

EXPERTS' QUOTE

When it comes to predicting the market, the important skill is not listening, but snoring. The trick is not to learn to trust your gut feelings, but rather to discipline yourself to ignore them. Stand by your stocks as long as the fundamental story of the company has not changed.

- Peter Lynch

NSE at a glance (For week ended November 17th)

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

Analysing Offer Prospectus for effective investing 6

Risk Considerations in offer prospectus

- By its very definition, this part of the prospectus may scare off some investors for it warns about past, present or potential company problems. Nevertheless, take heart, for it serves a useful purpose by letting you know about the dangers before you jump into the water; moreover, some of the risks are standard risks.

Risk factors relevant to the business, industry and financial performance of the PO Company can be of a general nature or specific to the company. General risks include:

- The fall and rise in prices of securities depending on stock market conditions generally, and;
- the state of the Nigerian economy as well as the world economy;
- Changes in government policies;
- Foreign exchange risks;
- Climatic conditions; and
- Movements in interest rates

Risk considerations that are specific to the company may include the following:

- Dependency on key personnel;
- Dependency on a few customers, suppliers or in-house projects;
- Changes in prices of raw materials;
- Emergence of new competitors or players in the industry; and
- Specific litigation that has started or brought before the court

It should be enlightening to read how the directors of the company propose to deal with or reduce the impact of the risk factors identified.

The Impact of Intangible Assets

Numerous non-physical assets are considered intangible assets, which can essentially be categorized into three different types: intellectual property (patents, copyrights, trademarks, brand names, etc.), deferred charges (capitalized expenses), and purchased goodwill (the cost of an investment in excess of book value).

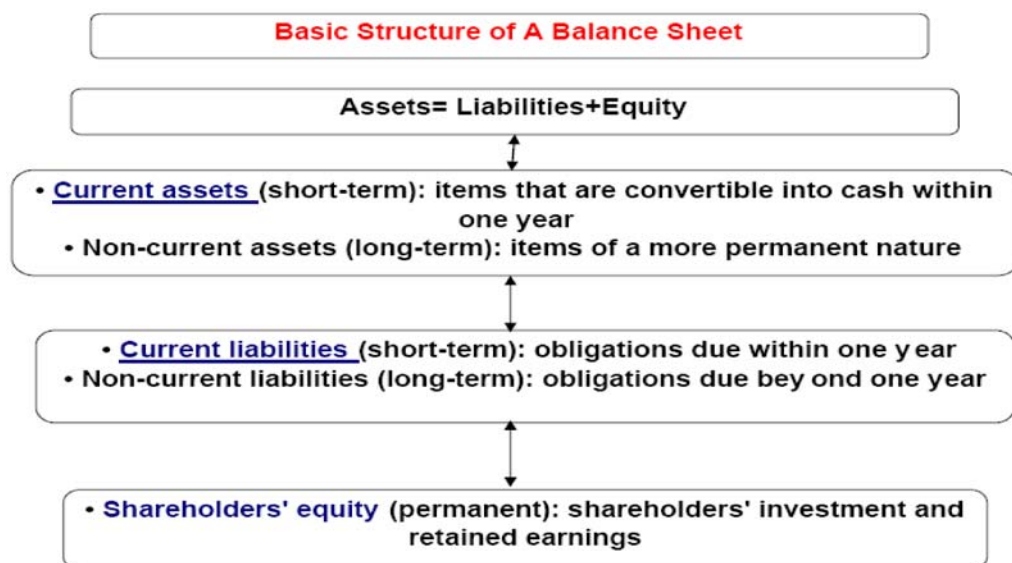
Unfortunately, there is little uniformity in balance sheet presentations for intangible assets or the terminology used in the account captions. Often, intangibles are buried in other assets and only disclosed in a note to the financials. Investors should be wary of companies with high proportion of 'other assets' in their balance sheet. Any asset worthwhile in a company's possession should be used to generate income for the company. Apart from deferred charges and intellectual property, any other item in 'other assets' in a company's balance sheet should be properly investigated to know its value to the company.

Accordingly, investors are encouraged to take a careful look at the amount of purchased goodwill in a company's balance sheet because some investment professionals are uncomfortable with a large amount of purchased goodwill. Today's acquired "beauty" sometimes turns into tomorrow's "beast". Only time will tell if the acquisition price paid by the acquiring company was fair value. The return to the acquiring company will be realized only if, in the future, it is able to turn the acquisition into positive earnings.

