Standard

Online Share Trading

Education newsletter

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Life is full of uncertainties.

Future investment earnings and interest and inflation rates are not known to anybody.

However, I can guarantee you one thing. Those who put an investment program in place will have a lot more money when they come to retire than those who never get around to it.

Noel Whittaker

The Warren Buffett Way

Download the presentation & audio files

The past two weeks saw Alec Hogg presenting to almost a thousand of our clients about what he saw, heard and learnt at the greatest annual stock market event – the Berkshire Hathaway annual general meeting. Berkshire Hathaway is the investment company run by the world's second richest man – Warren Buffet and every year thousand attend the AGM to listen to his pearls of wisdom.

Unfortunately not all our clients were able to attend the presentations and some who did attend commented that the amount of information made it hard to remember everything.

So with this in mind we have the PowerPoint presentation online and as an extra bonus we also have the audio files of the Johannesburg presentation online for you to download.

Log onto the website; go to Help & Education ➔ Investment outlook

Client courses for the next two weeks

These courses are exclusively for Online Share Trading clients and are free (except for the Technical Analysis courses). To book for one of these courses log onto Online Share Trading and go to; Help & Education ➔ Face to face classes

Johannesburg

- A practical guide on how to effectively use the website (05 June)
- The Truths of the Market and Trading Skills (06 June)
- Introduction to Fundamental Investing (13 June)

Cape Town

- Understanding Share Instalments (06 June)
- Basics of Single Stock Futures explained (07 June)
- Half day detailed warrants course (09 June)

TALK
From the editor

Two important events since our last newsletter in mid May.

Firstly we had the Warrant Buffet Way, a series of presentations by Alec Hogg and it was a huge success and a very worth while event. Now in a first for Online Share Trading we have the audio files online, for download, and naturally we also have the PowerPoint presentation in PDF format. See page one for details as to where you'll find them.

The second major piece of news is CNBCAfrica launching today on channel 54 of DSTV. This is the fourth CNBC channel after the US, Europe and Asia.

CNBCAfrica will be broadcasting 24/7 albeit initially only twelve hours of the content will be produced locally. The remaining twelve hours each day will be used for crossing to the other three CNBC channels.

The Standard Bank research team have a five minute slot every weekday morning at 6.55.

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

INVESTOR
Limit & at market orders

When placing either a buy or a sell order in the market one of the decisions you'll have to make is whether you want a limit order or an "at market" order. This is an important decision that can greatly affect the price you buy or sell at, and so in this issue we're going to be covering these two order types in detail.

Basically the issue revolves around the maximum buy price or a minimum sell price you are prepared to accept, as apposed to not setting an upper or lower limit at which you want to buy or sell.

Limit Orders
A limit order is as per its name – there is a limit on the price you are prepared to trade at.

In other words if you're buying you are prepared to pay up to that limit amount but no more. On the sell side a limit order gives the minimum amount you're prepared to sell at.

If we look at the example below a buy limit order for 50,000 shares at 240c would see the buyer get 40,406 shares at the 240c price with the remaining 9,594 shares placed on the market at the 240c as the best buyer.

Market depth
As at 21 May 2007 11:28 (live)

	Bids to buy			Offers to sell		
	Ord	Vol	Price(c)	Price(c)	Vol	Ord
1	1	1,500	220	240	40,406	3
2	2	22,000	216	247	40,000	1
3	1	2,500	215	259	10,000	1
4	1	5,000	200			
5	1	5,500	185			

Ord = Number of orders making up a bid or offer.

The reverse is a sell limit order, again using the example above selling 30,000 shares at limit order price of 215c would see the seller exit 1,500 shares at 220c, 22,000 shares at 216c and 2,500 shares at 215c. This would leave the seller with 4,000 shares on sale at 215c (the limit price).

The potential problem with a limit order is that if the share is thinly traded then the order could be matched over several days, and each new trade on a new day will incur a new trade fee. [Important: multiple trades on the same share on the same day and the same direction (buy or sell) attracts only one brokerage fee.]

