Standard

Online Share Trading

Education newsletter

Issue # 28
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If investing is entertaining, if you're having fun, you're probably not making any money. Good investing is boring.

George Soros

Have you heard about Zshares?

Do you want to know what the most innovative investment vehicle of the last two decades is?

Online Share Trading is pleased to invite you to a presentation by Investec Capital Markets on Zshares

The presentation will look at both international and local Exchange Traded Fund markets and trends, and will talk about the benefits of Exchange Traded Funds. Investec will also introduce you to their innovative ETF's.

This event will be presented by Michael Keeves, Head of Exchange Traded Funds at Investec Capital Markets.

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

Dates/cities

- Johannesburg 4 Feb 2009
- Pretoria 5 Feb 2009
- Durban 17 Feb 2009
- Cape Town 18 Feb 2009

To book please go to http://courses.standardbank.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 Investing (17 Jan)
- Intro to Fundamental Investing (20 Jan)
- Intro to Futures (22 Jan)
- Intro to technical analysis (part 1) (24 Jan)

Cape Town

- Intro to technical analysis (part 1) (17 Jan)
- Trade to trade well ***NEW*** (22 Jan)
- Intro to Fundamental Investing (29 Jan)
- Understanding company financials and announcements (31 Jan)

Durban

- Introduction to Investing (24 Jan)
- Introduction to Futures (single stock and currencies) (28 Jan)
- Half day detailed warrants course (31 Jan)

TALK
From the editor

Well finally 2008 is drawing to a close, and not a moment too soon for many battered and bruised traders and investors. Unfortunately that means 2009 is around the corner and next year may be even tougher than this, if that is possible?

If you're looking for Christmas gifts for friends or family we have listed all the book reviews we've done over the last 27 issues.

Further the courses for 2009 are already being added to the website, we start up again in mid January.

Lastly - all the best over the holidays, may your every wish for 2009 come true.

Simon Brown
Head: Education & Media
Standard Online Share Trading

MARKETS
Holiday trading – December 2008

The JSE will be closed or closing early on a number of days during the holiday season.

The market will close at 12.00pm and the call center at 12.30pm on the following two days:

- Wednesday - 24th December 2008
- Wednesday - 31st December 2008.

Then due to public holidays the JSE will be closed on:

- Tuesday – 16th December 2008
- Thursday – 25th December 2008
- Friday – 26th December 2008
- Thursday – 1st January 2009

Standard Online Share Trading

MARKETS
Finding Your Investing Comfort Zone

To participate in the financial markets, both short-term traders and longer-term investors need to be comfortable about their holdings and their specific portfolios. In other words, if a certain position leaves you with a sense of uneasiness or the inability to sleep at night, it is not for you! Knowing the boundaries of your personal comfort zone makes it easier to maintain a portfolio that contains only suitable positions. So how do you find and establish these boundaries? Read on to find out.

Why Should I Be Comfortable?
Establishing a comfort zone is particularly important for a number of reasons:

- An uncomfortable trader or investor may allow emotions to take control of trading decisions.
- Those who are too complacent may ignore risk.
- Determining a comfort zone helps you avoid borderline trades that usually turn out poorly.
- It helps you recognize when risk has increased.
- It encourages you to take profits when very little profit potential remains.
- It minimizes the possibility that you'll be forced to make difficult decisions under pressure. Being comfortable with your positions means that high pressure situations should occur rarely.

Settling Into Your Comfort Zone
Being in the "comfort zone" means owning a portfolio that contains only suitable, well-researched and understandable holdings.

Arriving at this type of portfolio involves going over your holdings yearly and deciding whether the reasons that you bought the stock still apply. For the stocks that don't make the cut, sell those positions, even if it results in a loss. Technically, the loss has already occurred and, except for tax reasons, turning it from a paper loss to one that is realized makes no difference. Once you've done this, you can put your money to work where you believe it will increase in value.

When choosing new stocks for you portfolio, remember that not every investment tip is a winner. In fact, it's best to ignore all tips and conduct your own research.

Long-Term Investor or Trader?
Despite the inconsistency of the markets, the vast majority of investors choose to adopt a long-only approach by purchasing stocks, bonds, real estate, collectibles, etc. If you have good stock and investment selection skills, this method will do well over time. If you don't, and prefer to manage your own portfolio, different skills are required. For example, it may be worthwhile to learn how

options work and how you can use them to hedge risk in stock portfolios.

At the same time, long-term investors must understand when a position is no longer suitable, either because it has run up in price very quickly, or the company is not expected to perform well in the future. You should work hard at mastering this skill - the time to recognize that some positions are too risky to hold is before disaster strikes.

