Standard

Online Share Trading

Education newsletter

Issue # 16
11th December 2007

The farther you can lengthen your time horizon in the investment process, the better off you will be.

David Nelson

Trading over the holidays

Over the holidays the JSE closes early on two days and is closed on the public holidays.

Below are the dates are times the JSE will be closined (or closing early).

- 17 Dec (Monday) – Closed
- 24 Dec (Monday) – Market closes at 12.00, OST call centre closes at 12.30pm
- 25 Dec (Tuesday) – Closed
- 26 Dec (Wednesday) – Closed
- 31 Dec (Monday) - Market closes at 12.00, OST call centre closes at 12.30pm
- 01 Jan (Tuesday) – Closed

Enjoy the holidays and travel safe if you're going away.

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 Investing (12 Jan)
- Introduction to technical analysis (part 1) (19 Jan)
- Understanding company financials and announcements (26 Jan)

Durban
- Introduction to technical analysis (part 1) (26 Jan)
- Introduction to Fundamental Investing (07 Feb)
- Introduction to Investing (09 Feb)

Cape Town
- Introduction to Investing (26 Jan)
- Introduction to technical analysis (02 Feb)
- Understanding company financials and announcements (09 Feb)

TALK
From the editor

This is the final educational newsletter for the year, we'll be back in mid January 2008.

For this issue we've listed some of the more important books for investors so you can send out your gift list to loved ones and make their life easier.

For those wanting books on trading read the Alexander Elder book – Come into my Trading Room which we reviewed in issue 10.

All that remains is to wish all readers an excellent holiday season and may your every wish for 2008 come true.

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

COURSES
2008 courses online

As 2007 heads into year-end, you have no doubt started contemplating your plans for 2008.

But first, a look at the year almost gone. 2007 saw some 150 courses with just over 16,000 attendees, and we also introduced two new (and extremely popular) courses; Advanced Fundamentals and the Alec Hogg - Buffett Way presentation.

As the schedule for 2008 stands, we have almost 180 presentations planned for 2008 (the first is on 12 January 2008 in Johannesburg, and the last one in the second week of December 2008). These presentations are across 14 different courses in six broad subject areas. The number of people attending these sessions in 2008 is expected to exceed 20,000! And it's not going to stop there, as we're always looking at new courses.

Cape Town, Durban and Johannesburg have at least one presentation a month but, in reality, often there are many more. Furthermore, we are constantly looking at ways to extend our coverage to other centers, as these areas are currently only really covered by the online content.

The really good news is that all courses are free. Booking is now open for January - March (with later months being added in early December).

Simon Brown

REVIEW – BOOK
Ten books for investors

"The Intelligent Investor" (1949) by Benjamin Graham (Reviewed in issue 9)

Benjamin Graham is undisputedly the father of value investing. His ideas about security analysis laid the foundation for a generation of investors, including his most famous student, Warren Buffett. Published in 1949, "The Intelligent Investor" is much more readable than Graham's 1934 work entitled "Security Analysis", which is probably the most quoted, but least read, investing book. "The Intelligent Investor" won't tell you how to pick stocks, but it does teach sound, time-tested principles that every investor can use. Plus, it's worth a read based solely on Warren Buffett's testimonial: "By far the best book on investing ever written."

"Common Stocks and Uncommon Profits" (1958) by Philip Fisher

Another pioneer in the world of financial analysis, Philip Fisher has had a major influence on modern investment theory. The basic idea of analyzing a stock based on growth potential is largely attributed to Fisher. "Common Stocks And Uncommon Profits" teaches investors to analyze the quality of a business and its ability to produce profits. First published in the 1950s, Fisher's lessons are just as applicable half a century later.

"Stocks for the Long Run" (1994) by Jeremy Siegel

A professor at the Wharton School of Business, Jeremy Siegel makes the case for - you guessed it - investing in stocks over the long run. He draws on extensive research over the past two centuries to argue not only that equities surpass all other financial assets when it comes to returns, but also that stock returns are safer and more predictable in the face of the effects of inflation.

