



The market can stay irrational longer  
than you can stay solvent.

John Maynard Keynes

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JSE Week Expo  
@ the JSE  
19 - 22 May

The JSE is having its first Investors  
Week where investors, traders and  
those interested in the markets can  
attend presentations and meet a  
number of market participants.

Standard Online Share Trading as  
well as Standard Bank Equity  
Derivatives will be exhibiting along  
with other service providers.

There are also presentations  
happening every day and evening.

For more information please visit  
[jseweek.co.za](http://jseweek.co.za).

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#### **Client courses for the next few weeks**

These courses are *exclusively for Online Share clients* and *all are free*. To book for one of these courses log onto Online Share Trading and go to; Help & Education → Face to face classes

##### Johannesburg

- Introduction to Futures (21 May)
- Half day detailed warrants course (24 May)
- Truths of the Market and Trading Skills (28 May)

##### Durban

- Intro to Fundamental Investing (21 May)
- Introduction to investing (24 May)

##### Cape Town

- Intro to Fundamental Investing (22 May)

## TALK

### From the editor

The JSE is hosting its first every Expo in the week of 19-22 May, details are on page 1. Also note that there are a number of presentations happening every day and details are on the website, [www.jseweek.co.za](http://www.jseweek.co.za).

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

## WEBSITE – NEW FEATURE

### Events Calendar

We have added a new feature to the website – the Events Calendar. You will find it on the menu → Key market statistics → Events Calendar.

The benefit to the user is a nice and easy view of activity on the market so that one isn't surprised by events that are in the public domain.

What this enables you to do is at a glance view all activity for any day (current day, past and future). The events listed include; Annual General Meeting (AGM), final, interim and quarterly results expected (where companies such as gold miners publish quarterly results), dividend payable and last day to trade (LDT) for the dividend.

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## INVESTOR

### What is a Value trap?

Investors often mistakenly assume that a share that has suffered a large price depreciation will rise again and offers value at current depressed prices. This incorrect perception of value in a slumping stock (that is based purely on the fact that it is trading down) is what is called a "value trap".

Let me illustrate my point:

Imagine a share that has been trading at 100c with a PE of 10 suddenly drops to 50c. It is now trading at a PE of 5 and has lost 50% of its market value. It might appear that the share has moved into bargain territory...but the share's slump was due to it releasing a Trading Update stating how its profits are expected to be 80% lower.

Knowing this fact, is the share still a bargain?

Basic logic says 'no', because an 80% drop in profits should lead to a slightly higher drop in market cap. This follows the simplistic PE valuation model and assumes that a drop in core profits indicates operational problems that investors had not factored into the historic PE ratio.

In other words, the share was over-valued at 50c and if you had bought the share at that level you would have fallen prey to a classic 'value trap'.

So...how can you avoid value traps?

Firstly, never buy a share based purely on the fact that its share price has dropped.

Secondly, try to ignore historic PE ratio's and rather use forward PE's and PEG's (that take into account future expected growth rates). Not only will this force you to look at the company's fundamentals, but also to try to anticipate any future problems facing the company and risks it might be exposed to.

Thirdly, value each share before you purchase it. Use whichever valuation model and technique that you feel comfortable with and come up with a range of fair values that you believe the share is currently worth and might be worth in the near to long-term future.

If you have followed the guidance above and all these ranges of fair value are above the current market levels, then you might have found a legitimate bargain investment and have significantly mitigated the risk of buying into a value trap.

Although these basic steps are not infallible, they should serve to help you avoid basic and (often) fairly obvious value traps that the markets entrap beginner investors with.

*Keith McLachlan  
smallcaps.co.za*

## INVESTOR

### Combining fundamental & technical analysis

Generally one is either a fan of fundamental analysis when selecting stocks or one uses

## Education newsletter

technical analysis for stock selection. Each side tends to look at the other with a measure of derision considering their method (be it technical or fundamental) to be vastly superior.

This is well and good and frankly if something works for you, well then use it. But is each side perhaps missing out by ignoring the other? Could one perhaps enhance profits but actually taking a bit from each discipline and rather than completely rejecting either fundamentals or technical's? Why not use the best of both worlds?

With this in mind I went searching the internet and found a presentation from Australian group, Hubb Financial Group. Titled Combining Fundamental and Technical Analysis this presentation looks at an investment strategy that uses both sides of the debate and whilst I can't vouch for its effectiveness it certainly is a worth while read.

Find the presentation at <http://tinyurl.com/52qnyf>

*Simon Brown*

## ON THE WEBSITE

### Investment Outlook

Our hugely popular Investment Outlook of the JSE concluded mid April with over 1,000 attending in Cape Town, Durban and Johannesburg.

For those unable to attend, or wanting a reminder of what was said, we have put both the PowerPoint (in PDF) and the audio files on the website.

You'll find the on the menu → Help and education → Investment outlook. The audio files are at the bottom of the page.

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## TRADER

### ADX indicator

J. Welles Wilder developed the Average Directional Index (ADX) to evaluate the strength of a current trend, be it up or down. It's important to determine whether the market is trending or trading (moving sideways), because certain indicators give more useful results depending on the market doing one or the other.

The ADX is an oscillator that fluctuates between 0 and 100. Even though the scale is from 0 to 100, readings above 60 are relatively rare. Low readings, below 20, indicate a weak trend and high readings, above 40, indicate a strong trend. The indicator does not grade the trend as bullish or bearish, but merely assesses the strength of the current trend. A reading above 40 can indicate a strong downtrend as well as a strong uptrend.

