Standard

Online Share Trading

Education newsletter

Issue # 13
18th October 2007

Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful.

Warren Buffett

Currency Futures

Online Share Trading will be launching online currency futures later this month. Currency futures are financial instruments which can be used to take a position on the currency, be it to speculate or to hedge.

With the launch of currency futures, South African will for the first time be able to trade in currencies outside their two million Rand foreign allocation allowance stipulated by the South African Reserve Bank.

Join us for the 90 minute launch presentation (dates and cities as below) on this exciting new product.

Johannesburg - 23 Oct (full)
Durban - 24 Oct
Cape Town - 25 Oct
Pretoria - 30 Oct
Johannesburg – 08 Nov

To book log onto the website and on the menu go to Help and Education ➔ face to face classes event you wish to attend.

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
- Intro to investing (20 Oct)
- Truths of the Market & Trading Skills (24 Oct)
- Introduction to technical analysis (27 Oct)

Durban
- Currency futures (24 Oct)

Cape Town
- Share Instalments (17 Oct)
- Single Stock futures (18 Oct)
- Currency Futures (25 Oct)
- Half Day Warrants (27 Oct)

Pretoria
- Currency Futures (30 Oct)

TALK
From the editor

The major announcement this issue is currency futures, we will be announcing the launch date shortly – but in the mean time we have announced a series of presentations in the major centers.

What's special about currency futures is that they can be used to remove a currency risk where a risk already exists (hedging), or you can use currency futures to speculate, looking to profit from a move in the exchange rates.

Further they do not form a part of the current R2million off shore allowance and there is no limit to the exposure one may take with currency futures.

So check page one of this issue and sign up for a free presentation on this exciting new offering.

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

INVESTOR
Be open-minded when selecting companies

Many great companies are household names, but many good investments are not household names (and vice versa). Thousands of smaller companies have the potential to turn into the large blue chips of tomorrow. In fact, historically, small-caps have had greater returns than large-caps: over the decades from 1926-2001, small-cap stocks in the U.S. returned an average of 12.27% while the S&P 500 returned 10.53%.

This is not to suggest that you should devote your entire portfolio to small-cap stocks. Rather, understand that there are many great companies beyond those in the Dow Jones Industrial Average, and that by neglecting all these lesser-known companies, you could also be neglecting some of the biggest gains.

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REVIEW – WEBSITE
Base metals

Base metals are the non precious metals such as copper, nickel, zinc, aluminium and the like. In years gone by nobody really paid much attention to them, rather focusing on the precious metals such as gold and platinum. But the commodity boom of recent years has seen increased prices of these base metals and hence also increased interest in them and hence a number of websites promising to give you all you need to know.

The problem is that many of these websites don't actually offer very much that is really useful, so we decided to have a look at what's out there and we've picked two to review.

www.basemetals.com
The top of the page shows the latest closing price as well as 3 and 15 month future prices of the eight most popular base metals, but this is yesterday's close.

The website also offers static charts and links to news articles on base metals from a wide range of online sources. The problem is that the really great content is behind a subscription service that one has to pay to access. Unfortunate but I suppose they have to turn a profit somehow.

www.kitcometals.com
Bottom line I was a little disappointed at the free content above so went searching for a better site and stumbled across a Kitco service (we reviewed Kitco in issue 3 of this newsletter).

No surprise that the Kitco site is excellent with live spot prices, charts, commentary and plenty of news articles. Best of all is that it is open for all and free.

So for those looking for data and comment on base metals the kitcometals.com is by far the better website and highly recommended.

Simon Brown

ECONOMICS
Rule of 72

Have you always wanted to be able to do compound interest problems in your head? Probably not, unless you're a sociopath, but it's a very useful skill to have because it gives you a lightning fast benchmark to determine how good (or not so good) a potential investment is likely to be.

The rule says that to find the number of years required to double your money at a given interest rate, you just divide the interest rate into 72. For example, if you want to know how long it will take to double your money at eight percent interest, divide 8 into 72 and get 9 years.

