

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 at a glance (For week ended September 29th)		
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.



Managing your own investments in a declining market

Maybe you dabble in stocks by reading the business section of newspapers. Then you began managing some or all of your own capital through a brokerage account on your own. Is this a wise move? Here are some questions to ask yourself before making that very important decision.

Do you have an intellectual framework for investing?

Before you have time to think about it, grab a piece of paper and write down the investment principles by which you operate your portfolio and the characteristics you look for in the stocks you buy.

What is the point of this exercise? If you had to think about your answer, you may be making a mistake by managing your own investments. It may indicate that you lack a structural framework that allows you to remain emotionally detached from your investments - a detachment that is vital if you are to make intelligent decisions based upon rational analysis of a business rather than emotional reactions to market changes in market prices.

On the other hand, if you are truly an investor this exercise should take no effort or time. That is because you think from a business perspective - "I'm aware that stocks with certain characteristics such as low price to earnings ratios, low price to book values, high returns on tangible capital, low debt to equity ratios, and stable dividend policies have tended to outperform the market over long periods. These things, among others, are what I search for when I seek out potential new investments. The list may vary by your specialty and area of interest - turnarounds, startups, oil companies, etc.

Can you value the cash flows?

A business is only worth the cash flows that it will generate. Without the ability to arrive at an independent, reasonable valuation, you can find yourself vulnerable to some issuers who simply push seemingly attractive (often high-priced) initial public offerings or the like, but which would take a long time for the amount invested to be reaped.

Can you spot aggressive accounting?

Many new investors do not realize that the forecast net income and earnings per share in a company's annual report are, at best, a rough estimate. That's because even the simplest business with the cleanest balance sheet has numerous estimations and assumptions that management must make - the appropriate rate of depreciation on buildings and machinery, the estimated level of product returns, future returns on assets ... and that's just a few of the most obvious examples!

An investor would need expert advise before committing his resources to a company he barely knows. The views of the Reporting Accounts on the forecast, the adjustment recommended by them on the audited accounts, as well as the reputation of the Auditors of the company are key factors to be considered in the investment decision making. Knowing how to spot these is vital to protecting yourself. Again, if you cannot do it, you should not be investing your own capital without the assistance of a qualified professional.

Do You Understand the Fundamental Business?

You might be surprised how few people actually know how their company makes money. Coca-Cola, for example, does not generate most of its profit from selling the drink you pick up in



the stores. Instead, it sells concentrated syrups to bottlers throughout the world who then create the finished beverages and sell them to retailers. It is likely that many Enron investors did not understand how the company made money, hence they invested solely on the basis of the demand and supply situations of the stock in the market.

How much understanding you have about market risk?

How many stocks does it take to be diversified? Which portfolio, for example, do you consider more diversified? "Portfolio A" which has ten total stocks consisting of five banks, three insurance companies, and two manufacturing stocks or "Portfolio B" with five

while the banks and insurance companies have had a free fall.

Are you emotionally vulnerable to changes in market price?

Warren Buffett has often mused on the fact that stocks are the one thing that people want

fewer of when they get cheaper. In every other areas of our life, we typically rejoice when there is a slash in price whether it is on silk ties, cosmetics or automobiles. As equities get less expensive, however, we typically flee from them often saying things such as, "I'll wait till the price stabilizes and starts to rise again." If you are unable to watch your holdings fall by fifty percent or more without panicking or liquidating your positions, you should not be managing your own investments without professional help. The fact is that for an individual investor, money invested in stocks is what the investor is willing to lose if the need arises. It therefore makes little sense to borrow huge sums of money from a bank to invest in stocks in an upmarket. The banks are

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assets consisting of one bank, one industrial giant, one oil company, and one mutual fund, one real estate investment trust

In this case, the surprising answer (to new investors) is that you are probably more diversified owning five non-correlated stocks than twice as many equities in similar industries. That is because when troubles come, they often affect an entire sector of the market, the same way but between sectors, the impact varies. Since the market mettle down in Nigeria, the petroleum stocks have been maintaining their prices or even improving

willing to lend when the market is bullish but would force their borrowers to sell when the market is down. Such transaction is therefore doomed to fail as has happened to most margin account borrowers in the last few months. It is this panic selling that has held market hostage and even when measures have been taken to lift the market by the Regulatory Authorities and the Government, the impact is not been felt.

If your response to most of the questions raised above where negative then you have no business managing your investment without professional help.