Standard

Online Share Trading

Education newsletter

Issue # 4
17th May 2007

The most important quality for an investor is temperament, not intellect.

You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.

Warren Buffet

The Warren Buffett Way
Free presentation

Warren Buffett is universally recognised as the world's greatest stock market investor.

For the last five decades Warren Buffett, together with his long-standing business partner, Charlie Munger, has been at the helm of Berkshire Hathaway Corporation.

This year Moneyweb's Alec Hogg was the first South African journalist to be invited to a special two and a half hour media conference where Warren and Charlie answered questions from the media.

Online Share Trading is pleased to invite you to an hour with Alec Hogg where he will share his key insights learned from his weekend in Omaha absorbing the wisdoms of the world's greatest investor.

Dates & cities

- Cape Town – 21 May
- Johannesburg – 22 May
- Durban – 28 May

To book log onto Online Share trading, go to Help & education ➔ face to face classes and find the above presentation. Venues are all central.

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

- Advanced/Practical Technical Analysis (26 May)
- Introduction to investing (02 Jun)

Durban

- Introduction to investing (19 May)
- A practical guide on how to effectively use the website (22 May)
- The Truths of the Market and Trading Skills (29 May)
- Advanced/Practical Technical Analysis (02 Jun)

Cape Town

- Advanced/Practical Technical Analysis (19 May)

TALK
From the editor

The huge story in this issue isn't really a story at all. Rather it is about Warren Buffet and his legendary annual general meeting for his company, Berkshire Hathaway.

Alec Hogg of Moneyweb once again attended the event and we've been able to get Alec to do a series of presentations on what he leant from the master of investing – Warren Buffet.

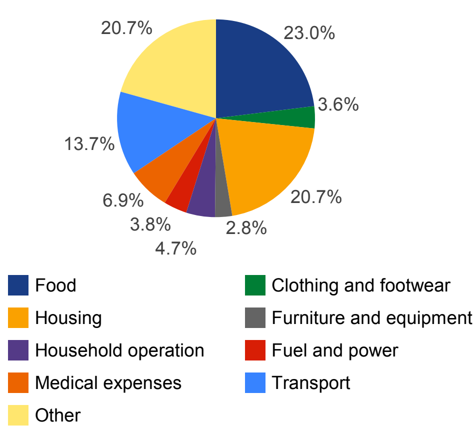
Booking details are on the first page of this newsletter and we hope to see you there, this is sure to be one of the events of 2007.

All the best
Simon Brown
Head: Education & Training – OST

ECONOMICS
South African Inflation

Inflation can be defined as: a sustained increase in the general price levels or the rate of price increases in an economy over a period.

Inflation for a given period is determined by calculating the percentage change of the Consumer Price Index (CPI) for that specific period. Headline CPI is an index of the price level of a representative basket of goods and services for the average South African household. About two-thirds of the CPI basket is made up of the cost-of-living measures: food, housing, transport and medical expenses (Figure 1).



(All inflation charts/tables source: StatsSA)

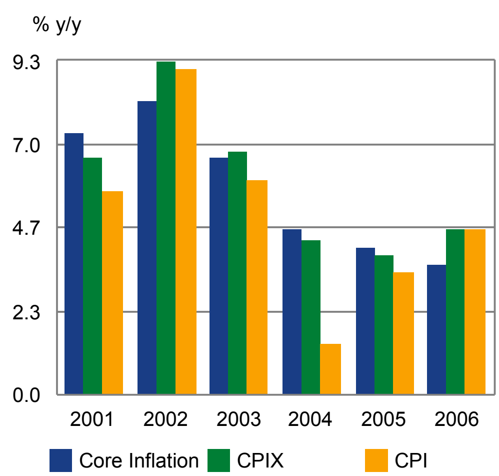
Besides headline CPI, South Africa has two other main inflation barometers namely:

- Core inflation; and
- CPIX inflation.

Core inflation aims to identify the underlying inflationary pressures in the economy by excluding certain items from the CPI basket. Highly volatile goods such as fresh and frozen meat, fish and vegetables; and goods influenced by government intervention or policy such as interest rates on bonds and personal loans as well as VAT, are excluded from CPI to derive the core index.

CPIX inflation consists of headline CPI excluding interest rates on mortgage bonds and is the specific inflation gauge that the South African Reserve Bank (SARB) uses to implement inflation targeting (Figure 2).

