

*Go for a business that any idiot can run - because sooner or later, any idiot probably is going to run it.*

Peter Lynch

### Live FX on Price Streamer

We are pleased to announce that Online Share Trading clients can now get live exchange rates as part of Price Streamer, OST's live share and index price platform. The exchange rates will be available on a trial basis.

Please note that the rates are indicative and they can only be used for information purposes only, that means they cannot be used for trading.

The exchange rates will be available free of charge to Price Streamer users.

Price Streamer is a powerful online tool used to deliver live share prices directly to your desktop. It only costs R99.00 (incl. VAT) per month. Clients who are registered for Price Streamer do not get charged for live prices within Online Share Trading.

Why not try it out as the first month is free and you can cancel at no cost in that first month.

Clients will be able to view the Rand (ZAR) and Dollar (USD) exchange rates amongst others.

**To get more information or to register online for Price Streamer, logon to your Online Share Trading account and Select the Price Streamer menu item.**

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#### **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

- Understanding Share Instalments (21 June)
- Half day detailed warrants course (23 June)
- Basics of Single Stock Futures (26 June)
- Advanced/Practical Technical Analysis (30 June)
- Introduction to investing (30 June)

#### Pretoria

- Advanced/Practical Technical Analysis (23 June)

## TALK

### From the editor

Another packed issue means another two weeks has past since the last issue! Time flies, unlike our current market which went walk about for much of the past fortnight before suddenly remembering the bull and powering upwards.

This issue covers a wide range of topics and we'd like to thank readers who have sent in suggestions for future articles, please keep the ideas coming.

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

## INVESTOR

### Don't chase the "hot tip"

Whether the tip comes from your brother, cousin, neighbour, or even broker, no one can ever guarantee what a stock will do. When you make an investment, it's important you know the reasons for doing so: do your own research and analysis of any company before you even consider investing your hard earned money. Relying on a tidbit of information from someone else is not only an attempt at taking the easy way out, it's also a type of gambling. Sure, with some luck, tips may sometimes pan out. But they will never make you an informed investor, which is what you need to be to be successful in the long run.

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## INVESTOR

### New Gold

Gold has the longest history of any asset class, having been around since? Well since forever? An whilst its popularity may have waned from time to time, it remains a very popular asset class with most investors having some exposure to the yellow metal in one form or another. Part of the logic here is that gold tends to do well when everything else is under pressure so it acts as an insurance policy of sorts for when things go horrible wrong, because it is considered the last store of wealth. Adding to gold's last store of wealth view is the fact that in the past, all currencies were backed by gold, central banks collect it and it has large value considering it's

size/weight – and of course gold is easy to carry/hide.

So when inflation rears its head, or markets tumble, or OPEC threatens yet more oil price hikes – gold tends to shine.



Traditionally, in South Africa, the only way we could get exposure to gold was via a Krugerrand or a gold mine, but both were far from perfect. There is the issue of security with Krugerrands, having bought some, where do you store them? Adding to the problems was transaction costs with coin dealers, often adding a nasty mark up, and sure you could buy them on the JSE – but here the often wide buy/sell spread could really hurt and then you had to collect them from your broker (they certainly didn't want your Krugerrands lying around the office).

Buying a gold mine to get gold exposure has other problems; issues such as cost controls, strikes, accidents and the like.

So with this in mind we're looking at a local Exchange Traded Fund (ETF) called New Gold (GLD).

An ETF is a fund that trades on the JSE like any other asset, but the main difference is that it is purely designed to track the movement of its benchmark. It is not looking to out perform anything, merely mimic and in the case of New Gold all it does is mimic the Rand price of gold.

Launched by ABSA in late 2004 New Gold tracks the gold price in Rands, so as the gold price and/or the US\$ gold price moves New Gold moves in sync with these changes. New Gold is in fact equal to one percent of a Krugerrand, but a far superior product.

In order to mimic the benchmark the only asset it has is the underlying benchmark it is tracking. So

in the case of New Gold all it holds is gold, tons of it at the Rand Refinery.

Adding to the benefit of these ETF's is the market maker. In this case the market maker is ABSA, but the beauty of a market maker is that they ensure the ETF is always trading at fair value. ABSA does this by always being a buyer and a seller in the market. So as the Rand/gold price moves they adjust their buy/sell levels on New Gold and as such New Gold is always at its fair value. Another benefit of a market maker is that one can generally enter/exit with more ease, as the market maker always has plenty of stock.



The third issue is where? Well that's simple; being essentially a share that trades on the JSE you would trade it in your Online Share Trading account using the code GLD. Auto Share Invest (ASI) users can also buy GLD via Online Banking.

