MARKET INSIGHT

EXPERTS' QUOTE

As equity investors in emerging markets get a taste of the bear the lessons of successful investing are learned the hard way. I'm only rich because I know when I'm wrong.

- George Soros

NSE *as a glance*
(For week ended September 15th)

Index:	**48,738.15**	**-1.8%**
Cap:	**N10.22trn**	**-1.63%**
Volume:	**2.65 bn**	**-10.2%**
Value:	**N50.3bn**	**+61.2%**

Buying Stocks Using Growth Strategy

The downturn in the Nigerian Capital Market is giving investors real hard times making investment decisions. For short term investors, whose priority is to make the largest profit in the shortest amount of time, are more apprehensive since virtually all stock prices are on the decline making short-term profit very difficult to achieve.

Hopes of a market recovery which trailed the rebound recorded in the NSE All-Share Index (ASI) penultimate week has since been dashed as market indicators returned to a downward trend last week, indicating that attempts by regulators and stakeholders to curtail the meltdown only yielded temporary results.

The ASI lost 1.75% last week after regaining 14.85% August 27, and September 5, while the rebound lasted. The decline was moderated by the 1% maximum allowable downward review in stock prices, meaning that the decline would have lower had the 5% maximum decline rate was still allowed.

> Short term investors may need to review their strategies in view of the prevalent market trend. One viable option is choosing stocks using the growth strategy.

At times like this most investors' investors, especially short-term ones, are opting for staying completely off the market, until it improves. Rather than stay off, investors should rather re-plan their investment strategies to ensure they don't miss out of the inherent future benefits in the market.

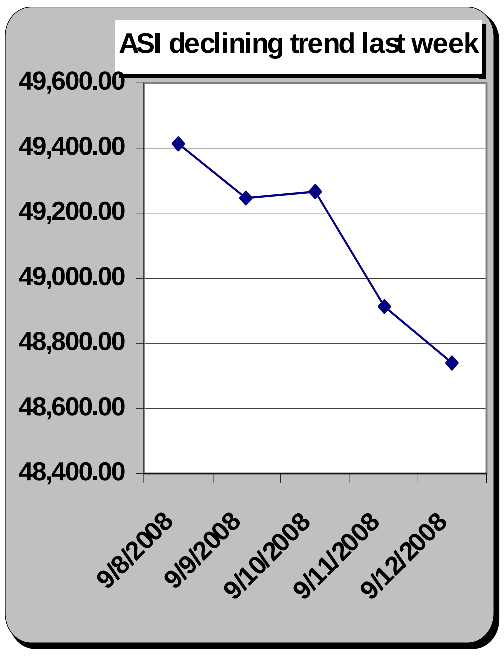
Warren Buffett, the world's richest man, said "Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."

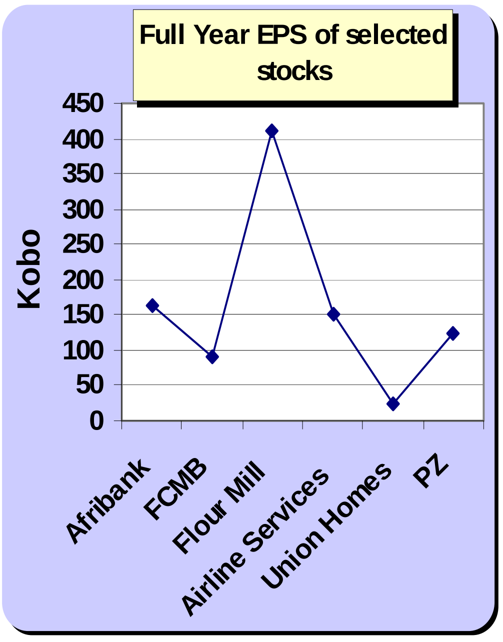
Another stock market commentator, Michael Carr said "Don't worry about what the markets are going to do, worry about what you are going to do in response to the markets.

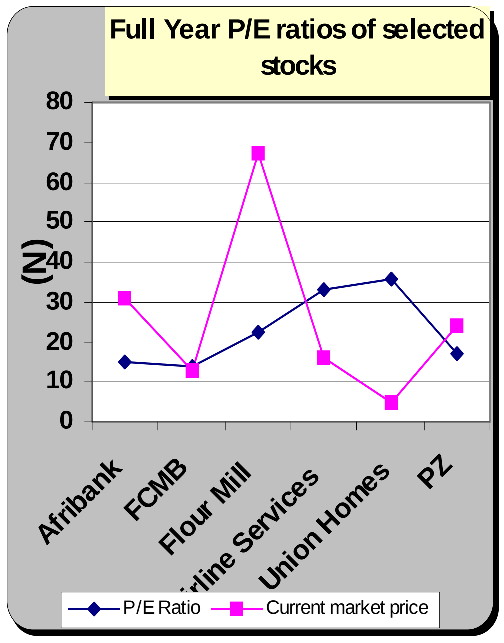
This implies that short term investors may need to review their strategies in view of the prevalent market trend. One viable option is choosing stocks using the growth strategy.

Most Investors have these mentality; they always try to make the largest profit in the shortest amount of time; and want to do so by predicting that the future prices of the stocks they purchase today will be higher - the higher the better! This strategy while being highly profitable is also very high in risk since the market is very difficult to predict.

