

"Don't worry about what the markets are going to do, worry about what you are going to do in response to the markets."

- Michael Carr

Index: 47,517.87 - 4.4%  
Cap: N9.7trn - 4.3%  
Volume: 2.08 bn - 3.6%  
Value: N43.71bn - +9.66%



## Missing accurate timing for Market rebound

The experience of a declining market can be a disheartening. The temptation to move investments to 'safer' territory can be overwhelming.

But history tells us that sticking with your long-term investment plan, including higher-risk equity positions, may give you something you would not have standing on the sidelines – a better opportunity to take advantage of the markets' recovery. Barely two weeks after the Nigerian Stock market began to pick up, the Nigerian Stock Exchange All Share Index (ASI) has regained 15.5% between its March 5, 2008 historic peak of 66,371 points and its

Missing just a few of the leading rebound days can make a significant difference in the long-term performance of a portfolio. The only way to be assured of capturing all of the market upside is to remain fully invested, using a long-term investment plan with a portfolio diversified over several asset classes and investment styles

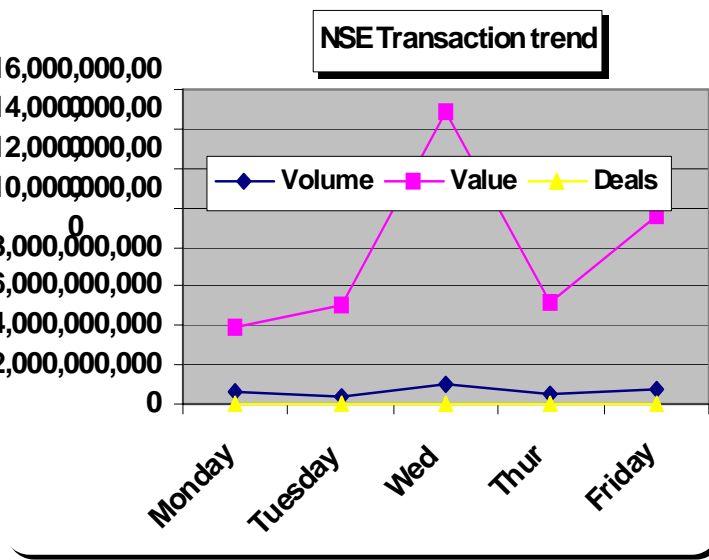
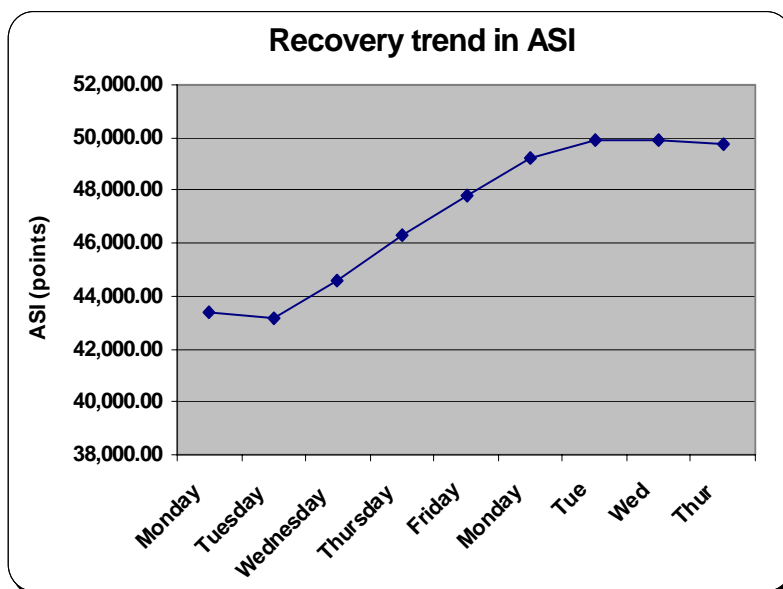
lowest of 43,199.47 points reached on August 26, 2008. This means that investors who stuck to their long-term investment have equally recovered 15.5% lost value on their investments within less than two weeks.

While it took more than six months from March 5 to August 26 for the ASI to shed about 34.9%, it has already regained almost half of what it lost in barely two weeks.