So for those looking to profit from gold or looking for some insurance in case things go wrong – New Gold is the answer.

- More on New Gold on Online Share Trading. Log in and go to → Help and education → How to guides and you'll find [Want exposure to the gold price - New Gold shares "GLD"](#).

*Simon Brown*

## ECONOMICS

### SA private sector credit extension

#### Background

In April's newsletter (issue #2) we discussed the monetary policy committee and the factors it considers when deciding on interest rate changes. Last Thursday, June 7th, the South African Reserve Bank (SARB) increased the repo rate by 50 basis points (bps) to 9.5%. In his monetary policy statement Reserve Bank Governor Tito Mboweni listed the country's sustained strong

growth in credit demand as one of the main drivers for this decision.

Private sector credit extension (PSCE) refers to all the debt that individuals and corporates accumulate including home loans, credit and retail cards. Credit demand can be broken into three categories namely (Table 1):

- Total domestic credit extension, which includes households, the private sector and government debt;
- Private sector credit extension, which excludes government debt; and
- Core private sector credit extension, which excludes investments and treasury bills.

Table 1: Credit demand categories

Total domestic credit extension	Private sector credit extension	Core private sector credit extension
Investments	Investments	Instalment sales credit
Bills discounted	Bills discounted	Leasing finance
Instalment sales credit	Instalment sales credit	Mortgage advances
Leasing finance	Leasing finance	Other loans and advances
Mortgage advances	Mortgage advances	
Other loans and advances	Other loans and advances	
Net government debt	advances	

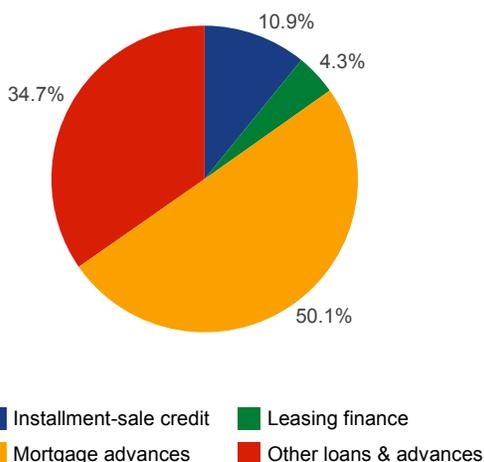
Instalment credit sales, leasing finance (including vehicle finance) and mortgage advances are classified as asset-backed finance and make up 62% of private sector credit extension. The "Other loans and advances" category, which makes up 33% of private sector credit extension, consists of credit cards, overdrafts, personal loans and all other debt.

Apart from the improved credit rating implications of maintaining moderate national debt levels, credit demand plays a significant role in the successful implementation of inflation targeting. Given that asset-backed finance makes up about two-thirds of private sector credit extension, of which 77% is mortgage advances (Figure 1), it is easy to understand how the repo rate is used to keep inflation under control. As soon as the repo rate

Education newsletter

increases (decreases), commercial banks increase (decreases) the prime overdraft rate. The prime overdraft rate, or prime, is the bench mark rate at which home loans and vehicle finance are granted to individuals and corporates. An increase in prime increases the cost of borrowing which in turn diminishes disposable income.

**Figure 1: Components of Core private sector credit extension**



(All charts sourced – Global Markets Research)

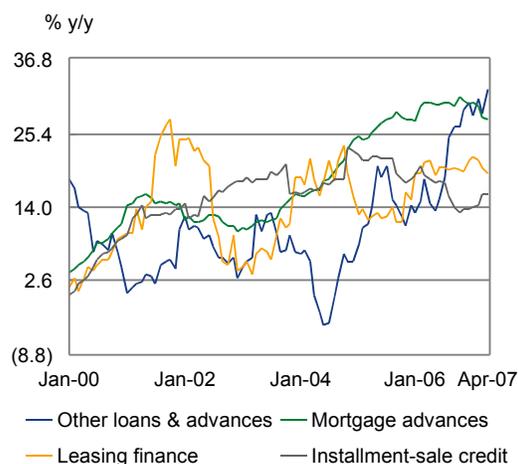
**Current themes**

April's private sector credit extension figures printed higher than market expectations, (Actual: 25.08% y/y; expected: 23.95% y/y; previous: 24.18% y/y). Closer inspection of these data revealed that the interest rate sensitive categories showed some moderation while the "Other loans and advances" category grew buoyantly (Figure 2). While part of this growth can be apportioned to persistent credit card spend, these figures also point to increased corporate credit demand. This is as corporates embark on infrastructure and capacity expansion projects in line with government's ASGISA programme, which is not necessarily negative as it is conducive to higher Gross Domestic Product growth and job creation.

