

"It is the part of a wise investor to keep himself today for tomorrow, and not venture all his eggs in one basket," -Miguel de Carvantes

NSE at a glance  
(For week ended December 1st)

Index:	36,325.86	-13.27%
Cap:	N7.97trn	-13.37%
Volume:	1.09 billion	+10.43%
Value:	N7.19bn	-14.8%

## Bear Market: An opportunity to increase your portfolio of blue chip stocks

Most investors, particularly upcoming ones usually wish they had their portfolios packed full of blue chip stocks. While it is usually quite easy for institutional investors to have high volumes of blue chip stocks, the same cannot be said for individual investors because they hardly come cheap. Unlike penny stocks or low capitalized stocks that usually have low share prices, blue chip stocks are also characterized by very high prices, which have been built over many years.

As a result, most new beginners often start their investment journey with carefully selected penny stocks to enable them gradually build up their resources to buy into blue chip companies.

By definition, blue chip stocks (or "large cap" companies) are stocks of well-established companies having stable earnings and no extensive liabilities. The term was derived from the casinos, where blue chips stand for counters of the highest value. Most blue chip stocks pay regular dividends, even when business is faring worse than usual.

Blue chip stocks are seen as a less volatile investment than owning shares in companies without blue chip status because blue chips have an institutional status in the economy. Unlike Nigeria where the All Share Index (ASI) is a composition of all ordinary shares, many advanced markets use the share prices of blue chip companies to compose the leading indexes on which they judge the performance of their markets.

Some of the benefits which blue chip companies offer investors include the following:

An established record of stable earning power over several decades;

Stocks	Quantity (units)	Value N (as at March 5)	Value N (as at Nov 26)	Diff N	% Diff
First Bank	1000	50,000.00	23,700.00	-26,300.00	-52.6
Union Bank	1000	42,520.00	18,310.00	-24,210.00	-56.9
UBA	1000	50,750.00	16,000.00	-34,750.00	-68.5
Unilever	1000	25,800.00	13,000.00	-12,800.00	-49.6
NBC	1000	66,600.00	36,960.00	-29,640.00	-44.5
Intercontinental Bank	1000	43,830.00	13,050.00	-30,780.00	-70.2
Guinness	1000	131,000.00	91,000.00	-40,000.00	-30.5
Zenith Bank	1000	51,000.00	23,000.00	-28,000.00	-54.9
PZ	1000	28,000.00	14,650.00	-13,350.00	-47.7
Nigerian Breweries	1000	55,200.00	36,900.00	-18,300.00	-33.15
<b>Total</b>	<b>10,000</b>	<b>544,700.00</b>	<b>286,570.00</b>	<b>-258,130.00</b>	<b>-47.4</b>

An equally long record of uninterrupted dividend payments to common share holders;

A history of regular increases in the dividends payable to each share;

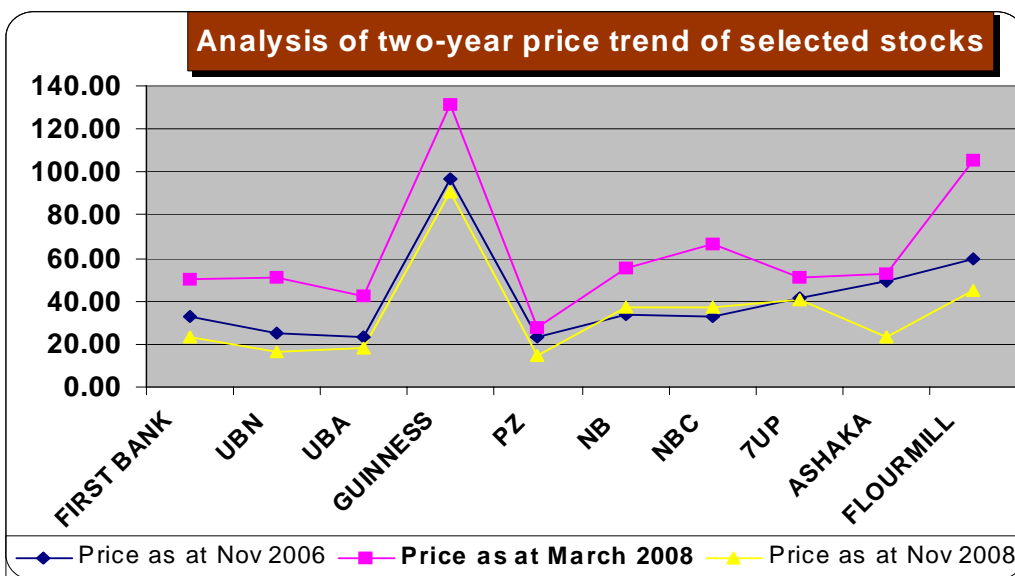
Strong balance sheets with a moderate debt burden;

High credit ratings in the bond and commercial paper markets;

Large size relative to other businesses as a whole in terms of revenue and market capitalization;

Diversified product lines and/or geographic location; as well as a competitive advantage in the market place due to cost efficiencies, franchise. Investors usually buy blue chip companies to provide steady growth in their portfolios.

