



Derivatives ... financial weapons of mass destruction

Warren Buffet

Investment Outlook

Global economy in crisis?
Resources not performing?
Want to get an experts view of the market direction?

Online Share Trading is pleased to invite you to the bi-annual JSE Investment Outlook presentation.

The presentation will look at both local and global economic conditions and help you understand the impact on your portfolio as well as how to position yourself going forward.

This event will be presented by Anscha van Zyl, former director of Standard Bank Equity Advisory.

The presentation will be approximately 1 hours (including Q&A) followed by drinks.

- Cape Town – 15 October
- Durban – 16 October
- Johannesburg – 28 October

To book log into the website and you'll see the links on the home page under Upcoming courses/presentations.

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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 Investing (18 Oct)

Pretoria

- Introduction to technical analysis (part 1) (18 Oct)

Cape Town

- Introduction to Futures (single stock and currencies) (22 Oct)
- Understanding Share Instalments (23 Oct)
- Half day detailed warrants course (25 Oct)

Durban

- A practical guide on how to effectively use the website (28 Oct)
- The Truths of the Market and Trading Skills (29 Oct)

TALK

From the editor

World markets remain, well I dunno – wild and crazy are about the only words that seem to fit. With this in mind we have our investment outlook presentations coming up. See details on page 1.

JSEDirect is my weekly radio show, every Tuesday at 7pm on ClassicFM. You can also listen on the web (classicfm.co.za) or on DSTV audio. We also podcast the show and you'll find that on the blog - classicfm.co.za/jsedirect

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

INVESTOR

ETF – Zshares Govi

Investec Capital Markets launches Zshares GOVI – South Africa's first JSE-listed Fixed Income Exchange Traded Fund

In the growing South African Exchange Traded Fund market, Investec Capital Markets announced the launch of South Africa's first Fixed Income Exchange Traded Fund (ETF) to be listed on the Johannesburg Stock Exchange.

ETFs are open-ended investment portfolios, which track an index, by acquiring the underlying basket of instruments comprising that index. These funds are unitised and then listed as a single unit or "share" on a stock exchange. ETFs can track well known market capitalization weighted indices or a bespoke themed index, providing the investor with a clearly defined investment exposure.

The Zshares GOVI, Investec's third ETF (the first 2 equity ETFs were launched in December 2007) is structured as a Collective Investment Scheme, the same as a unit trust. Zshares GOVI will aim to track the Bond Exchange of South Africa's (BESA's) GOVI Index, this index is currently comprised of 8 long-term South African government bonds, such as the well known R153 and the R157. The Zshares GOVI ETF will hold these same South African government bonds, thus replicating the GOVI Index. The Zshares GOVI ETF will rebalance the constituent weightings on a monthly basis, and the bond constituents on a quarterly basis, in line with the BESA index rebalancing methodology. The Zshares GOVI units

will be listed on the JSE and will trade live on the JSE, whilst the underlying government bonds in the portfolio will be traded on BESA or Yield-X. By incorporating these 3 exchanges with one product, Zshares GOVI is a first of its kind in the South African ETF market.

The Zshares GOVI Exchange Traded Fund, like the underlying government bonds that constitute the ETF portfolio, will ultimately do better in times of falling interest rates and can be a smart, cheap and easy way to diversify a portfolio. With many commentators highlighting that South Africa has reached the top of the interest rate cycle, Zshares GOVI could provide the perfect tool to swiftly and efficiently switch from other asset classes, for example cash, into bonds. In the current credit market turmoil, the Zshares GOVI will afford an investor the safest South African investment possible from a credit perspective.

The BESA GOVI index is a Total Return Index, meaning that coupon and bond redemption payments are not distributed, but are notionally reinvested in the index. The Zshares GOVI will aim to track the GOVI Index by also reinvesting coupons and redemption payments as and when they are received, by purchasing constituent bonds in the same weights dictated by the GOVI Index. Distributions to Investors will be made through the issue of additional Participatory Interests to Investors and not in the form of cash.

The Zshares GOVI ETF will be a transparent, tradeable fund, offering real-time pricing. Furthermore, because the Zshares GOVI is housed in a Collective Investment Scheme, the ETF will be regulated by the Financial Services Board and will enjoy the same tax benefits as a unit trust.

Michael Keeves from Investec Capital Markets commented: "We believe that this ETF should be a core holding in any diversified portfolio".

To invest in the Zshares GOVI, investors need as little as R10, the listing price of the Zshares GOVI, and this investment can be made via your stockbroker or online share trading platform. Purchases of the shares can be made using cash or by providing the correctly weighted government bonds which mirror the GOVI index.

The IPO closes on Friday 10th. More information can be found at www.zshares.com.

