Standard

Online Share Trading

Education newsletter

Issue # 9
2nd August 2007

The only place where success comes before work is in the dictionary.

Vidal Sassoon

TALK
From the editor — Page 2

INVESTOR
Resist the lure of penny stocks — Page 2
Investing 101 – On radio 2000 — Page 2

MARKETS
Bear markets — Page 2

INVESTOR
What's the cost? — Page 3

TRADER
MACD — Page 4

REVIEW
Book – Intelligent Investor — Page 5

ROAD SHOW
Getting started in shares — Page 6

INVESTOR SHOWCASE
Cape Town

You are invited to attend the JSE General Companies Showcase in Cape Town.

Senior executives of JSE listed companies will present their businesses to you. Thereafter you will be able to meet them face to face.

Companies/executives presenting are;

- Cadiz Holdings Ltd (Ram Barkai, CEO)
- Sekunjalo Investments Ltd (Norman Noland, Deputy CEO)
- Invicta Holdings Ltd (Arnold Goldstone, CEO)
- PSG Group Ltd (Jannie Mouton, CEO)
- Capitec Bank Holdings Ltd (Riaan Stassen, CEO)
- Eastern Platinum Limited (Wayne Robinson, CEO)

The event is being held on Monday 20th August and to book log onto the website and you'll see the event under "special announcements".

Client courses for the next few 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
- Introduction to investing (04 Aug)
- A practical guide on how to effectively use the website (07 Aug)
- The Truths of the Market and Trading Skills (08 Aug)
- Introduction to technical analysis (11 Aug)

Cape Town
- Introduction to investing (18 August)
- A practical guide on how to effectively use the website (21 Aug)
- The Truths of the Market and Trading Skills (22 Aug)

Durban
- Introduction to technical analysis (18 Aug)
- Introduction to investing (25 August)

TALK
From the editor

I have just finished reading the greatest investment book – The Intelligent Investor by Benjamin Graham. Graham was the person who mentored Warran Buffet, the worlds greatest investor.

So having finished the book the plan was to now write the review, but to be honest the book is so dry (you have to read it with a glass of water close by) I couldn't do the book justice. So I went for next best and got rights for an excellent review and you'll find it on page 5.

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

INVESTOR
Resist the lure of penny stocks

A common misconception is that there is less to lose in buying a low-priced stock. But whether you buy a R5 stock that plunges to R0 or a R75 stock that does the same, either way you'd still have a 100% loss of your initial investment. A lousy R5 company has just as much downside risk as a lousy R75 company. In fact, a penny stock is probably riskier than a company with a higher share price, which would have more regulations placed on it.

© investopedia

INVESTOR
Investing 101 - On Radio 2000

Online Share Trading, in conjunction with Moneyweb, hosts a weekly show, *Investing 101,* every Monday at 6.30PM. The show is broadcast on the Radio 2000 network and runs for 30 minutes.

The following day the audio files and transcripts from the show are posted on moneyweb.co.za.

The panel includes Alec Hogg, Simon Brown, Wayne McCurrie and David Shapiro, collectively offering over one hundred years of experience and answering listeners' calls about investing.

So, for your further education in financial markets and their workings, tune in every Monday evening at 6.30pm.

Simon Brown

MARKETS
Primary market phases
Bear markets

Bear market

Primary downtrends are also usually characterised by three phases.

As with the bull market (discussed in issue 7), the three phases of the bear market are also psychological phases rather than dealing directly with the price action, although the phases are often separated by corrections in the bear market.

Phase 1 bear:
Gradually the informed investors who began to "accumulate" near the bear market bottom when no one else wanted to buy, now begin to "distribute" when no one else seems to be selling. It is very important to understand that the stock market is a discounting mechanism and moves well ahead of the economy.

The bear is born in the midst of the frothiest period of the preceding bull market. Stocks erase the excitement and froth of the preceding bull market top. Then, as stocks continue its subtle deterioration, the bear does all he can to generate good news - he wants to take stocks down with as many investors in the market as possible. The longer the bull market, the longer it will take for the bull to die and it will not end in a spear-point peak. It will be confusing and extended, but the bull is dying and struggling in the face of the bear just emerging from his lair. A bear market declines amid a constant barrage of hope and optimism. The bear has one other weapon, and it's called a violent rally. Anytime investors get too worried, the bear gives them a rally - so you will hear a lot about the guy making money during periodic bear rallies, but you will hear very little about the person losing his shirt on the declines. In the end, the bear will have his way - its called relieving investors of their assets.