(We're assuming the interest is annually compounded, by the way.)

Some examples or the rule vs. actually number;

Rate of annual increase	Rule of 72 answer	Actual answer
6	12.00 years	11.90 years
8	9.00 years	9.01 years
10	7.2 years	7.27 years
15	4.8 years	4.96 years

As you can see, the "rule" is remarkably accurate, as long as the interest rate is less than about twenty percent; at higher rates the error starts to become significant.

You can also run it backwards: if you want to double your money in six years, just divide 6 into 72 to find that it will require an interest rate of about 12 percent.
Rule of 72

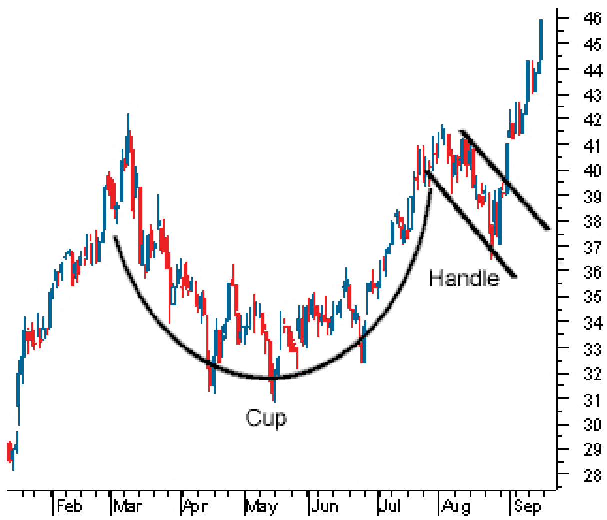
Simon Brown

TRADER
Cup & handle pattern

A cup-and-handle pattern resembles the shape of a tea cup on a chart. This is a bullish continuation pattern where the upward trend has paused, and traded down, but will continue in an upward direction upon the completion of the pattern. This pattern can range from several months to a year, but its general form remains the same.

The cup-and-handle pattern is preceded by an upward move, which stalls and sells off. The sell-off is what forms the initial part of this pattern. After the sell-off, the security will basically trade flat for an extended period of time, with no clear trend. The next part of the pattern is the upward move back towards the peak of the preceding upward move. The last part of the pattern, known as the handle, is a relatively smaller downward move before the security moves higher and continues the previous trend.

Components of the Cup and Handle
There are several components of the cup and handle that should be noted in order to evaluate the potential trading signal. First, it's important that there is an upward trend before the formation of the cup and handle. In general, the larger the prior trend is, the lower the potential for a large breakout after the pattern has been completed. The reason being that a lot of the run-up in the security happened prior to the formation of the cup, again weakening the size of the potential upward move.



Source: Chart by MetaStock

The construct of the cup itself is also important: it should be a nicely rounded formation, similar to a semi-circle. The reason is that a cup-and-handle pattern is a signal of consolidation within a trend, where the weaker investors leave the market and new buyers and resolute holders stay in the security. If the shape of the cup is too sharp (or quick), it is not considered a true consolidation phase in the upward trend and thus weakens the potential trade signal.

The cup's height should also be a focus: a traditional cup-and-handle pattern should be between one-third and two-thirds the size of the previous upward movement, depending on market volatility. So, if the move of the preceding trend was from $10 to $35, the height of the cup should be at least $8 (roughly $25 x 33%) to $16 (roughly $25 x 66%). The height of the cup can also be used as an initial price target after the pattern completes itself and breaks out of the handle.

The Handle
Another important component to watch is the handle, as it completes the pattern. As mentioned before, the handle is the downward move by the security after the upward move on the right side of the cup. If the handle is downward moving, the general rule is that the handle's downward movement can retrace one-third of the gain made in the right side of the cup. During this downward move, a descending trendline can be drawn, which forms the signal for the breakout. A move by the security above this descending trendline is a signal that the prior upward trend is set to begin.

