Standard

Online Share Trading

Education newsletter

Issue # 14
7th November 2007

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

John D. Rockefeller

Daily Rand Futures

With the recent launch of currency futures we have also launched a new daily report, Daily Rand Futures.

This report focuses on currency futures looking at;

- Trading activity
- Fundamentals
- Data
- Outlook for the day ahead
- Technical analysis

This report is free to clients and you can either receive it via email or online every morning.

To receive via email every morning;
Log onto the website. On the home page under special announcements you'll see the link - New Newsletter - Rand Futures Daily. Click on the link and follow instructions.

To find the report online every day;
On the menu ➔ Buy and sell ideas ➔ Latest research reports and look for the latest Daily Rand Futures report.

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

- Currency futures (08 Nov)
- Introduction to technical analysis (10 Nov)
- Understanding company financials and announcements (10 Nov)
- Share Instalments (13 Nov)
- Single Stock futures (14 Nov)
- Half Day Warrants (17 Nov)

Durban

- Advanced Technical Analysis (17 Nov)

Cape Town

- Introduction to investing (17 Nov)

TALK
From the editor

As I write this editorial gold is trading above US$800 for the first time in almost 28 years. Unfortunately for those gold bugs holding gold shares the increase in the yellow metal has not filtered through to the gold shares.

However don't forget about NewGold, an exchange traded fund (ETF) that tracks the Rand gold price perfectly, for more info we wrote about NewGold in issue six of the newsletter. You can find back issues on the website; on the menu ➔ help and education ➔ educational newsletter.

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

INVESTOR
Taxes are important, but not that important

Putting taxes above all else is a dangerous strategy, as it can often cause investors to make poor, misguided decisions. Yes, tax implications are important, but they are a secondary concern. The primary goals in investing are to grow and secure your money. You should always attempt to minimize the amount of tax you pay and maximize your after-tax return, but the situations are rare where you'll want to put tax considerations above all else when making an investment decision

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REVIEW – TV
CNBC Africa - personal finance

This weekly show is hosted by Leigh Roberts and covers the full range of personal financial issues including; jargon busting, retirement, investing, budgeting, insurance and more.

Every week they have studio guests who are experts in their fields and they delve into a wide range of subjects and occasionally I am a guest in the show

Overall a slick and professional show and it is recommended viewing.

Find the show on Channel 290 (CNBC Africa on DSTV) at the following times;

- Thursday @ 10.00pm
- Saturday @ 3.30pm (repeat)
- Sunday @ 12.15pm (repeat)
- Sunday @ 4.00pm (repeat)

Simon Brown

ECONOMICS
Gross domestic product (GDP)

What is it?
The Gross Domestic Product (GDP) measures how much a country has produced, goods and services, over a year. It indicates the size of a country's economy and the level of economic activity. An alternate method of measuring GDP, the most commonly used, is by recording the amount of expenditure in an economy. This comprises spending by households and government, investment by companies and the income received from exports. While GDP records how much is produced within a country's borders, regardless of the nationality of the entity, Gross National Product (GNP) measures how much a particular country's citizens have produced around the world. For example, a Standard Bank branch in the UK will be included in British GDP; it will also be included in South African GNP.

How is GDP calculated?
The components of the GDP can be represented by the following identity:

Consumption + Government + Investment + Net exports

Where the:

- ***Consumption (C)***: Household spending on food, clothing, medical and living expenses etc. but excludes the purchase of a property.
- ***Government (G):*** All spending by government to provide public services - such as building schools, salaries, purchasing military equipment etc. This excludes spending on social grants such as child grants and unemployment benefits.
- ***Investment (I):*** Refers to business spending on new machinery, software, construction of a new factory etc. Household purchases of property are also considered investment spending. This excludes the purchase of securities, shares and bonds, which are considered savings and not investment.

