

## EXPERTS' QUOTE

**"You're neither right nor wrong because other people agree with you. You're right because your facts are right and your reasoning is right—and that's the only thing that makes you right."**

- Warren Buffett

## NSE at a glance (For week ended November 24th)

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



## Living with the bear market and preparing for the next bull market

Stock market investors are becoming more agitated by the day by the trend in the nation's stock market. Contrary to indications a fortnight that the market was picking up, the bears returned in full force after just a few days. No sooner had they started sighing for relief over the reversal of the bearish trend did it return full steam, indicating that better days were yet to come.

For seven trading days – November 6<sup>th</sup> and 17<sup>th</sup>, investors basked in the euphoria of a temporary bull rally, which reduced the market's total loss to 42.65% from the 49.15% lost between March 6 and November 5, 2008.

Due to the bull rally investors who hitherto were discouraged renewed their interest in the market and rushed in to take position in stocks they had previously, at even higher prices than they before.

The scenario above indicates that most Nigerian investors only try to predict the market, make short-term profits and disregarding the immense benefit of long-term investing. No doubt, investors have lost so much of their investments to the bear market. Depending on their portfolio mix, some investments are almost totally eroded. As a result, investors want to play safe by timing the market.

You cannot know when the bear market will end, but you should start preparing now for an upturn.

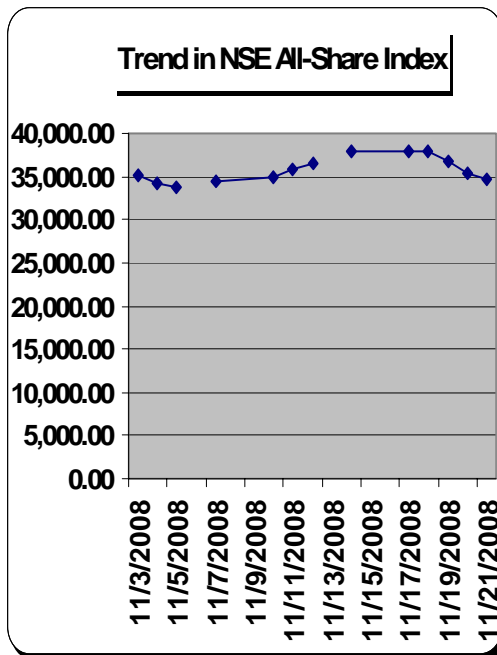
Believe it or not, someday, almost certainly within the next 6 months, the bear market will be over for good. Then investors will have an opportunity to rebuild their wealth if stocks come roaring back, as they typically do.

While there is no known strategy that can completely eliminate the risk factor in the stock market, some investing strategies can still be adopted by investors to maximize their gains while minimizing losses. Some of these include:

### Buying high yield shares

A high yield share is a share which pays a high dividend relative to its share price.

For those looking for some form of safety and security from their stock portfolio, dividend-paying



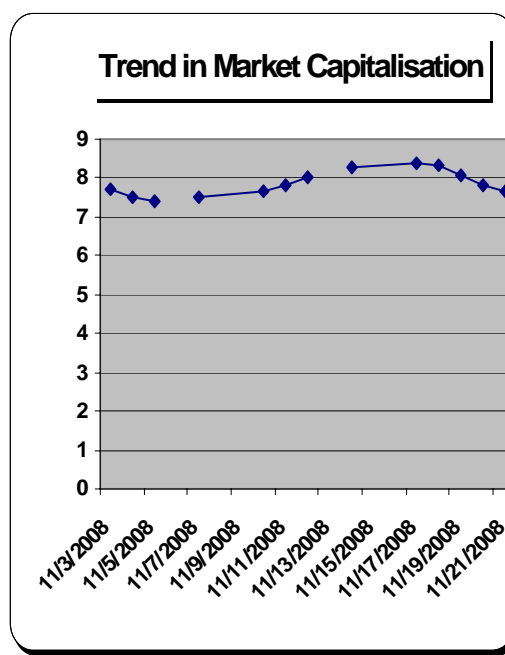
stocks remain attractive. Over time, dividend payers have historically outperformed other investments, with quite a bit less volatility — a win-win for investors.

The yield is calculated by dividing the annual dividend per share (DPS) by the current share price. So a company paying a dividend of 50 kobo per share on shares trading at N20 (2000 kobo) has a dividend yield of  $50/2000 = 2.5\%$ .

Other things being equal, you would prefer a high yield to a low yield share because you would be getting a higher income relative to the capital you have locked up in the shares.

Some high yield shares include Nestle, Guinness, most petroleum marketing stocks, some banks like First Bank, Union Bank, Zenith Bank among others.

In bull markets yields are largely ignored because investors tend to focus on capital



Investors must bear in mind that dividend could be reduced without warning. So, if you are buying a share solely on the basis of its income, you should look for a share with a yield that compensates for this extra uncertainty.

