

EXPERTS' QUOTE

The critical investment factor is determining the intrinsic value of a business and paying a fair or bargain price. Buy companies with strong histories of profitability and with a dominant business franchise.

– Warren Buffett

NSE as a glance (For week ended September 1st)

Index:	47,789.2	+7.74%
Cap:	N9.74trn	+7.74%
Volume:	3.36 billion	-12%
Value:	N38.7bn	+17.5%



Is the stock market rebound here to stay?

The Nigerian Stock Market switched gears on Wednesday August 26, 2008 when the Nigerian Stock Exchange All-Share Index (ASI) and market capitalisation halted an 18-month long predominant decline to close at 44,572.85 points and N9.09 trillion respectively. The previous day, both the ASI and market capitalisation had hit their 52-week low at 43,199.47 points and N8.808 trillion respectively. By Thursday, the indices had gained 3.9% to close at 46,312.27 and N9.44 trillion and by Friday 29, August, 2008, further 3.2% appreciation in both indices to 47,789.2 and N9.74 trillion. Compared to the previous week closures of 44,357.01 and N9.04 trillion, stock prices had gained a total of 7.74% on the whole for last week, the highest weekly gain since March 5, when both indicators recorded their all-time highs of 66,371 points and N12.64 trillion.

Could this be the beginning of a long-awaited market recovery?

Keen market watchers would not agree that the market is on a recovery path just yet. This is because this is not the highest gain recorded by the indices even during the heat of the bear run. Occasionally, the market would record very impressive performance raising hope that a recovery was in sight only for it to plunge even deeper the following week. An analysis of weekly performance of the NSE post-March 5, 2008 shows that the market recorded occasional upsides within the bear run. For instance, the ASI and market capitalization gained a whopping 7.04% and 7.32% respectively during the week ended June 13. Nonetheless, the following week the indices plunged by 9.65%. Another high rally of 5.74% was recorded during the week ended May 9, 2008.

While the general trend of the ASI was negative, it appreciated a total of five more times besides the two mentioned above. These were 0.72%, 2.43%, 0.96%, 1.0% and 4.4% during the weeks ended March 7, April 11, June 27, July 4 and August 1st respectively.

Baring these in mind, one cannot help but wonder whether this latest rally indicate a recovery in the stock market.

However, there is a general consensus by financial analysts that last weeks rally marks the beginning of market recovery. This is in view of the measures already taken by the Federal government, capital market regulators and other stakeholders to arrest the persistence downturn and restore investors' confidence back in the Nigerian Stock market.

One of the measures includes the legalization of share buy-back by quoted companies. By this, quoted companies are now allowed to buy back 20% of their shares in the secondary market, howbeit, subject regulatory approval.

Share buy-back allows companies to play some role in stabilising their prices through supply management. Also, the NSE has reduced the minimum allowable downward price movement from 5% to one percent. This means that share prices would fall less rapidly than they did before now.

These two measures would ensure that the sharp decline in share prices is contained as investors regain confidence in the market.

panic disposal of stocks by bank-loan funded investors.

We expect that these measures had set the platform for a change in market trend. The market has assumed a new level after the long bearish period and many of the blue chip stocks are currently trading below their fair values. We expect the market to recover in the medium term given a renewed up-tick of real economic activities in the country.