Applying the most basic stock market principle



One of the oldest and most basic stock market principles is that of 'buying low' (that is buying when the market is at its low end and prices of quality stocks are down) and 'selling high' (that is when prices appreciate).

However this ultimate guide to successful stock investing is often ignored by investors because it is the reverse of what many of them do. Even experienced investors sometimes allow their emotions rule them to the point of giving in to the urge to sell their carefully selected stocks because prices are tending downwards.

Between March 5 and now, the stock market has shed well over 40% off the prices of major stocks even amidst improving financial fundamentals. Accordingly, most stocks particularly actively traded ones, have gone

below their two-year low levels, making them very viable options for long-term investments. For Instance, Oceanic Bank at the current price of N13 is below the N13.94 it sold as at November 27, 2006. Same applies for Nestle which sold for N221 two years ago and currently sells for N201.5 per share. At the current prices of N91, N23.7, N18.31 and 16 per share Guinness, First Bank, Union Bank and UBA are also well below their two-year prices of N96.51, N32.95, N23.08 and N25.01 respectively.

Yet, because the bear market is wrongly perceived as major distraction to investment, most investors are missing the rare opportunity it offers to grow their portfolios with choicest blue chip stocks and at very minimal cost. Currently, only 20 companies control about 61% of the Nigerian Stock Exchange (NSE) market

capitalization, while all the other companies account for the remaining 39%. As at October, 2008, First Bank of Nigeria Plc, Zenith Bank Plc, Union Bank of Nigeria Plc Intercontinental Bank Plc and Oceanic Bank occupied the top five highest capitalized companies on the NSE.

Though all these are banks, blue chip stocks also exist in other sectors such as Nestle, Nigerian Bottling Company, Julius Berger etc.

Consider an investor who wanted to build a portfolio of stocks like First Bank, Union Bank, UBA, Unilever, Nestle, Intercontinental Bank, Guinness, Zenith Bank, PZ, Nigerian Breweries about nine months ago; he or she would require very high capital running into hundreds of thousands of naira to buy some reasonable quantity. Much more is needed to purchase the same today. For instance, the table below indicates that at current prices it would cost an investor 47.4% less than it would have cost about nine months ago to set up the same portfolio as shown in the table.

While old investors may see this as bad news because of the depreciated value of their stocks, prospective investors who recognize this as a good opportunity to build an investment portfolio at lower cost are the better for it because they are taking position for higher returns in the future. It is all a matter of perception, whether you see the cup as either half-empty or half-full, as the popular saying goes.

Rather than seeing the bear market as a big disaster, a change from negative to positive perception would create so much difference to the decisions you make within the period. One positive perception is for investors to view it as an opportunity to buy. Most importantly it is better to view the bear market as an opportunity to increase your portfolio of blue chip stocks.

As you take advantage of the bear market to increase your portfolio it would be wise to stick to blue chip or 'large cap' stocks. Initially blue chips may bear the brunt of the sharp initial sell-off, because their shares are more easily traded. Later, the relative lack of liquidity in smaller company shares becomes a drawback, not least because institutional investors steer clear of shares with poor liquidity. As bear markets end, the reverse is likely to be true. Big stocks will react first, because they represent an easy way for big investors to channel money into the market. Smaller capitalization stocks come more into their own as the new bull market progresses. They then do some catching up.

Getting ready for electronic capital market operations

E-allotment of shares is a process of direct crediting of approved allotment on offers to the CSCS account of shareholders, as against the conventional issuance of share certificates. It is a process which will aid the achievement of a certificate-less transaction in the Nigerian Capital Market. It was introduced recently by the Securities and Exchange Commission (SEC).

How will it benefit investors?

The benefits among others include: addressing the issue of postage of share certificates; eradication of non-receipt of share certificates; resolve the challenges in the process of demobilizing share certificates; finally, ability to consummate timely trade on securities of investors as at when required.

Virtually all investors in the Nigerian Capital Market know the length of time it takes to get their share certificates once allotment offers have been approved by SEC. Some investors never receive their certificates either because they got lost in transit or investors' change in address. These problems would now become history as the companies' registrars would allot shares directly into shareholders' accounts.

Secondly, even after they have received their certificates, investors still require another length of time to have them verified before they can be demobilized for trading.

Prior to the recent surge in the capital market; the verification activity and traffic has been relatively low. However, the challenges experienced in the process of dematerialization of share certificate is mainly attributable to the increase in the general awareness and activities of the capital market, vis-à-vis the current model for processing share certificate by Registrars.

However, for e-allotment to be effective, the investors' CSCS account is required. What this means is that if you are yet to open a CSCS account you would not be able to participate in capital market activities. So make a wise decision and open one today. You don't have to pay to have one opened, just contact a reputable stockbroker and fill the necessary form. When filling the form for a CSCS account, be sure to put a functional mobile telephone line because you will be alerted through your phone when the account is opened.

The CSCS account is very central to capital market activities because it is required for both primary and secondary market activities.

Besides receiving offer allotments on your CSCS account, you would also receive bonus issues through the same account.

Also, when you want to buy or sell shares in the secondary market, your CSCS account will be useful as the sale proceeds and purchases will be effected in your CSCS account.