Figure 2: CPI, CPIX and Core inflation



Inflation can be caused by one or all three of the following phenomenon:

Firstly, when consumers demand more of a good that has a limited supply, they push up the price of that good. An auction at Sotheby's illustrates the point; there is one antique painting and several buyers. Secondly when there is an increase in the cost of producing a good. For instance, when the price of petrol increases and it becomes more expensive for producers to distribute their goods they then recoup the increased cost by raising prices. The final possible cause of inflation is due to price expectations. An employee expects their cost of living to increase due to inflation, and thus negotiates a higher salary. The company then passes the increased cost of production onto the consumer, causing inflation to increase.

High levels of inflation can have a negative impact on an economy. For example Zimbabwe, which is experiencing hyperinflation where inflation rates are above 1000% year-on –year (y/y). In this situation, the value of money deteriorates rapidly and as a result the cost-of-living increases substantially. In addition, consumers have no incentive to save/invest as the value of their savings/investments gets eroded. Over time, growth in such economies becomes retarded. As a result of the negative effects of high inflation on an economy, several countries have adopted inflation targeting as a monetary policy tool.

Statistic South Africa (StatsSA) compiles and publishes CPI and inflation figures monthly (with a one month time lag) every fourth Wednesday of the month. For example March's inflation figures, which were published in April, printed as follows:

- CPI: 6.1% y/y (0.9% m/m);
- Core inflation: 4.9% y/y (1.1% m/m); and
- CPIX: 5.5% y/y (1.0% m/m).

These figures indicated that CPI increased 6.1% between March 2006 and March 2007 and by 0.9% between February 2007 and March 2007. The main drivers of CPI in March were increases in the costs of education, household operations, transport and a decrease in the cost of food (Table 1).

Table 1: Contributions to CPI

CPI Components	Feb-07	Mar-07
Food	1.7	1.6
Non-alcoholic beverages	0.1	0.1
Alcoholic beverages	0.1	0.1
Cigarettes, cigars and tobacco	0.1	0.1
Clothing and footwear	-0.2	-0.2
Housing	1.9	1.9
Fuel and power	0.3	0.3
Household operation	0.3	0.4
Medical expenses	0.5	0.5
Transport	0.3	0.6
Education	0.3	0.4
Personal care	0.2	0.2
Other	0.1	0.1
All Groups	**5.7**	**6.1**

Standard Bank expects inflation to accelerate in Q2:07, then moderate in the second half of the year. CPIX is expected to temporarily breach the inflation target range but it is expected to end the year at an average 5.3%, while CPI is expected to average 5.7% for the year. April inflation data is due to be published on May 30th.

Ayanda Olifant
Analyst
Standard Bank CIB: Global Markets Research

TRADER
Share instalments

What are Share Instalments?
Share Instalments are instruments that allow investors to gain exposure to some of the JSE Securities Exchange's leading companies. The holder of the Share Instalment enjoys many of the benefits (capital growth and dividends) of directly owning some of the country's leading stocks without having to pay the full purchase price on day one. The fact that you only pay a portion of the cost of the underlying stock upfront means that you gain geared exposure through the Share Instalment. This allows you to magnify potential gains arising from movements in the underlying share price.

What am I buying when I purchase a Share Instalment?
When buying a Share Instalment you are purchasing the underlying share in two easy steps. There is an initial upfront payment. This provides you with exposure to the share over which the Share Instalment is issued. There is an optional 2nd payment (the exercise price). This can be paid at any time up to the expiry of the Share Instalment. At this point full ownership of the underlying instrument is taken. For the term of the Share Instalment you will receive all the dividends (ordinary and special) paid by the underlying.

Key benefits
Geared share exposure
– For the term of the trade. Full ownership of the underlying share will be transferred to you on payment of the exercise price on or before the expiry date.
– As only a partial payment is made upfront, you receive gearing on any share price movements, in comparison to holding the underlying share itself.

Enhanced dividend yield
– As the holder of the Share Instalment you receive the full ordinary dividends payable on the

underlying share.
– A strong dividend income can be the cornerstone of any investment portfolio. This is especially true where cash flow is a priority.

No margin calls
– Unlike futures, you are not obligated to take up the underlying at expiry, and there are no margin requirements that need to be maintained during the term of the investment.

