Standard

Online Share Trading

Education newsletter

Issue # 17
21st January 2008

> Just because a company is doing poorly doesn't mean it can't do worse.
>
> Peter Lynch

## Why bulls or bears?

First of all, let's remember that bears are sluggish and bulls spirited and burly. The terms are used to describe general actions and attitudes, or sentiment, either of an individual (bear and bull) or the market. A bear market refers to a decline in prices, usually for a period of a few months, in a single security or asset, group of securities or the securities market as a whole. A bull market is when prices are rising.

The actual origins of these expressions are unclear. The most frequent explanation given:

The terms "bear" and "bull" are thought to derive from the way in which each animal attacks its opponents. That is, a bull will thrust its horns up into the air, while a bear will swipe down. These actions were then related metaphorically to the movement of a market: if the trend was up, it was considered a bull market; if the trend was down, it was a bear market.

TALK
From the editor — Page 2

FEES 2008
Fee reductions for 2008 — Page 2

COLUMNIST
This is fun! — Page 2

MARKETS
2007 in review — Page 3

WEBSITE
SENS in your inbox or mobile — Page 4

REVIEW - BOOK
Reminiscences of a Stock Operator — Page 5

TRADER
Relative strength index (RSI) — Page 7

ROAD SHOWS
Getting started in shares — Page 7

**Client courses for the next few weeks**

These courses are *exclusively for Online Share Trading clients* and all are free. To book for one of these courses log onto Online Share Trading and go to; Help & Education ➔ Face to face classes

Johannesburg

- 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 1 (02 Feb)
- Understanding company financials and announcements (09 Feb)

## TALK
## From the editor

Welcome to the first edition of the educational newsletter for 2008.

The first article covers the really good news; fee reductions for 2008 (the fourth year in a row we have reduced fees). The new fees have already gone into place, so this is so that you can get up speed with how much less you're paying!

Secondly is a new feature of this newsletter, a columnist. I have always wanted somebody to write us a regular column on their trading and investing experiences. Now finally I have found such a person and their edgy and decidedly witty first offering is on page 3.

A last point is the course schedule. Most of the January 2008 courses are already fully booked, but as a seat opens up it will be displayed on the home page. Alternatively, you can book for the same course at a later date, we have the entire schedule up until end April on the website.

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

## FEES 2008
## Fee reductions for 2008

We are pleased to announce that we have reduced many of our fees for 2008. These reductions will be effective from Wednesday 2 January 2008 for our online share trading clients.

This is the fourth reduction in fees since January 2005 and is attributable to the increased number of clients trading with us as well as increased activity on the JSE.

**Shares**
Our headline brokerage rate is reduced to 0.6%* from 0.7%* with a R70 minimum.

**Single Stock Futures**
The brokerage fee will also be reduced to R60* from R70. Note that there is no change in the market-makers commission at this stage.

**Monthly administration fee**
Our monthly administration fee will be reduced to R50 from R54.15 (including VAT). The fee will be waived after three trades in a calendar month.

**Phone trade fee**
Our phone trade fee will remain at an additional R35 per trade. The phone trade fee is charged for orders placed via our call centre that are matched in the market.

**Warrants and share installments**
The brokerage for warrants and share installments trades will remain at the most competitive flat rate of R50* per deal if traded in the special warrants account.

**Technical Analysis courses**
The cost for the two technical analysis courses has been eliminated completely (previously TA1 was R350 & TA2 was R650).

**Quotes bank fees**
The JSE has increased its data fees for 2008, The live price lookup fee per share price has increased from 5c to 6c (including VAT) for live share prices viewed in watch lists and portfolios, live share price quotes where the market depth to 5 is shown has increase from R0.10 to R0.11 (including VAT) e.g. Quick share live price and Trade pages.

* - excludes VAT and statutory taxes (UST @ 0.25% on purchases, Investor Protection levy @ 0.0002% and STRATE @ R10.92).

