Standard

Online Share Trading

Education newsletter

Issue # 31
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People know that inflation erodes the real value of the government's debt and, therefore, that it is in the interest of the government to create some inflation

Ben Bernanke

Daily market and research emails

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These include;

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- Daily Standard Newsletter
- Warrants Watch Newsletter
- Rand Futures Daily

To subscribe log onto the website and you'll see the link under the special announcements section of the landing page.

You can also find the content on the menu under the "buy and sell ideas".

Client courses for the next few weeks

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Johannesburg

- Introduction to investing (28 Mar)
- Understanding Share Instalments (30 Mar)
- Trade to trade well ***NEW*** (01 Apr)
- Half day detailed warrants course (25 Apr)

Cape Town

- Trade to trade well ***NEW*** (08 Apr)

Durban

- Introduction to investing (04 Apr)
- Introduction to Futures (single stock and currencies) (23 Apr)

Pretoria

- Intro to technical analysis (part 1) (18 Apr)

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TALK
From the editor

The market is running hard and the question everybody is asking is if this is the real deal, or merely a bear market rally?

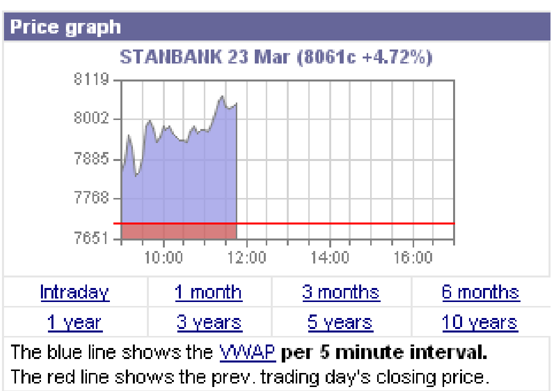
The reality is that nobody knows until after the event. But our regular columnist has some thoughts on the problem.

Simon Brown
Head: Education & Media
Standard Online Share Trading

WEBSITE
New intra-day graphs

We have updated our intra-day graphs for all JSE listed products. On each share quote page there is the default graph that shows the intra-day Volume Weighted Average Price (VWAP*) for the current days trading activity.

The new feature is that you can now also select to view the 1, 3, 6 month graph as well as the 1, 3, 5 and 10 year graph, all at a click of the button and updating in real time.



Further the horizontal red line (on the intra-day graph) indicates the closing price for the previous trading day to enable easy understanding of the day's activity.

For the longer time frames if the body of the graph is red then the share is down for that period while a blue body indicates a positive move over the period being viewed.

* VWAP - The Volume Weighted Average Price (VWAP) is calculated by adding up the value traded for every transaction (price times shares traded) and then dividing by the total shares traded for the period.

Standard Online Share Trading

COLUMNIST
Buy and hold vs buy carefully

I lost sleep a few weeks back, when it looked as if all was not well at Old Mutual. The FT suggested OM wanted to unload Nedbank, a loud hint that the keepers of my pension plan could be in trouble.

It turned out to be nonsense, of course. Which only reminded me why the views of journalists should be taken as seriously as a promise of undying love from a Ladies of Sandton employee.

But it did make me think: I've doggedly paid my policies every month for ten years, in the belief that whatever financial indiscretion I commit during my four-score and ten, I will at least have enough to pay for a nurse to see me through my declining years. I do like a good sponge bath.

It's become clear, though, that nothing is to be trusted. I've previously said that a smart investor/trader will also sprinkle his portfolio with items as exciting, and safe, as grandmothers' underpants. Long term holds that will steadily increase in value over the years, providing the safety net and peace of mind essential to secure trading.
Now, I'm no longer so sure. These days, granny could well be going commando. My mutual fund, weighted towards MTN, BHP Billiton and other blue chips, is worth half of what it was 12 months ago. Man, I should have dumped the sucker when I had the chance.

The one refuge in all this has been cash. It's hard to beat the return we've been getting on deposits here - heck, even Bernie Madoff recognised the magic one plus zero as a figure that will keep the punters happy.

But no longer. Tito is about to do to depositors what Joost says he didn't to the accommodating young lady on that video. Ordinarily, I would take this as a signal to begin rebuilding my portfolio. Dumping the Zar for equities. There is even a faint suggestion of technical support for this, with the market breaking out of its short term bear channel last week. The Dow too is showing signs of strength, regaining 7200 and holding.

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So what's the problem? Well, you don't get stomped by a large hairy creature with big teeth and a fondness for honey, without becoming just a little nervous. Is this truly a recovery, or is it a bear rally?

