Standard

Online Share Trading

Education newsletter

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The key to making money in stocks is not to get scared out of them.
Peter Lynch

AltX showcases

In conjunction with the JSE, Online Share Trading is hosting three events in Johannesburg and Cape Town.

Johannesburg
Tuesday, 12 March: (RBA, Hardware Warehouse, Country Foods, African Brick Centre, RACEC, BSI, IDECO, Dynamic Visual Technologies and Iquad)

Wednesday, 13 March: (SA French, Buildworks, Huge Group, Calgro M3, Abe Construction Chemicals, Ellies, Chemical Specialities and Kagisano)

Cape Town
Tuesday, 04 March: (OneLogix, Dialogue Group, SAB&T Ubuntu, Interwaste, Ansys, Esor, Huge Telecom, Stratcorp and Rolfes Technology).

Attendance is free but seating is limited so please book early.

To book log onto the website and you'll see the links under the special announcement section.

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
- Half day detailed warrants (16 Feb)
- Introduction to Fundamental Investing (20 Feb)
- Introduction to technical analysis (part 2) (23 Feb)

Durban
- Understanding company financials and announcements (15 Mar)

Cape Town
- A practical guide on how to effectively use the website (20 Feb)
- The Truths of the Market and Trading Skills (21 Feb)

TALK
From the editor

Since the last newsletter we've seen significant volatility in the stock market and our currency as the sell-off that greeted us at the beginning of the year turned into a buying spree in many listed stocks.

The Rand however has responded the other way losing over 100c against the US$, and this has probably helped boost the local resource heavy market.

The question of what to do here is a tricky one, but answered generically it is easy to answer – discipline. To this end I cover this is an article on page four.

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

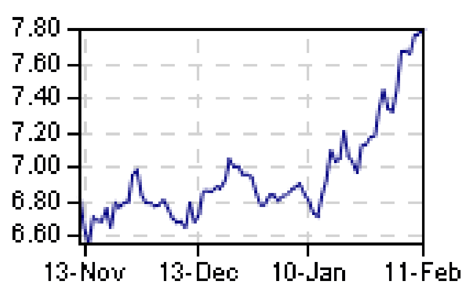
ECONOMICS
The Rand in perspective

Despite high interest rate differentials, a risk-averse investor climate and a less optimistic domestic economic growth prognosis threaten renewed rand strength until such time as the global growth outlook improves. Although the rand is still up on the year in relation to the dollar, the local unit has progressively been losing ground against the greenback in more recent months. Standard Bank has become considerably less bullish about the rand 2008 prospects in recent weeks on a few scores.

Firstly, the prevailing uncertainty within the international investor community has ensured that participants have scaled back their exposure to risk, not least of which the highly favoured carry trade of yesteryear. This means that even if the South African Reserve Bank (SARB) remains reluctant to start cutting local interest rates for a number of months, the rand's gapping interest rate differentials, are unlikely to that attract as much attention as they would have when the mighty carry trade was in vogue, due to the recent escalation in market volatility. In fact, our correlation analysis reveals that the rand has actually strengthened in the face of moderating interest rate hike expectations in more recent times, implying that negative connotations of a slowdown in the South African economy are outweighing the benefits of the country's higher deposit rates.

Secondly, the lack of appetite for risk has already taken it toll on equity markets the world over and considering that the latest wave of risk aversion stems from fear of a global economic slowdown, led by the US economy, the resource-laden JSE bourse appears particularly vulnerable due to the associated moderation in commodity prices. Granted, precious metal prices might outperform some of their commodity counterparts due to their safe-haven allures, but because South African miners are being plagued by capacity constraints, there is risk that domestic mining houses will be unable to take advantage of this latest upswing in prices. Mining makes up only 5% of overall domestic GDP, but precious metals remain the country's biggest export, not to mention that this sector is a significant employer within the local economy. The importance of these capital inflows towards South Africa can't be emphasised enough given South Africa's current account deficit, which as a percentage of GDP is likely to balloon even further due to a moderating domestic economic growth outlook and the need to import machinery and tool to facilitate the country's infrastructures spending programmes over the coming years.

In fact, the third reason for rand vulnerability relates to South Africa's rising capacity constraints, which are being fuelled by the country's prevailing electricity crisis. These capacity constraints, which also includes South Africa's lack of skilled labour has damming implications for the country's economic growth and capital inflow potential and is also likely to aggravate cost push inflationary pressures. Even though the rand has weakened by over 12% in relation to the dollar since early November, the local unit remains 13% overvalued from a purchasing power parity perspective and the country's inflation differentials are likely to deteriorate even further, given that domestic price pressures are only likely to peak in February 2008 before moderating only gradually during the remainder of the year.



Rand/US$ (OST website)

Other risks to the rand include the political uncertainty surrounding the succession of President Mbeki in 2009 and more importantly whether South Africa's highly-applauded economic policies over the past decade will remain in place. Nagging socio-economic problems such as high unemployment and income disparity also remain deep-rooted rand negatives.

Although the rand seems vulnerable on many fronts, we are quick to add that an improvement in the global growth outlook is likely to quickly reverse the rand's seemingly gloomy outlook. Indeed, with the exception of South Africa's capacity constraints and political uncertainty a huge portion of the rand's woes are external in nature. An improvement in global output should cause volatility levels to subside, which would place the rand in a more favourable light from a carry trade perspective. A more sanguine international growth outlook would help to reduce the country's current account woes, given that our analysis suggests that global demand has much more significant bearing on South Africa's current account than movements in the exchange rate does.