*Standard Online Share Trading*

## COLUMNIST
## This is fun!

I blame the piano. I was four-years-old when a Steinway toppled onto my head. The kind of schoolroom accident that now-days leads to law-suits and a tidy settlement. Back then, all I got was an ambulance ride, a brain shunt and a fear of loud music.

That, and a chronically short attention span. This has made formal employment difficult. My one real job in the past fifteen years lasted three months. It felt a whole lot longer.

So now I trade.

I won't go so far as to say I actually make money, at least, not consistently. If anything, I frequently lose as much as what I make, which is to say, I break even and in the market, that's called losing. Even the bank gives you back more money than you put in.

So why trade? Why not take my stake and open a pizzeria or bulk-buy lotto tickets or sell t-shirts with amusing logo's to tourists?

Because its fun.

George Soros once said that if you are having fun, you are probably not making any money. That might be true for many of us, but I don't believe its true for George. There are not a lot of pictures about of him looking depressed. Mostly, George seems like he's having a whale of a time. I don't think he got to $8.5billion by not allowing himself the smallest amounts of joy in the process. Or maybe it's just that he can afford the Prozac.

Incidentally, there's a passing resemblance between Soros and Playboy mogul Hugh Hefner, someone else who looks like he's been having fun so long he's forgotten how not to smile. What are the chances the Hef has ever said 'if you having fun hanging out with naked blonde women, you must be doing it wrong..'?

Clearly, you need to enjoy what you do if you have any hope of getting to old age with enough money to your name to afford a crimson bathrobe and decent hair implants.

Still, lets be clear on this. 'Fun' in trading does not mean it amuses me to sit in front of a screen and watch my kids university fees disappear on another sour gold trade. The past couple of months in particular have not been good for trading, with the sub-prime thing and interest rates thing and several other things that have been un-fun, so definitively not-fun that they knocked my smile clean off my face.

Even those trades that do work are not the kind of fun I'm referring to, although, of course, they can be Hugh-Hefner fun when they happen. Believe me, we all want those days. Yet since trading includes losses as well as gains, the pleasure principle has to transcend profit. For me, it comes down to taking part in a global phenomenon, one that has been rolling on since human economic activity began.

A revolution in Russia, the French rioting, again, or an aircraft flying into a tower, all impact on the markets. Weevils eat the Irish potato crop and rains drench coffee plantations in West Africa. Nothing goes unnoticed. Prices go up and down based on events half a planet away.

Homer might have used a poet's sense of narrative when he said Helen's face launched a thousand ships. Sending an army to rescue a cute blonde sounds a whole lot better than going to war over trade routes. Still, I'll bet one of the greatest battles ever fought was more of a leveraged takeover with knives, than the passion play it has been passed down to us as.

The market, whether it's our very own JSE or the Dow or the quaint dealing room that passes for the Harare stock exchange, are intimately tied to the passage of history.

Traders know quicker than anyone else, that something of significance is taking place, even if they don't know precisely what it is, yet. Minutes before news of the London bombings hit the news wires, screens in dealing room lit up as the gold futures streaked skywards. The global trading community was, for a brief moment, collectively in the London underground. We may have escaped the smoke and flames, and been spared the shattering of lives lost, but we knew. We knew.

So I may not be a great trader, or even a profitable one. I am having fun, though. Like Dr Seuss says, "If you never did, you should. These things are fun, and fun is good."

*By Peter Principle (a non du plume to protect future earning prospects)*

## MARKETS
## 2007 in review

Last year (2007) was another of the almost four-year bull market as the Top 40 index added 16.1%. But that doesn't tell the whole story as the last quarter of the year saw the index loose 3.8% in what could be the beginning of the end for the bulls.

The major winner for 2007 was Gold as it recorded its second best year ever, trading up at all time highs (finally breaching the 1980 US$850 high) as it gained 31.1% closing the year at US$833.75. Then the opening weeks of 2008 saw the yellow metal continue its run trading up above US$900. Unfortunately in 2007 gold stocks did not follow the trend and in fact Harmony was one of the worst losers for 2007.

