Online Share Trading

Education newsletter

Issue # 26
12th September 2008

Teach your children or your grandchildren Chinese. It is going to be the most important language of their lifetimes.

Jim Rogers

Satrix Rafi 40 IPO Road Show

Satrix are listing their seventh product – the Satrix Rafi 40. It is a fundamental total return index Exchange Traded Fund (ETF).

Standard Online Share Trading and Satrix will be doing a series of free seminars around the country for investors. The Satrix Rafi 40 breaks ground in a number of areas and the seminars will be the perfect place to learn about the new features and ask questions directly from Satrix managers.

- **Johannesburg – 15 September**
- **Durban – 17 September**
- **Pretoria – 22 September**
- **Cape Town - 25 September**

To book go to
http://courses.standardbank.co.za/calendar.php

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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 (25 Sep)

Cape Town
- A practical guide on how to effectively use the website (16 Sep)
- The Truths of the Market and Trading Skills (17 Sep)
- Understanding company financials and announcements (20 Sep)

Durban
- Introduction to Fundamental Investing (18 Sep)
- Introduction to technical analysis (part 2) (20 Sep)

TALK
From the editor

Satrix is launching a new Exchange Traded Fund (the Satrix Rafi 40). This ETF is different in two ways from the previous; it's a total return index and based on fundamentals. Mike Brown from Satrix has written an article which you'll find on this page.

Further the application for the Satrix rafi 40 is open and you can subscribe online with no transaction fees. The closing date is 4pm on the 3rd October 2008.

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

MARKETS
Trading Update

Part of being listed on the JSE includes adhering to the rules and regulations of the JSE (called the listing requirements). One of these rules is the Trading Update — for the technical minded, it is paragraph 3.4 (b) (i) of the listing document.

Basically, the JSE requires companies to issue a warning on SENS (for more on SENS, see issue 1 of the newsletter) as soon as a company becomes aware, with a reasonable degree of certainty, that its results are likely to be 20% better or worse than the previous corresponding period.

Generally, this announcement will be made after the year end (or interim period end), but before the results are released to the public. It is important to understand that this is not an audited process, merely an indication from the company that its results will be 20% better or worse.

So keep an eye on SENS, especially if a company is expected to be releasing results soon as this is often the first real indication of just how good or bad the results will be. If they are significantly better or worse than expected, the market will respond accordingly.

Simon Brown
Standard Online Share Trading

INVESTER
Satrix Rafi 40

Satrix will be launching the seventh of its family of Exchange Traded Funds (ETFs) in September 2008.

The Satrix RAFI 40 breaks new ground in a number of ways:

- It is based on a fundamental index – the RAFI 40 index selects companies on the basis of an indexing method that utilizes various fundamental accounting measures for choosing the constituent companies in the index, rather than the more traditional market capitalization method.
- It is a Total Return Index – Total Return Indices (TRIs), measure the total return on the underlying index, by combining both the capital performance plus the reinvestment income of the constituent companies in the index, i.e. capital growth plus yield.
- Tracking error should be minimized – by eliminating the cash (time) drag which occurs if net dividends are retained in the portfolio and only reinvested at the end of a quarter rather than on immediate receipt. By investing all dividends and other distribution on date of receipt, the Satrix RAFI 40 total return product should eliminate one of the biggest causes of tracking error.

The Satrix RAFI 40 is mandated by the Financial Services Board (FSB) to charge a management fee of 0,70% of the market value of the portfolio. The manager can, at its discretion, waive part of this fee and will engage in scrip lending activities in order to reduce the cost to investors.

Satrix will charge no other fees, such as performance fees, advisory fees or service fees. Keeping the costs of providing the product as low as possible also helps to minimize tracking error.

- The FTSE/JSE RAFI 40 Total Return index has provided a strong historic performance. The FTSE/JSE RAFI 40 Total Return index has shown an annual return of 25,5% over the past 8 years, compared with 20,7% and 17,2% respectively for the FTSE/JSE Top 40 Total Return and FTSE/JSE Top 40 (capital only) indices. The RAFI 40 indices also demonstrates significantly lower volatility than the FTSE/JSE Top 40 market cap-weighted indices, indicating lower risk for long-term investors.