The way you decide to invest in the market will determine your comfort zone. Day traders hold positions for a very short time. Swing traders hold longer, but by no means do they attempt to make long-term trades. And then there are the investors who have no specified holding period - and for many, that means they expect to hold for years. Which category you fall into will affect your comfort zone. For example, the day trader doesn't worry about sleeping well because positions are not held overnight, and the long-term investor is less concerned with timing. The one characteristic these trades should have in common is suitability for the investor, who must find both the risk and reward potential of any position acceptable.

Becoming a full-time trader is a goal for many individual investors, who see it as a glamorous road to riches, but these perceptions are false. As with any other profession, it takes education, practice, skill and discipline to succeed. In the same way that not everyone can become a professional athlete or movie star, the simple truth is that not everyone can be a full-time trader. Keep this in mind when thinking about your comfort zone - if you don't succeed in making profits as a trader, you probably won't be very comfortable.

Trading Within a Comfort Zone
Both long-term investors and traders must make important decisions. Among the questions to consider are:

- Is this a good entry point?
- Is this an appropriate time to invest?
- Is the security fairly priced?
- How much profit do I expect to earn?
- How much capital is at risk?
- Is it possible this trade can result in a margin call?
- What's the probability of earning a profit?

Summary
It's important to invest or trade so that you are comfortable with the nature of your holdings - and that's especially true when it comes to understanding both risk and reward. Once you find your comfort zone, staying within it will help you make better investment decisions. If a security doesn't fall within the parameters of your comfort zone, it's not a good investment for you.

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COLUMNIST
Volunteers only

I find myself surfing You Tube and growing misty-eyed over Bok van Blerk videos, tapping my foot along to De La Rey.

Partly it's because I'm far from home, which makes me sentimental. As a result, I find myself thinking wistfully of going out to shoot an Englishman - or at least laugh in his face every time the word 'rugby' is mentioned.

But a hankering for the Generaal is mostly because, in the context of the markets, we are at war. These are not days to return home from the fields in the evening, hang your hat behind the door and reach for the brandewyn.

Instead, its time to load up and head for the hills. Go to far countries, meet interesting people and seduce their women. When its over, we can return to rebuild what is left of the homestead, bearing a few scars, a thousand-yard stare and an interesting disease. These are abnormal times that call for abnormal trading strategies. Logging onto OST, I can almost smell the napalm.

I know its going to be a long haul. It won't be over by Christmas, this or the next. The past few months have been a phony war, the lull between the Wehrmacht walking across the Polish border, and, seven months later, the French waking up to their morning baguette with Panzers rolling down the Champs Elysees.

And there's no point in trying to sit it out on the sidelines like the Belgians either. In this market, proclaiming neutrality and sitting on your cash means you become the Maginot Line bypass.

I've abandoned the tactics of just a few months ago. Buy and hold is now redundant. Sure, Buffet is doing it. But he has deep, deep pockets and can afford to be wrong. Besides, much as I'd like to, I would not base my market strategy around an extraordinary person like Warren any more than I would buy a tux because Britney Spears is single again.

To be sure, PE's are beguilingly low, but these are historical, reflecting the better days behind us. I figure that once the catastrophic plunge in earnings that most companies now confront are factored in, these numbers will begin to look expensive again. Cheap today, cheaper tomorrow.

Bargain-hunting is the road to Waterloo. There's no way to accurately predict when shares have reached their bottom, and trying to buy low in the hopes of selling high seems to me to be a risk not worth taking.

Earlier this year a mate of mine was worth US$20 million, based on his part ownership of a junior uranium company. He was so pleased with his rise in fortune that even when his hair began falling out in clumps - he'd spent a lot of time chipping at the rock samples - he didn't care. But when the uranium market tanked, the company lost 98 percent of its value. Now he's practically bald, broke, and brightens light bulbs when he walks past them. His company might come back, but not in time to do him any good.

So I reckon if I am going to survive this market, it's going to be by trading the price action alone; finding the profit between support and resistance. My JSE proxy, AGL, is now my absolute favourite trading share.

Each trade is a volunteers-only, suicide mission. I accept there may be no survivors. A 100 percent loss is possible. So my exposure is small, and chosen with care. And oddly enough, it's working. It's a funny thing, but trading the bear is no more difficult than the bull - once direction is established, its straight forward, or rather, down. What I've realised, lately, is that what they don't tell you sign up your first trading account, is that the bull is just as ruthless with rookies as is the bear. If anything, its worse.

The bull dulls instincts and breeds overconfidence and sloppy trading, because if you hang on long enough, all shares come back, even the walking wounded. Clearly, the Charge of the Bankers shows how stupid it is to believe that because you are smart and brave, you won't have a Russian peasant behind a field gun shoot your horse from under your ass.

Now, the Dow has broken key levels. The US economy is in recession. The analysts who didn't warn us about this last year are now predicting that it will end in the next. I don't believe it. The Western economy depends on civilians buying junk they don't need with money they don't have. In today's America, the Unabomber wouldn't be posting explosives and manifestos from his shack in Montana; he'd be living in a Florida McMansion with an SUV in the driveway, and sending emails to his credit card company asking for a payment deferment.

