

"An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."  
- Graham and David Dodd

### NSE at a glance (For week ended December 8th)

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



## Are you preparing for the next bull market as an investor or a speculator?

Over the course of the past decades, the term "investor" has been the generalized name for anyone who buys shares in a company. This misconception is even stronger on the mind of the average Nigerian, many of whom only recently became aware of inherent benefits in the stock market. Thanks to awareness created in the wake of the recapitalization and consolidation of the banking sub-sector, many new entrants embraced the capital market purely because of the high returns it can offer, but lacking the basic understanding of its underlying principles.

However, it is important to note that everyone who buys the shares of a company is an investor. When a person buys a stock, they are doing it as one of two people: either an investor or a speculator.

Though everyone wants to make a profit on the stocks they buy but there is a big difference between speculation and investing.

What exactly are the definitions of the terms "Investment" and "Speculation" and how can prospective investors differentiate the two?

Stock market speculation, simply put, involves taking a position that will benefit from a certain outcome.

An investor, on the other hand, looks at the logical value that may accrue over time as the company continues in business, within an industry, in the entire economy and so on.

An investor is someone who carefully analyses a company, decides exactly what it is worth, and will not buy the stock unless it is trading at a substantial discount to its intrinsic value. They are able to say, for example, that "Company 'X' is trading for N20 per share, but it is worth N25 or more per share." They make their investment decisions based on factual data and do not allow their emotions to get involved.

A speculator is a person who buys a stock for any other reason. Often, they will buy shares in a company because they are "in high demand" (which is another way of saying a stock is experiencing higher than normal volume and its shares may be being accumulated or sold by institutions). They buy stock not on the basis of careful analysis, but on the chance it will rise from any cause other than recognition of its underlying fundamentals.

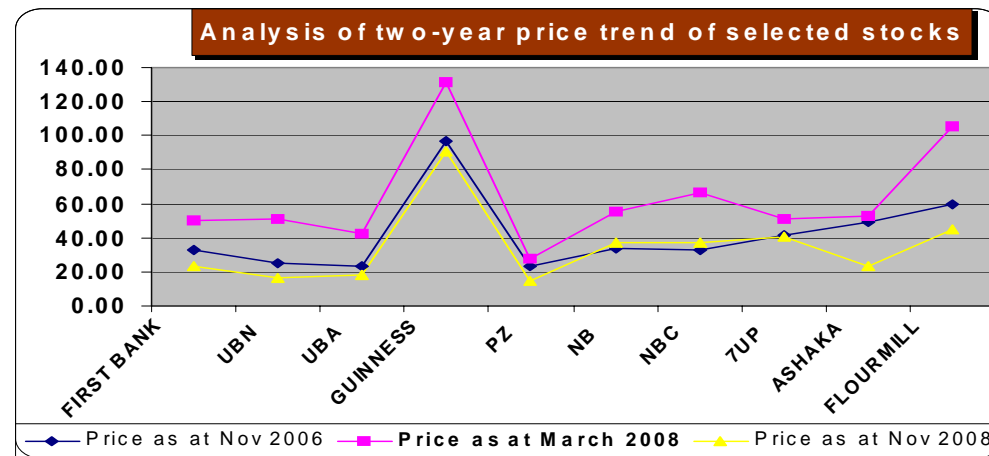
Legendary investor Benjamin Graham considered the distinction between the two so important that "Investment versus Speculation" is the title and subject of the first chapter of his classic book *The Intelligent Investor*.

According to Graham, "The distinction between investment and speculation in common stocks has always been a useful one and its disappearance is a cause for concern. We have often said that Wall Street as an institution would be well advised to reinstate this distinction and to emphasize it in all dealings with the public. Otherwise the stock exchanges may some day be blamed for heavy speculative losses, which those who suffered them had not been properly warned against."

Speculation itself is not necessarily a vice; rather it plays a useful role in an efficient market.

One of the services provided by speculators to a market is primarily that by risking their own capital in the hope of profit, they add liquidity to the market and make it easier for others to offset risk.

However, its participants must be absolutely willing to accept the fact that they are risking their principal. While it can be profitable in the short



term (especially during bull markets), it very rarely provides a lifetime of sustainable income or returns. It should be left only to those who can afford to lose everything they are putting at stake.

If you "make a kill" in a decision, you may "be killed" in the next. Jumping about and looking for market fluctuations, you may get lucky on a couple of occasions but then lose all you've made in a single bad decision, whereas for investors, short term distress prices doesn't matter because prices will averagely increase over time. Even if prices don't increase so much,

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>

regular distribution of bonus and dividends will ensure that your portfolio grows consistently bigger.

Speculation does not fit into the popular paradigm of your money working for you. You are actually actively working with your money when you speculate because; if you stop speculating today all you have left is your money in hand plus the profits you've made, you have to keep working with that money for you to have new money. But when you invest, you receive bonus and dividends regularly without you doing anything and this will forever continue even when you stop investing.

Though the current bearish trend in the Nigerian capital market was been triggered by policy issues within the financial system, nonetheless, it is an outcome of persistent speculative activities particularly in the wake of the banking recapitalization. So issues like margin trading censor, harmonization of banks' year-end only sparked off the looming bubble burst.

The Nigerian Stock Market witnessed very strong growth in the two years following the banking consolidation such that it moved it into the global league of top 10 markets with best returns to investors. The heightened

market upsides, largely a consequence of banking sub-sector recapitalization-induced and liquidity-driven demand pressure provided some alternative to keeping money in commercial banks where the interest rates (returns) are usually much lower.

As the bullish trend was sustained largely by peer bandwagon effect with little consideration given to fundamental issues in the market the growth in the market became just a bubble that would simply bust at the appropriate time.

However, it is the consensus of analysts that the bearish trend is nearing its end and

a rebound is imminent. Currently, the high demand for cash to meet year-end festivities is taking its usual toll on the market, but it is expected that the first quarter of 2009 would witness a turnaround in the stock market. In order to get the most out of a buy and hold strategy, the odds are stacked in your favor when trading the strongest stocks. An investor should first start out by identifying very viable sectors. The next step is to target the strongest stocks within that respective sector with strong fundamentals. This basic top down approach will ensure that the investor is purchasing into a stock with the greatest chance of growth potential.

The Buy and Hold strategies have the following benefits:  
Less Stress - by trading fewer stocks and not concerning oneself with every price movement, it makes it easier for a trader to follow their trading plan and stay on course  
Taxes - since buy and hold strategies often call for a time horizon greater than 1 year, traders are taxed at a lower tax bracket.  
Commissions - active trading can prove costly. Traders can easily rack up commissions in the tens of thousands each year. A Buy and Hold strategy can allow a trader to invest large sums of money with minimal costs.

## 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.