



## Online Share Trading

Education newsletter

Issue # 15  
21<sup>st</sup> November 2007

If investing is entertaining, if you're having fun, you're probably not making any money.

Good investing is boring.

George Soros

### Currency Futures More presentations

Online Share Trading recently launched online currency futures. 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.

Cape Town – 27 Nov

Durban – 29 Nov

Johannesburg – 03 Dec

To book;

- Log onto the website and on the menu go to Help and Education → face to face classes event you wish to attend.
- Email [seminars@standardbank.co.za](mailto:seminars@standardbank.co.za) with the city you wish to attend

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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

- Introduction to Fundamental Investing (21 Nov)
- Advanced/Practical Technical Analysis (24 Nov)
- Currency futures (03 Dec)

### Durban

- Intro to investing (24 Nov)
- Currency futures (29 Nov)

### Cape Town

- How to use the website (20 Nov)
- Truths of the Market & Trading Skills (21 Nov)
- Currency futures (27 Nov)

## TALK From the editor

In the last issue I mentioned an appraisal form for investing and my inbox has been flooded with clients asking for just such a form.

So in this issue we have an in-depth article on the concepts behind an appraisal document (they call it an investment analysis form) and we also provide two links for users to see some examples and make their own that meets their requirements.

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

## INVESTOR Get Organized With An Investment Analysis Form

When you're thumbing through annual reports, proxy statements and analyst ratings of multiple companies, the numbers can start to blur together. On top of that, once you've taken a look at all the financials a company has to offer, you can find yourself wondering what the significance is of the figures you've been looking at. It's information overload and it's to be expected in any situation where fairly abstract ideas, like solvency ratios and assets per share, are thrown about in large quantities. In this article, we'll show you how to organize all the company information you've gathered into a readable and useful format.

Just sitting down with a bunch of financial statements isn't a very efficient or effective way of determining whether or not a company is a good investment decision. You've got to organize your thoughts - otherwise you're just going to be spinning your wheels. That's why creating your own investment analysis form can be one of the most valuable investment tools in your arsenal. An investment analysis form is a tool that you can use to help gather numbers and essential information needed to make an investment decision in one easy-to-use format.

### Simplify Your Research

An investment analysis form is the perfect place to record key figures and pieces of information about your company as you find them in your research. This can be done on a customized form on a sheet

of paper or on the computer through a spreadsheet program.

An investment analysis form allows you to better interpret your data systematically, as all of the information is collected into a standardized format. Because information is plugged in uniformly, you're guaranteed not to miss anything that you have deemed important.

An investment analysis form also allows an investor to simplify his or her research by only looking at information that is relevant to the investment decision, while throwing out any superfluous data. There are a lot of reasons why you might run into extraneous information in your research, but unless you make sure that it's kept out of your investment criteria, it's difficult to say whether or not unimportant information is influencing an important decision.

You can bet that investment professionals don't just go at an investment without a plan, and neither should you.

### Information within the Form

The first step in developing your own investment analysis form is determining what you want to include in it. There are some figures that are essential and some that will be specific to your individual investing style.

Things like recent stock price, earnings per share (EPS), price/earnings ratio and total debt are pretty universal. Don't have an investment form that is missing an essential piece of financial information - anything that you would expect to see on the stock quote page of your favorite financial website should probably be included.

Numbers aren't the only thing that belongs on the form. You'll definitely want places to write in things like products, addressed and unaddressed risk, legal troubles and the like. Your personal instincts and impressions after doing your research will be invaluable when you go back to looking at the stock a day or a year down the road, so make sure that you have a place to write them down. If you do a lot of investment research, it's even easier to forget your impressions about a certain stock. That's when having all those comments right at your fingertips is such a benefit.

Now that you've got the essentials and the write-ins taken care of, don't forget the simple stuff. Have a place for the company name, the symbol and the date you did your research. Include things like state of incorporation, investor relations

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contact and a phone number for the main circuit board. While it may seem like a lot, it sure comes in handy when you need to reach someone to voice your concerns or just to get the latest financials from the company.

The process of creating an investment form is not a one-time deal, as you will likely make many changes over time as you hone your analysis skills.

#### Creating the Form

There are a couple of ways to set up your form. You can take a pen and paper and set up your spaces to write in information or, for the technically inclined, you can put it together on your computer using anything as simple as a word processor or as complex as professional page layout software.

If you'd prefer to go paperless, using a spreadsheet program like Microsoft Excel can offer you quite a bit of flexibility. If you prefer to use the old-school paper method, take your form template to your closest copy center and go copy crazy. Make enough copies so that you won't have to worry about running out in the near future. That way, when they are finally ready for some analyzing, you'll have all the blank copy forms you'll need.

#### Analyze Your Investments

Once you're all set up with a form of your own, you'll probably find that collecting your thoughts is a lot easier than it used to be. If you can interpret a stock quote online, you should have no problem interpreting the data you'd want to include on your form. It just simplifies the process of investment analysis.

Where the idea of an investment analysis form really shines is when you're trying to scale across investments. Having information available to you in an organized way for multiple companies makes a comparison of two companies a much less impractical task and can help cement your understanding of what attributes make for an attractive investment. Just don't forget that an investment analysis form is just an aide. It won't tell you whether a particular stock is a smart investment, but it can help you organize your thoughts and data so that you can make that determination for yourself.