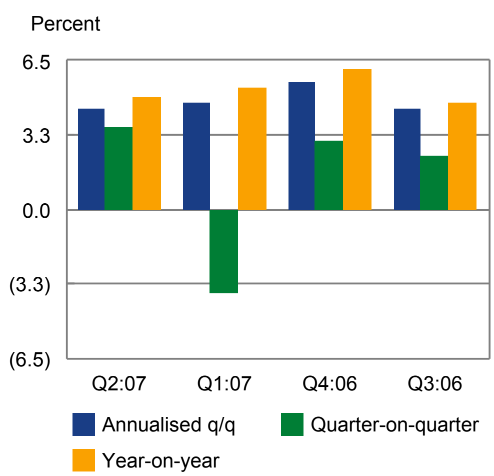
- ***Net exports (Z):*** Income received from exports less expenditure on imports. As imports are produced in a different country, domestic expenditure on them should be excluded when determining a country's productive ability.

What does it mean?
Traditionally, consumption has been the predominant driver of GDP but for the next three or four years, investment spending is likely to buoy the economy. The interest rate hikes since June 2006 is likely to constrain consumer spending over the coming year. Simultaneously the public sector has allocated R416bn to infrastructure development and the private sector is investing in increasing productive capacity to meet the needs of higher economic growth and the 2010 FIFA World Cup. The global and domestic growth outlook and domestic currency play a role in determining GDP through net exports. An increase in global growth increases demand for domestic products, thus increasing export contribution to GDP. Any appreciation of the domestic currency decreases (increases) the competitiveness of domestic (foreign) goods, subtracting (increasing) from exports (imports).

GDP growth is quoted in three manners:

- Year-on-year: Q2:07 vs. Q2:06
- Quarter-on-quarter: Q2:07 vs. Q1:07
- Annualised Quarter-on-quarter: Q2:07 vs. Q1:07 adjusted to reflect annual growth

Figure 1: GDP growth



South Africa's GDP composition
South Africa's GDP consists of 10 sectors (Table 1), with the largest three sectors being finance and business service, manufacturing, and wholesale and retail trade. The composition of GDP changes over time as the structure of an economy changes. Ten years ago, manufacturing made up a quarter of GDP while agriculture made up 5% and mining near 10%. While only comprising 3.3% of the economy, the construction sector has been growing the fastest over the last two years, 14% q/q Q2:07 vs. 1.2% q/q Q2:97. The buoyant growth in the construction sector is on the back of the country's infrastructure development programme. As an economy develops more of its GDP is derived from the tertiary sector, business services and banking, than from secondary and primary sectors, manufacturing and agriculture. This is evidenced in the decline in contribution from manufacturing, mining and agriculture and the increased contribution from business services to GDP.

Table 1: GDP components and growth

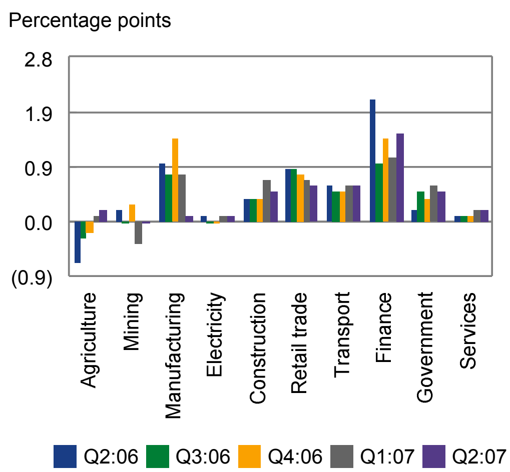
Industry	Relative size	Growth (annualized)	
		Q1:07	Q2:07
Agriculture, forestry and fishing	2.0	6.1	10.5
Mining and quarry	5.6	-7.8	-0.1
Manufacturing	16.4	4.7	0.5
Electricity, gas and water	2.1	3.6	3.0
Construction	3.3	21.3	14.4
Wholesale and retail trade, hotels and restaurants	14.0	5.0	4.4
Transport, storage and communication	9.9	5.8	5.9
Finance, real estate and business services	19.8	5.7	7.6
General government	12.6	4.4	3.6
Personal services	5.2	3.1	3.5
Tax less subsides	9.0	5.3	3.7
Total	**100**	**4.7**	**4.5**

Recent GDP data
GDP for Q2:07 was slightly better than market expectations. The latest figure means that South Africa is still experiencing its longest period of economic growth (96 months) in over half a century. However, the fact that the economy has

been growing slower than Q4:06 shows that the stronger rand environment (affecting the manufacturing sector and reducing exports), higher interest rates (reducing household expenditure) and reduced local and international demand (decreasing exports) are having a dampening effect on the economy.