Phase 2 bear:
The second stage is reached when selling increases as profits begin to shrink, particularly if most of the public buying was done in the final stages of the bull market, when generally their

participation had markedly increased.

This is often the longest phase. Stocks keep going down despite periodic rallies, as the market discounts the bearish effects of declining business and squeezed profits and deterioration in the economy. Yet investors remain optimistic and bullish, and you do not hear or read about any experts recommending a cash position. Everybody it seems is "in for the long-term" - well maybe the bear is too! Has anyone thought of that?

Gradually the optimism of stock holders and the public disappears, only to be replaced by growing pessimism and disappointments, with many individual stocks and groups suddenly collapsing. The second phase is also marked by many violent counter-trend rallies, along with sudden and brutal short coverings. Panic sets in and the downtrend accelerates as the market reacts to shocking or unexpected news. Buyers begin to thin out and sellers become more urgent as losses mount. The downtrend of prices accelerates into almost a vertical drop, while volume mounts to climactic proportions and switches into the third and final phase.

Phase 3 bear:
The public finally believe it is a bear market and stop buying stocks. The downward movement is less rapid, but is maintained by more and more discouraged and distressed selling, regardless of the stocks values. Once a bull market dies and a bear market takes over, then one way or another, despite all efforts of governments, major broking houses etc – the bear market will go to its conclusion as expressed in the three phases of the bear market. The conclusion will find investors enveloped in black pessimism, while stocks are selling at great values.

The bear market ends when everything in the way of possible bad news is "out". One characteristic of a bear market bottom is that stocks will sink below "known values". In other words, in a bear market stocks will overdo it on the downside, just as they did it on the upside. This is the final stage where stocks head into the tank for no other reason that investors need to raise money. This is the desperation or give-up phase when shell-shocked stock holders dump their shares for whatever the market will bring.

The end of the third phase is marked by severely depressed investor sentiment, low values, black business news, relatively high yields on top-grade stocks plus comments such as "this is the end of financial markets as we know it" and "I never want to hear about stocks again." So, just when they should be considering buying stocks, the public will be dumping whatever stocks they have left.

During this phase the investment grade blue chips are jettisoned, since the market has become so demoralised that the only liquidity there is, is for the highest grade blue chips. Black pessimism pervades and bad news comes out in a never ending stream. The bear market will not end until the big cap stocks have declined to the point where they represent great values. Great values imply bargain PE ratios, selling at 5 - 8 times earnings and dividend yields in the vicinity of 6%. This could take a few years to materialise.

Yonatan Rom
The Winning Edge

- Yonatan runs our two technical analysis courses (introduction and advanced).
- To book, log on ➔ go to help and education ➔ face to face classes

INVESTOR
What's the cost?

One very important aspect of investing and trading is the cost of transaction; that is the brokerage, statutory taxes and regulated fees that you have to pay for every transaction (buy and sell).

With Online Share Trading you're already with one of the cheapest brokers for investors and traders on the JSE (minimum of R70.00 or 0.7%* plus statutory taxes and regulated fees).

First some details of these taxes and charges?

- Uncertificated Securities Tax (UST) (this is a government tax) at 0.25% (This tax is only charged when buying)
- STRATE fee charge of 0.005459% based on the value of the share transaction with a minimum of R10.92 for trades with a value up to R200,000 and a maximum of R54.59 for trades with a value over R1 million. This fee covers the electronic settlement of your share transactions through STRATE, the electronic settlement authority.
- An investor protection levy of 0.0002% applies to all trades.
- VAT on brokerage and STRATE.

So what happens with a very small trade? A R200 investment is costing the investor R92.75 in fees on the buy side and as such the cost of transaction is 46.4% of purchase price of the shares! So the share has to offer a massive return just to get to break even and we're still excluding the cost of the sale. Selling will cost another R92.25 (or 46.1% of the R200) bringing the total cost of transaction to R185.00 or 92.5% of the purchase price of the shares.

Ouch!

If we move up the scale to a R5,000 trade the picture improves markedly with buying costs R104.76 or just over 2%. The sell side would cost R92.26 making the total costs of buy and sell R197.02 or 3.9% total costs. Way better than the R200 investment and actually offering a real chance to profit from the trade.

Moving up to a R10,000 trade the cost of purchase is R117.27 or 1.17%. Then when selling the costs are R92.27 and the total transaction cost (buy and sell) being R209.54 or 2.1% of the R10,000 transaction.