There were two large trends in 2007, a number of high profile directors/CEO's resigning and a number of unbundling exercises (for more on unbundling check issue 3 of the educational newsletter).

**Directors leaving**
Bernard Swanepoel sudden resignation after a decade at the helm of Harmony sent the stock tumbling over 30% in 2 days hitting a closing low of 6175c in August. This was back at August 2005 levels albeit Harmony has recovered some what to close the year at 7046c still down 37% for the year.

There were two other notable director resignations during 2007. Ralph Havenstein (CEO of Angloplat) left the week after Swanepoel as safety issues at the Platinum miner came to the fore under the new stewardship of Cynthia Carroll at parent company Anglo American.

The third major resignation was Nic Dennis from Tiberbrands. This was after the company got fined just under R99million and while Dennis denied all knowledge (and his denial was largely believed by the market and media) at the end of the day the buck stops with the CEO and Dennis will step down in early 2008.

Bill Lynch departure from Imperial had been expected albeit he left sooner then many had anticipated. Since his departure the share has been under pressure as the new CEO starts to clean up the company into the image that he thinks Imperial should best reflect.

**Unbundling**
2007 was also a year with some large unbundlings but not all of them very successful, albeit in some cases this was more a symptom of the overall market rather then the comment on the companies.

BarlowWorld spun off both PPC and Freeworld Coatings while Firstrand finally parted with Discovery.

The Firstrand unbundling was not a major success in terms of values, but to be fair the entire market has been under pressure so we can hardly blame the unbundling for this.

BarlowWorld unbundling of PPC was very successful as the value of the two separate entities exceeded the pre-unbundling price. However Freeworld Coatings was also down during the last quarter sell off and the net results was that have been under pressure.

Another unbundling was Tongaat spinning off the aluminium producer Hulamin. The price of Hulamin immediate fell as did the price of Tongaat leaving the investor poorer for the experience.

The last unbundling was Mondi being spun out of Anglo and the immediate response was selling of Mondi shares but Mondi has held the levels and up to the end of 2007 Anglo has essentially added value from the unbundling.

**Diamonds and dogs**
The top stocks from the Top 40 in 2007 were all resource stocks being lead by; BHPBilliton, Implats, Angloplat and Sasol. The one exception was MTN that continued to go from strength to strength.

On the losing side we had Investec suffering from the sub-prime fall out as they have some exposure (albeit the exposure is less then 1%). The other main losers were the previously mentioned Imperial, Harmony with Sappi, Liberty International and Steinhof also joining the downer list.

*Simon Brown*

## WEBSITE
## SENS in your inbox or mobile

We covered SENS and what it is in the very first issue of the educational newsletter* and this time we want to look at how you find SENS, or even better how to receive SENS into your inbox.

First a quick re-cap on what SENS is. Basically SENS is how a JSE listed company communicates with share holders and the market. Results, director dealings, mergers, announcements and the like are all published via SENS. So in order to keep up-to-date with a company there is no better way then keeping an eye on their SENS announcement.

**Finding SENS on the website**
On the menu ➔ news service ➔ SENS headlines. Here you will find SENS for that day as well as the previous 10 days announcement. You can also get SENS announcements for the last 30 days for shares that are in your portfolio (in other words shares you own). There is also a function to search the SENS archives and you can search within date range, company name or code and title.

If you are looking for SENS announcements for a particular company you can use the search function as above or from the quote page. On the quote page the top right block includes a link to the last 4 months SENS announcements from the company you're looking at.


**Receiving SENS via email or SMS**
While the functions above are perfectly adequate some times you need to respond quickly to SENS and as such you need to know the moment a new SENS is issued. Further you may also wish to keep all SENS announcements on your own PC (or even print them out).

So with this in mind, OST, will send an SMS alert when a SENS has been issued and/or OST will email you the full announcement as soon as it is issued.

This feature is part of the watchlist (on the menu ➔ My detailed watchlist). Now before OST can set up the SENS alerts, you need to ensure that stocks you wish to monitor are included in your watchlist.