**Figure 2: Growth of PSCE components**

Since 2004 the South African economy has been growing at a minimum of 4% per annum and interest rates have been their lowest in 20 years. During this period, credit extension to the private sector grew from 13.8% y/y to 25.85% y/y and household debt now makes up 73% of disposable income as opposed to 57%. The country's debt

levels have increased significantly, fuelled by a



combination of vigorous lending from banks and the emergence of a new middle class. As a result, the National Credit Act was promulgated and came into effect on June 1<sup>st</sup> 2007 with the objective of encouraging responsible lending.

**Monetary policy implications**

Although the SARB expects CPIX to hover around or above the 3%-6% target range over the next few quarters, it is unlikely that credit demand will be a dominant inflation driver. The impact of last year's 200 bps rate hikes, coupled with last week's hike, and the anticipated dampening effects of the National Credit Act are all likely to slow down credit demand over the coming months. Record high agricultural futures prices, increased fuel prices as well as upwardly adjusted inflation expectations are likely to be the key inflation drivers over the coming quarters. Given the SARB expects inflation to peak in Q1:08, Standard Bank believes that the SARB will hold rates unchanged until April 2008 and then begin cutting rates thereafter. Given that Standard Bank is more dovish about local interest rates than the market we believe that local equity market performance could prove better than market expectations.

Ayanda Olifant  
Analyst

Standard Bank CIB: Global Markets Research

- Catch the Standard Bank CIB: Global Markets Research team on CNBC Africa every week day morning between 8.00-8.20am.

## USING THE WEBSITE

### The week ahead

Local and international economic data releases are an important part of the market and as an investor or trader we need to be on top of this. If it is the week of inflation data (whether from SA or the USA, Europe, the UK etc.) or the MPC meeting, one needs to know when the data is due and, just as important, what level is the market expecting?

This is especially true for traders, not so that they can attempt to predict the data numbers and/or how the market will respond, but rather so that one is up-to-date with potential market-moving events.

For the investor it is more an issue of keeping abreast with the local and global economy, and as such remains important.

Now the question is how does one know what, when and where? The answer is simple. Every Friday our research team puts together a publication called "The Week Ahead" and it gives all data releases dates/times for the up coming week and as a bonus it includes the previous data numbers and the forecast.

- To "The Week Ahead" log onto Online Share Trading, go to → Buy and sell ideas → Latest research reports and look for the Economic Report - The week ahead.

*Simon Brown*

## JARGON BUSTING

### Balance sheet

A financial statement that summarizes a company's assets, liabilities and shareholders' equity at a specific point in time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by the shareholders.

The balance sheet must follow the following formula:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are

accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses.

It's called a balance sheet because the two sides balance out. This makes sense: a company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).

The balance sheet is one of the most important pieces of financial information issued by a company. It is a snapshot of what a company owns and owes at that point in time. The income statement, on the other hand, shows how much revenue and profit a company has generated over a certain period. Neither statement is better than the other - rather, the financial statements are built to be used together to present a complete picture of a company's finances.

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## JARGON BUSTING

### Bid/offer spread

This is the difference between the prices at which investors/traders will buy and sell shares. For example, an investor/trader may offer to sell MTN at 9000c and another may bid (to buy) the same share at 8900c.

For lower priced companies the percentage difference between the bid and the offer price will be greater than for larger companies and this is an important consideration. Essentially one will pay the offer price when buying and if you had to sell immediately you'd be selling at the bid. So when buying, one basically loses the differences between the two, so a larger bid/offer spread adds risk.

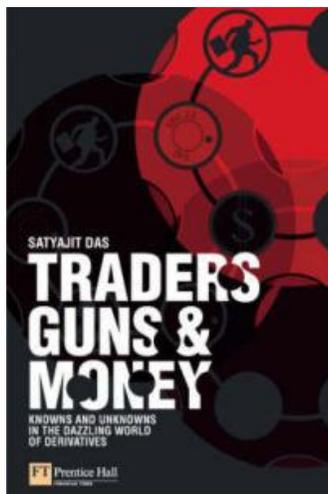
*Online Share Trading*

Bids to buy			Offers to sell			
Ord	Vol	Price(c)	Price(c)	Vol	Ord	
1	1	2,000	43250	43300	6,000	2
2	1	1,000	43211	43345	400	1
3	1	2,000	43168	43372	2,000	1
4	1	1,000	43160	43400	10,000	1
5	2	250	43000	43500	2,500	2

## REVIEW – BOOK

### Traders, guns & money

*Traders, Guns & Money: Knowns and unknowns in the dazzling world of derivatives*  
by Satyajit Das



This book came highly recommended by those in the trading/derivative world; it was punted as a must-read and described as the best book on the subject of derivatives! But now that I have read it, frankly I was very disappointed. Yes Das exposes the soft, money grabbing, under belly of the derivatives world. He entertains the readers with some wonderful tales about Orange County,

Procter & Gamble and the like and how they were duped into losing millions or even billions.