Conclusion

In the past five weeks, we have discussed how investors can analyze the information in a company's offer prospectus to ascertain whether to invest in such companies or not.

Efforts were made to touch all the key sections of the prospectus and central to this is the company's financial account, which is key



to determining the financial health of the company. Fundamental analysis provides investors ratios with which they can analyze companies' future prospects using historical and current performance data.

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Fundamental analysis will help you base your investment decisions on relevant information, not tips, hunches or assumptions. As a result, you make consistent long-term profits. Legendary modern day investors like Warren Buffet and Peter Lynch have used this approach to amass fortunes on the stock market.

One of the most important areas for any investor to look at when researching a company is the financial statements. It is essential to understand the purpose of each part of the statements and how to interpret them.

Below is the summary of what you must keep in mind when analyzing a company's financial report.

- Financial reports are required by law and are published both quarterly and annually.
- If the Utilization of Proceeds section lists debt repayment or a dividend to pre-PO investors, this cash is essentially going to

clean up past obligations, rather than provide funding for future growth opportunities.

➤ Management discussion and analysis gives investors a better understanding of what the company does and usually points out some key areas where it performed well.

➤ Audited financial reports have much more credibility than unaudited ones.

➤ The balance sheet lists the assets, liabilities and shareholders' equity.

➤ For all balance sheets: Assets = Liabilities + Shareholders' Equity. The two sides must always equal each other (or balance each other).

INVESTORS' EDUCATION

Investing without emotions as stock market turns positive

No doubt, fear and uncertainty have been the order of the day in the last eight months with stock market investors losing no less than N5.24 trillion between March 5, 2008 and November 5, the highest and lowest points of the NSE market capitalization, respectively.

As the stock market maintains steady positive trends, the feeling that you may sustain losses when investing in stocks is may still be stronger than the feeling of enjoying high rewards.

It has been proven by several researches that people tend to remember better the negative feelings of losing money from investing than the positive ones associated with making profits.

As a result investors who have sustained several losses may experience worsening in their investment judgment. The bad feelings associated with losing money quickly enter investors' minds, which can result in blurred and emotional investment decisions.

So, the key to avoiding such situations includes the establishment of a plan of action before embarking on investing and sticking strictly to it.

Emotions in Investing

Our emotions can lead us to bad decisions regarding investing. Thus, being an emotional investor can play you a bad trick.

However, being an emotional investor is not an indication that you will not be a successful investor. Neither does it mean

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➤ The income statement includes figures such as revenue, expenses, earnings and earnings per share.

➤ For a company, the top line is revenue while the bottom line is net income.

➤ The income statement takes into account some non-cash items, such as depreciation.

➤ The important data to refer to when analyzing a company's profit is "profit after taxation but before extraordinary items." The profits derived after taking into account extraordinary items can sometimes be misleading as they can disguise a bad year.

➤ The cash flow statement strips away all non-cash items and tells you how much actual money the company generated.

➤ The cash flow statement is divided into three parts: cash from operations, financing and investing. The cash flow statement is important because it is very difficult for a business to manipulate its cash situation. There is plenty that aggressive management can do to pressure his accountant to boost earnings, but it is tough to fake cash in the bank.

➤ Always read the notes to the financial statements. They provide more in-depth information on a wide range of figures reported in the three financial statements.

that you are unable of making viable investment decisions.

It just means that you allow for your emotions to enter decision making, sometimes consciously sometimes without realizing it.

Prepare an Investment Plan

As mentioned above, it is recommended that you make a plan before you embark on investing and stick to it with the required discipline. A sell point should be included as a part of your plan, which represents the point up to which you can keep your stock.

Other considerations you should make include a realistic view on the fluctuations of the stock's price as well as the lowest point, which the stock can reach under different conditions of the market.

All you should keep in mind is that you can only lose 100% of your investment if the price of the stock falls to zero naira. On the other hand, being hasty to sell may result to the missing of further returns since no one knows how far the price of the stock can get.

Investing Plan and Investing Strategies

Different investing strategies can be included in your plan.

If you are a supporter of the buy and hold investing strategy, then a rising price may result in your premature selling of the stock due to fear of losing your profits by a falling price. However, you are not guaranteed that the price may either continue to rise or reverse its direction.