

MARKET INSIGHT

EXPERTS' QUOTE

The individual investor should act consistently as an investor and not as a speculator. This means.. that he should be able to justify every purchase he makes and each price he pays by impersonal, objective reasoning that satisfies him that he is getting more than his money's worth for his purchase.

- Benjamin Graham

NSE as a glance (For week ended August 18th)

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



Loving the Bear Market: How's that possible?

It is not easy being a stock investor these days with markets on a relentless downward spiral. The NSE All-Share Index (ASI) dipped further to 48,732.18 points while the market capitalization at N9.9 trillion slipped into single digit as at August 15, 2008. The ASI has lost 16.8% off its December 2007 close, and 27% off its peak of 66,371 as at March 5 and the market could go lower from here.

While a bear market is painful to experience, there is a silver lining for long-term investors — lower stock prices today means higher expected returns from equities in the future.

If you are still in your saving and investing years, a bear market is a gift from the financial gods — and the longer it lasts, the better off you will be in the future. This is the first reason why you should love it. Instead of running from the bear, you should embrace it and plough in more investments.

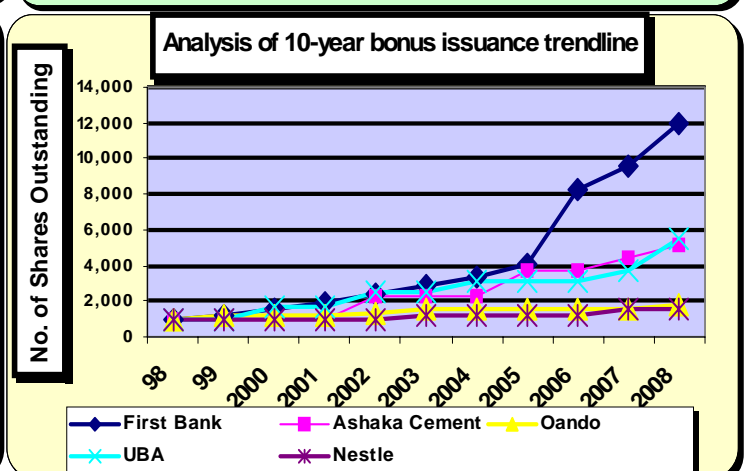
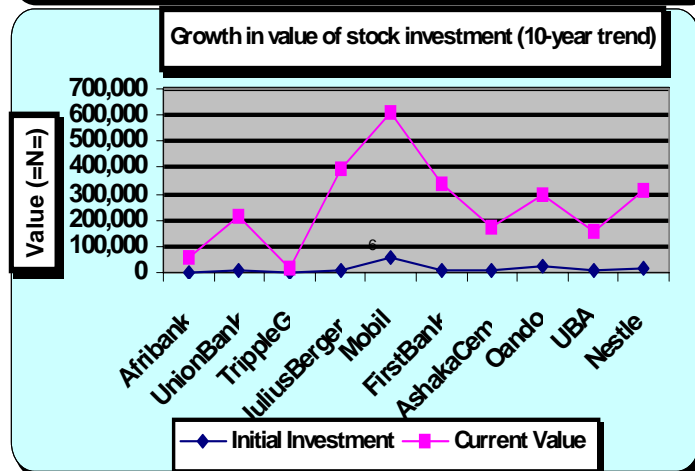
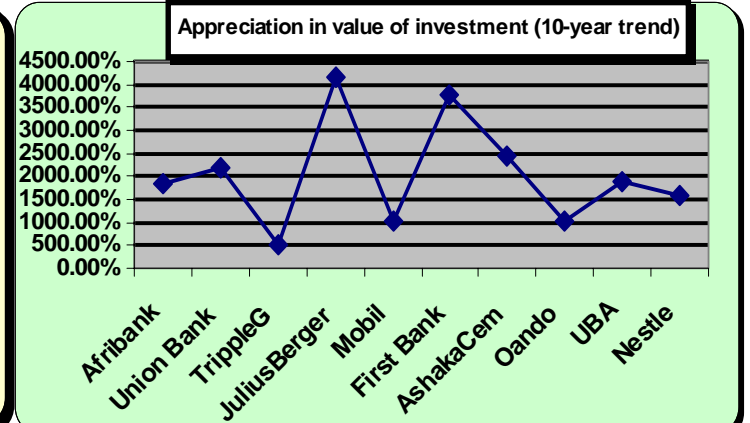
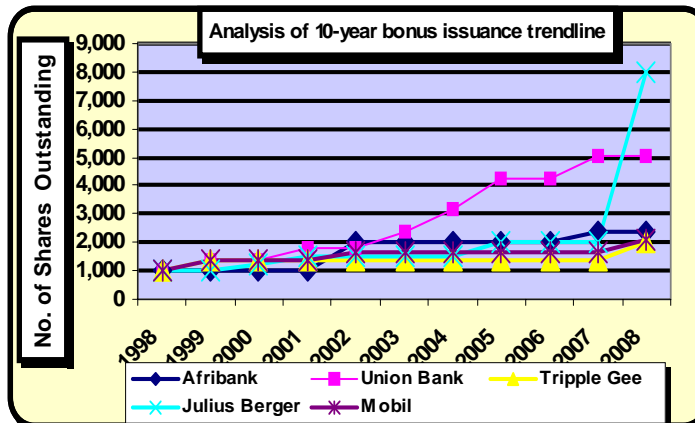
An investor would most likely say 'I have lost so much of my investments already, won't I be losing much more?' Yes, you would definitely lose more money if you are buying for short-term prospects. This is because the market is going through a correction which means the price depreciation is across board. No matter how discerning an investor you are, the possibility of picking stock with positive short-term prospects is slim. But if you are buying for long-term benefits the odds are higher for outstanding returns in future.