But what started promisingly ended as a long-winded ramble through the world of exotic credit derivatives. To the casual reader the tale just blurs from the story of one bank to just another complicated product aimed at another set of clients.

Personally I was expecting more intrigue and back room gossip and certainly a lot more pace.

My verdict? Disappointing.

- Buy it in Trade Paper Back from Kalahari.net for R250.00.

*Simon Brown*

## REVIEW – RADIO

### All the shows

When asked what he considers to be the best advice for investors, Warren Buffet responded: “Read, read and then read some more”. Excellent advice, but in this issue I’m going to look at the lazier option – listen, listen and listen some more. In other words – radio.

South African investors are blessed with a number of choices for market commentary on radio and it is not my intention to review the options, rather just to make our readers aware of them.

We also point out those programmes that offer transcripts of the shows, those that podcast their shows, and those that offer live streaming so that you can listen over the Internet.

### National shows

#### SAFM

- **Market Update.** Monday – Friday 6.00pm – 6.30pm, presented by Siki Mgabedeli.
- **Bryan Hirsch.** Tuesday 9.30am -10.00am with Xolani Gwala and Tuesday 8.00pm to 9.00pm with Tracy Going.

#### Radio 2000

- **Moneyweb Power Hour.** Monday – Friday 6.00pm – 7.00pm, presented by Alec Hogg.
- Monday evenings from 6.30pm is investing 101 with Simon Brown as resident studio guest.

Transcripts and podcasts (audio files) published on [moneyweb.co.za](http://moneyweb.co.za)

#### RSG

- **Geldsake met Moneyweb.** Monday – Friday 5.00pm - 6.00pm. The only Afrikaans show and broadcast nationally. Podcasts (audio files) published on [moneyweb.co.za](http://moneyweb.co.za)

### Regional shows

#### Cape Talk and 702

- **The World at Six.** Monday – Friday 6.00pm – 7.00pm presented by Bruce Whitfield and broadcast in Cape Town and Johannesburg.

Streamed live on [702.co.za](http://702.co.za) and transcripts also published on their website.

#### Classic FM

- **Classic Business.** Monday – Friday 6.00pm – 7.00pm presented by Lindsay Williams and available in Cape Town and Johannesburg and on DSTV.

Transcripts published on [bday.co.za](http://bday.co.za) and streamed live on [classicfm.co.za](http://classicfm.co.za)

*Simon Brown*

## JSE SHOWCASES Retail Companies

You are invited to attend the first annual JSE Retail Companies Showcase. The showcase will take place on Wednesday 20th of June 2007 at the JSE Auditorium, One Exchange Square, Gwen Lane, Sandown, Johannesburg.

Senior executives of JSE listed companies in the Retail sector will present their businesses to you. Thereafter you will be able to meet them face to face. If you are interested in Retail, this is a great investment opportunity.

Presenting will be;

- RMB Asset Management Evan Walker - Retail Analyst
- African Dawn Capital Ltd Marius van Tonder - CEO
- Alert Steel Wynand Schalenkamp - MD
- Truworths International Tony Taylor - Deputy MD
- Woolworths Holdings

- To book your seat at this event; log onto Online Share Trading and you'll see the link in the announcements section. Click on the link and follow instructions.

## JSE SHOWCASES Evaluating Junior Mining Companies

The JSE Evaluating Junior Mining Companies showcase, held last month, was a huge success and seeing as it was only in Johannesburg Miningmx has uploaded the presentations from the guest speakers onto their website.

We hope you'll make use of the opportunity to get to grips with understanding and valuing junior miners and exploration companies.

- You'll be able to download the presentations from [http://www.miningmx.com/special\\_reports/junior\\_spot/](http://www.miningmx.com/special_reports/junior_spot/)

## 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 creating wealth.**

### Dates & cities

- Johannesburg – 19 June
- Durban – 21 June
- Pretoria – 28 June
- Cape Town – 17 June
- Durban – 12 July

To book send us an email to [seminars@standardbank.co.za](mailto: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.

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