Partial share price protection
– Using a margin lending facility can expose you to margin calls, and in the worst-case scenario, you are obligated to either pay in more margin or risk having your position closed out. Share Instalments, on the other hand, are not subject to a margin call no matter what the performance of the underlying share.

Quoted on the JSE Limited
- Turbo Share Instalments can be bought and sold on the JSE, just like shares, so you are able to trade Share Instalments through your normal share portfolio.

No barrier/knock-out level
- Unlike some similar listed instruments, Share Instalments have no barrier or knock-out level which, if breached, will result in the expiry of the instrument.

Rollover feature
- Certain Share Instalments will have an automatic roll feature. As a holder, if you do not pay the exercise price on or before the expiration date and the Share Instalment qualifies, you will automatically roll over into a new series.

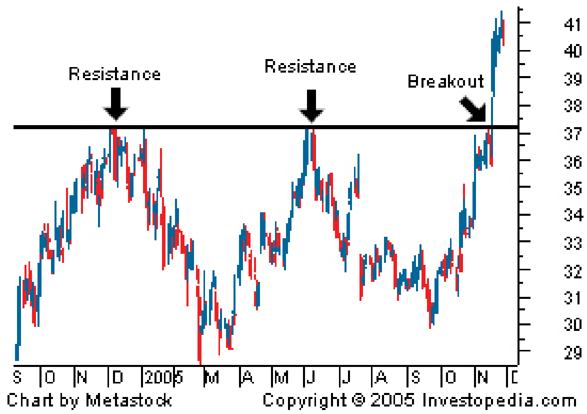
How do I recognize Share Instalments?
By their strike price in relation to the underlying. Share Instalments will have a 6-letter short code which you enter in order to trade them on the JSE Limited. Turbo (more highly geared) Share Instalments will differ slightly from normal Share Instalments in their coding. Where a normal Share Instalment would have a coding of say AGLSIA (the "SI" denoting a Standard Bank Instalment) a Turbo would be coded AGLSTA (the "ST" denoting a Standard Bank Turbo Instalment).

By Brett Duncan
Head of Retail Derivatives – Standard Bank

- Visit our online installment course; on the menu go to Help & Education ➔ warrants (this covers both warrants and share installments)
- Online PDF documents; on the menu go to Help & Education ➔ how to guides
- Or book for a face to face class; on the menu go to Help & Education ➔ face to face classes (CT – 6 Jun & Johannesburg 21 Jun)

TRADER
Charting breakouts

A price movement through an identified level of support or resistance, which is usually followed by heavy volume and increased volatility. Traders will buy the underlying asset when the price breaks above a level of resistance and sell when it breaks below support.



This chart shows a stock that has historically encountered a lot of resistance near $37, but notice how it heads sharply higher following the breakout.

In practice, a breakout is most commonly used to refer to a situation where the price breaks above a level of resistance and heads higher, rather than breaking below a level of support and heading lower. Once a resistance level is broken, it is regarded as the next level of support when the asset experiences a pullback. Most traders use chart patterns and other technical tools such as trendlines to identify possible candidates that are likely to break through a support/resistance level.

A breakout is the bullish counterpart to a breakdown.

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- Visit our online TA course; on the menu go to Help & Education ➔ Technical Analysis
- Or book for a face to face class; on the menu go to Help & Education ➔ Face to face classes

REVIEW – website 321.energy.com

These days it seems that energy is hogging every second headline in the media. Be it the oil price, nuclear or even green power - every investor needs to understand what's happening in the energy sector.

In this regard 321energy.com is a great website. It has live prices for; oil, gas, propane and uranium prices as well as the commitment of traders. This indicator reflects the break down of short vs. long positions in the various energy markets.

Adding to the benefit of this website are regular editorials and links to energy related articles on other sites (covering; oil, natural gas, nuclear, coal, solar & wind and gasoline).