Then click on the red **A** under the tools menu. Make very sure you clicks on the **A** for the stock you wish to receive SENS on.

On the right of the screen you will see the Info Alerts box which enables you to receive SENS announcements. By ticking the top box we will send you an SMS and/or email every time the stock issues a SENS announcement.

Below that you select Email or SMS (or both). NOTE email is free while SMS is charged at 25c each (deducted initially from your quotes bank). Further the SMS will only alert you to the SENS, it does not include the actual SENS announcement. The email option includes the full SENS announcement.


* You can download old issues from the website. On the menu ➔ help and education ➔ educational newsletter.

*Simon Brown*

## REVIEW – BOOK Reminiscences of a stock operator

**Reminiscences of a Stock Operator by Edwin Lefèvre**

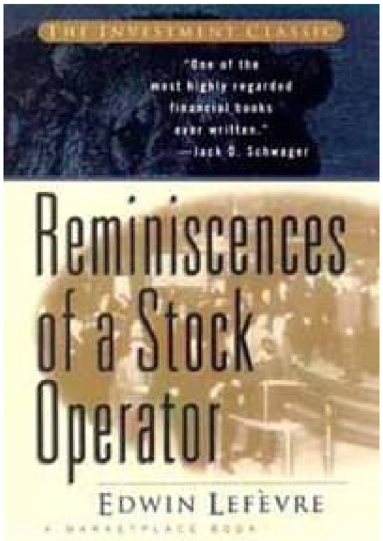
If I Knew THEN - What I Know NOW - I'd SLEEP with Lefevre's book!!!!,

This is it folks, when all is said and done, the world of making money in the stock market comes down to a handful of books. Knowledge that you must absorb, NO, more than absorb, you have to take OWNERSHIP of this knowledge. More than any other book, this book is on the list. Oh yes, there are several others you desperately need to OWN also.

Certainly you should be reading all of Benjamin Graham's works including "Security Analysis", the 1940 Edition, and also Graham's "The Intelligent Investor". Philip Fisher's extraordinary "Common Stocks and Uncommon Profits" is another fabulous work, but none of them, and no other book for that matter reads like a novel, a Hollywood thriller in fact - only Edwin Lefevre's "Reminiscences...." fulfills that role.

Very briefly, Jesse Livermore's life as a stock and commodities trader is portrayed in the book through the character of Larry Livingston. As you probably know, in a novel you can do and say things, and take literary license that you could never do in an actual biography.

The period covered is basically the beginning of the 20th century through the 1920's. Livermore made and lost several fortunes in his lifetime; ultimately he went belly up and emotionally could not deal with it. This led to his suicide in a hotel in New York City. With today's medical knowledge he would have been classified with severe bipolar disorder, and presumably drugs would have been able to reign in the personality extremes that he suffered from. Of course that is now, and we are dealing with then.




What is noteworthy is that Livermore was astute enough to realize that he had these bouts of depression, and he did not trade during those periods when he suffered from them. He knew his thinking was not clear enough during those periods, and his judgment would suffer, and oh did this man have judgment. He was the ultimate professional trader.

This is not a book to be read once. In that it is like reading Shakespeare's plays. Each time you work your way through it, you will learn more and more. If you have trading experiences to fall back on, then this book becomes even more important to you. Read the book in conjunction with your trading. You will understand what you did wrong, and what you NEED TO CHANGE, to do it right.

There are some who will tell you that Jesse Livermore was such a force in the markets, that it is hinted that he was responsible for the market crash of 1929, the tsunami of all market crashes. John Kenneth Galbraith, the Harvard economist, and one of the most knowledgeable historians dealing with the depression, argues differently. What is important is that Livermore had to hire a bodyguard during this period, and also went into seclusion, which indicates that many people believed the story.