Those with more patience and time to invest can easily choose the low-risk path of buy and hold stock purchasing - basically, buy stocks at the lowest prices possible today and hold onto them until a significant return can be obtained in the future - at least 1 or more years down the road.







Fundamentals of Growth Strategy

Investors who employ the growth strategy are basically looking at one thing: What is this company's potential for future earnings? The underlying assumption behind the growth investment strategy for stocks is that increased earnings will lead to higher stock valuations. In turn, this should also bring about higher dividends which mean higher revenue streams and larger capital gains when the stocks are liquidated. Other factors to be considered when using this strategy to make stock purchase decisions are annual growth, overall revenue, and earnings per share (EPS).

Earnings

Investors always want to know what the future holds and one of the best indicators of the potential of a company is their previous earnings. The overall sales, or gross revenue, of a business are not equal to their earnings. Instead, earnings are determined by taking the gross revenue and subtracting the costs associated with selling the products, operating expenses including labor costs, and any and all applicable taxes.

EPS of some companies using recently released full or quarterly results is as follows: First Bank 1st quarter result, EPS= 43 kobo; Afribank full year report, EPS= 163 kobo; FCMB full year report, EPS= 92 kobo; Flour Mills full year report, EPS= 412; Nestle 2nd quarter, EPS= 499 kobo; NBC 1st quarter Dangote Sugar 2nd quarter, EPS= 128 kobo; Ikeja Hotels 2nd quarter result, EPS= 51 kobo; Vitafoam 3rd quarter, EPS= 48 kobo; African Petroleum 2nd quarter, EPS= 494 kobo; Union Homes full year result, 25 kobo; among others.

Knowing the earnings of a company is important to a growth investor because they can be used to calculate the price/earning ratio, or P/E ratio. The P/E ratio of stocks is important for growth investors because it is a good indicator of how much the market is willing to pay for a certain rate of growth. Those companies with a higher P/E ratio are those that investors are willing to take greater risks with.

So what does this ratio tell the average growth investor when trying to decide which stocks to invest in?

Companies with a higher P/E ratio have a relatively high market valuation with relatively low earnings. Therefore, they are considered to be greater risks than those companies whose market value is more in line with earnings - or those with a lower P/E value.

The P/E ratio of some companies' annual or quarterly reports released in the last two weeks is as follows: First Bank 1st quarter result, 22.4/; Afribank full year report, 21.9; FCMB full year report, 13.7 times; Flour Mills full year report, 22.6 times; Nestle 2nd quarter, 33.6 times; NBC 1st quarter 23.1 times; Dangote Sugar 2nd quarter, 18.1 times; Ikeja Hotels 2nd quarter result, 16.3 times; Vitafoam 3rd quarter, 14.6 times; African Petroleum 2nd quarter, 28.6 times; Union Homes full year result, 35.8 times; among others.

Cheap or Expensive?

The P/E ratio is a much better indicator of the value of a stock than the market price alone. For example, all things being equal, a N10 stock with a P/E of 75 is much more "expensive" than a N100 stock with a P/E of 20.

Such businesses which have high P/E ratios have high expectations placed upon them and it is therefore easy to buy-into a company and pay relatively high prices for the stock only to see it plummet once earnings are reported the following quarter.

P/E ratios are especially useful for growth investors who need to compare companies from the same industry. In more established industries, the P/E ratio will be more of a constant and newer companies with especially high P/E ratios should be treated with caution. In other words, the market value of the company should ideally be tied to earnings. While companies with lower earnings may be poised for a breakthrough in the market, analyzing the P/E ratios of similar companies from the same industry will nonetheless help when making stock purchase decisions.

INVESTORS' EDUCATION

Stock market terms you must know

Ever come across words Ex-div, Cum-Div or Cum-Scrip among others and wondered what they mean?

Well, a regular reader of business newspapers must have come across these and a host of other terms that describe the stock market activities. Let us go through a few of these terms used in routine stock market parlance.

Ex-Dividend (EX-DIV)

This means without current dividend. The buyer of stock is not entitled to the current dividend. The seller gets the dividend. Shares purchased during the without dividend period will not earn a dividend declared in that period for the new owners.

Ex-Scrip

This simply means without scrip or bonus .The buyer of shares is not entitled to the scrip or bonus. It goes to the seller. Shares purchased during the without scrip period will not earn a scrip declared in that period for the new owner.

Ex-Right

This simply means without the rights. Companies raising additional money may do so by offering their existing shareholders the right to subscribe to new or additional shares, usually at a discount on the prevailing market price.

Cum-Div

This means with dividend. The buyer of shares is entitled to the current dividend.

Cum-Scrip

This means with scrip or bonus. The buyer of shares is entitled to the current script or bonus shares.

Scrip Issue

This is the issuance of shares by a company to its shareholders in proportion to their existing holdings. This is done by capitalizing existing reserves of the company, which already belong to the shareholders, and it is merely the formal recognition of the increase in the capital invested by those shareholders through the ploughing back of previous profits.

Debentures

Debentures, like bonds, have agreed interest rates (which could be fixed or floating) and a set maturity date.