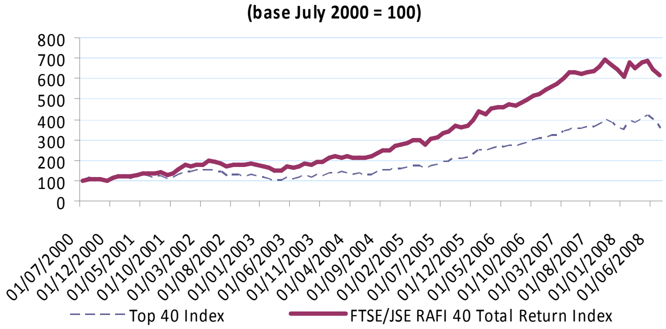
Satrix RAFI 40 is a Unique Investment Product
The Satrix RAFI 40 is the first South African registered domestic total return index tracking Collective Investment Scheme and also the first Total Return Exchange Traded Fund (ETF) to be listed on the JSE.

- Total Return Index - the Satrix RAFI 40 tracks the FTSE/JSE RAFI 40 Total Return Index . Dividends will be reinvested by Satrix in the RAFI 40 portfolio on the date of receipt and such income would be retained in the portfolio. Total return products will, over time, tend to outperform index based products that pay out income (dividends) received quarterly, because the retention of such income adds to the capital value of the portfolio and will enhance long-term performance.

Total return products are ideal for long-term investors, wishing to build up capital for retirement. Most institutional investors providing long-term retirement products benchmark the FTSE/JSE Total Return indices. By offering the first listed total return index tracking product on the South African market, Satrix RAFI is well placed to meet the requirements of both institutional and individual investors, looking for a low cost and efficient long-term investment product.

Fundamental indexation – fundamental indexation portfolios select and weight index constituent stocks by their underlying value (evidenced by financial accounting measures) and not by market capitalization (price). In this way, fundamental indexation avoids pricing errors in the stockmarket that could be caused by speculation or market hype.

FTSE/JSE RAFI 40 Total Return Index vs FTSE/JSE Top 40 Index
(base July 2000 = 100)



Source: JSE - based on back-tested data 2000-2008)

Fundamental indexation offers all the benefits of traditional market capitalization-weighted indices including diversification, broad based market participation, liquidity and transparency, but with the prospect of enhanced performance over time and with lower volatility.

Fundamental Indexation Plus Total Return Indexation.

The two features are combined in the Satrix RAFI 40. Fundamental indexation selects companies on their fundamental value, largely avoiding the risk of pricing errors in stock selection associated with market price bubbles. The Total Return concept, capitalizes all income and provides investors with the capital plus yield (total) return of the index.

The extent of the out performance of the FTSE/JSE RAFI 40 Total Return index compared with the FTSE/JSE Top 40 index is shown in Graph 1. The RAFI 40 total return has substantially outperformed the Top 40 index by 8,3% per annum over the past eight years.

Mike Brown
Satrix

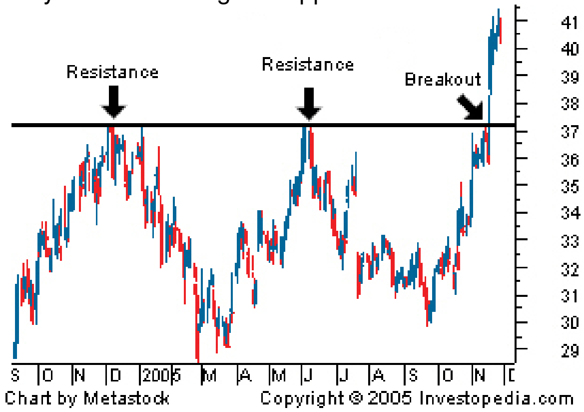
- To subscribe to the Satrix Rafi 40 log onto the website and you'll see the link under special announcements. **The closing date is 3 October 2008 at 4pm**.
- Seminar details on page one of this newsletter.

TRADER
Breakout

A price movement through an identified level of support or resistance, which is usually followed by heavy volume and increased volatility. Traders will buy the underlying asset when the price breaks above a level of resistance and sell when it breaks below support.

This chart shows a stock that has historically encountered a lot of resistance near $37, but notice how it heads sharply higher following the breakout.

In practice, a breakout is most commonly used to refer to a situation where the price breaks above a level of resistance and heads higher, rather than breaking below a level of support and heading lower. Once a resistance level is broken, it is regarded as the next level of support when the asset experiences a pullback. Most traders use chart patterns and other technical tools such as trendlines to identify possible candidates that are likely to break through a support/resistance level.



