

MARKET INSIGHT

EXPERTS' QUOTE

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

— Emmanuel Ugboh

NSE as a glance (For week ended August 25th)

Index:	44,357.01	-5.6%
Cap:	N9.04trn	-4.5%
Volume:	3.25 billion	+4.5%
Value:	N43.71bn	+14.5%

INVESTORS' EDUCATION

Picking a "good" stock

Everyone, it seems, is on the lookout for "hot" stocks. But is a hot stock really a smart investment choice? Not necessarily. Instead of spending time and effort trying to track down the "stock of the month," you'll be far better off looking for truly good stocks.

What's wrong with chasing a hot stock? For one thing, by the time you hear about a supposed sizzler, it may already be cooling off. And, just as important, a stock's price may have taken off for the wrong reason. Maybe the company's CEO was interviewed on a popular TV station or that some "expert" praised the stock in the papers. Or maybe the company is just part of a "hot" industry.

None of these factors can obscure the fact that a stock's popularity does not always correlate with its quality - and as a long-term investor, quality is extremely important to you.

Remember, you're not investing for today and tomorrow - you're investing for next year and next decade. Consequently, you'll want stocks whose growth potential looks strong for the foreseeable future.

Of course, there's no guarantee that even high quality stocks will ultimately live up to their expectations. No one can predict the fortunes of the market, much less the prospects for individual stocks. And yet, if you look at the track records of blue chip stocks - those companies with long histories of earnings growth and steadily rising stock prices - you will see some definite similarities.

What do these quality companies have in common? Here are a few things to consider:

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

- * Healthy financial fundamentals - Successful companies tend to have solid financial fundamentals. They don't let their debt load get out of hand, and their stock price is generally supported by good assets, earnings and sales.

Quality Endures...

More often than not, today's "hot" stocks are tomorrow's wistful memories. But quality companies keep plugging along - offering you solid investment opportunities for the long term.



What influences stock prices?

Investors always want stock prices to appreciate because this is one sure way of getting returns on their investments. But the Nigerian Stock market after a bear run spanning over one and a half years has now started an adjustment that led to investor's expectation not being met. As reflected by the Nigerian Stock Exchange (NSE) ASI, benchmark performance track for prices of equities, stock prices have declined by 23.2% across board between January 2 and August 21 2008, and 32.2% between March 5 and August 21 2008.

Investors are currently apprehensive about what could be responsible for this persistent fall in share prices and when the trend will change. Though we cannot provide clear cut answer about when the trend will change, we can give some perspective to what determines the direction of share prices.

Stock prices are determined in the marketplace, where sellers' supply meet buyers' demand. There is no clean equation that tells us exactly how a share price will behave, but we do know a few things about the forces that move a stock price up or down. These forces fall into three categories: fundamental factors, technical factors, and market sentiment.

Fundamental Factors

In an efficient market, share prices would be determined primarily by fundamentals, which, at the basic level, refer to a combination of two things: 1) An earnings base (EPS, for example) and 2) a valuation multiple (a P/E ratio, for example).

A shareholder has a claim on earnings, and earnings per share (EPS) is the owner's return on his or her investment. So, when you buy a stock you are purchasing a proportional share of an entire future stream of earnings, when companies record increased earnings and profit in their operations and this is passed down to shareholders in form of dividends. In addition to this, the company also capitalizes part of its reserved profit and distributes it to shareholders in form of bonus shares in proportion to unit of shares held by individual investors. Companies that frequently pay dividends and bonus often have their prices appreciating rapidly because many investors want to own such shares.

If this is what determines the direction of share prices shouldn't prices be moving up? Many companies quoted on the NSE have posted outstanding performances and the market awash with mouthwatering dividends and bonuses. For instance, First Bank paid N1.20 dividend per share and bonus of 1 for 4; Ashaka Cement N1.70 dividend per share and bonus of 1 for 8; Union Homes offered 1 for 4 and many others. So why are prices not picking up? That means fundamentals are not responsible for the market downturn.