There was a point in his career where Livermore made as much as US$2million in trading profits in a month. Imagine, at a time when a 6 course meal at Delmonico's on Wall Street was a dollar? Here are some of the extraordinary concepts you will pick up in reading this book:

"WHATEVER HAPPENS IN THE STOCK MARKET TODAY HAS HAPPENED BEFORE, AND WILL HAPPEN AGAIN."
I am personally 35 years into trading, and formally retired from Wall Street when I was 45. You have no idea how important Livermore's advice is. There is no substitute for years of experience living through the cycles. It gives you a tremendous grounding in historical truth that prevents you from getting suckered out at the bottom, or fooled at tops.

"WEAPONS CHANGE, BUT STRATEGY REMAINS STRATEGY, ON THE NEW YORK STOCK EXCHANGE AS ON THE BATTLEFIELD..."
Yes, and this is why a great stock trader from the 1920's, would do just as well today as then. I knew Salim Cy Lewis the modern founder of Bear Stearns; some would argue he was as good a trader as Livermore. I worked for Alan "Ace" Greenberg, Chairman of Bear Stearns, who was the greatest trader of his generation. Livermore is right, learn the strategies, and you will be successful on any battlefield, at any point in history.

"THOU SHALL NEVER FIGHT THE TREND"
Ignore this instruction at your peril, never catch a falling knife. Let it hit the floor, and then buy on the way up. Never buy on the way down, you never know where down is, where down stops. You only buy on the way up.

"LET YOUR PROFITS RUN AND CUT YOUR LOSSES SHORT"
Who doesn't know this; just try executing on it consistently, every day, day in, day out. Try taking emotion out of the trade, try to be objective. Try selling, realizing you were wrong, and jump right back in, while your fellow traders think you are nuts.

"NO STOCK IS TOO HIGH TO BUY OR TOO LOW TO SELL"
This is such common sense that a child would say, well of course that's what you should do. It takes a rare type of individual that can live by the code, and execute on its wisdom daily.

Jesse Livermore was everything you think he was, and more. His untimely death at his own hand is not what should be studied, and learned. We all have our pains that we must deal with. Read this book, and change your investing life forever, or don't read it, and pay a price with your portfolio, and forgone profits. Good luck

*Richard Stoyeck*
*stocksatbottom.com*

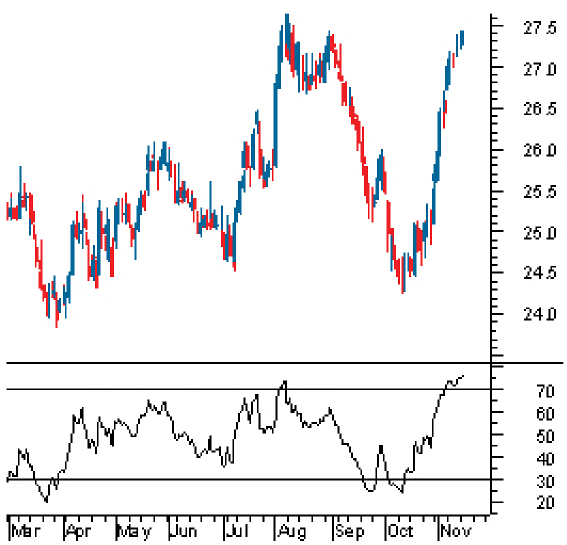
## TRADER
## Relative Strength Index (RSI)

A technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset. It is calculated using the following formula:

$$RSI = 100 - \frac{100}{1 + RS}$$

RS = Average of x days' up closes / Average of x days' down closes

As you can see from the chart below, the RSI ranges from 0 to 100. An asset is deemed to be overbought once the RSI approaches the 70 level, meaning that it may be getting overvalued and is a good candidate for a pullback. Likewise, if the RSI approaches 30, it is an indication that the asset may be getting oversold and therefore likely to become undervalued.




A trader using RSI should be aware that large surges and drops in the price of an asset will affect the RSI by creating false buy or sell signals. The RSI is best used as a valuable complement to other stock-picking tools.

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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 – 19 February 2008
- Cape Town – 19 February 2008
- Durban –20 February 2008
- Pretoria – 26 February 2008

To go to http://courses.standardbank.co.za

All venues are central and start at 6.00pm.