The most disappointing sector was manufacturing, which slowed from 4.7 % q/q in Q1:07 to 0.5% q/q in Q2:07. This is particularly disturbing, as the sector is the second-largest in the economy. Although construction (Actual: 14.4 % q/q; Previous: 21.3% q/q) remains strong, the fact that growth in the sector has moderated could imply that the interest rate increases are starting to bite. The mining sector (Actual: -0.1% q/q; Previous: -7.8% q/q) continued to contract, albeit at a slower rate on the back of an improved rand price of gold. On the other hand, the financial services sector (Actual: 7.6% q/q; Previous: 5.7% q/q) continued to grow, as indicated by the strong annual results in the banking sector.

Figure 2: GDP contributions



The South African economy, although still solid, appears to be slowing down. Slower growth in the manufacturing sector is likely to remain, while the monetary tightening cycle is likely to constrain consumer expenditure. National Treasury projects a growth rate of 4.9% at the end of the year, a slowdown in growth, to 4.5%, in 2008 then resurgence in 2009 to 5.3%. The next GDP figures, released by StatsSA, will be available on 27 November 2007.

Ayanda Olifant
Analyst
Standard Bank CIB: Global Markets Research

MARKETS
Discipline rules

One of the most frequently asked questions I get is “what defines a successful investor?”. What common trait does one see in all investors? Do they have certain education skills, are they maybe all a certain age, are they all exceptionally smart? I believe investors are a diverse bunch of people, covering all ages, both genders, and a great variety of professions or occupations.

Furthermore, while wealth creation is a common aim, there are many different styles of investing. But, ultimately, there is one common denominator — discipline.

Discipline ensures an investor’s future survival as it gives them consistency in there approach and, importantly, it helps one focus on the end goal of wealth creation.

So, ultimately, what is meant by discipline, and how does one implement it into an investment strategy? Princeton University (*wordnet.princeton.edu*) defines discipline as “the trait of being well behaved, strength or self-control” — an excellent definition.

In the simplest sense discipline, is knowing how to react and what to do, in short, doing the right thing at the right time and avoiding knee-jerk responses. A perfect example is the recent spate of market jitters during the sub prime crisis. Local and global markets experienced severe volatility coupled with weakness that saw many investors panic. But a disciplined investor would know his tolerance level for risk and be properly positioned and, more importantly, would fully understand time horizons and exit strategies. If you’re a long-term investor with time on your side, then most likely you would have ignored the current sell-off, maybe cautiously using it to buy some quality stocks at decent prices.

Furthermore, a disciplined investor knows what their aims are and they fully understand the logic behind each and every purchase of an asset and, as such, they also have a well defined exit strategy for every stock in their portfolio. They will then simply wait for the exit conditions to be met, refusing to respond to anything else, ignoring global jitters and the like.

This is a very important point as selling essentially loses you your current position and you may have to pay more to regain the position after the panic has abated. Thus it is very important that exiting is done for the right reasons and not in response to a talking head on TV, market jitters or anything else.

Admittedly, it is easy to harp on about the importance of discipline, but it is not always easy to actually be disciplined — especially with world markets under pressure and market commentators often talking doom and gloom. I recently almost sold a stock after a negative article in a local publication got me worried. Fortunately, I was able to resist the urge to sell and remain disciplined — but I almost lapsed into a knee-jerk investor response.

The best method to help instil discipline is to create a simple share appraisal form*. This document is likely to be a few pages and will include the logic flow you follow when selecting a share, detailing what is important to the individual. It will also include your expectations, time horizon and, lastly, it includes the conditions under which you would be a seller.