But when share prices are static, or falling, there is no capital appreciation, and dividends become a more important part of the 'net return': for instance, a share whose price falls -2%, and which has a 2% yield, produces a net return of 0%.

A share whose price falls -2%, but which has a 6% yield, produces a net return of 4%.

In bear markets, with share prices going down, the dividend yield can mean the difference between a negative net return and a positive one.

So should you pack your portfolio with high yield stocks then?

Not necessarily. High yielding stocks can be good bear market investments, but they can also be risky or deceptive. The high yield may mean that the company is paying out too high a proportion of its profits in dividends and at some point will need to cut the payment. If that happens, not only will your dividend income be lower than you expected, but the share price could drop through the floor.

So an important part of high yield investing is to make sure that the dividend implied by the current dividend yield is 'safe'.

### Dividend cover of more than 2

Dividend cover is a measure of how many times the dividend per share (DPS) is covered by earnings per share (EPS). Effectively, it tells you how easily the company can pay dividends out of its profits. All you do is divide EPS by DPS. So a company with an EPS of N10 and a DPS of N5

has a dividend cover of 2. As a rule of thumb, if the cover is 2 or more, and the company's profits are stable, the dividend is relatively safe.

However, investors must bear in mind that dividend could be reduced without warning. So, if you are buying a share solely on the basis of its income, you should look for a share with a yield that compensates for this extra uncertainty.

### Stable past profits, and no sharp reduction in profits expected in the future

If profits have been volatile in the past, or if you know they're likely to drop in the future, the dividend might be cut.

Currently, most companies' shares are trading below their fair value on the floor of the NSE, hence making them very cheap and attractive. Investors who are taking position now will reap bountifully in the future as companies are also releasing impressive results. We advise investors to go for equities with strong fundamentals, sound management team and good track records.

### Investing in stocks you know and can support

In a bull market it's possible to make money even if you invest in businesses you know nothing about and which you have not researched. Bear markets come down hard on such a casual approach.

As a general rule, it's sensible to invest in companies whose business model you understand. The added advantage is if you understand it, there's a good chance the management will tool in Warren Buffett's words: "You should invest in a business that even a fool can run, because someday a fool will"

Look for simple, understandable businesses whose sources of profit and revenue are clear, with brand names you know.

Look for shares whose businesses you can check out for yourself - by visiting their stores or consuming their products or services.

Look for companies whose accounts and accounting policies are clear and transparent.

Read a company's annual report and accounts before committing to it.

Avoid companies whose management remuneration is excessive relative to the profits the company makes.

When investing in smaller companies:

Look for companies whose senior managers have a significant proportion of their own money invested in the business (i.e. through direct shareholdings).

Look for companies with the solid backing of some large investors.

Look for businesses where any specialist knowledge you have enables you to understand them better.

Investing in this way is not about profiting from 'inside' information. Rather, it is about gaining an insight into what makes the company tick: whether the company is doing well; whether management is respected; whether the workforce is happy, and so on.

Using specialist knowledge to assess an investment has the drawback that you may be too close to an industry to be dispassionate about its prospects and market rating, but equally it can help you spot the good companies from the bad.

By investing with these strategies investors would not just minimize losses in the current bear run, but would also preserve their investment in order to benefit from the imminent bull market.

## INVESTORS' EDUCATION

### Common mistakes made by novice investors

Mistakes are a part of trading. Every trader makes them. But the most successful investors in the world—the ones who make huge profits every year—are the ones who make the least number of mistakes. The following is a list of common trading mistakes. Once you have learned to avoid these errors, you will expand your knowledge of the stock market and increase your chances of making more winning investments.

#### Lack of Knowledge and No Plan

It is amazing that some people expect to trade the stock market successfully without any effort. Yet if they want to take up golf, for example, they will happily take some lessons or at least read a book before heading out onto the course.

The stock market is not the place for the ill informed. However, learning what you need is straightforward – you just need someone to show you the way.

#### Unrealistic Expectations

Many investors expect to make big fortunes in one day. Though the stock market is a great way to increase your current income and create wealth but it require time.

Other beginners think that trading can be 100% accurate all the time. Of course, this is unrealistic.

#### Only Trading Market in One Direction

Most new traders only learn how to trade a rising market. Moreover, very few traders know good strategies for trading in a falling market.

If you do not learn to trade "both" sides of the market, you are drastically limiting the number of trades you can take. This limits the amount of money you can make. We can show you a simple strategy that allows you to profit when stocks fall.

#### Overtrading

Most new investors feel they have to be in the market all the time to make any real money so they see trading opportunities when they are not even there.

Overtrading is the cause of more losses than anything else in the stock market. The average investor does not know how much capital is required to make a success and he buys or sells more than he should. Therefore, as a result, they forced to get out of the market when their capital is nearly exhausted and probably misses opportunities for making profits.