#### Conclusion

Scouring through piles of result documents can be an unpleasant and confusing task, especially for a less experienced investor, but with the right tools for the job, making use of the information you

collect can be all the easier. Creating your own investment analysis form can enable you to interpret the information you deem important in selecting an investment without losing your head in a sea of numbers.

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Find an online example at;

<http://tinyurl.com/2f6nrs>

or

<http://tinyurl.com/25dlj9>

## REVIEW – BOOK Longman dictionary of financial terms

I have been searching for this book (well one like it) since, well forever. It is a comprehensive dictionary of financial terms from A – Z; abandonment to zombie (a company that is insolvent but continues to operate until its fate is resolved by closure or merger!).

But the real treasure here is that this book is for the local South African market so there are lots of examples that directly tie into our market. In fact the examples are taken from Business Day or the Financial Mail, so not only are they local but they are real.

An excellent book and everybody should have a copy on their desk.

Simon Brown

## REVIEW – WEBSITE Incrediblecharts.com

This is an Australian website whose claim to real fame is a free charting package, albeit they do not supply SA shares so that is not the focus of this review. Rather I am looking at the content on the website and here we have some real gold.



They have articles on trading strategies, setting up trading systems

and managing the risk. Unfortunately these articles are often mere teasers to entice people to use the software, but there are still some gems to be found.

The real value of this website is the A-Z of chart patterns and indicators. The articles are short and

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to the point, perfect for getting a basic introduction to an indicator.

Simon Brown

## TRADER Using currency futures

Currency futures can be used to remove a currency risk when one already exists (hedging) or they can enable currency risk (where none exists), speculating.

### Hedging transaction in a weakening Rand scenario:

John is travelling to the USA in a December and wants to reduce his risk of a weakening in the US\$/Rand exchange rate when he buys his US\$ travellers cheques (i.e. his US\$ will cost him more if this happens).

By purchasing currency futures now in September he is able to "lock" in the current exchange rate of R7.2125. John knows that every currency futures contract is worth US\$1,000 and as he plans to take US\$7,000 with him for his holiday he buys 7 currency futures contracts making his exposure US\$7,000. This exposure to US\$7,000 at R7.2125 equates to an exposure of R50,488.

Fortunately for John, a currency future does not require the full amount to be deposited with his broker, but only a deposit called an 'Initial margin' of R4,830 (R690 initial margin x 7 contracts).

His broker may charge him a brokerage fee which is negotiated directly with the broker.

In December John is ready to buy his travellers cheques at the current exchange rate which has now moved to R7.6035, so the US\$7,000 John needs to buy will now cost him R53,225 (an extra R2,737). However, his currency futures contracts have made a profit of R2,737 and John sells the contracts and uses this profit to offset the increased cost of the travellers cheques.

John has effectively paid R7.2125 per US\$ for the travellers cheques thus locking in his cost of travellers cheques at R7.2125 back in September.

### Speculative transaction in a strengthening Rand scenario:

Sarah is a trader and she has a view that the US\$ will be weakening against the Rand as she thinks interest rates will be falling in the US and wants to be able to profit from such a move.

Sarah sells 10 currency futures contracts at R7.3245 and as such is she is now long the Rand and short US\$. This exposure to US\$10,000 at R7.3245 equates to an exposure of R73,245.

Fortunately for Sarah, a Currency future does not require the full amount to be deposited with her broker, but only a deposit called 'Initial margin' of R6,900 (R690 initial margin x 10 contracts).

Over the next few weeks the Rand strengthens and Sarah closes her currency future trade by buying 10 currency futures contracts at R6.9545. Her profit is R370 per contract (R7.3245 - R 6.9545 = 37c x US\$1,000 x 10 contracts = R3,700).

Sarah has made a profit of R3,700 on an investment of R6,900 or a return of 53%.

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## TRADER Dow Jones futures

I am constantly being asked how to find information on the US indices futures values ahead of the US markets opening every day.

There are many sites that provide the information with my preferred being the CCN one at [money.cnn.com/data/markets/](http://money.cnn.com/data/markets/)

It is a relatively clean page with the futures values on; Dow Jones, Nasdaq and S&P500. When the market opens it then also tracks the main US indices as well as; oil, gold and the US government treasury bills.

One last important point, while futures can be an important indicator understand that firstly they naturally change as new information is being released. Further understand the time difference. At 10am in South Africa it is 3am in New York and we need to ask ourselves who are these people trading the US futures market at this time of the morning?

Simon Brown

## JARGON BUSTING

### Bottom up

An investment strategy in which companies are considered based simply on their own merit, without regard for the sectors they are part of or the current economic conditions. A person following this strategy will be looking very closely at the company's management, history, business model, growth prospects and other company characteristics: he or she will not be considering general industry and economic trends and then extrapolating them to the specific company.

Followers of this strategy believe that some companies are superior to their peer groups, and will therefore outperform regardless of industry and economic circumstances. The purpose of bottom-up investing is to identify such companies opposite of top-down.

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## 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 – 22 November
- Cape Town – 28 November
- Johannesburg – 05 December
- Johannesburg – 13 December

To book send us an email to  
[seminars@standardbank.co.za](mailto: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.

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