A breakout is the bullish counterpart to a breakdown.

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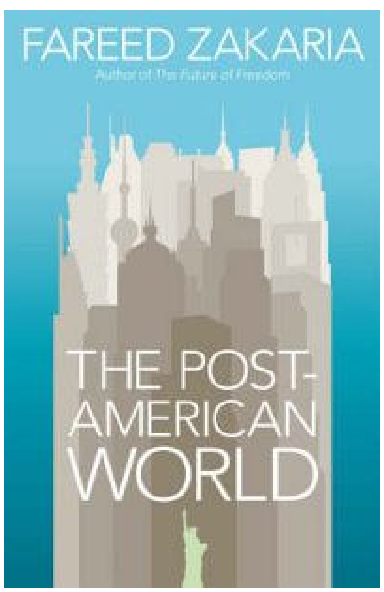
REVIEW - BOOK
The Post American World

The Post American World – Fareed Zakaria

Zakaria is the editor for the international edition of *Newsweek* and he also hosts a weekly current affairs show on CNN which launched in June 2008. In 1999, he was named one of the 21 most important people of the 21st century by Esquire.

So Zakaria certainly has the credentials to write a book of this nature. Importantly, this is not a US bashing book. Zakaria covers the decline of the British Empire and looks at the lessons the US can learn from that. He also turns his attention to the rise of the emerging market nations and how they are changing the face of global capitalism as well as global politics.



Zakaria starts around 500 years back, with the rise of the West driven by advances in science, technology and commerce. He then moves to the next major change just after World War II, with the move of the US to super power status during the cold war and then its move to hyperpower status after the collapse of the USSR. The third major change is the present — "the rise of the rest" — the emerging market world being led by the BRIC nations (Brazil, Russia, India and China, with focus on the latter two).

Zakaria argues that the biggest challenge to the US is not terrorism or nuclear proliferation or China, but rather the country's ability to adapt successfully to the new global environment. He makes a compelling case for the US to adopt an open and confident approach, rather than putting up barriers.

He details the emergence of China and India, devoting entire chapters to these countries. One comes away believing that these emerging power houses are unstoppable, peaceful and, importantly, good for the future of the global economy.

Perhaps the only real criticism of the book is that Zakaria uses fairly broad sweeping strokes when assessing some of the dynamic changes that have happened in the world over the past 30 years. In his defence, he has obviously written a book with broad appeal and it is fairly short at 250 pages. The extra detail I craved would have meant a book twice the size and with a smaller readership.

Overall, it is a pacy and well-written book that gives readers a glimpse into the new future which is developing around us at this very moment.

Simon Brown
Standard Online Share Trading

Jargon Busting
Book value

This is the value at which an asset appears in the books, or accounts, of a company. Very often, book values are higher or lower than the real values of the assets, and can be misleading when considering the balance sheet. A good example of this is where a company buys land and records it in its books at cost. Over the years, the land becomes much more valuable, but no adjustment is made to the book value.

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JARGON BUSTING
EBITDA

An indicator of a company's financial performance which is calculated as follows:

EBITDA = Revenue – Expenses (excluding tax, interest, depreciation and amortization)

EBITDA can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions. However, this is a non-GAAP measure that allows a greater amount of discretion as to what is (and is not) included in the calculation. This also means that companies often change the items included in their EBITDA calculation from one reporting period to the next.

EBITDA first came into common use with leveraged buyouts in the 1980s, when it was used to indicate the ability of a company to service debt. As time passed, it became popular in industries with expensive assets that had to be written down over long periods of time. EBITDA is now commonly quoted by many companies, especially in the tech sector - even when it isn't warranted.

A common misconception is that EBITDA represents cash earnings. EBITDA is a good metric to evaluate profitability, but not cash flow. EBITDA also leaves out the cash required to fund working capital and the replacement of old equipment, which can be significant.

Consequently, EBITDA is often used as an accounting gimmick to dress up a company's earnings. When using this metric, it's key that investors also focus on other performance measures to make sure the company is not trying to hide something with EBITDA.

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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

- Johannesburg – 08 Oct
- Welkom – 14 Oct
- Durban – 14 Oct
- Bloemfontein – 15 Oct
- Cape Town – 15 Oct
- Kimberley – 16 Oct
- Pretoria – 23 Oct

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

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