



If you spend more than 14 minutes a year worrying about the market, you've wasted 12 minutes.

Peter Lynch

**JSEDirect
ClassicFM
Tuesday @ 7pm**

ClassicFM have launched their newest show – JSEDirect. Hosted by Simon Brown of Standard Online Share Trading it goes out every Tuesday evening at 7pm for an hour.

The show is aimed at private clients (investors and traders) and plans to move away from the traditional large Top40 stocks which dominate much of the media.

Guests will include small and mid cap CEO's, sector experts as well as small and mid cap fund managers.

On the radio – 102.7
DSTV audio channel 157
Streaming online at classicfm.co.za

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Client courses for the next few weeks

These courses are *exclusively for Online Share 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

- Introduction to Fundamental Investing (30 Jul)
- Understanding Share Instalments (05 Aug)

Pretoria

- Intro to Fundamental Investing (23 Jul)

Cape Town

- Introduction to investing (19 Jul)

Durban

- Introduction to Futures (single stock and currencies) (23 Jul)
- Understanding Share Instalments (24 Jul)
- Half day detailed warrants course (26 Jul)
- Intro to technical analysis (part 1) (02 Aug)

TALK From the editor

The news seems to remain all bad and certainly world markets are under pressure with the Dow Jones and many European markets officially in bear market territory. (Bear market as per official definition is a decline of 20% from the highs in a two month period).

Locally we're not yet in bear turf, but that is of little hope as with even resource stocks under pressure the local indices are all under pressure.

With all this negativity we're heading off to Mpumalanga in August with our getting started in shares road show (details on page 5) and there are a number of other presentations for investors and traders.

They are all free so book your seats ASAP if you're interested.

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

MARKETS Closing auction process

The final 5.00pm trade every day often attracts attention due to the size of the transaction. However, many people do not understand the closing auction process.

The closing auction was implemented to reduce the potential for price manipulation at the close when a small trade at the death would determine the closing value even while the value of the trade may well be totally insignificant in terms of the day's activity.

So what's the process?

At 4.50pm, continuous trade halts as the market enters the closing auction process. During the last 10 minutes until 5.00pm, orders can still be entered and deleted, but no matching takes place during this time. So, even if you see a seller at say 1150c and you put a buy in at that price, the trade will not match immediately.

It is very likely that one will see bids (buy prices) at a higher level than the offers (sell prices). This is because no trades are being matched.

Then at 5.00pm (with a random 30 seconds potential extension), the JSE computer system determines the price at which the largest volume will trade. The system then trades at that price – which is the closing price. Importantly, the 5.00pm trade can involve multiple people on each side (during the normal trading day, a trade has only one buyer and one seller).

It is important to understand that if a better price is possible, one gets the better price. So, while a seller may be at 1150c if the largest volume happens at 1200c, the seller could very possibly be included in the 1200c trade.

Example from just before the auction ends

Buy volume	Buy price	Sell price	Sell volume
2,500	1250c	1150c	1,500
1,000	1200c	1190c	500
6,000	1140c	1200c	1,350
1,750	1125c	1250c	1,800

In the above example, the closing auction price would be 1200c (volume of 3,500), with the two buyers at 1250c and 1200c trading. On the sell side, the sellers at 1150c and 1190c would both sell their entire order. The seller at 1200c would sell 1,000 of the 1,350 order.

All trades would be at the 1200c level and the bid/offer market would look as follows:

Buy volume	Buy price	Sell price	Sell volume
6,000	1140c	1200c	350
1,750	1125c	1250c	1,800
550	1115c	1255c	2,650
1,950	1100c	1300c	1,200

Importantly, warrants and share instalments do not trade during this closing auction process. Single-stock futures can be traded. Further market trades cannot be executed during the auction period – only limit trades are possible.

Simon Brown
Standard Online Share Trading

TRADER The margin call (close out)

All clients who trade in single-stock futures (SSFs) should be well aware of the dreaded margin call or "close-out" as Online Share Trading (OST) calls it. If you trade in SSFs and are not familiar with this, I

Education newsletter

suggest you take a look at the presentation that OST offers on these futures contracts. In a nutshell, a brokerage will issue a margin call if the equity in your account falls below the maintenance margin – it will force you to liquidate certain positions or add more cash.

