

Individuals who cannot master their emotions are ill-suited to profit from the investment process.

Benjamin Graham

Investment outlook for the JSE

Not clear on where the JSE will be in 6 months time?

Not sure what is happening to the Rand?

Want to get an expert view of the market and what to buy or sell?

We are pleased to invite you to a JSE Investment Outlook presentation. This will be presented by one of Standard Bank's well respected economists and one of Standard Financial Markets traders and will focus on the outlook for the JSE for the next 3 to 12 months.

The presentation will also provide recommendations on JSE listed shares as well as forecasts of their performance.

Cape Town – 25 September
Durban – 26 September
Johannesburg – 01 October

To book log onto the website and on the menu go to → Help and education → face to face classes.

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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 (08 Sep)
- A practical guide on how to effectively use the website (11 Sep)
- The Truths of the Market and Trading Skills (12 Sep)

Pretoria

- Basics of Single Stock Futures explained (13 Sep)
- Advanced/Practical Technical Analysis (15 Sep, R650)

Durban

- Half day detailed warrants course (08 Sep)

TALK

From the editor

Recent market jitters seem to have abated, but are they gone for good or just hiding as they prepare for another assault on global (and local) markets?

Well we have some help in this regard, our hugely popular Investment Outlook presentation is back again in late September and early October. This is your chance to hear our experts give their views on the local and international economic outlook followed with a traders view on how to interpret this information.

In past years this has been a must attend event and bookings are open, but hurry as seats are limited.

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

INVESTOR

Focus on the future

The tough part about investing is that we are trying to make informed decisions based on things that are yet to happen. It's important to keep in mind that even though we use past data as an indication of things to come, it's what happens in the future that matters most.

A quote from Peter Lynch's book "One Up on Wall Street" about his experience with Subaru demonstrates this: "If I'd bothered to ask myself, 'How can this stock go any higher?' I would have never bought Subaru after it already went up twentyfold. But I checked the fundamentals, realized that Subaru was still cheap, bought the stock, and made sevenfold after that." The point is to base a decision on future potential rather than on what has already happened in the past.

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TRADER

Share Instalment Roll Over

On the 12th September Standard Bank will have the first automatic roll of a series of its Share Instalments and Turbo Share Instalments. The

following documents the procedures that will be followed over this process.

1. On the 5th of September (1-week prior to the roll) Standard Bank will issue the new series of Instalments to replace those that are set to expire on the 12th of September.
2. If by the 12th you have not exercised the expiring Instalments or sold out your position, you will be automatically reinvested into the new series of Share Instalments.

The Number of new Instalments that holders of the expiring series will receive will be set by the following formula:

Number of new Instalments =
(Cash settlement amount / Closing price of new Instalment) * Number of old Instalments

Where **cash settlement amount** = (the closing price of the underlying share on expiry date – the exercise price of the expiring Instalment)

Where **closing pricing of new Instalment** = closing price of the new Instalment on the expiry date of the old Instalment as per the matrix offer price based off the closing price of the underlying share. **This may differ from the closing price of the Instalment on the JSE as this level is set before the official close of the market at 5.00 p.m.**

Please note:

1. Any fractions will be rounded down and the cash amount paid into your trading account.
2. The new Instalments will take around 5 business days from the expiration date of the old series to be delivered into your trading account.

Let's Look at an Example using the FSRSTA

The FSRSTA is a Turbo Share Instalment with a strike price of R12.75 and an expiry date of the 12th of September.

1. On the 5th of September we will issue the FSRSTB to replace the FSRSTA; if we assume that FirstRand is trading around R23 at that time the details of the FSRSTB would like something like this (remember that the exact details will only be set closer to the time): Expiry 12th September 2008 with a strike price of R17.25.
2. Assume that on the 12th of September you are the holder of 1,000 FSRSTA and you have not exercised or sold out your

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position. You will be automatically reinvested into the FSRSTB Instalments. Assume FSR closes at R23 on the 12th of September

Number of new Instalments (FSRSTB') = **(cash settlement amount / Closing price of new Instalment) * Number of FSRSTA Held**
cash settlement amount = (R23 (closing price FSR) – R12.75 (strike price of FSRSTA))
 = R10.25 **closing pricing of new Instalment** = R9.00

Number of new Instalments = (10.25 / 9.00) * 1000 (being the FSRSTA's held) = 1.139 * 1,000 = **1,139 FSRSTB's**

Note: That the number of Share Instalments that you will be holding post the roll will have increased as the cash settlement amount of the expiring FSRSTA is above the closing price of the FSRSTB. If this was not the case, (assume that the cash settlement amount of the FSRSTA was below the closing price of the FSRSTB) then the ratio would be below one and you would receive fewer FSRSTB's than the previously held FSRSTA.