Online Share Trading

COLUMNIST

Hair of the dog

A few nights ago I found myself lying on my back looking at the twinkling stars above, and I thought to myself, what a pretty place the universe is. Then I pulled myself to my feet, brushed the loose tar from the back of my head and continued home. I awoke 12 hours later and wished I was dead. I sure felt like I should be.

A hangover is nature's way of telling you that you had a good time the night before, even if you can't remember the details. I would not mention this piece of undignified trivia, except that the words 'hangover' and 'market' are being frequently linked together these days, along with phrases like 'scum of the earth' and 'merchant bankers'.

Right now, there's not a whole lot of love out there for traders, market-players and the entire financial system. We are told that Capitalism as we know it is dead, this at a time when there are hardly any Marxists left to savour the moment. No group hugs for the men in blue suits.

But I can't help thinking, aren't we forgetting something here? As the clock struck midnight and the ale still flowed, the markets delivered and delivered and delivered. Traders, Hedge-Fund managers, and even us small timers on the lunatic fringe gorged ourselves on cash. For anyone who joined the merriment, there was money to be made. When the TOPI hit 13 000 back in 2005, the first mutterings from the temperance brigade were heard. These prophets of doom scowled disapprovingly across the floor, sipping mineral water and looking impatiently at their watches. With their severe hair and sensible shoes, they were eager for the cops to bust in the door and put a stop to it all. The TOPI then rocketed like a champagne cork all the way up to over 31 000, and, boy, what a twit I'd have felt if I'd missed it. Well, it's stopped now, alright. And as the sorry looking crew of revelers spews out the door and limps into the dawn, there's many who would nod and say - 'told you so'.

But you know what? I don't care. I would not have missed this party for the world. It was a prolonged Friday night and to spend it in front of the TV dressed in a plaid dressing gown while eating tuna salad would have been just pathetic. Worse, not to have been in the market over the past five years would, I reckon, have been even more expensive than having been in until right to the end.

Of course, there's no getting away from it, the morning after is seriously unpleasant. I still have a decent stake but am over-leveraged with property investments. Yes, I joined that party too. So I've now submitted to that most humiliating of circumstances, a paying job in the Gulf, the one place on earth where the festivities continue. I sit at my desk next to 20-something Brits who say 'dude' and sport nattily trimmed beards. People who think Red Bull and vodka is, like, cool. But I console myself with the knowledge that this is temporary. I was there for one of the greatest bull-runs in history. I was there when it ended. I sure as heck will not miss out on what is coming next. And, while those of us who stayed to the end lie in darkened rooms, a damp cloth on our heads, it's heartening that people like Warren Buffet and Anthony Bolton are getting back in. Greed amongst the fear. The hair of the dog.

Lately I've begun gathering AGL, buying when it dips into the 250s. Who would have thought just a few months ago, that AGL would ever drop below 300 again? And there are many others like it. No doubt the abstainers will be out there clucking to their neighbours over the garden fence, as the rest of us wincingly draw back the curtains and let in the afternoon sunlight. As the market picks itself up off the floor, the bearish keening will grow louder. And it may be tempting to do the sensible thing and look up AA in the yellow pages. This is to be expected. The gloom mongers missed the last run, and they will likely miss the next one. It may not happen soon. Heck, it may not happen at all. But if it does, I'm going to be there.

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

TRADER

Busted instalments & bid only

I would like to delve a little deeper into a category of Instalment which I will term a "Busted" Instalment. Interestingly both normal Share Instalments and a Turbo's can become a "Busted" Instalment. Think of them very much in the same light as one would consider a Fallen Angel.¹ In essence a "Busted" Instalment is one where the share price has fallen close to the exercise price of the Instalment, meaning in essence that there has been a large decline in the price of the underlying since the Instalment was issued.

¹ a **fallen angel** is an angel that has been exiled or banished from Heaven

Why is this relevant?

The relevance comes from the fact that in the structuring of Standard Bank Share Instalments the bank prices in some share price protection for the purchaser. What this means is that in a worst case scenario, if a share over which a Share Instalment is issued falls below the exercise price of the Share Instalment, that the maximum amount the client will lose is the amount invested in the Share Instalment.

This is achieved by including a put option as part of the structure with an exercise price and expiry date the same as that of the Share Instalment. When an Instalment is issued the cost of the put option is very little for a normal Instalment (due to the fact that it's a 12-month 50% out the money option) and higher for a Turbo Instalment (being a 12-month 25% out the money option). But for a "Busted" Instalment it will be high as you are paying for an at-the-money put which is much more expensive, this is especially true if the Instalment still has a long time till expiry.