This long-term investment strategy otherwise called 'Buy and Hold' is a basic investing strategy where investors buy and hold a security for an extended period of time. The belief is that it is better to allow a security the opportunity to grow over time, versus attempting to trade in and out of a stock for quick gains. Buy and hold investors see stocks as investments and are not concerned with timing each move. The logic behind the strategy is that the economy will grow overtime and by avoiding selling during normal cyclical downturns such as this, the investor will ultimately be more successful over a multi-year time frame. There have been a number of studies done which show that over the long run, stocks outperform any other investment (real estate, bonds, etc.).

Our research shows that though the ASI has lost 27% since January 2008 and 3.09% since August 2007, it has gained 112%, 216% and 741% in three years, five years and 10 years respectively. This means that investors who invested in the stock market three years ago have gained 112% returns and those who invested five and ten years ago have gained 216% and 714% respectively on price appreciation alone.

However, it is not all investors who invested in the stock market within the same period that gained the same level of returns. Some gained less while others gained more depending on stock selection.

Selecting stocks for long-term investment should not be done on random selection or from sentiments but based on strong fundamentals such as healthy financial performance indicative by such ratios as Earnings Per Share (EPS), Price-Earnings Ratio (P/E Ratio). A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/



E, dividend per share and dividend yield, return on assets (ROA) as well as return on investment (ROI) among others also indicate the strength or weakness of company's fundamentals. Unless you are vast with company analysis, it is better to allow professional fund managers to advise you on these.

Other factors to consider before making long term investment include:

Strong management

Managing directors and chief executive officers come and go, but superior companies always seem to find strong management teams, people with the insight needed to make the right moves today and the vision to make plans for tomorrow.

Clear business philosophy

High-quality companies know their core mission, their customers and their industry. They then

incorporate all these factors into a clear business philosophy - one that can stand the tests of time.

Competitive products and services

The best companies know how to keep their products and services competitive, no matter what obstacles emerge over time - increased costs of raw materials, changing consumer tastes, etc.

Besides these, another key consideration for long term investments should be the bonus issue policy of such companies. Companies that issue bonuses more frequently are more likely to increase investors' fortunes over time faster than those who do not. For instance, First Bank has a robust bonus history. In the last 10 years, the bank issued bonuses consistently every year. If you bought 1,000 units of First Bank at N11.69 each in 1998 and have not sold since

then, you would have more than 12,000 units by the last bonus of 1 for 4 issued just this month. By the current market that translates to over 2400% appreciation.

The same 10-year analysis on Ashaka Cement amounts to 2,451% by the time next bonus of 1for 6 is given. Closure of register is August 25. Union Bank has yielded 2183.4% increase in 10 years while Oando, UBA, Nestle and Afribank have yielded 1,066%, 1,896%, 1,585% and 6,945% respectively within the same period.

The stock market as it today is a buyers' market. Long-term investors should seize this opportunity to increase their portfolio of stocks because the prices of most stocks are currently 15 times below their earning potentials.

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 scrip 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. Debentures are debt securities issued by companies to long time obligations. Debenture holders are creditors to these companies.

Rights Issue

Rights issues are exclusive to existing shareholders only. When a company wants to raise additional funds it gives existing shareholders the opportunity ahead of others, to buy new shares in proportion to their holdings usually at a concession price.