Michael Keenan
Local market strategist - Global Markets Research
Standard Bank Corporate and Investment Banking

TRADER
Selecting winning warrants

Many warrant traders find themselves getting the direction right (long or short) on a stock or index, but they still don't manage to make a profit from the trade. The reason is often very simple: you had the wrong warrant. Actually, you had a bad warrant that was working against you rather than for you.

So, in this article, we contemplate a few quick and easy tips to help with your warrants selection so that you can concentrate on the trading and selection process.

Price
As a rule, price means nothing. However, there is one exception. A warrant below 20c must be avoided. At that price, the spread (difference between buyer and seller price) on a warrant is at least 5%, and that costs you as the warrant needs to move by that amount to cross the spread. Furthermore, a warrant below 20c is almost certainly dodgy; my advice is to leave it alone.

Another issue here is that below 10c many issuers are not active sellers, so while the fair offer price should be maybe 5c, the best offer is actually at 8c and, if you buy at that price, you've overpaid.

Time to expiry
More than 90 days is a must. The problem here is "time decay" (Time decay (Theta) measures the rate of reduction in the price of a warrant resulting from the passage of time) and, the closer to expiry, the more severe the time decay. So, by giving yourself more time to expiry, you reduce the time-decay effect.

The other issue here is that it gives you more time if the trade continues to go in your direction. You may only expect a quick 10-day trade, but if it continues if your favour, you want to be able to remain in the trade for the duration without the warrant expiring.

Gearing
Many novice traders think more gearing is better. But this is only focusing on the winners; the reality is that trading also includes a lot of losing trades, and higher gearing would make the losers even larger.

For a stock warrant, you want a gearing level of around 5x, and for an index warrant, a gearing level of 10x – 12x.

Warrants are designed for this level of gearing and, if you push the gearing higher, the risks increase exponentially and your risk/reward falls apart.

Strike price vs. spot price
You want the current share or index price to be no more than 10% away from the strike price of the warrant. This will ensure a manageable gearing and time decay.

Share information	
Company Name :	ANGLO AMERICAN PLC
Share Code :	AGL
Sector :	Basic Materials - Basic Resources - Mining
Subsector :	general mining
Type of share :	Ordinary
Warrants :	Warrants associated with this share
Instalments :	Instalments associated with this share
Futures :	Futures associated with this share
Share Status :	Market Open (31 Jan 2008 09:00)

So there it is. Four nice and simple rules to help when selecting warrants that'll assist with profitable warrant trading. Of course, the most important aspect of warrant trading is a stop loss, and we'll deal with that in more detail in a later issue.

The last issue is finding the information. On the website, we list all the above information (and more, but as mentioned focus on these four and the others will automatically fall into place).

From the quote page of a stock with warrants you will see the link as per previous page, clicking on it will take you to a page with all the listed warrants for this share. Alternatively on the menu under ➔ Find or trade shares ➔ Find or trade a warrant. Enter the stock code into the box and click "look up".

An entire list of ALL warrants is also on the website. On the menu ➔ find or trade shares ➔ all warrants/inv. Prod.

Simon Brown

INVESTOR
Importance of discipline

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 extra smart? And so the questions go on From my experience of fellow investors they are as diverse a bunch of people as you'll ever meet. They cover all ages, both genders and I've meet teachers, engineers, plumbers, accountants, musicians and others who are successful investors. Bottom line successful investors come from all walks of life.

Further, while they all have largely the same aim, wealth creation, they all have different goals and different styles of investing and even many different ways of meeting their aims.

But ultimately one thing links them all together as successful investors – discipline. No matter how many successful investors I meet nor how they invest nor what strategy they use, discipline is the one common trait of every successful investor I have ever met.

Discipline ensures an investor's survival as it gives them consistency and as importantly it helps them focus on the end goal - 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 that I fully agree with.

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 month of August. Local and global markets experienced severe volatility coupled with weakness that saw many investors panic. But a disciplined investor would know their tolerance for risk and be properly positioned and more importantly they would fully understand their time horizon and exit strategy. 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.

Further a disciplined investor knows what their aims are and they fully understand the logic behind each and every purchase of a JSE stock and as such they also have a well defined exit strategy for every stock in their portfolio. They will then simple 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.

Now I must admit that it is easy to harp on about the importance of discipline, but not always easy to actually be disciplined – especially with world markets under pressure and market commentators often talking doom and gloom. For my part I recently almost sold a stock after a negative article in a local publication got me worried about the future prospects for the share. Fortunately I was able to resist the sell urge 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 couple of pages in length and will include the logic flow you follow when selecting a share, detailing what is important and how these important bits stack up. 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 stock 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 then 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 for sure – but discipline is what separates the successful investors from the rest and we need to always be working on our discipline.

Simon Brown
(This article first appeared in the JSE Magazine)

JARGON BUSTING
Cash flow

Annual net profits retained in a business, plus the depreciation provision. The concept of cash flow is based on the fact that, although it is a cost, the charging of depreciation does not in itself involve any cash outlay. (The cash flow is useful in gauging a company's projected financial position and its dividend potential.) Sometimes it may be necessary to calculate cash flow on the basis of equity earnings plus the depreciation provision (i.e. before deducting the cost of ordinary dividends). To distinguish between the two concepts, they may be referred to as the 'gross cash flow' and the 'retained cash flow'.

Online Share Trading

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
- Johannesburg – 27 February 2008

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

All venues are central and start at 6.00pm.