

"It is the part of a wise investor to keep himself today for tomorrow, and not venture all his eggs in one basket,"

-Miguel de Carvantes

NSE at a glance
(For week ended January 26th, 2009)

Index:	31,357.24	-2.04%
Cap:	N6.936trn	-2.04%
Volume:	191.9 m	+10.43%
Value:	N1.29bn	-14.8%



Leveraging Stock Volatility with Fixed Income Assets

Barely a year ago, suggestions about investment opportunities would have elicited very positive responses from a wide spectrum of individuals. However, same cannot be said today. As a result of the persistent stock market meltdown, most investors are currently showing such great aversion to investments in general and particularly investing in the stock market.

Even the most avid investor, who understands the dynamics of buying 'low' and selling 'high' are fast becoming wary of further investment.

Wendy J. Hackett-Dominguez, in explaining the psychology of investing said investors are ruled by three overriding behavior tendencies namely herd mentality, risk aversion and frame of reference, which becloud their good judgments when making investment decisions.

Herd Mentality

'Herd or bandwagon mentality', simply put, means doing something because every other person is doing it, sometimes against good judgment.

Research has suggested that "following the herd" on investment decisions has the potential to provide investors with many psychological benefits.

Herding reduces the time needed to properly analyze an investment decision. It can also help reduce feelings of regret if the investment choice was a bad one. Investors can find comfort knowing that they were not alone in their decision. Herding can also be a powerful tool in influencing market movements.

Risk Aversion

The reason investors tend to favor a sure thing over an alternate choice that has an equal or higher expected return can be described as being risk averse. The aversion investors have towards risk stems from two very different feelings: pride and remorse.

Pride is the pleasurable feeling investors have when investments do well. Remorse is the painful feeling investors have when their investments do poorly and they second guess themselves. Remorse tends to be felt more deeply than pride and so compels people to avoid situations in which the chances of their feeling remorseful are perceived to be high.

Investors may also perceive risk in situations they have not experienced before. Like the current stock market meltdown in Nigeria.

Frame of Reference

Another factor that affects investor decision making is the investor's particular frame of reference at the time of a decision. Research has shown that when asked to choose among two alternatives, people will reach opposite decisions based solely on their current situation. The two most common investor frames of reference are situations in which the investor is currently losing money or currently making money.

Needless to say, these behavioural patterns have been reflected in many Nigerian investors.

First, shortly after the decline began many individual investors who were not even compelled by banks to sell also joined the 'herd' and sold off their shares and bandwagon "sell propensity" resulted in massive price declines because stocks, like any other commodity, responds to demand and supply hence the more investors dumped their shares the lower the prices of shares continued to fall.

Secondly, the persistent bearish trend has forced highly risk-averse investors completely off the market, until the situation improves, because they don't know what the future holds. Naturally, the average investor being risk-averse would rather favour an asset whose price is going up over the asset whose price is falling because the former appears safer.

Average Deposit Rates of Banks in January

Savings A/C	3.4635%
Overnight	3.6118%
Strict Call	4.4167%
7 Days	6.0036%
30 Days	10.4583%
60 Days	10.8755%
90 Days	11.2438%
180 Days	10.4792%
270 Days	11.3125%
365 Days	10.8000%

Source: Money Market Association of Nigeria

Deposit Rates of DEAP Capital

60 Days	8%
90 Days	13%
120 Days	15%
180 Days	16%
365 Days	16.5%

“ Fund management products from licensed fund managers offer rates much higher than what's obtainable from banks ranging from minimum of 15% fixed return on investment and as much as 20% or more. The funds are utilized for investments in projects owned or managed on behalf of clients of the Fund Management Company. ”

Does that means investment should be discontinued until the stock market improves? Bear markets can be major distractions to the achievement of investment set targets. This is because most investors stop investing more money and concentrate on recouping what they have already invested by selling off their shares. This in effect messes up their investment plans in the long run.

An alternative recommendation is that of using fixed income investments along with equity investments in order to smoothen overall portfolio return.