At Market Orders
An "at market" order essentially instructs your broker to buy or sell the shares at the best price possible, at the time of placing the order – but without specifying a limit as to what you're prepared to sell or buy at. The risk here is that you end up paying or selling at a level way worse then you'd anticipated.

If, in the previous example, the buy order was for 50,000 shares "at market" then the buyer would have got 40,406 shares at 240c and the remaining

9,594 shares at 247c giving an average price of 241.3c.

But let's take this "at market" order a step further and say it was a buy order for 90,000 shares "at market". This would have resulted in the buyer getting 40,406 shares at 240c, another 40,000 shares at 247c and then 9,594 shares at 259c. The average price would have been 245c and is starting to creep higher albeit still not a train smash.

So what about a worse case scenario example using the data below? Let's say you are selling 100,000 shares and you place the sell order "at market". The first 50,000 shares will trade at 62c and the remaining 50,000 shares at 5c giving you an average exit price of 33.5c rather then the expected 62c! Now that is nasty.

Market depth

As at 21 May 2007 11:51 (live)

	Bids to buy			Offers to sell		
	Ord	Vol	Price(c)	Price(c)	Vol	Ord
1	1	50,000	62	63	50,000	1
2	1	100,000	5			
3						
4						
5						

Ord = Number of orders making up a bid or offer.

Sure this is a worse case example but it does illustrate the risk of "at market" orders – especially in low liquid stocks and derivative products.

Also remember that the buyer for 50,000 shares at 62c could cancel their order (or trade out) before you get to the market, so even if selling say only 30,000 shares it is still a good idea to use the limit order option, just in case.

So basically the bottom line is that when using the "at market" order you need to understand that you are essentially instructing your broker to buy or sell at the best price BUT without ANY RESTRICTIONS. Personally that would scare me senseless and as such I only ever use limit orders.

A last important point, an "at market" order is not possible on Online Share Trading when the market is closed. You can only place them when the market is open while limit orders can be placed 24/7.

Simon Brown

INVESTOR
Tips for successful investing

Sell the losers and let the winners ride! - Time and time again, investors take profits by selling their appreciated investments, but they hold onto stocks that have declined in hopes of a rebound. If an investor doesn't know when it's time to let go of hopeless stocks, he or she can, in the worst-case scenario, see the stock sink to the point where it is almost worthless. Of course, the idea of holding onto high-quality investments while selling the poor ones is great in theory, but hard to put into practice. The following information might help:

Riding a Winner - Peter Lynch was famous for talking about his "tenbaggers", his investments that had increased tenfold in value. The theory is that much of his overall success was due to a small number of stocks in his portfolio that returned big. If you have a personal policy to sell after a stock has increased by a certain multiple - say three, for instance - you may never fully ride out a winner. No one in the history of investing with a "sell-after-I-have-tripled-my-money" mentality has ever had a tenbagger. Don't underestimate a stock that is performing well by sticking to some rigid personal rule - if you don't have a good understanding of the potential of your investments, your personal rules may end up being arbitrary and too limiting.

Selling a Loser - There is no guarantee that a stock will bounce back after a protracted decline. While it's important not to underestimate good stocks, it's equally important to be realistic about investments that are performing badly. Recognizing your losers is hard because it's also an acknowledgment of your mistake. But it's important to be honest when you realize that a stock is not performing as well as you expected it to. Don't be afraid to swallow your pride and move on before your losses become even greater!

In both cases, the point is to judge companies on their merits according to your research. In each situation, you still have to decide whether a price justifies future potential. Just remember not to let your fears limit your returns or inflate your losses.

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JARGON BUSTING
Cash Flow

Annual net profits retained in a business, plus the depreciation provision. The concept of cash flow is based on the fact that, although it is a cost, the charging of depreciation does not in itself involve any cash outlay. (The cash flow is useful in gauging a company's projected financial position and its dividend potential.) Sometimes it may be necessary to calculate cash flow on the basis of equity earnings plus the depreciation provision (i.e. before deducting the cost of ordinary dividends). To distinguish between the two concepts, they may be referred to as the 'gross cash flow' and the 'retained cash flow'.

