down to find the two presentations (you will also find details as to who is presenting).

NOTE: Seats are limited so please book early.

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 – 3 October
- Johannesburg – 11 October
- Pretoria – 16 October
- Johannesburg – 23 October
- Durban – 30 October

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.