A more conservative breakout signal would be above the price point of the two peaks in the cup. This is the price where the initial upward trend peaked and the point where the cup's upward move on the right side peaked before entering the handle. A breakout above this point is the strongest signal of a true resumption of the prior trend.

As with most chart patterns, volume is vital in the confirmation of the pattern itself and the signal formed. Again, the most important area of focus is the breakout: the stronger the volume on the upward breakout, the clearer the sign that the upward trend will continue. Like the head-and-shoulders pattern, the price may move back to the trendline to test the support.

The cup and handle is another time-tested pattern that has created valuable gains for investors. The components mentioned above are not absolutes but help to highlight areas of focus as a security trades in a cup and handle.

JARGON BUSTING
Recession

A significant decline in activity spread across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP).

Recession is a normal (albeit unpleasant) part of the business cycle. A recession generally lasts from six to 18 months.

Interest rates usually fall in recessionary times to stimulate the economy by offering cheap rates at which to borrow money.

JARGON BUSTING
Selling short

Selling shares you do not possess in the expectation of being able to buy them at a lower price before they are due for delivery. In other words making a profit as a share is falling.

Practically only institutions are able to directly sell short. Private investors make profits on the downside by using derivative products such as warrants (buying the put warrant) or selling a Single Stock Futures (SSF's) contract.

For more information on these warrants and SSF's log onto the website and go to; help and education and you'll see flash presentations on both.

Further we offer face to face classes onwarrants and SSF's. Log onto the website and on the menu under help and education ➔ face to face classes you'll find the next date in your area.

Simon Brown

REVIEW – BOOK
A Random walk down Wall Street

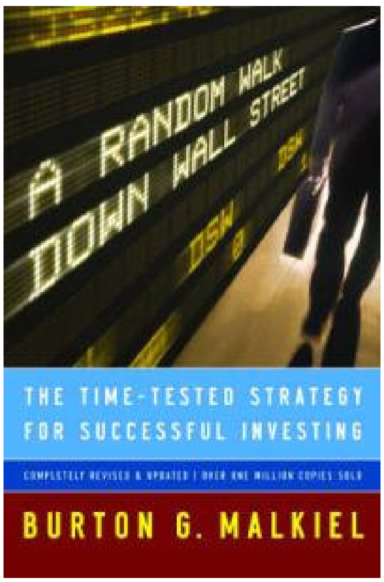
A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing, Ninth Edition by Burton G. Malkiel

I want to give you ACTIONABLE INFORMATION that can help you today with your investments currently. I am familiar with the arguments both pro, and con against the Random Walk hypothesis. Others have written extensively with eloquence and in great depth whether it is correct or wrong, and have explained it thoroughly in great detail.

The essence of the theory and this book is that PEOPLE SIMPLY CANNOT BEAT THE MARKET over time. You are better off INDEXING TO THE MARKET. There is a plethora of ways for you to do this. Read any of the wonderful books written by John Bogle, the MASTER of the Index Fund concept. He is a wonderful writer also. Try his "Common Sense on Mutual Funds".

Indexing is highly valuable because you essentially do as well as the market does over time - NO BETTER AND NO WORSE. We also know that the vast majority of professionally managed money performs poorly versus the INDEX. There is no argument on this point. I have observed that for the vast majority of investors today, they are better off indexing to the market.

Now having said that, and being in the industry, I have seen too many people BLOW AWAY the index rate of return to accept the Efficient Market Theory. I have watched close up on a personal level as a partner of a major Wall Street firm, Buffett , John Templeton, Larry Tisch, Andre Meyer (the man behind Lazard), Peter Lynch, Leon Levy (the genius at Oppenheimer), Jack Dreyfus, Ace Greenberg (Bear Stearns), Bob Wilson (the best short artist I have ever known), Charlie Allen (Allen and Company), Michael Steinhart, Jimmy Rogers, and George Soros literally year after year be right, and amass hundreds of millions of dollars, and sometimes billions for themselves by their brilliance, patience, and being ahead of the crowd.