ADX can also be used to identify potential changes in a market from trending to non-trending. When ADX begins to strengthen from below 20 and moves above 20, it is a sign that the trading range is ending and a trend is developing.

When ADX begins to weaken from above 40 and moves below 40, it is a sign that the current trend is losing strength and a trading range could develop.

The ADX is derived from two other indicators, also developed by Wilder, called the Positive Directional Indicator (sometimes written +DI) and the Negative Directional Indicator (-DI).

When the ADX Indicator is selected the Positive Directional Indicator (+DI), Negative Directional Indicator (-DI) and Average Directional Index (ADX). On the OST online charts ADX is the thick black line with less fluctuation, +DI is green and -DI is red. +DI measures the force of the up moves and -DI measures the force of the down moves over a set period. The default setting is 14 periods.

In its most basic form, buy and sell signals can be generated by +DI/-DI crosses. A buy signal occurs when +DI moves above -DI and a sell signal when -DI moves above the +DI. Be careful, though; when a security is in a trading range, this system may produce many whipsaws. As with most technical indicators, +DI/-DI crosses should be used in conjunction with other aspects of technical analysis.

The ADX combines +DI with -DI, and then smooths the data with a moving average to provide a measurement of trend strength. Because it uses both +DI and -DI, ADX does not offer any indication of trend direction, just strength. Generally, readings above 40 indicate a strong trend and readings below 20 a weak trend. To catch a trend in its early stages, you might look for stocks with ADX that advances above 20. Conversely, an ADX decline from above 40 might signal that the current trend is weakening and a trading range is developing.

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- Online training; Log into the website and on the menu, → help and education → technical analysis course
- Face to face training; Log into the website and on the menu, → help and education → face to face classes → under event type select technical analysis (part 1 or 2)

## TRADER

### Free daily warrants newsletter

If you would like to subscribe to the free daily Warrants Watch please send an email to [derivatives@standardbank.co.za](mailto:derivatives@standardbank.co.za) with the subject line "Warrants Watch - Subscribe" and we will send it to you daily.

The newsletter is a compact one page warrants trading tool that will enhance your warrants and share instalments trading capabilities. Included is;

- Dual listed stock prices
- New issues
- Market News
- Top business headlines

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## JARGON BUSTING

### US unemployment data

#### Employment - (Non Farm Payrolls and Unemployment Rate) United States

One of the most widely anticipated reports on the US economic calendar, the Employment Situation is a timely report that gives a picture of job creation, loss, wages and working hours in the United States. Data in the report relies on the Household Survey and the Establishment (or Payroll) Survey. While the Household Survey is based on the interviews to US households, the Establishment Survey queries business establishments, making it the preferred source of data. The Employment Situation's has many significant figures such as: Change in Non Farm Payrolls, Unemployment, Manufacturing Payrolls, and Average Hourly Earnings.

The headline figures for this report are reported monthly, as the total number of new jobs in

thousands (say, 120K new jobs), and the unemployment rate.

#### Change in Non-farm Payrolls

Monthly change in employment excluding the farming sector. Non-farm payrolls is the most closely watched indicator in the Employment Situation, considered the most comprehensive measure of job creation in the US. Such a distinction makes the NFP figure highly significant, given the importance of labor to the US economy. Specifically, political pressures come into play, as the Fed is responsible for keeping employment in a healthy range and utilizes interest rate changes to do so. A surge in new Non-farm Payrolls suggests rising employment and potential inflation pressures, which the Fed often counters with rate increases. On the other hand, a consistent decline in Non-farm Employment suggests a slowing economy, which makes a decline in rates more likely.

#### Unemployment Rate

The percentage of people registered as unemployed in the United States. The figure is calculated by dividing the number of unemployed individuals in the labor force by the total labor force. Where the headline figure Change in Non-Farm Payrolls generally moves the market upon release, the Unemployment Rate serves as the most popular snap-shot figure for current labor conditions in the US.

The unemployment figure can give insight into the economy's production, consumption, earnings, and consumer sentiment. A lower unemployment rate equates to increased expenditure, as more people have jobs and wages to spend. Increased expenditure encourages economic growth, which can spark inflation pressures. Conversely, high levels of unemployment signal economic instability and weakened demand.

Persons are considered unemployed if they are able and willing to work but without a job and have actively sought employment within the last four weeks. The labor force includes all employed and unemployed individuals 16 years and older.

#### Manufacturing Payrolls

Measures job creation or loss in manufacturing sector. Manufacturing Payroll is reported as the net change in jobs from the previous month's figure. The figure is significant as an indicator of the health of the manufacturing sector. A high Manufacturing Payrolls number can signal increased demand for manufactured goods and a subsequent increase in production.

### Average Hourly Earnings

An indicator of how the average level of pay is changing. The Average Hourly Earnings figure provides insight into future spending and inflation. A High Average Hourly Earnings bodes well for future consumption, as workers have more disposable income. High figures may indicate inflationary pressures due to employee's additional potential to spend. The figure is either measured in hourly or weekly averages or as a percent change from the previous month.

Relevance: Tends to move markets on release

Release schedule: 8:30 (EST); monthly, usually first Friday of every month

Revisions schedule: previous two months, can be major, benchmark changes every 10 years

Source of report: Bureau of Labor Statistics, Department of Labor (U.S.)

Web Address: <http://www.bea.gov/>

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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 – 20 May & 03 June
- Pretoria – 24 June
- Cape Town – 21 May & 19 June
- Durban – 27 May & 12 June

To book go to <http://courses.standardbank.co.za>

All venues are central and start at 6.00pm unless otherwise stated.

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