Technical Factors

Things would be easier if only fundamental factors set stock prices. Technical factors are the mix of external conditions that alter the supply of and demand for a company's shares. Some of

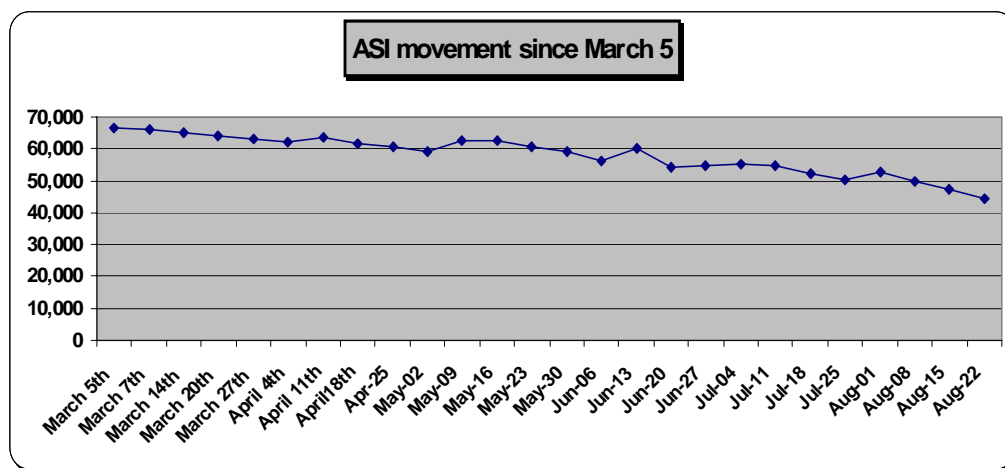
these indirectly affect fundamentals. For example, economic growth indirectly contributes to earnings growth. Some technical factors include the following:

Changes in government policies

The Nigerian Stock Market have witnessed some policy swings in last eight months capable of causing such extreme effect on share prices. These include the harmonization of banks' year-end, directive on margin trading facility by the Central Bank of Nigeria as well as a correction of market overvaluation (i.e., stocks were

people are buying a certain stock, the price drives up. If more people are selling, the price drives down. It is also very subjective, biased, and obstinate. This, we strongly believe is currently responsible for the downturn in stock prices.

For example, many investors made solid judgments about stocks' future growth prospects, and the projections have already been confirmed, but in the meantime the market is myopically dwelling on some pieces of news that kept stock prices artificially low. A lot of investors have been moving with the herd and



considered too expensive and needed to fall to more reasonable levels).

Economic strength of market and peers

Company stocks tend to track with the market and with their sector or industry peers. Some prominent investment firms argue that the combination of overall market and sector movements—as opposed to a company's individual performance—determines a majority of a stock's movement.

However, the harmonization of banks' year end and directive on bank facility for stock trading have been postponed and reserved respectively and it is expected that the stock prices should have reacted to the reversal and change the general trend. But the market is still undergoing market correction.

selling at losses even though they know they made very good selection of stocks in their portfolio.

The general trend of the stock market presently indicates that most stocks are stock under distribution and not accumulation. Available data show that though trading volumes have been increasing the share prices are moving in the opposite direction

Stocks, like any other commodity, responds to demand and supply hence the more investors continue to dump their shares the lower the prices of shares will fall and the value of investors' portfolio will continue to deplete.

Investors who seize this opportunity to increase their portfolio of stocks are buying into companies with very high prospects because

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Market Sentiment

The third factor that influences share prices is market sentiment, which refers to the psychology of market participants, individually and collectively. This is perhaps the most troublesome category because we know it matters critically yet very difficult to control. Market sentiment is basically people's emotions. If more

most stocks are currently 15 times below their earning potentials.

Investors who bought when the market was high should heed Warren Buffett's advice "As far as you are concerned, the stock market does not exist. Ignore it." Increase your portfolio with additional shares if you can or else face other investment options until the market picks up.