Simon Brown

REVIEW – book Fooled by Randomness

Fooled by Randomness: The Hidden Role of Chance in Life and in the Markets
by Nassim Nicholas Taleb

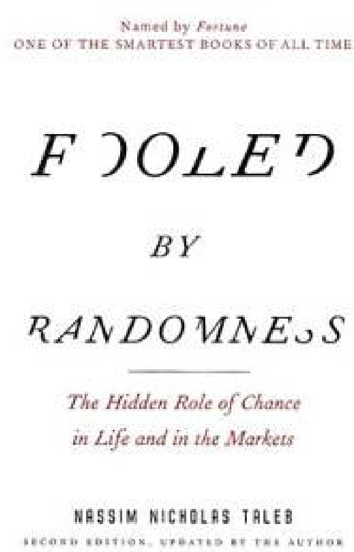
I can't decide about this book. The Book has some great content with good ideas and concepts from the author. But Taleb's writing style is often condescending to both reader and other investors/traders he has encountered, and that seriously irks me. I suppose in truth I should (and largely do) look beyond his style and focus on the content of the book – in this regard it is a worthwhile read.

So onto the content; Taleb focuses on three main issues that bedevil life in general and traders/investors in particular. Firstly, how do we know that our success is skill rather then just good luck? Secondly that few people properly understand stats (even Taleb falls into this trap while trying to prove how bad the rest of us are!). Thirdly he deals with what is known as the black swan theory (Taleb published his latest book last month called – Black Swan).

It is this Black Swan theory that I want to start with. The theory is simple, for thousands of years and literally trillions and trillions of sighting we (humans) had only ever seen white swans. So it would have made perfect sense to assume that all swans were indeed white and then base further theories on this "fact". But then black swans were discovered in Australia! Bang! Your white swan fact is out the window as is everything that was based on this fact.

This is a problem of science that extends to traders and investors. It's impossible to prove something true and the best we can do is to fail to disprove it and on this basis assume it as "true". But how do we know that our attempts to disprove were not flawed, as limited as the fact of the white swan?

The black swan problem for traders and investors is how do we design a system when in truth we have no idea as to what is potentially out there? The answer I suspect is simple; keep the system simple and watch out for your risk. Don't just assume your risk is what you expect but almost expect the un-expected. Every time you trade ask yourself what effect a market crash would have on your livelihood. I know this sounds paranoid, but that's my survival style.



That survival plays directly into Taleb's first point; good luck. We see lots of successful investors, but in truth we see only a very small fraction of those who started out as investors. Further Taleb says that many of these successful investors and traders have thus far just been lucky. We do not see the many more unsuccessful investors and traders who fall by the way side.

On the lucky issue Taleb has two views; luck in the traditional sense that they were in the right place at the right time, but also lucky in that they haven't as yet encountered their black swan.

I remain very unconvinced.

I accept the luck part that some were just in the right place (such as the current bull market). I accept the survival part in that we don't see the many losers who have fallen by the wayside. But I do not accept the idea that everybody (bar Taleb) will one day meet their black swan! If Taleb has worked out how to avoid the black swan (by buying well out the money options), why can't somebody else?

And this is what worries me about this book; his condescending approach in that he bills himself as not only the best trader, but the ONLY one.

Anyway at the end of the day a worthwhile read; if you can stomach Taleb's ego.

Available from Kalahari.net in paper back at R157.00

JARGON BUSTING
Nil Paid Letter

A security which is temporarily listed on the stock exchange and which represents the right to take up the shares of a certain company at a certain price and on a certain date. Nil paid letters are the result of a rights issue to the existing shareholders (or debenture holders) of a company. A rights issue is one way of raising additional capital by offering existing shareholders the opportunity to take up more shares in the company - usually at a price well below the market price of the shares. These rights are represented by the "nil paid letter" and are renounceable - this means that they may be bought and sold on the stock exchange. You will see them from time to time on your price page. They are normally very volatile because they tend to track the difference in share price and the NPL "take up" price. Importantly they have a finite life span and if the holder intends taking up the offer of new shares they need to contact their broker and have the available cash.

Online Share Trading

ROAD SHOW
AltX show cases - Durban

AltX is holding a show case for investors in Durban on 29 May.

This is a free event run and managed by the ALT-X and they have invited the CEO's of eight AltX listed companies to give a presentation about their companies. This will be followed by an opportunity for investors to chat to the CEO's and find out more about the companies.

This is an invaluable opportunity and to book your seat log onto Online Share Trading and you'll find the link (and more details) under the Special Announcements section.

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

- Pretoria – 31 May
- Johannesburg – 7 June
- Cape Town – 14 June
- Durban – 21 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.