Brett Duncan
Standard Bank Equity Derivatives

- Need more information? Call us on 0800 111 780 or email derivatives@standardbank.co.za.
- Online - log onto the website and on the menu → help & education → warrants course (this flash presentation also includes instalments).
- More online - log onto the website and on the menu → help & education → how to guides. Under the other guides section you'll find more on instalments.
- Face to face – we have presentations on instalments. To view dates and to book log onto the website and on the menu → help & education → face to face classes and select share instalments from the event type drop down.

TRADER

Fibonacci Retracement

A term used in technical analysis that refers to the likelihood that a financial asset's price will retrace a large portion of an original move and find support or resistance at the key Fibonacci levels before it

continues in the original direction. These levels are created by drawing a trendline between two extreme points and then dividing the vertical distance by the key Fibonacci ratios of 23.6%,



Chart by Metastock

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38.2%, 50%, 61.8% and 100%.

Fibonacci retracement is a very popular tool used by many technical traders to help identify strategic places for transactions to be placed, target prices or stop losses. The notion of retracement is used in many indicators such as Tirone levels, Gartley patterns, Elliott Wave theory and more.

Who was Fibonacci?

Leonardo Fibonacci was an Italian mathematician born in the 12th century. He is known to have discovered the "Fibonacci numbers," which are a sequence of numbers where each successive number is the sum of the two previous numbers.

e.g. 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, etc.

These numbers possess a number of interrelationships, such as the fact that any given number is approximately 1.618 times the preceding number.

Interpretation of the Fibonacci numbers in technical analysis anticipates changes in trends as prices tend to be near lines created by the Fibonacci studies. The four popular Fibonacci studies are arcs, fans, retracements, and time zones.

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MARKETS

Mr. Market

Benjamin Graham used an imaginary investor called Mr Market to demonstrate his point that a wise investor chooses investments on their fundamental value rather than on the opinions of others or the direction of the markets.

Explanation

Graham's parable goes something like this. Think of yourself as owning a share in a business in partners with others. One of your partners, say Mr. Market, is somewhat of a neurotic who on any given day will offer to buy your share or sell you his at a specific price. His moods can fluctuate anywhere between incredible optimism and overwhelming depression. One day he will nominate a higher price to buy or sell, the next day he might increase it, lower it, or even appear uninterested in whether he buys or sells.

The point that Graham makes is that Mr. Market's judgment is formed more by mood swings than by rational thought and that this gives the wise investor buying and selling opportunities. If Mr. Market's price is unreasonably high, then wise investors have the opportunity to sell. On the other hand, if it is unreasonably low, then they have the opportunity to buy.

The important thing is that a successful and careful investor makes her or his own decision, based on their own ideas of the worth of the investment.

Significance of Mr. Market

Graham does not conclude from Mr. Market's wild behaviour that market fluctuations should be ignored. They can be valuable as an indicator that something is going wrong, or right, with the investment. However, their true significance, in Graham's words is that "they provide ... an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal".

Warren Buffett considers that Graham's views on market fluctuations warrant "special attention" from the investor.

@buffettsecrets.com

MARKETS

Normal market size

Clients often wonder why their buy or sell orders are rejected (this is especially important for a client trading in barrier warrants, where the price is constantly changing, as ensuring that the correct market size is used is of vital importance to ensure a quick trade). In their trade status on the website, they see a rejected order with a reason stating "NMS 140 000 shares". What does this mean?

Let us explore this further.

Normal Market Size (NMS) (also referred to as Exchange Market Size, EMS) means a maximum quantity of shares, as specified by the JSE, which can be traded in one transaction.

As part of its regulatory responsibilities, the JSE is constantly reviewing NMS bands, functional sector and segment reallocations for listed shares and other listed instruments (derivatives, ETF's, etc.) to ensure that trading can be conducted effectively.

NMS banding for Top 40 Companies and Medium Liquid Companies is based on the volume of the trades conducted over a 12-month period.