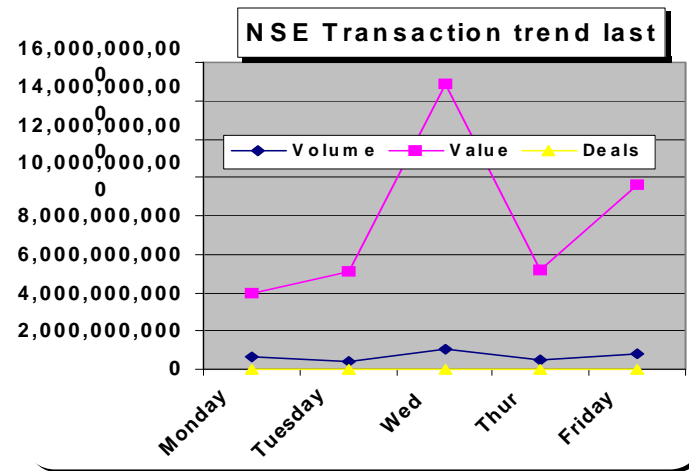
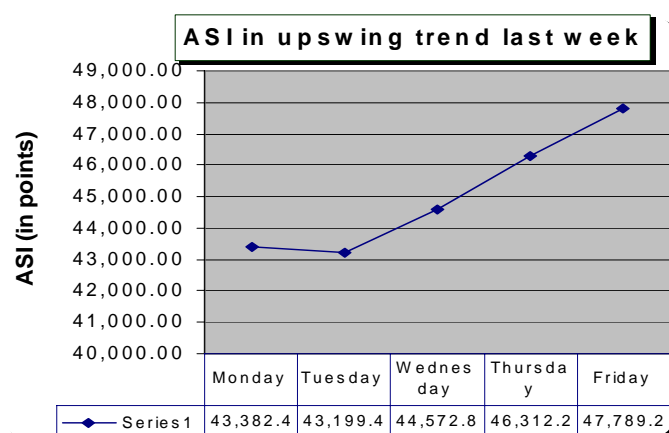
What can turn around the market is a change from the bandwagon "sell propensity" by investors into a bandwagon "buy mentality".

More so, this week could be the best time to take position since prices are still on the low.

Investors should begin to take long term position in fundamentally strong stocks, as the current mood signals that liquidity and investors' confidence is gradually returning to the market.

This slack in trend of the NSE in 2008 is not new. Typically markets tend to adjust often leading to an up and down movement as correction takes place. The Nigerian stock market has witnessed a fair share of downward spiral of prices in the past and has consistently picked up as shown from the figures below.

In 1997 the Market lost 35% between April 4 and December 22. In 1988 the



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Beside these, the Exchange has also taken steps to reduce transaction costs by 50% to ensure that investors pay less for either purchase or sale of shares.

The lull in the Market has been attributed to the following factors:

Illiquidity in the system due to lack of credit from banks, new regulations putting more pressure on liquidity and other speculative activities, suspension of margin facility and

Market lost 12% between March 4 and May 25. In 1999 the Market lost 14% between January 6 and May 25. In 2005 the Market lost 13% between Jan 12th and April 6th.

For 2008 the market has lost 37% between March 5 and August 22, however in our own view we see the market trend in 2008 as a temporary market slump, an inverse of the market boom experienced in 2007.

INVESTORS' EDUCATION

Stock Market Terminologies

Bear Market

A longer period of time when prices in the market are generally declining. Bear markets typically are much shorter-lived than bull markets, but are usually more severe given the time period involved. We try to play corrections and bear markets to the downside as they can generate tremendous returns in a short time period.

Bear Spread

An option strategy with maximum profit when the price of the underlying security declines. Maximum loss occurs if the underlying security rises in price. The strategy involves the purchase and simultaneous sale of options. Puts or calls can be used. A higher strike price is purchased and a lower strike price is sold. The options have the same expiration date.

Bid

The bid is the price at which a stock can be sold. It is the bottom half of the spread on a stock. As with the ask, you may be able to obtain a sale within the spread, but this often depends upon the liquidity of the stock, the number of trades, etc.

Bounce

This occurs when a stock hits support in the form of an old high, a moving average, a trend line, or a combination of these, and moves up sharply. It is like dropping a ball onto a concrete sidewalk-the sidewalk is hard support and the ball bounces sharply. Not all support is strong enough for a bounce-we look for old tops (highs on the way up), breakout points (they act as resistance until the breakout-if the breakout is on good volume, it should act as support and give you a bounce). If money flow is good and the market is not tanking, we usually see a bounce off of this solid support.

Bull Spread

An option strategy in which the maximum profit is attained if the underlying security rises in price. Either calls or puts can be used. The lower strike price is purchased and the higher strike price is sold. The options have the same expiration date.

Bull Trap

A false signal which indicates that the price of a stock or index has reversed to an upward trend, but ultimately proves to be false

Correction

This occurs when an average falls 10% or more off of its high.

Day High

The highest price that a security has traded at during the day

Day Low

The lowest price that a security has traded at during the day

Day Order

This is an order placed with respect to a stock or option that is good only for the day.

Ex-Dividend

This is the date on which a buyer of shares will not benefit from the dividend. In stock splits, the ex-dividend date is the actual date the split is reflected in the share price.