But Americans are all out of credit. The nutters are slinking back to the hills, stocking up on guns, spam and Billy Ray Cyrus CD's. The rest are just sitting put, waiting till the cash starts to flow again. Until it does, the rest of us will have to hunker down and wait until the bear begins to wave a white cloth. And hope like hell i'ts not his dinner bib.

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

REVIEW - BOOK
It's not about how smart you can be. It's about how rich you can be

It's Not About How Smart You Can be. It's About How Rich You Can be
by Mark Varder and Joost Hulsbosch

The author Mark Varder is a multi award winning creative who together with Joost Hulsbosch set up the Johannesburg based advertising and design agency, Varder Hulsbosch, in 2001.

Varder Hulsbosch was appointed by the JSE, Corp Capital and Gensec to develop a marketing strategy and advertising campaign for Satrix

Mark is not a stock market fundi, an economist or involved in the market in any way. He is in fact a complete novice on the markets, an “advertising guy” as he once referred to himself in an interview.

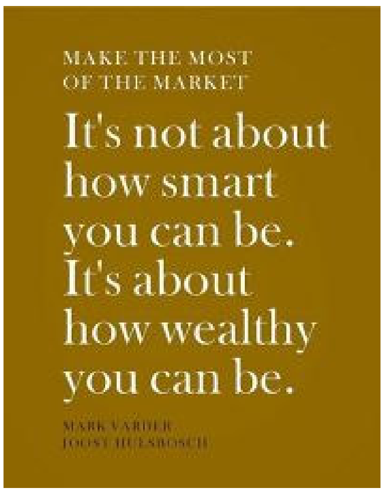
So why would anyone take his book seriously? Well because he is a novice and his exposure to the market was one without bias or expectations. The author was introduced to a strange and largely misunderstood world and felt compelled to share his opinion with novices and experts alike.

This book is different from others in its genre in that it is a fun read. Mark’s style of writing is easy to understand and very enjoyable. The content of the book is well researched and well resourced and full of colour which effectively gets his message across.

"It's not about how smart you can be. It's about how wealthy you can be" has universal appeal; everyone from busy home executives to teenagers will appreciate the lack of jargon, simple figures and direct view of the market.

The theme of the book is captured in the quote "The way to make the most of the market is to own as much of it as possible, as cheaply as possible, for as long as possible"

Essentially the book is about the benefits of investing in exchange traded funds. While funds managers, brokers and advisors may cringe at the authors opinion that the best investment route is the way of the exchange traded fund, the truth is his logic is sound.



He continuously highlights the theory that managing your risk, giving yourself time and carefully considering your costs, will ensure that you will create wealth.
One of the highlights of the book is the busting of several stock market myths, one of which is that you need to have a huge amount of money to begin investing.

My favourite quote in the book is that of Mr Warren Buffet, "Lethargy bordering on sloth remains the best investment style. The correct holding period for the stock market is forever"
The stock market is a route to wealth but you will not strike it rich overnight. You have to be prepared to invest your time along with your money and Mark Varder effectively brings this point home in this book.

It is a little book filled with big ideas and is the ideal read for people starting out in the markets and those who already have established portfolios.

Marcia Nair
Standard Online Share Trading

REVIEW - BOOK
List of past review

Below is a list of all book reviews we carried in previous newsletters (and the newsletter edition the review appeared in). Back issues of the newsletter are on the website under help and education ➔ educational newsletter.

- # 27 - Money Alchemy
- # 26 - Post American World
- # 25 - Road Ahead
- # 23 - Rigged
- # 23 - Rich Dad, poor Dad
- # 22 - Trade your way to financial freedom
- # 20 - Rich Women
- # 19 - Where are the customers; yachts?
- # 17 - Reminiscences of a Stock Operator
- # 16 - Ten books for investors
- # 15 - Longman dictionary of financial terms
- # 13 - A Random Walk
- # 11 - The Tao of Warren Buffett
- # 10 - Come into my Trading Room
- # 9 - The Intelligent Investor
- # 7 - The best investment advice ever
- # 6 - Traders, Guns & Money
- # 4 - Fooled by Randomness
- # 3 - The World is Flat
- # 2 - Trend Following

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JARGON BUSTING
Deflation

A decline in general price levels, often caused by a reduction in the supply of money or credit. Deflation can also be brought about by direct contractions in spending, either in the form of a reduction in government spending, personal spending or investment spending. Deflation has often had the side effect of increasing unemployment in an economy, since the process often leads to a lower level of demand in the economy.

Deflation is the opposite of inflation.

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JARGON BUSTING
Derivative

A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage.

On the JSE examples are single stock futures, currency futures, share instalments and warrants.

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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 – 14 Jan
- Durban – 14 Jan
- Cape Town – 13 Jan
- Pretoria – 21 Jan

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

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