EXPERTS' QUOTE

Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected.

– George Soros

NSE *at a glance*
(For week ended October 6th)

Index:	44,357.01	-5.6%
Cap:	N9.04trn	-4.5%
Volume:	3.25 billion	+4.5%
Value:	N43.71bn	+14.5%

Analysing Offer Prospectus for effective investing

Investing in the public offers (PO) should not be based on hunches, guesswork, hot tips, rumours or speculation.

It should be a well-calculated decision based on tangible and verifiable facts about the company in which you want to invest. Though most investors know they should get adequate information about companies before they invest, some may not know how to get the information necessary for effective decision-making. This is even harder if the company involved is making an Initial Public Offering (IPO), meaning that the Nigerian Stock Exchange (NSE) or Securities and Exchange Commission (SEC) would have little or no information about the company's history.

The Nigerian Capital Market has in the last four years witnessed a flurry of new issues because of the reforms in the financial system. Forced by the need to meet increased capital base imposed by regulators hitherto private companies had to offer shares to the public in order to raise fresh funds. This in turn has increased dramatically the number of investors in the country. Regrettably, many investors still lack the basic knowledge of accessing information to determine the viability of an offer before investing.

One important document that can help investors know what an offer holds for them is the Offer Prospectus. However, many investors fail to take advantage of this because they do not know what to look for.

This publication is to help you make the best use of the PO prospectus.

Currently, any company wishing to undertake an IPO would have to get the approval from SEC. In considering a PO proposal, SEC would take into account the overall suitability of the company undertaking the PO. Once approved, the company is required to issue a prospectus that gives information about the company, what it does, how it has fared in the past and how it expects to perform in the future.

The purchase of securities offered by the PO Company constitutes, in effect, a contract between the company and you, the investor. As with any contract, it is important that you fully understand your rights and the terms and conditions as set out in the prospectus because you cannot afford to cry "foul" later after making a decision based on insufficient information.

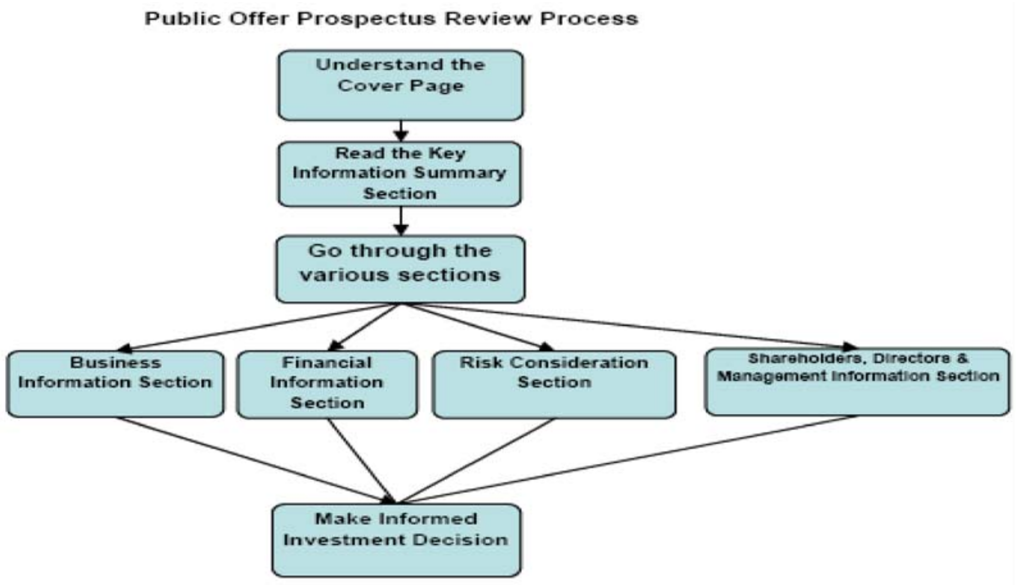
What Is A Prospectus?

A prospectus is essentially an invitation or offer to the public to subscribe to or buy the securities of a company. A prospectus must contain all relevant information about the company making the PO. Therefore, the information that is disclosed in the prospectus relates to the terms on which the invitation or offer is made. It is important for an investor to read and understand these terms in the prospectus to enable prospective investors assess the risks or merits of investing in the company.

Why you must read the Prospectus

The prospectus is a very important document. For you, as an investor, the prospectus is the means by which you can judge how profitable and viable the company is before you decide whether or not to part with your money. An uninformed decision may cost you dearly.