Also, the Market Capitalisation which lost about N3.84 trillion or 43.6% in more than six months has already recovered N1.52 trillion or 17.3% in barely two weeks.

These points to the fact that while the bear market can last for a very long time, market recovery, when it begins often tend to progress faster than the decline.

The 2008 bear run in the Nigerian Stock Market is not new. Typically markets tend to adjust leading to ups and downs movements as correction takes place. The Nigerian capital 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 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.

Incidentally, the market also lost 35% between March 5 and August 26, 2008. 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.

Generally, stock markets suffer bear runs for basically two reasons – economic recession or market correction.

### The cost of missing the good days

Even though recessions and market corrections are separate and independent events, the pattern of decline and recovery

are similar. The returns after a recession or a correction have historically exceeded the long-term market average by a wide margin. Yet missing just a few choice days in the history of the market cycle by swaying from a disciplined investment plan can make a huge difference in the returns investors realize.

As indicated above, investors who sold their shares during the bears did not only sell at lower prices than they bought but also paid higher commissions, further increasing their losses. Even though they were able to re-enter the day the rebound began – though this is most unlikely – they have still not gained as such as what the market has recovered since they still paid commissions on the new purchases.

Getting out of the market is not the difficulty; it is the potential penalty for not choosing the right time to get back in.

Missing just a few of the leading rebound days can make a significant difference in the long-term performance of a portfolio. The only way to be assured of capturing all of the market upside is to remain fully invested, using a long-term investment plan with a portfolio diversified over several asset classes and investment styles.

While sticking with your investment strategy through turbulent markets can be a nerve-wracking experience, history suggests you may benefit by hanging on. Long-term investing has proven to be one of the best ways to accumulate wealth in the stock market. By showing patience and discipline, investors can take advantage of market rebounds, enjoy superior returns, and experience peace of mind.

## INVESTORS' EDUCATION

### Understanding Share Buybacks

One of the measures adopted by the federal government reverse the decline in the stock market is share buybacks.

The office of the Attorney-General of the Federation has been mandated to issue an exemption to the provisions of the relevant sections of the Companies and Allied Matters Act of 1990 on share buyback to permit quoted companies to buy up to twenty per cent of these shares.

As events unfold new investors may be wondering what it means and how it would affect them. This piece is to shed more light on these.

#### Share Buyback

This is the buying back of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market. Companies will buyback shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

A buyback is a method for company to invest in itself since they can't own themselves. Thus, buybacks reduce the number of shares outstanding on the market which increases the proportion of shares the company owns. Buybacks can be carried out in two ways:

1. Shareholders may be presented with a tender offer whereby they have the option to submit (or tender) a portion or all of their shares within a certain time frame and at a premium to the current market price. This premium compensates investors for tendering their shares rather than holding on to them.

This happened during the acquisition of IBTC Chartered Bank by Stanbic Bank (Standard Bank of South Africa). Stanbic Bank made a tender offer to IBTC Chartered Bank shareholders to enable it to obtain controlling shares in the latter.

2. Companies buy back shares on the open market over an extended period of time.

#### Advantages to the Investors

Buying back stock means that the company earnings are now split among fewer shares, meaning higher earnings per share (EPS). Theoretically, higher earnings per share should command a higher stock price which is great! Buying back stock uses up excess cash: The returns on excess cash in money market accounts can drag down overall company performance. Cash rich companies are also very attractive takeover targets. Buying back stock allows the company to earn a better return on excess

cash and keep itself from becoming a takeover target.

Buying back stock allows a company to pass on extra cash to shareholders without raising the dividend. If the cash is temporary in nature it may prove more beneficial to pass on value to shareholders through buybacks rather than raising the dividend.

Buying back stock can increase the return on equity (ROE). This effect is greater the more undervalued the shares are when they are repurchased. If shares are undervalued, this may be the most profitable course of action for the company.

When a company purchases its own stock it is essentially telling the market that they think that the company's stock is undervalued. This can have a psychological effect on the market. Stock buybacks also raise the demand for the stock on the open market. This point is rather self explanatory as the company is competing against other investors to purchase shares of its own stock.