Traditionally, investors, especially younger ones, often have less of fixed income investments in their portfolios because of lower rate of returns compared to stocks.

While we would not recommend that all investors sell off their equities to buy fixed income assets, we would caution against those who hold back from this asset class because of perceived lower return on investment when compared with stocks. Sensible investing is mainly about striking a balance between volatility and enhancing long term returns.

Opportunities for Fixed Income Investment in Nigeria

Though fixed income investment are mostly issued by governments, some corporate organizations have developed funds which have either fixed return or guaranteed minimum return. These include Corporate Bonds of Tripple 'A' companies. In the Nigerian financial system, fixed income instruments are not popular. This is because bank deposits are best-known financial products that have long dominated the financial market. Bank deposits

Essentials of getting started on stock investing

The stock market holds abundant potential for wealth creation for those who get involved. However, not all who would like to get involved eventually do so. This is because many of them are often intimidated by the market because they don't understand it.

The aim of this segment is to help potential investors understand how the market operates to enable them get actively involved.

Here are step by step guidelines to follow if you want to buy or sell shares on the Nigerian Stock Exchange (NSE).

First you need to have a Central Securities Clearing System (CSCS) account. This will be opened for you by your stockbroker.

Who is stockbroker?

A stockbroker is a dealing member of the Stock Exchange licensed after due process, which buys and sells securities on behalf of investors for a commission called "brokerage". The commission charged is regulated by the Stock Exchange. Stockbrokers provide personalized services.

however have lower yield compared to fixed income instruments.

Fixed income funds that give higher returns than money market deposits in the Nigerian Market at the present time include fund management products of Fund Managers such as DEAP Capital Management and Trust plc, and others, which are sold on request to private clients.

Data provided by Money Market Association of Nigeria (MMAN) indicates average interest rates offered by banks as follows:

Savings: A/C:3.4635%; Overnight: 3.6118%; Strict Call: 4.4167%; 7 Days: 6.0036%; 30 Days: 10.4583%; 60 Days: 10.8755%; 90 Days: 11.2438%; 180 days: 10.4792%; 270 Days: 11.3125%; 365 Days: 10.8000%.

On the other hand, fund management products from licensed fund managers offer rates much higher than what's obtainable from banks ranging from minimum of 15% fixed return on investment and as much as 20% or more. The funds are utilized for investments in projects owned or managed on behalf of clients of the Fund Management Company.

Benefits of Fixed Income Investments

Reduced Risk– Fixed income investments help to reduce the overall risk of your investment portfolio. Depending on the issuer, they can provide a guaranteed fixed return when held to maturity and are a source of stable cash flow. An active investor who currently owns stocks or equity or mutual funds, can add stability to the value of his/her portfolio by including fixed income investments because of the potential return they provided.

Regular Income - Fixed income investments provide a stable and regular stream of income.

Diversification- Fixed income investments are essential to the performance of an individual investor's portfolio.

Flexibility - Fixed Income Funds also allow for easy entry and exit, though in some cases redemption earlier than stipulated period may attract lesser or no return.

Planning – The stable nature of fixed income investing allows for easy planning and budgeting

Stable Net-worth – Fixed income investments help stabilizes an individual's net-worth unlike stock investments which is capable of wide fluctuations.

The stockbroker will at the same time open a shares account for you.

As soon as you are ready to commence buying shares, you pay money into that trading account and instruct your stockbroker in writing what he should buy for you. The shares would be bought and your CSCS account would be credited and your trading account debited.

If you want to sell, you will also place a sell mandate with your stockbroker.

All payments, purchases and sales of shares are processed on your account. You can request for a printout of your statement to ascertain the status of your account at will.

To transfer shares from certificate to CSCS account (Dematerialization)

Shares still held in certificate form cannot be sold as it is. It must first be dematerialized. To do this, give certificate to your Stockbroker along with a signed transfer form. The certificate will be forwarded to the company's registrar for the verification of your signature. If all is well, the registrar will forward the verified certificate to the Central Securities Clearing System (CSCS).