"Learn To Earn" (1995), "One Up On Wall Street" (1989) or "Beating the Street" (1994) by Peter Lynch

Peter Lynch came into prominence in the 1980s as the manager of the spectacularly performing

Fidelity Magellan Fund. "Learn To Earn" is aimed at a younger audience and explains many business basics, "One Up On Wall Street" makes the case for the benefits of self-directed investing, and "Beating The Street" focuses on how Peter Lynch went about choosing winning stocks (or how he missed them) while running the famed Magellan Fund. All three of Lynch's books follow his common sense approach, which insists that individual investors, if they take the time to do their homework, can perform just as well or even better than the experts.

"A Random Walk Down Wall Street" (1973) by Burton G. Malkiel (Reviewed in issue 13)

This book popularized the ideas that the stock market is efficient and that its prices follow a random walk. Essentially, this means that you can't beat the market. That's right - according to Malkiel, no amount of research, whether fundamental or technical, will help you in the least. Like any good academic, Malkiel backs up his argument with piles of research and statistics. It would be an understatement to say that these ideas are controversial, and many consider them just short of blasphemy. But whether you agree with Malkiel's ideas or not, it is not a bad idea to take a look at how he arrives at his theories.

"The Essays Of Warren Buffett: Lessons For Corporate America" (2001) by Warren Buffett and Lawrence Cunningham

Although Buffett seldom comments on his current holdings, he loves to discuss the principles behind his investments. This book is actually a collection of letters that Buffett wrote to shareholders over the past few decades. It's the definitive work summarizing the techniques of the world's greatest investor. Another great Buffett book is "The Warren Buffett Way" by Robert Hagstrom.

"How To Make Money In Stocks" (2003, 3rd ed.) by William J. O'Neil

Bill O'Neil is the founder of Investor's Business Daily, a national business of financial daily newspapers, and the creator of the CANSLIM system. If you are interested in stock picking, this is a great place to start. Many other books are big on generalities with little substance, but "How To Make Money In Stocks" doesn't make the same mistake. Reading this book will provide you with a tangible system that you can implement right away in your research. (We reviewed the CANSLIM method in issue 8)

"Rich Dad Poor Dad" (1997) by Robert T. Kiyosaki

This book is all about the lessons the rich teach their kids about money, which, according to the author, poor and middle-class parents neglect. Robert Kiyosaki's message is simple, but it holds an important financial lesson that may motivate you to start investing: the poor make money by working for it, while the rich make money by having their assets work for them. We can't think of a better financial book to buy for your kids.

"Irrational Exuberance" (2000) by Robert J. Shiller

Named after Alan Greenspan's infamous 1996 comment on the absurdity of stock market valuations, Shiller's book, released in Mar 2000, gives a chilling warning of the dotcom bubble's impending burst. The Yale economist dispels the myth that the market is rational and instead explains it in terms of emotion, herd behavior and speculation. In an ironic twist, "Irrational Exuberance" was released almost exactly at the peak of the market.

“Longman dictionary of Financial Terms” (2007) by Pearson Longman (Reviewed in issue 15)

A must have book for every investor as it explains all financial terms with local examples.

Simon Brown
& investopedia.com

INVESTOR
Breaking down the balance sheet

A company's financial statements - balance sheet, income statement and cash flow statement - are a key source of data for analyzing the investment value of its stock. Stock investors, both the do-it-yourselfers and those who follow the guidance of an investment professional, don't need to be analytical experts to perform financial statement analysis. Today, there are numerous sources of independent stock research, online and in print, which can do the "number crunching" for you. However, if you're going to become a serious stock investor, a basic understanding of the fundamentals of financial statement usage is a must. In this article, we help you to become more familiar with the overall structure of the balance sheet.

The Structure of a Balance Sheet
A company's balance sheet is comprised of assets, liabilities and equity. Assets represent things of value that a company owns and has in its possession or something that will be received and can be measured objectively. Liabilities are what a company owes to others - creditors, suppliers, tax authorities, employees etc. They are obligations that must be paid under certain conditions and time frames. A company's equity represents retained earnings and funds contributed by its shareholders, who accept the uncertainty that comes with ownership risk in exchange for what they hope will be a good return on their investment.

The relationship of these items is expressed in the fundamental balance sheet equation:

Assets = Liabilities + Equity

The meaning of this equation is important. Generally sales growth, whether rapid or slow, dictates a larger asset base - higher levels of inventory, receivables and fixed assets (plant, property and equipment). As a company's assets grow, its liabilities and/or equity also tends to grow in order for its financial position to stay in balance.