Online Share Trading

JARGON BUSTING
Sub Division/share split

Also known as a share split, a sub division involves an increase in the number of shares held by each member, with a proportionate reduction in their value so that there is no change in the total value of the shareholding. Breaking each share down into smaller pieces does this. The effect is to bring the shares within reach of smaller investors. This normally results in a greater demand for the shares.

For example PPC is planning a 10 for 1 split. In other words if you currently hold say 100 shares at the current R500 price per share you total investment is worth R50,000. After the split the number of shares you hold in PPC will increase by the factor of ten (the split ratio) so you will now have 1,000 PPC shares. However the price will split by the same factor of ten meaning the post split share price would be R50, the net effect to a holder in PPC is nothing. You have more shares at a lower price but with the same total value.

The question then is why do companies do a share split. Well in the olden days transaction is shares had to be ion lots of 100, so an expensive share was a problem. But this no longer applies as we can buy just one share if we wanted. These days the rational is more that a lower price increases tradability albeit the underlying company remains exactly the same.

Online Share Trading & Simon Brown

TRADER
Advance/Decline Line - A/D

A technical indicator that plots changes in the value of the advance-decline index over a certain time period. Each point on the chart is calculated by taking the difference between the number of advancing/declining issues and adding the result to the previous period's value, as shown by the following formula:

A/D Line = (# of Advancing Stocks - # of Declining Stocks) + Previous Period's A/D Line Value

This indicator is used by many traders to confirm the strength of a current trend and its likelihood of reversing. If the markets are up but the A/D line is sloping downwards, it's usually a sign that the markets are losing their breadth and may be setting up to head in the other direction. If the slope of the A/D line is up and the market is trending upward then the market is said to be healthy.

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REVIEW – website
World indices

One important part of trading is too keep an eye on international markets, especially in the global economy, but often the question is how?

Well problem solved, here’s a great website, actually a sub section within the giant Yahoo.com family, which gives you all the global market information on one page.

It has a listing of 32 indices from around the world that are updated intra-day for each index (as the relevant market opens). So at a glance we can get an idea how Asia preformed overnight, or how Europe opened or is currently trading etc. It is a great tool, especially for traders wanting to keep tabs on international markets!

In addition to this one can scroll down to view the intra-day, daily or weekly chart of any of the 32 indices. You can also see the stocks that make up some of these indices by clicking on the “components” link. There is also a link for each index to pages containing headline news articles related to that index.

The one drawback is that only one African indices is listed; Egypt. That aside, it is a great website.
http://uk.finance.yahoo.com/m2

REVIEW – Podcast Moneyweb

Moneyweb.co.za is the home of Alec Hogg's Moneyweb Power Hour – one of the best known market-related radio shows in South Africa. Apart from the radio show the website also boasts a large amount of market-related content, and we specifically want to look at the podcasts they offer.

(Let's quickly re-cap what a podcast is. Basically it is an audio file that one can download and listen to at your leisure. There are a massive number of them on the Internet, some good and some horrid but their real beauty lies in that it is a radio show you can listen to when you want to. You can also set a podcast reader such as iTunes to automatically check for new updates and then download them onto your pc).

The Moneyweb podcasts are found at http://www.moneyweb.co.za/mw/view/mw/en/page82476 and it is without a doubt the largest collection (by a long way) for the South African market.

Firstly, they have all the radio shows online. So if you miss a show you can listen to it later as a podcast. They also offer a morning market report and a midday market wrap and a whole bunch more.

So all-in-all a massive amount of content and all professional produced and then perhaps best of all – it's free

HIGHLY RECOMMENDED

Find them all at http://www.moneyweb.co.za/mw/view/mw/en/page82476

Simon Brown

ROAD SHOW Getting started in shares

Online Share Trading is hosting 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 help them get started on the path to investing wealth.

Dates & cities

- Johannesburg – 7 June
- Cape Town – 14 June
- Johannesburg – 19 June
- Durban – 21 June
- Pretoria – 28 June

To book send us an email to seminars@standardbank.co.za telling us which city/date you wish to attend and please include your name and contact details. All venues are central and start at 6.00pm.