NMS banding for Less Liquid and Specialist Products is based on 0.50% of the issued share capital.

Order Sizes

The maximum order size is governed by a multiple of the NMS per instrument and is set at segment level.

The maximum order size does not limit larger volumes, just that these should be split between two or more orders to be entered into the trading system used by brokers.

What Does All This Mean For The Private Individual / Investor

An individual can only enter trades into the trading platform within these limits. If these quantities exceed these limits these trades will have to be broken down into two or more trades by the dealer (broker).

An example to illustrate the point is:

- An individual places an order to Buy 260 000 TOPDWJ @ 650.
- The maximum order size is 140 000 shares.

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- Hence the dealer will have to break this order down into two trades, and for example buy 140 000 TOPDWJ @ 650 and buy 120 000 TOPDWJ @ 650.

As mentioned earlier this is especially important for warrant traders who want to get in and out of the market very quickly. If the broker has to break this order up into two or more trades can take time, and time is of the essence when trading in warrants.

Other examples of NMS banding would be:

- TOP 40 Company - Anglo American (AGL) – the volume would be 1 200 000 shares.
- Medium Liquid Company - Dimension Data Holdings (DDT) - volume 2 800 000 shares
- Less Liquid Company - Purple Capital LTD (PPE) – volume 4 000 000 shares.

Unfortunately this information is not made available to the public as it is changed frequently by the JSE. However, if you do require the figures for the Maximum order size when trading in large quantities of a specific financial instrument, you can obtain this from the Online Share Trading call centre.

*Rubeshni Gungudoo
Dealer
Online Share Trading*

REVIEW – BOOK The Tao of Warren Buffett

The Tao of Warren Buffett : Warren Buffett's Words of Wisdom: by Mary Buffett

This book is in a class by itself, almost without equal. There are several reasons. Most of the time you have to read a whole book to find that one gem that made the book worthwhile. Sometimes it's one page you are looking for, once in a while, it's a paragraph. I have read many books for that one sentence that provides inspiration. When you say to yourself, "Why didn't someone write this book before," then you know you have a winner.

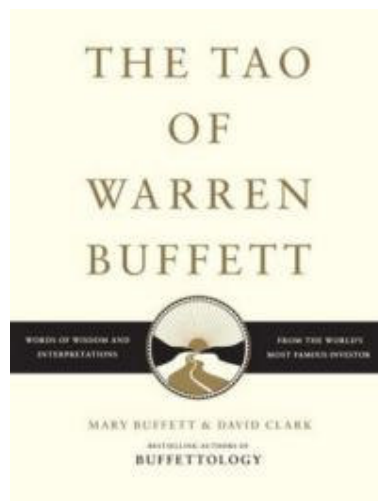
But this book, WOW - every page was a work of art. I have been studying Warren Buffett since 1968, about four decades of observing the master, and I have met him on several occasions when he sojourned down to Wall Street. When you read this book, this is what you will find.

The Tao of Warren Buffett is a short book with 125 different major thoughts in it. Each thought is a direct Buffett quote. In the back of the book is a bibliography, which will give you the attribution for each thought. For most of the 125 thoughts listed, the bibliography will also furnish an Internet web address to find the original source for the quote, whether it's an annual report, magazine article, or public speech, you will find the source.

In addition to the 125 thoughts, you will find about a page of narrative furnished by the authors, Mary Buffett (Warren's former daughter in law) and David Clark who is himself a Buffett watcher. They will be giving you clarification, and illustrations of the Buffett quote in action.

I'll found both the original quotes, and the author's narrative to be ABSOLUTELY FASCINATING. If you are involved in the stock market it is more than fascinating, it is COMPELLING. Here's the deal, there's no nonsense here. There's no filler. Mary Buffett's book is short in length, small in your hand, easy to carry, and loaded down with WISDOM. Here are a few of the pearls of wisdom you will find in this book, and then you decide if you should read it. I have indicated the number of the rule from the book.

Rule # 4 "You Can't Make a GOOD DEAL with a BAD PERSON."



This is spot on brilliant. You can't put enough energy into watching a thief, because a thief is busy being a thief 24 hours a day, and you might only have an hour to watch him. In addition, you can't install enough internal controls to safeguard against a dishonorable person. Just don't

deal with those kinds of people.

Rule # 9 "Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway."