The important point to note is that not only are you in essence borrowing a much larger amount (the strike price) but the added cost of the put increases the implied funding rate for "Busted" Instalments, making it higher than would normally be the case and resulting in the time decay of these Instalments being elevated. The effective gearing of "Busted" Instalments can also be extreme – in some instances up to 10 times or more.

In Summary Busted Instalments will be:

- Where the underlying is trading within 10% of the strike price of the Instalment

They will have

- Very high levels of gearing
- Very high implied funding rates i.e. high levels of time decay

After the recent volatility in the equity markets there are a many instalments that are now "busted". Standard Bank will be "bid only" in the instruments listed below. By "bid only" we mean that the bank will only be buyers of the Instalment according to the Instalment matrix and no longer sellers. The fact that it is "sold out" does not compromise existing holders of the Instalment as the bank remains a buyer (bid) to enable them to exit their positions.

Please be cautious when purchasing these instruments as there may be other sellers in the market (not Standard Bank) and always

consult the matrix before trading to avoid paying above the fair value, matrix offer, price.

SPGSTB	PPCSTC	MVGSTC
BAWSTB	MTXSTB	DDTSTB
PGRSTB	BATSTB	SIMSID
SUISTA	GNDSTB	SLMSTB
WHLSTA	LEWSTA	DTCSTB
SNUSID	NTCSTB	AVISTA
NPKSTB	FOSSTA	FWDSTC
MTASTB	RBXSTB	MPCSTA
FWDSTB	ABLSTB	
INPSTB	GFISTB	

Should you have any queries please contact our desk on 0800 111 780.

*Brett Duncan
Standard Bank Equity Derivatives*

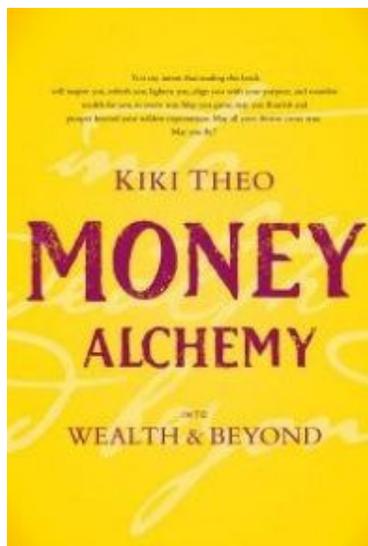
**REVIEW - BOOK
Money Alchemy**

Money Alchemy by Kiki Theo

Money Alchemy is written by Kiki Theo, a Cape Town based businesswoman who for the past 2 and a half years has been coaching individuals in business and running a course also titled "The Alchemy of Money".

Theo describes herself as a money coach, life and business strategist, mentor and guide.

The book as the title suggests is a blend of sound moneymaking guide lines with an unusual style of inspiration.



Of all the books I have reviewed for this newsletter thus far, this has been the most interesting one I have experienced. From the very first page the author prepares the reader for a journey and throughout the

book you are constantly reminded that wealth creation is a process. The writing style is quirky and humorous and the pages are peppered with

Education newsletter

interesting quotes from various sources. One such quote that remains long after the page has been turned is that by Oscar Wilde “Only the shallow know themselves”

This book is unlike other books on wealth creation in that the process involves much self analysis, creation of goals and change in mind set. To fully appreciate the message the author is conveying, the reader is encouraged to have an open mind and explore the ideas without restriction. One of the ideals the author establishes at the outset is that in order to create your wealth you need to establish yourself in the present, an ideal she explains in the excerpt “The first part of the journey is discovering where you are. Knowing where you are means clear vision and being in the present. Clear vision is a reality check. We all need one from time to time.”

Those who appreciate strait laced advice as given by financial advisors and bankers will find the processes detailed in Money Alchemy irksome and perhaps a little way out there. However if you adopt the idea that money is energy as opposed to a cold, hard object, the book opens you up to a world of possibilities.

Money Alchemy provides the reader with the tools to change his / her outlook and perceptions. It is a journey of self discovery and while you will not be turning lead to gold any time soon, the information acquired in this process will certainly enable you to explore new avenues of wealth creation.

Marcia Nair
Standard Online Share Trading

JARGON BUSTING

Credit Default Swap

A specific kind of counterparty agreement which allows the transfer of third party credit risk from one party to the other. One party in the swap is a lender and faces credit risk from a third party, and the counterparty in the credit default swap agrees to insure this risk in exchange of regular periodic payments (essentially an insurance premium). If the third party defaults, the party providing insurance will have to purchase from the insured party the defaulted asset. In turn, the insurer pays the insured the remaining interest on the debt, as well as the principal.

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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 – 13 & 20 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.

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