EXPERTS' QUOTE

"Investors must keep in mind that there's a difference between a good company and a good stock. After all, you can buy a good car but pay too much for it."

- Richard Thaler

NSE at a glance
(For week ended October 27th)

Index:	44,380.96	-2.91%
Cap:	N9.45trn	- 2.9%
Volume:	2.03 billion	+176.2%
Value:	N13.0bn	+261%

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Financial information: Public in, profits out? This is the real heart of the matter. Financial statements are the medium by which a company discloses information concerning its financial performance. Followers of fundamental analysis use the quantitative information gleaned from financial statements to make investment decisions.

Analysing and assessing financial data enables you find out the company's share worth, financial strength and the quality of its management. The findings will give you an indication of whether or not it is wise to put your money into the company. The Financial Information section is a key part of the Prospectus and is divided generally into historical financial information and future financial forecast.

Historical Financial Information

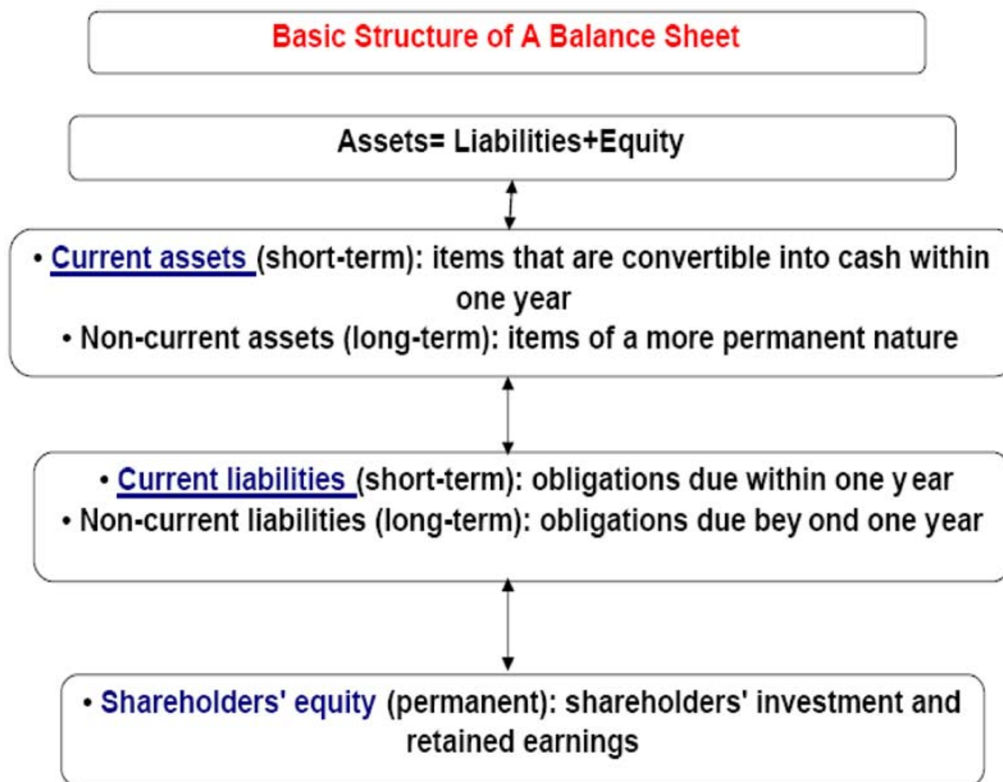
Historical financial information usually comprises a summary of the audited balance sheet and profit and loss account of the company as extracted from the Accountant's Report in the appendices of the prospectus. For some businesses, information on cashflows may be required. Disclosure of historical financial information would usually be for the past five financial years. You should try to spot any weaknesses in the past financial performance as this may have an effect on future performance. The company is obliged to disclose any past trend or special circumstances that may distort figures for a particular financial year, with an explanation as to the reasons.

The massive amount of numbers in a company's financial statements can be bewildering and intimidating to many investors. On the other hand, if you know how to analyze them, the financial statements are a gold mine of information.

Before we jump into the specifics of the three most important financial statements - balance sheets, income statements and cash flow statements - we will briefly introduce each financial statement's specific function, along with where they can be found.