How assets are supported, or financed, by a corresponding growth in payables, debt liabilities and equity reveals a lot about a company's financial health. For now, suffice it to say that depending on a company's line of business and industry characteristics, possessing a reasonable mix of liabilities and equity is a sign of a financially healthy company. While it may be an overly simplistic view of the fundamental accounting equation, investors should view a much bigger equity value compared to liabilities as a measure of positive investment quality, because possessing high levels of debt can increase the likelihood that a business will face financial troubles.

Balance Sheet Formats
Standard accounting conventions present the balance sheet in one of two formats: the account form (horizontal presentation) and the report form (vertical presentation). Most companies favor the vertical report form, which doesn't conform to the typical explanation in investment literature of the balance sheet as having "two sides" that balance out. (For more information on how to decipher balance sheets, see Reading The Balance Sheet.)

Whether the format is up-down or side-by-side, all balance sheets conform to a presentation that positions the various account entries into five sections:

Assets = Liabilities + Equity

- Current assets (short-term): items that are convertible into cash within one year
- Non-current assets (long-term): items of a more permanent nature

As total assets these =

- Current liabilities (short-term): obligations due within one year
- Non-current liabilities (long-term): obligations due beyond one year

These total liabilities +

- Shareholders' equity (permanent): shareholders' investment and retained earnings

Account Presentation
In the asset sections mentioned above, the accounts are listed in the descending order of their liquidity (how quickly and easily they can be converted to cash). Similarly, liabilities are listed in the order of their priority for payment. In financial reporting, the terms current and non-current are synonymous with the terms short-term and long-term, respectively, and are used interchangeably.

It should not be surprising that the diversity of activities included among publicly-traded companies is reflected in balance sheet account presentations. The balance sheets of utilities, banks, insurance companies, brokerage and investment banking firms and other specialized businesses are significantly different in account presentation from those generally discussed in investment literature. In these instances, the investor will have to make allowances and/or defer to the experts.

Lastly, there is little standardization of account classification. For example, even the balance sheet has such alternative names as a "statement of financial position" and "statement of condition". Balance sheet accounts suffer from this same phenomenon. Fortunately, investors have easy access to extensive dictionaries of financial terminology to clarify an unfamiliar account entry.

The Importance of Dates
A balance sheet represents a company's financial position for one day at its fiscal year end, for example, the last day of its accounting period,

which can differ from our more familiar calendar year. Companies typically select an ending period that corresponds to a time when their business activities have reached the lowest point in their annual cycle, which is referred to as their natural business year.

In contrast, the income and cash flow statements reflect a company's operations for its whole fiscal year - 365 days. Given this difference in "time", when using data from the balance sheet (akin to a photographic snapshot) and the income/cash flow statements (akin to a movie) it is more accurate, and is the practice of analysts, to use an average number for the balance sheet amount. This practice is referred to as "averaging", and involves taking the year-end (2004 and 2005) figures - let's say for total assets - and adding them together, and dividing the total by two. This exercise gives us a rough but useful approximation of a balance sheet amount for the whole year 2005, which is what the income statement number, let's say net income, represents. In our example, the number for total assets at year-end 2005 would overstate the amount and distort the return on assets ratio (net income/total assets).

Since a company's financial statements are the basis of analyzing the investment value of a stock, this discussion we have completed should provide investors with the "big picture" for developing an understanding of balance sheet basics.

Richard Loth
investopedia.com

JARGON BUSTING
Peak oil

A hypothetical date referring to the world's peak crude oil production, whereby following this day, production rates will begin to diminish. This concept is derived from geophysicist Marion King Hubbert's "peak theory", which proclaims that oil production follows a bell-shaped curve.

Because oil is a non-replenishing resource, there is a limit to how much the world can extract and refine. Peak oil is the day that oil production reaches a maximum and will subsequently begin to decline until full depletion is ultimately reached.

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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 – 17 January 2008
- Johannesburg – 22 January 2008
- Durban – 23 January 2008
- Cape Town – 24 January 2008

To go to http://courses.standardbank.co.za or email us on 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.