In the “good old days”, it was embarrassing if you received a margin call from your broker and you would be considered a bad trader. The main reason is that this meant that you had no more money and had also made a huge loss. So, as a colleague of mine says, you would run and hide in a cupboard, and would only come out once you were able to brag about the profit you had made on another trade. Today, things have changed as more and more people get involved in SSFs and begin to learn how the product works.

A margin call is no longer a huge deal in the financial world, and it does not reflect poorly on an investor to be subject to one. Some people choose to keep their investments well above the minimum margin requirements to avoid a margin call. However, others keep themselves continuously invested at exactly the minimum, thus prompting a margin call every time the market goes against them. In volatile markets, prices can fall very quickly and if you trade close to the maintenance margin, you are likely to get closed out before being able to deposit cash.

Despite its name, a margin call does not mean that your broker will call you should you go below the minimum account balance s/he requires. For example, OST will send you an SMS to let you know that your available balance is negative and that you will be closed out automatically once you go into the 50% extra initial margin or value available before close-out. Brokers act differently when dealing with a close-out – some will close out all positions and others only certain positions. You do not have a say in the matter. With OST, they will close out the worst-performing positions to ensure the available balance is again positive.

It is important that you are familiar with the margin requirements of your broker; rather avoid the margin call and make a decision yourself. Alternatively, hide in a cupboard and return once you see the green arrow to boast about what a good trader you are!

Ridwaan Moolla
Standard Online Share Trading

INVESTOR

The "Relative Value" Ratio

Einstein's theory of relativity can be applied to stock market investment decisions too. In economic terms it is called "opportunity cost", as investing in one company costs you the foregone return you would have had from investing in another company.

So how do you make the most of your decision and minimize your opportunity cost?

When deciding between investing in a number of options on the market, it is always important to have a comparable ratio. As the stock markets grow and because all the listed companies fundamentals differ so widely, the use of a comparable ratio becomes increasingly important when making informed investing decisions.

I have come up with what I feel is a robust comparable ratio (even across sectors). Let's call it the "Relative Value" ratio.

The ratio aims to seek the highest dividend yield with the highest undervalued growth rate.

For each company perform the following basic steps:

- **Calculate the Price Earnings (PE) ratio of the share.** This is the following "Share Price" divided by "Earnings per Share"
- **Calculate the long-term growth (G) rate of the company.** This single number will be the hardest to get and involves significant research and judgment. If you are not confident enough to forecast your own one, then perhaps use the census growth rate.
- **Calculate the Price Earnings Growth (PEG) ratio.** This is the "PE" divided by the "G".
- **Calculate the Dividend Yield (DY) of the share.** This is the historic dividend paid divided by the share price.

And finally, calculate the Relative Value of the share. This is the "Dividend Yield" divided by the "PEG".

Can you see how the lower a stock's PEG is, the less you are paying per unit of growth of the company?

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Can you see how the higher a stock's DY is, the higher yield you will be making from the dividend flow from your investment?

Can you see how the the higher a stock's DY is and the lower its PEG is, the higher the Relative Value ratio will be...?

Let's take an example: say you wanted to invest in either Standard Bank (SBK) or ABSA (ASA) on the JSE Securities Exchange.

Standard Bank has a PE of 8.38, a DY of 3.29%, and a forecast growth rate (per broker's consensus) of around 15%. Thus Standard Bank's Relative Value ratio is 6.98 ($= (3.29\%) / (8.38 / (15\% \times 100))$).

ABSA has a PE of 6.81, a DY of 5.86%, and a forecast growth rate (per brokers consensus) of around 13%. Thus ABSA's Relative Value ratio is 11.19 ($= (5.86\%) / (6.81 / (13\% \times 100))$).

Therefore it looks like ABSA is the best option. It appears that it will give you a better yield on your investment in terms of a balance between dividend and capital growth.