What did they have in common? They had a unique capacity to cut to the chase in an investment. They were smarter than most investors, yes, but some of them weren't the geniuses that others believe them to be. They had clarity to their thinking. It could be emulated, studied, and replicated.

Without question, they drilled down deeper into an investment than 99% of their fellow investors. What they knew, they knew with certainty. They might be early, but they were seldom wrong. Do you think Buffett has made MANY poor investments? He's made a few, but not many.

John Templeton, who is right up there with Buffett as an investor, told me one day, "Rich, investments are just common sense." We were sitting in a meeting on a Saturday, in a hotel years ago, and I handed him a coke, it was the kind with the newly developed twist off cap at the time.

He asked for a bottle opener. I said, "John, you twist it off". He didn't believe me at first. When he saw how it worked, he took a magnifying glass out of his pocket and looked at the cap, and then what he said was profound. "I guess we could call Coca Cola up on Monday, and see who makes these things. Probably a million people in America opened coke bottles that day, oblivious to investment merits of a bottle-cap. What I am illustrating is how you make ALPHA, or the EXTRAORDINARY RETURNS we all so sorely want? Forgive me for the stories, but they are priceless.

The MASTERS are not LUCKY INVESTORS. You don't create a lifetime of success FIVE STANDARD DEVIATIONS FROM THE MEAN, and still believe in RANDOM WALK. In a room with Warren Buffett, he would tell you he doesn't believe in random walk.

Let me leave you with one way that all the MASTERS have become rich from my observations of them close up. Every one of them takes advantage of compounding, while everyone else is working with simple arithmetic returns. You already know that straight arithmetic returns cannot compare to an exponential return. Buffett goes out far enough in his investments - he would tell you forever, to derive a compounding rate of return.

You must find investments that will throw off a 15% to 20% rate of return and ride those investments for decades. When COMPOUNDING kicks in after several doubles, you start to make a killing, while ever one else is looking for that simple return. First however, you must pick companies that will last. This is why Buffett never, ever buys a technology stock. He can't go out far enough with it. So you ask me, "Great Rich, how do you find those"?

They are out there. You won't find them in the tech stocks, which usually collapse after about a seven year run according to the Harvard studies. You need to find the boring companies that just keep printing money consistently in a predictable fashion. Proctor & Gamble has been an interesting example for decades. A billion in sales in the 1970's, now up to about $70 plus billion. I can make a list from my head of a 100 boring companies that are up thousands of percent in the last several decades. Peter Lynch is a 100 percent right when he says, "Over time, stock value tracks earnings."

If you want Random Walk, you execute by buying INDEX FUNDS. From the early 1980's until now the Dow Jones alone is up about 1500%. Very few managed portfolios match that return. If you think however that you want to go after the elusive ALPHA return, than go for it. Study the MASTERS; there is nothing new under the sun. What worked 2 centuries ago for the Rothschild's, or 80 years ago for Bernard Baruch, can still have meaning today and good luck on your journey.

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ALT-X SHOWCASES
Durban

ALT-X is holding two investor showcases in Durban on 24th and 25th October. Investors will be able to listen to CEO's and directors talking about their company and they will be able to pose questions over a drink afterwards..

Presenting on 24 Oct;

- Sanyati Holdings Ltd
- Blue Financial Services
- OneLogix Group Ltd
- StratCorp Ltd
- W.G. Wearne Ltd
- Beige Holdings Ltd
- Ellies Holdings Ltd

Presenting on 25 Oct;

- Safic Holdings Ltd
- Interwaste Holdings
- Rare Holdings Ltd
- Esor Ltd
- TeleMasters Holdings Ltd
- African Dawn Capital Ltd
- Kagisano
- Gooderson Leisure Corporation

To book please log onto the website and you'll see the link under the special announcement section on the home page.

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

- Johannesburg – 23 October
- Johannesburg - 29 October
- Durban – 30 October
- Pretoria – 01 November

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.