So when investing R10,000 the first 2.1% of profit is going towards the costs of transaction (buy and

Projected Costs	
Projected share cost at bid price:	**R10000.00**
Uncertificated securities tax:	**R25.00**
STRATE:	**R10.92**
Brokerage:	**R70.00**
VAT on charges:	**R11.33**
Investor Protection Levy:	**R0.02**
Overall projected cost:	**R10117.27** *

sell), and thereafter one will be in profit.

So at the end of the day, the lesson here is that very small size trades cost a lot and certainly a R200 trade is only going to return any profit if the share explodes upwards by almost 100%. Yet as the trade size increase profits start kicking in much sooner and with the R5,000 trade you're in profit after just less then a 4% move in the share.

Working out the costs
Finding the cost of transaction is easy. When you are on the trade screen, the costs involved are updated in real time as the trade details are updated (as per image below). Keep an eye on them as a percentage of the overall cost of transaction.

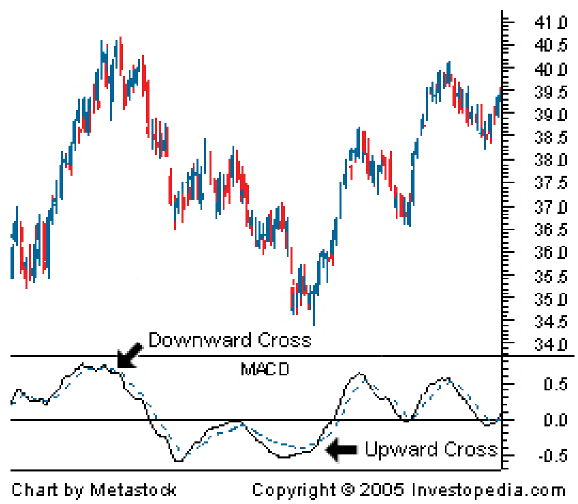
* - Warrants, WAVES and share instalments can be traded at a flat brokerage rate of R50.00 plus all statutory taxes and vat – <u>if traded in a WARRANT ACCOUNT</u>. Contact the call centre (call on 0860 121 161 or email then on securities@standardbank.co.za) to set up a warrants account at no extra cost to yourself.

Simon Brown

TRADER MACD

A trend-following momentum indicator that shows the relationship between two moving averages of prices. The MACD is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA. A nine-day EMA of the MACD, called the "signal line", is then plotted on top of the MACD, functioning as a trigger for buy and sell signals.

There are three common methods used to interpret the MACD:



Crossovers
As shown in the chart above, when the MACD falls below the signal line, it is a bearish signal, which indicates that it may be time to sell. Conversely, when the MACD rises above the signal line, the indicator gives a bullish signal, which suggests that the price of the asset is likely to experience upward momentum. Many traders wait for a confirmed cross above the signal line before entering into a position to avoid getting "faked out" or entering into a position too early, as shown by the first arrow.

Divergence
When the security price diverges (covered in issue 8) from the MACD. It signals the end of the current trend.

Dramatic rise
When the MACD rises dramatically - that is, the shorter moving average pulls away from the longer-term moving average - it is a signal that the security is overbought and will soon return to normal levels.

Traders also watch for a move above or below the zero line because this signals the position of the short-term average relative to the long-term average. When the MACD is above zero, the short-term average is above the long-term average, which signals upward momentum. The opposite is true when the MACD is below zero. As you can see from the chart above, the zero line often acts as an area of support and resistance for the indicator.

© investopedia.com

For more on Technical analysis

- Online, log on ➔go to help and education ➔ technical analysis
- We run introduction and advanced face to face courses. To book, log on ➔ go to help and education ➔ face to face classes
- Daily technical analysis report, log on ➔ go to buy and sell ideas ➔ tech analysis reports

REVIEW – BOOK
Intelligent Investor

The Intelligent Investor: The Classic Text on Value Investing by Benjamin Graham

It may not be the BIBLE of Investing - But it certainly is the NEW TESTAMENT

What are you waiting for, buy the book and rock your world. I am reminded of the old joke we use to tell in Wall Street when I was with Lehman Brothers back in the 1970's. It's the story about the guy who is given permission to remove as much gold as he can from Fort Knox but he only has a morning, and must work alone. He's given a truck and a wagon to haul the gold with. He gets in the truck and heads the wrong way. "Where are you going, you are going the wrong way, you only have a morning to work with, and the clock has started." His answer is classic, "I am going to get breakfast first."