Should I stick to small scalping trades, and hang onto the bulk of my stash? Or do I wait and risk finding myself a 1,000 points behind while bovine thundering drums in my ears?
The only thing worse than missing a bear, would be to miss the bull. Go in too soon, and you lose capital. Go in too late, and you lose capital growth. Last year Buffet, the market master, chucked cash at cheap assets. And kyk hoe lyk hy nou. He's lost 40 per cent of his net wealth: The capital destruction of his oracular market-timing adds up to enough to buy Zimbabwe, with Swaziland thrown in. Buffetologists will argue that he'll be proved right in the long run, but I bet he'll be playing bridge with St Peter long before that happens.

So here's what I'm going to do. As of last week, I've begun gathering - and I'm embarrassed to admit this in print - Satrix. Yup, I know, the investment of choice for biddies. It will however give me a foot in the market if the rally is sustained. I will keep adding till I reach my target level of holding - about 15 per cent of my cash. If technical levels show a firm bullish trend, I'll begin adding individual equities. In the meantime, I'll keep a lookout for short scalping trades.

But here's the thing. Buy-and-hold does not mean hold at all costs. The worst trades I ever made were not with highly-geared instruments or close-to-the barrier waves; they were with long-term equities that went south while I held on in the belief that a good company will always come back. Sometimes they don't. The folks still holding those Anglos they bought at 550 will have them in their drawer for a long, long time. Even a long term hold needs a stop loss.

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

TRADER
Know your trading style

So what type of personality style are you? And how does this suit becoming a trader? Most of us are a mix of several different styles — both good and bad. See if you recognize any of the following.

Enthusiastic - Some tackle trading with enthusiasm, following the promise of easy money. Sooner or later they fail and, blaming either their broker or training course provider, they give up in disgust.

Withdrawn - Some blame themselves: "I suck at everything — so why do I bother trying?"

Persistent - Some when they fail, remind themselves that no-one ever won by quitting. They persevere, but repeat the same mistakes over and over again — and are left wondering why they don't achieve better results.

Searching for the Holy Grail - Some pursue the perfect trading system. Always switching from one system to the next. Always latching on to the latest fad. Or following the guru of the month in the vain hope that they have the answers.

Hesitant - The yips, a golfing term, are not only experienced by professional golfers who freeze over a putt. There are darts professionals who struggle to release their dart — and traders who cannot pull the trigger. They wait for the perfect set up, allowing pressure to mount until it impairs their performance — ensuring that they do fail.

Blinkered - Some keep scant records of their trades and can only tell how well they are (or aren't) doing from the depleted state of their bank account. They prefer not to reflect on their failures as it makes them feel anxious or depressed.

Paper Trader - Some religiously follow the market, keeping copious records and constantly trialing new systems — without ever buying a stock.

Reckless - The opposite approach the market with supreme confidence, committing their entire capital when just starting out. That is about as sensible as entering a professional boxing tournament after just a few lessons at your local gym. The market will ruthlessly expose your inexperience.

Successful Trading Styles
Cautious - Successful traders are initially cautious about entering the market. They paper trade for a while, before committing a small amount of capital. When confident they have learned the ropes, they gradually increase their exposure while closely monitoring their performance.

Detailed - They keep meticulous records of each trade: the reasons that they entered and exited, the capital committed, and the profits or losses made. They can tell you exactly what trades they

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were in during the crash of 1987 or when the Dow broke 10,000 — also why they were in them, and when they exited.

Focused - Whenever they fail, they take time to reflect on where they have gone wrong. They review their records and identify areas of weakness in their trading approach. They seek advice and study available literature, only returning to the market when satisfied that they have corrected the flaw. If they again fail, they repeat the process, gradually eliminating their mistakes until they eventually succeed.

Conclusion - Every action has a payoff. Many traders subconsciously expect to fail and the objective of the first eight styles is to avoid the pain associated with that failure. Some avoid failure by quitting early. Some persevere but don't really make a serious effort — so they always have an excuse at hand. Some are so deflated when they incur a loss that they abandon a perfectly good system in the vain hope of finding one where they never have to incur losses. Some experience such anxiety that they cannot bring themselves to enter a trade. Some are in denial, never confronting their actual performance.

Successful traders, however, accept failure as an important part of the learning process. The last three styles are vital to becoming a better trader. Only by learning from our mistakes can we hope to perfect our trading style — and become the best trader that we can possibly be.

I must have read hundreds of trading books and cannot recall a single instance of a trader who succeeded with their first trading system. They all fail at their first attempt. What makes them different is how they respond to failure.