The Balance Sheet

A company's balance sheet is comprised of assets, liabilities and equity. Assets represent things of value that a company owns and has in its possession or something that will be received and can be measured objectively. Liabilities are what a company owes to others - creditors, suppliers, tax authorities, employees etc. They are obligations that must be paid under certain conditions and periods. A company's equity represents retained earnings and funds contributed by its shareholders, who accept the uncertainty that comes with ownership risk in exchange for what they hope will be a good return on their investment.



> "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."

The Income Statement

While the balance sheet takes a snapshot approach in examining a business, the income statement measures a company's performance over a specific period. Technically, you could have a balance sheet for a month or even a day, but you will only see public companies' report quarterly and annually.

The income statement presents information about revenues, expenses and profit that was generated because of the business' operations for that period.

Statement of Cash Flows

The statement of cash flows represents a record of a business' cash inflows and outflows over a period. Typically, a statement of cash flows focuses on the following cash-related activities:

Operating Cash Flow: Cash generated from day-to-day business operations.

Cash from investing: Cash used for investing in assets, as well as the proceeds from the sale of other businesses, equipment or long-term assets.

Cash from financing: Cash paid or received from the issuing and borrowing of funds.

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 put pressure on his accountants can do to boost earnings, but it is tough to fake cash in the bank. For this reason, some investors use the cash flow statement as a more conservative measure of a company's performance.

1. **The Balance Sheet**

The relationship of these items is expressed in the fundamental balance sheet equation:

Assets = Liabilities + Equity

The meaning of this equation is important. Generally, sales growth, whether rapid or slow, dictates a larger asset base - higher levels of inventory, receivables and fixed assets (plant, property and equipment). As a company's assets grow its liabilities and/or equity also tends to grow in order for its financial position to stay in balance.

When analyzing the company balance sheet some of the following indicators or ratios would help indicate the true financial health of the company.

i. Current Ratio

Current Ratio is a liquidity ratio that measures a company's ability to pay short-term obligations.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Also known as "liquidity ratio", "cash asset ratio" and "cash ratio".

The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1.0 suggests that the company would be unable to pay off its obligations if they came due at that point. While this shows the company is not in good financial health, it does not necessarily mean that it will go bankrupt - as there are many ways to access financing - but it is definitely not a good sign.

ii. **Quick Ratio**

The quick ratio – also known as the quick assets ratio or the acid-test ratio - is a liquidity indicator that further refines the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities. The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. Therefore, a higher ratio means a more liquid current position.

Formula:

$$\text{Quick Ratio} = \frac{\text{Cash \& Equivalents + Short-term Investments + Accounts Receivable}}{\text{Current Liabilities}}$$

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INVESTORS' EDUCATION

Investment Considerations in a Bear Market

The idea of investing is to make your money grow, but there are times when the stock market does not want cooperate. Regular market fluctuations are common and expected, but extended periods of decline can strike fear in even seasoned investors. These bear markets can last months or even years. So, what should you do when faced with a bear market?

Examine Your Investment Objective

The first thing anyone should do before making changes to their portfolio is to think about what the purpose of the investment is. Is it money for retirement? College savings? A down payment on a house? Each of these investment goals have to be treated differently, and you need take into account what the money is going to be used for before you can decide if any changes need to be made.

The investment objective is important because it primarily deals with a specific time horizon. If you are 35 years old and saving for retirement, you know that your money has a few decades left to grow. On the other hand, if you are 35 and preparing to send your child off to college in 8 years, that is a completely different scenario.

Consider Your Risk Tolerance

Most people make changes to their investments because of losses. When you begin to see your account drop in value, it is only natural to want to stop this from happening. Unfortunately, this type of behavior is reactionary, and it can often do more harm than good.

If the idea of seeing a loss on your statement has you feeling uneasy and ready to make changes, then chances are you are taking on more risk than you should be. You should be allocating your investments in a way that minimizes risk, maximizes returns, and allows you to sleep at night regardless of what the market is doing. If you are losing sleep because of a few bad days in the market, it is time to reconsider how much risk you are willing to take.

Do not Chase the Market

You have probably heard the saying "buy low and sell high" many times, and we all know that is how you make money, but the reality is that most people do just the opposite. The average investor will happily put more and more money into the market, and take on more risk when the market and economy is strong, and pull back or stop investing at all when the markets are heading south.