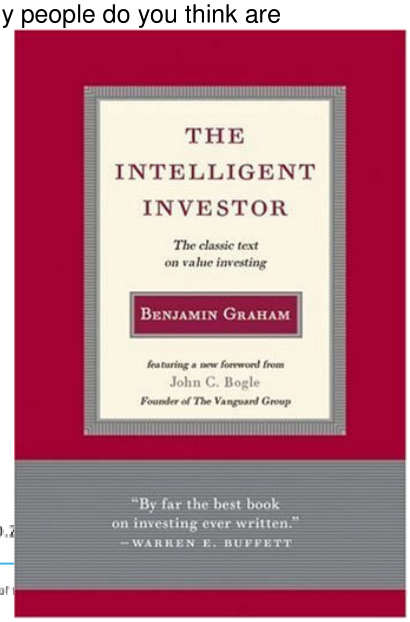
The point is very simple. People are reading Wall Street Journals, getting MBA's, and watching the talking heads on television. I've got portfolio managers who would kill for an edge, and every one of them, all of them are missing the point. It's all there, all the knowledge, all the wisdom you need to become a MASTER in the financial markets. You simply have to know what to read, and you begin by reading THE INTELLIGENT INVESTOR.

At Harvard we use to say they divided the building up into two lecture halls tonight. The door at the first hall has a sign that says LECTURE ON GOD, on it. The door of the second lecture hall has a sign that says GOD on it. Everybody wanted to go to the lecture. Listen up folks, this book THE INTELLIGENT INVESTOR, it's the real thing. This is not Madison Avenue sitting down with a author that they pulled out of Hollywood, and said let's put some interesting witticisms into a book on investing, dress it up, market it smart, and make a couple of bucks.

This is a book by a man with an Einstein type IQ, whose natural abilities were in the financial arena, who has the uncanny skill sets to explain himself in beautiful prose that just about all the rest of us can understand. If you want to be in the stock market, and you haven't read Benjamin Graham, it's like being in a gunfight in the old west, and not having a gun. You got to do the basics, and very few people do.

Wasn't it Woody Allen who said, "80% of making it is just showing up?" If you want to be in the market, and outperform everybody else wanting the same thing, than you can't do the same things they do, or you will get the same results, and that means mediocrity. You are in the race for Alpha, the extraordinary return. To win the race, you need an EDGE. Now how many people do you think are doing the basics? The answer is about as close to zero as you can get.

Investors, just like people want instant gratification with a minimum of effort, energy, and pain, and that's not how smart, astute investing works. You need to read books like this one not once, but over and over



again, until it becomes part of you, until emotionally its wisdom becomes imprinted in your brain. You then need to start implementing it. See what kinds of results you are getting, and then make the adjustments necessary to make its wisdom YOUR OWN.

In other words, you need to OWN THE KNOWLEDGTE THAT'S IN THIS BOOK. Can it be done? Yes, but not easily. Benjamin Graham spent a lifetime figuring this stuff out. He didn't hit the ski slopes at Sun Valley. He wasn't sitting by the pool at Bungalow 5, at the Beverly Hills Hotel. He was grinding out the "Margin of Safety" concept, and testing it against the real world, did it work, and did it falter? Was it a 100 percent reliable.

I have heard Warren Buffett, his most famous, but not only successful disciple tell the story of how the students in Graham's class room at Columbia would challenge the old man. Graham would used those challenges to make his thinking better, sharper, more real, and in so doing he became a better investor.

You want to know about Mr. Market, and why just about every investor ignores this theory, which is the equivalent of the Quantum Theory in Physics. You need to read the book. In Chapter 11, he teaches you how to value a business, his way. The teachers at Harvard, Wharton, Ross School, and others have nothing on Ben Graham. We are all students at his feet.

In my lifetime, I have worked with some of the smartest people on the planet. My direct mentor is the richest man on Wall Street, and I have known just about every major national and international investor worth his salt in the world in my generation. Every one of them could quote Benjamin Graham, meanwhile the want-to-bees, were out getting fitted for suits, after having lunch at the 21 Club.

Absorb some wisdom from someone who has been there. Read this book; learn about the "Circle of Competence", and the overwhelming importance of investor psychology. It is amazing that in this book several generations old, Ben is dealing with the same issues confronting us today, director independence, broker conflicts, frequent trading and the lack of performance it creates, management teams out of control, and dealing in a self-serving manner.

Each edition of this book is unique in its own way, with different world-class players commenting along side the text. I happen to like this edition because John Bogle (read his books also) is a man who I respect enormously who has impacted the investing world. The revised edition with Warren Buffett commenting is wonderful also. You simply can not go wrong touching anything that has been written by Benjamin Graham. Good luck.

ROAD SHOWS
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 – 07 August
- Durban – 16 August
- Johannesburg – 23 August
- Cape Town – 30 August

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.