In closing, although the Relative Value ratio is a useful tool in an investor's arsenal, it does not replace the need to research and understand each company's fundamentals prior to entry. There are many assumptions that the Relative Value ratio uses in its goal of comparative investment analysis, and the most significant one is the use of historic information. Remember that the past is not always a reflection of the future and always use your own judgment when coming to a decision.

Keith McLachlan
smallcaps.co.za

JARGON BUSTING

Income Statement

A financial statement that measures a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses through both operating and non-operating activities. It also shows the net profit or loss incurred over a specific accounting period, typically over a fiscal quarter or year.

Also known as the "profit and loss statement" or "statement of revenue and expense".

The income statement is the one of the three major financial statements. The other two are the balance sheet and the statement of cash flows. The income statement is divided into two parts: the operating and non-operating sections.

The portion of the income statement that deals with operating items is interesting to investors and analysts alike because this section discloses information about revenues and expenses that are a direct result of the regular business operations. For example, if a business creates sports equipment, then the operating items section would talk about the revenues and expenses involved with the production of sports equipment.

The non-operating items section discloses revenue and expense information about activities that are not tied directly to a company's regular operations. For example, if the sport equipment company sold a factory and some old plant equipment, then this information would be in the non-operating items section.

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ROAD SHOWS

Evaluating Junior and Exploration Mining Companies

This seminar will offer you valuable insight into understanding and correctly assessing Junior and Exploration Mining Companies. Well-respected analysts and veterans in the fields of Junior and Exploration Mining will unpack the language, concepts and financials associated with these unique types of organisations and in so doing, assist you in your investment decision-making process. Attendees of the seminar will then be afforded the rare opportunity to meet these experts over cocktails following the presentations. The mining sector continues to offer exciting investment opportunities and this event is not to be missed!

To book log into the website and you'll see the link under the "special announcements" section.

ROAD SHOWS

Alt-X Showcase – JHB & CT

The JSE invites you to learn more about the companies listed on AltX so you can decide whether to invest in them. AltX is the JSE board for small, medium and growing companies.

AltX now has a market capitalisation in excess of R25 billion, has listed 83 companies, and more are on the way. If you had invested in the AltX index since inception your portfolio would be up by 82%!

You will hear from AltX, as well as from the CEOs of some of the AltX listed companies, who will present their businesses to you. Thereafter, you will meet the senior leadership of these companies face-to-face. There is no charge to attend.

At the showcase, senior executives of recently listed JSE companies will present their exciting businesses to you and thereafter you will be given the opportunity to meet these executives face to face, over cocktails. The Showcase is a great way to gain knowledge on various newly listed businesses and is an event not to be missed!

JHB is on 07 AUG

- Keaton Energy (Paul Miller, MD)
- Sanyati (Rick Jackson, CEO)
- TCS (Shaheed Mohamed, CEO)
- Insimbi (Fred Botha, Commercial Director)
- Eqstra (Erich Clarke, CFO)
- Poynting (Andre Fourie, CEO)
- BRC Diamond Core (Brian Scallan, CFO)
- Braemore Resources (David Russell, CEO)

CT is on 05 AUG

- Accentuate Ltd, Fred Platt, CEO
- African Dawn Capital Limited, Marius van Tonder, CEO
- CIC Holdings, Trevor Rogers, CEO
- PSV Holdings, Abie Da Silva, CEO
- Total Client Services Ltd, Shaheed Mohamed, CEO
- Dynamic Visual Technologies Holdings Ltd, Chris Wilkins, CEO
- WG Wearne, John Wearne, CEO
- Taste Holdings Ltd, Carlo Gonzaga, CEO
- Ellies Holdings, Wayne Samson, CEO

For more information and to book log into the website and you'll see the link under the "special announcements" section.

ROAD SHOWS Getting started in shares

Online Share Trading and the JSE host a 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 family and help them get started on the path to creating wealth.

Dates & cities

- Cape Town – 30 July
- Durban – 31 July
- Secunda – 05 August
- Witbank – 06 August
- Johannesburg – 06 & 20 August
- Nelspruit/White River – 07 August

To book go to <http://courses.standardbank.co.za>

All venues are central and start at 6.00pm unless otherwise stated.

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