You must therefore go through the prospectus very carefully and understand what is really at



stake before you make your decision. You should carefully assess the fundamentals of the company seeking listing by studying the information in the prospectus. However, POs could be good investment options because of the general expectation of earning high initial returns, called premiums. Nonetheless, risks do exist and there is no guarantee of premiums or that the premiums would be what you had hoped for.

What to look for when reading the Prospectus

Your analysis of an PO company should start with the prospectus. As you go along, it would be helpful to ask yourself some key questions. For example, you may want to know whether the business will grow or not. Bigger sales generally mean bigger profits and therefore should lead to enhanced share prices. Nevertheless, numbers do not tell the whole story. Go over the prospectus with a fine toothcomb for hints on the company's growth prospects.

You would also want to know who manages the PO company, what products the company sells, who buys the products, and whether or not the products would continue to sell. Key information on these aspects can be found in various sections of the PO prospectus.

Where to look for

Seek advice and all other information you need about the PO company from the following sections of the prospectus:

- cover page (front and overleaf);

The cover page contains essential information pertaining to the offer, such as the name of the company, volume of shares offered, amount per share, the issuing house or houses in case of joint issuance, as well as when the offer opens and closes.

- Indicative offering timetable: The timetable gives forecast of the duration of the entire offer process, from when it opens to the public through to when it is listed on the Nigerian Stock Exchange.

- Definitions;

- Corporate directory: Corporate directory provides addresses of the company branches nationally or internationally depending on their spread.

- Summary information: This is a snapshot of the offer. Typically, it duplicates some of the contents of the front page for further clarity. In addition, it provides indepth information about the offer.

- Summary of share capital, issue/offer statistics, indebtedness and intended use of the proceeds;

- Directors and management information; This section provides vital information about those at the helm of affairs on the board and those occupying managerial positions in the company. Investors need to pay close attention to this before it gives and insight into the experience, qualification and reputation of those you are about to commit your money to. A good and efficient management can tell investors how well they will manage their resources to maximise returns.

A bad management, on the other hand may indicate the level of risk involves committing your hard-earned money to them.

- Details of the public offering;
- Business information;
- Financial information;
- Other information;
- Risk considerations associated with business and prospects of company;
- Appendices; and
- Procedures for application and acceptance

Although companies are given the flexibility in organising and presenting their information and need not follow the sequence as outlined, a well-prepared PO prospectus would, nevertheless, contain the following key areas of disclosure:

- cover page basic information;
- Key information summary;
- Business information;
- Financial information;
- Shareholders, directors and management; and
- Risk considerations

Continues next week

> For you, as an investor, the prospectus is the means by which you can judge how profitable and viable the company is before you decide whether to part with your money. An uninformed decision may cost you dearly. You must therefore go through the prospectus very carefully and understand what is really at stake before you make your decision.

INVESTORS' EDUCATION

Common mistakes made by novice investors

Mistakes are a part of trading. Every trader makes them. But the most successful investors in the world—the ones who make huge profits every year—are the ones who make the least number of mistakes. The following is a list of common trading mistakes. Once you have learned to avoid these errors, you will expand your knowledge of the stock market and increase your chances of making more winning investments.

Lack of Knowledge and No Plan

It is amazing that some people expect to trade the stock market successfully without any effort. Yet if they want to take up golf, for example, they will happily take some lessons or at least read a book before heading out onto the course.

The stock market is not the place for the ill informed. However, learning what you need is straightforward – you just need someone to show you the way.

Unrealistic Expectations

Many investors expect to make big fortunes in one day. Though the stock market is a great way to increase your current income and create wealth but it require time.

Other beginners think that trading can be 100% accurate all the time. Of course, this is unrealistic.

Only Trading Market in One Direction

Most new traders only learn how to trade a rising market. Moreover, very few traders know good strategies for trading in a falling market.

If you do not learn to trade "both" sides of the market, you are drastically limiting the number of trades you can take. This limits the amount of money you can make. We can show you a simple strategy that allows you to profit when stocks fall.

Overtrading

Most new investors feel they have to be in the market all the time to make any real money so they see trading opportunities when they are not even there.

Overtrading is the cause of more losses than anything else in the stock market. The average investor does not know how much capital is required to make a success and he buys or sells more than he should. Therefore, as a result, they forced to get out of the market when their capital is nearly exhausted and probably misses opportunities for making profits.