Having spent 35 years involved with Wall Street, and currently being a Managing Partner of a national prominent investment-banking firm, I can't tell you how true this is. I have seen people barely

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competent, advising self-made billionaires on what to do with their money. The same is true for the firms themselves. Many of the billionaire clients are worth more than the firms arranging the financing. "Empty suits" is the expression we like to use.

Rule # 49 "It's only when the tide goes out, that you learn who's been swimming naked."

Enron is a perfect example of this witticism. The CPA's came in from Arthur Andersen, saw all this wealth. They saw helicopters landing on the top of the Enron building. They saw guys with \$40 million paychecks, and they accepted whatever was handed to them as bona fide, as long as the \$50 million check for the audit fee cleared the bank.

Rule # 57 "Never ask a barber if you need a haircut."

Is this brilliant or what? He's talking about Wall Street, brokers, investment advisors, financial planners, surgeons, and everybody with a private agenda. Brokers make their money by doing transactions, investment bankers by forcing the deal to happen, good, bad, or indifferent.

Rule # 68 You only have to do a very few things right in your life, so long as you don't do too many things wrong."

Buffett's net worth is in excess of \$50 billion. My understanding is that 90% of that net worth has come from only 10 investment decisions, and you think you want to DAY TRADE.

Rule 74 "I buy expensive suits. They just look cheap on me."

Buffett did not buy an expensive suit until he was 60 years old. He figured out that \$25,000 at 20% compounded growth for 20 years, was almost a million dollars. Who needs suits?

Rule# 112 "What we learn from history is that people don't learn from history."

Whether it's Viet Nam, Iraq, or investments, this is from the brain of a genius. If each of us could only understand the emotional truth of this statement and take it to heart, we would be so much better off, and so would our portfolios.

If you are an investor, I implore you to read "The Tao of Warren Buffett ". It's short, easy to read, and will change you investing life. You will not to go through the work of reading all of Buffett's

public statements to find the gems. The sum total of his investment wisdom is in this book.

There is something to be said for going through the work yourself. I would rather see you read this book, if it will absorb the contents. I would pay my children to read it, and do give it to your investment advisors. If they say, "What's this," than it's time for NEW ADVISORS. Good luck to you.

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PRESENTATIONS Fundamentals

Fundamental courses for clients.

Introduction to Fundamental Investing

This is a 90 minute evening presentation. It is designed for people who want to start putting "fundamentals" to work, and shows how simple and easy it is for Online Share Trading users to find and use fundamental data – for their own benefit.

This presentation will also give examples of using the "share filter" on the website to scan for companies.

Understanding financials and announcements

This is a 5 hour Saturday morning presentation and covers; balance sheet, income statement and cash flow statement as well other announcements from listed companies.

This presentation is designed to help you identify quality companies for potential investment.

Both of these two presentations are being held in Durban, Cape Town, Pretoria and Johannesburg over the next ten weeks.

To book log onto the website and on the menu go to → help and education → face to face classes and find the city/course you wish to book for.

NOTE: Seats are limited so please book early.

PRESENTATIONS

AltX showcases – Cape Town

AltX, the Alternative Exchange at the JSE, invites you to learn more about the companies listed on AltX.

These outstanding presentations, which have been very well received by our clients in the past.

The two AltX Showcases in Cape Town are on 26 and 27 September.

Presenting on 26 September

- Vox Telecom, Tony van Marken, Executive Chairman
- Blue Financial Services, Dave van Niekerk, CEO
- OneLogix, Ian Lourens, CEO
- Beige Holdings, Mark di Nicola, CEO
- Kagisano, Eugène van Niekerk, CEO
- SilverBridge, Jaco Swanepoel, CEO
- WG Wearne, John Wearne, CEO

Presenting on 27 September

- Ansys, Allan Holloway, CEO
- African Dawn, Marius van Tonder, CEO
- Rare Group, David Scheepers, CEO
- SAFIC Holdings, Fred Platt, CEO
- StratCorp, David Harington, CEO
- Telemasters, Mario Pretorius, CEO
- Esor, Bernie Krone, CEO

To book log onto the website and go to help & education → face to face classes and scroll down to find the two presentations (you will also find details as to who is presenting).

NOTE: Seats are limited so please book early.

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

- Durban – 13 September
- Johannesburg – 20 September
- Cape Town – 03 October
- Johannesburg – 11 October

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.

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