This document helps to focus the mind when selecting shares and then you keep it as a record of your logic and as importantly you keep it as instruction for exiting. The rules of exit may be price based, maybe a certain PE level or maybe a decline in the rate of growth — anything can be added and/or used, as long as it is done logically and you stick to the logic. Naturally, having completed a share appraisal form and purchased the share you then file the document for future reference.

A last point to help instil discipline is to monitor how much market information you take in every day. The more we watch market news and prices, the more likely we are to be swayed by what we see and, hence, the more likely we are to make a knee-jerk response and buy or sell without using our logic. In this day and age, our access to information is massive, we have real-time prices on our computers, 24/7 market TV shows, multiple daily radio shows, newspapers, magazines and, of course, all the content on the Internet. All of it trying to make us respond; we need to remain disciplined and always do the right thing at the right time.

Easier said then done — but discipline is what separates the wealthy investor from the rest.

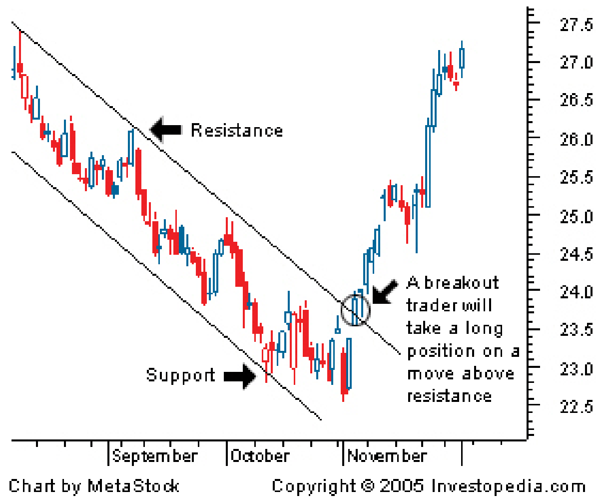
Simon Brown

* - We will be publishing our share appraisal form on the website during November.

TRADER
Breakout trader

A type of trader who uses technical analysis to find potential trading opportunities, identifying situations where the price of an asset is likely to experience a substantial movement over a short period of time.

Breakout traders generally look for key levels of support and resistance and will place transactions when the asset's price passes through these levels. Long positions are taken when the price of an asset breaks through a level of resistance, and short positions are taken when the price breaks below a level of support.



Many breakout traders find trading opportunities by identifying chart patterns such as channels, ascending triangles, descending triangles, head and shoulders, etc. These types of traders will generally set up target prices to be equal to the distance between support and resistance levels.

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TRADER
Currency futures

We have launched online currency futures trading (a first for the South African market) and all natural persons are able to trade the Rand/US$, either long or short.

To trade currency futures one needs to open a futures account, log into the website and you'll find the registration on the menu ➔ other products ➔ futures registration. This registration will enable one to trade both currency and single stock futures. If you already have a single stock futures account then you will automatically be able to trade currency futures.

We also have an educational brochure and presentation one can download, find these on the website under ➔ other products ➔ futures help.

Simon Brown

JSE & AltX SHOWCASES Pretoria & Johannesburg

The JSE is running four showcases in Johannesburg and Pretoria during the month of November. They are all free for clients and **booking is via the website, on the home page under special announcements**. You will also find details about the companies presenting at each event on the booking pages.

The details/dates/cities are;

- Pretoria – 13 November - AltX showcase
- Johannesburg – 15 November - JSE Financial Companies Showcase
- Johannesburg – 20 November - AltX showcase
- Johannesburg – 21 November - AltX showcase

Note that seats are limited so RSVP online to avoid disappointment.

AltX newsletter

The Alternative is a newsletter intended as an overview of the latest developments taking place on AltX. It is published monthly and distributed free via email to opt-in subscribers.

The latest edition is on the website under the special announcement section on the home page.

If you'd like to receive it directly email AltX@jse.co.za or call 011 728 5004.

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

- Durban – 15 November
- Johannesburg - 22 November
- Cape Town – 28 November
- Johannesburg - 05 December

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.