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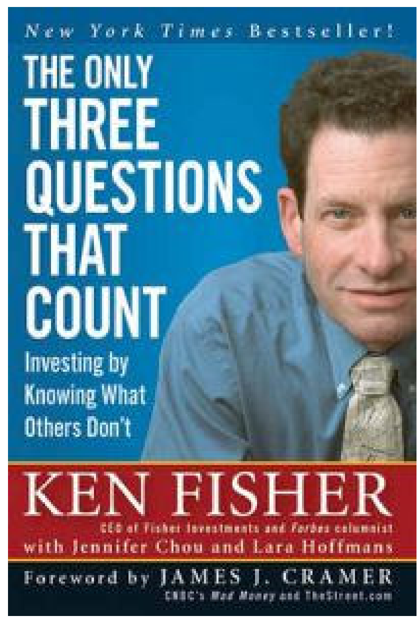
REVIEW - BOOK
The only three questions that matter

The Only Three Questions That Count
Ken Fisher

In order to review a book, one obviously has to read it first. I have to confess, I did not finish this book. But let me explain… Many books have one or two great ideas that frankly could be illustrated in a couple of pages, but this could not be turned into a publication and then be sold for bucket loads of profit. So what tends to happen is that authors stretch the content out for about another 200 pages (in this case, another 440 pages) and go into extensive detail, giving more examples than one can count and generally boring their readers to death.

That said, what I did read of this book was enough to ensure I understood “the three questions that count”, so I am able to comment on the concept.

Question one: What do you believe that is actually false? As investors, we hold many truths, but this book suggests we need to examine them closely to see if they really are true because if they are not, we’re being hoodwinked and it’ll cost us money. Furthermore, if we believe things to be true that are not true, then very possibly so do most other investors as we’re likely to have got the truths from the same place. Examples of non-true truths are: budget deficits are bad for the economy (stats prove this to be false); high P/Es are bad (back-testing shows that high P/E stocks often perform best); and the local market tracks US markets (maybe a little over the short term, but not over any longer time frame).



Question two: How can I fathom what others find unfathomable? In other words, you need to know something that the market doesn’t know, or at least ignores. This ties in directly from question one – once we have worked out what the market is getting wrong, we need to work out how we can profit from it and focus on issues that do correlate. In short, the way to fathom the unfathomable is to continually crunch data with no bias, and start to test things that are held to be true and see if they really are true. Ask the supposedly stupid question and see what the answer really is and be careful of the media as it often perpetuates incorrect information.

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Question three: What the heck is my brain doing to blindside me now? Fisher calls the market “The Great Humiliator” if we – as investors – allow issues such as pride, ego, overconfidence, fear and the like to get in the way of making decisions that need to be made clearly and without bias.

So, the bottom line? In my view, Fisher rambles on and his attempt at behavioural science is especially weak. However, he makes a good case and the first three chapters are well worth the read (even dare I mention the price of the book).

Simon Brown
Standard Online Share Trading

JARGON BUSTING
Mechanical Investment Strategy

An investment strategy is said to be "mechanical" when it is based upon the mechanical application of logical decision rules to quantifiable data and statistical indicators. A mechanical investment strategy works like the mechanical gears of a machine and allows no extraneous inputs into the decisions it produces. Therefore, a mechanical strategy makes its own decisions, based upon its own internal logic, and does not take the investor's thoughts, ideas or emotions into account. Mechanical investment models are popularly referred to a "black boxes". Mechanical investment strategies have become a lot more popular since the advent of personal computers. Many investors have found a real benefit from mechanical strategies because their mathematical logic can be easily optimized by computers against many years of historical market data. Moreover, many investors have found that their emotions get in the way of effective investment decisions; and mechanical strategies are a great way to eliminate the emotional element. Another reason for their popularity is the fact that using a mechanical strategy takes the burden off of the investor to constantly pay attention to the market and make decisions on a real-time basis. A mechanical strategy allows the investor to put their attention on other matters and only have to respond when the strategy triggers some kind of change.

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JARGON BUSTING
Quantitative easing

Quantitative easing is what non-economists call 'turning on the printing press'. In extreme circumstances, governments flood the financial system with money, easing pressure on banks by giving them extra capital. Ben Bernanke, the chairman of the Fed, won the nickname 'helicopter Ben' when he floated just such an idea earlier this decade. US economist Milton Friedman had originally said it would be theoretically possible for governments to drop large amounts of cash out of helicopters for the public to pick up and spend.

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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 –16 April
- Durban – 15 April
- Cape Town – 16 April
- Pretoria – 06 April

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All venues are central and start at 6.00pm.

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