Standard Bank Online Share Trading

Starting on the JSE

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What is the JSE?

The Johannesburg Securities Exchange (www.jse.co.za) is a controlled and regulated platform for the trading of shares in companies that have listed on the JSE. It enables ease of trade in the companies listed on the JSE and ensures that these companies operate within certain rules and regulations.

In short it offers and easy route for trading the top companies within South Africa with protection for the investor.

Why list on the JSE?

When company A need money to expand, pay off debt or the like they can list on the JSE (assuming the meet the requirements). Lets say company A sells bottled water and the company is assessed as worth R1million. They issue a pre-listing statement detailing all the required information saying that they will sell 2million shares at R1 each.

So when they list on the exchange they receive the R2million into the company and the buyers of the shares receive the 2million shares. Because the company was initially worth R1million the previous owners receive 1million shares to split up between them.

The end result is 3million shares to trade on the JSE, each worth R1 = R3million = the new value of the company (previous R1million value + R2million cash received for shares). Note that the previous owners no longer have the majority of shares in the company.

The R2million paid by the new shareowners goes into the companies bank account enabling them to build a new bottling plant or any other use they may have for the cash.

So now the shares will trade on the JSE and anybody can buy and sell them. If investors believe that bottled water is the future and sales will increase they will be prepared to pay more then R1 per share and so over time the price will increase.

Lets say after a year sales in company A have doubled and the share price is now R2.50.

Importantly the share price is not linked directly to the value of the company any more; rather the share price reflects the perceived future value of the company. This is the crux of the price of a share trading on the JSE, the value of that share is not directly related to the value of the company. Rather it is linked to perceptions about the value (and future value) of the company and even more importantly the price is set by what a person is prepared to pay.

Are you already invested on the JSE?

If you have any of the following investments then you already have investments on the JSE (albeit not directly managed by yourself);

- Unit trusts
- Pension funds
- Retirement annuity
- Exchange Traded Fund
- Old Mutual or Sanlam shares
- Telkom shares

Why trade on the JSE?

In a word, better returns.

But be warned that higher returns WILL ALWAYS result in higher risk, you cannot increase returns without increasing risk.

It is also important to stress that many people who actively trade on the JSE lose money and there are many arguments that suggest a buy and hold strategy is the best route to future wealth, rather then regularly buying and selling.

The chart below shows the JSE overall index since 1986 (and there have been tough years but still the long term return has been great out performing both inflation and the risk free bank rate).

Hours of business

Trading on the JSE starts at 9am every week day morning (excluding public holidays) and closes at 5pm. Note that the closing auction starts at 4.50pm and trading does not happen during that period.

What drives a share price?

In a word – psychology. For a share to trade we have an agreement on price and a disagreement on value. The seller thinks the share is expensive whilst the buyer thinks it is cheap.

No market operates in a vacuum. In our global Internet type world everything has some level of effect on everything else. So an earthquake in Japan will have a negative effect on local markets. Markets respond with speed and no predictability to rumours of war, slips of the tongue, Presidential aches and pains, the vagaries of El Nino, and the almost mystical sway of public sentiment and opinion.

Whichever way the wind blows, prices can rise as quickly as they fall, confounding the best-laid plans of some industries while rescuing others from the brink of disaster. These random forces - the "Great Unknowns" - combine with the everyday laws of supply and demand, and the cyclical nature of business itself, to shape the peaks and valleys of a dynamically shifting market.

You may not be able to predict these forces, but by analysing and understanding them, you will be better equipped to weather the lows as you wait for the tide of fortune to turn.

The bottom line here is that if there are more buyers then sellers of a share the price will rise and the opposite is equally true. There will be more buyers if the company's future is perceived as rosy and more sellers if that future is deemed as gloomy.

Risks

Despite the JSE's proven rate of inflation-beating returns in the long term, it's important to remember that companies can fail, markets can collapse, and prices can plummet as well as soar. Your best defence against the shifting tides of fortune is a combination of prudence, patience, and planning.

Before you venture into the market, take careful stock of your means and motives. Do you want to invest for your own retirement? For your children's education? For a holiday to Mauritius? Is income a priority, or are you looking for long-term capital growth?

Now take a look at your personal risk profile. How much can you safely afford to lose in the event of a stock market crash or correction? How long will you be prepared to wait for the market to stabilise, and will you have the courage and foresight to continue investing when prices are at their lowest ebb? Your honest answers will determine the extent of your capacity to balance risk with reward.

Either way, the golden rule is to invest only as much as you can comfortably afford after meeting your personal and household expenses. Use this "disposable income" to build yourself a choice portfolio of stocks, and you could have a lot more income to dispose of once those dividend cheques start arriving.

There are many different ways to reduce the risks of trading on the JSE and some are listed below;

- Trade only large cap companies
- Trade blue chip companies
- Trade for the long term
- Reduce the number of trades in any given year
- Buy the index (via ETF)
- Buy blue chip companies when they have high dividend yields

The language of the stock market

Like most professions the stocks market has a language all of it's own and at the end of these notes we provide the link to the JSE detailed glossary. Here we're running through a few important words.

- **Bull or bear** – A bear market is a falling market whilst a bull market is a rising market
- **Short, medium & long term**. These phrases are also bandied around but what is long or short? Well the bottom line is the answer is different for everybody. An aggressive option trader would consider a couple of hours as short term and a few weeks as long term. That said my general view is that short term is anything less then one year. Medium term is one to three (or five) years whilst long term is anything longer.
- **Trader or investor**. A trader takes short-term positions and can be considered to be trading for income. An investor generally takes medium to long-term position and generally is investing for capital growth.
- **Share, stock, equity, script**. All the same thing.
- **Dividend**, cash paid out from the company profits and paid every six months from profits – if at all. More of this later in the notes. Note that dividends are tax free.
- **Initial Public Offering (IPO).** This is the process that a company under goes when it wants to list on the JSE and will lead to the eventual listing.
- **Trading statement.** When profits are expected to be better or worse then expected or the previous period the company will issue one via SENS (more on SENS later).
- **Broker**, the person who you will call to do a trade for you
- **Brokerage**, thewhat you pay to the broker when you buy or sell shares
- **BDA**, Brokers Dealing Account system. The back office name for your brokerage account.
- **Interim results**, the half year results
- **Final results**, end of the financial year results
- **Bid** = a bid to buy share
- **Offer** = an offer to sell shares
- **Best offer/bid**. The best price that you can buy or sell a share at.
- **Mandate** – instructions for money that is to be managed. If you give a broker money to invest on your behalf you will give them a mandate as to what style of investing you want (high risk, income, growth etc.).
- **Blue chip**, the best quality companies
- **Market cap,** the value of the company on the JSE. Numbers of shares multiplied by the current share price.

ALTx

ALTx is the alternative exchange attached to the JSE and is intended for smaller companies. You can trade these stocks as you would any other but some caution here.

These are smaller and newer companies with smaller income/profits, they have not been around for very long (in most instances) and the listing requirements are less strict.

So in other words your risk here is increased, sure those stocks that do manage to do well will one day migrate to the main board offering great profits – but many may not.

It is worth having some investment in stocks trading on ALTx but as a percentage of the whole it should be small and even within that small amount it needs to be spread across a few companies.

The reality here is that those that do manage to survive grow and eventually move to the main board will offer great returns and they migrate from small start up to establish company. But for every one that succeeds one should expect a number to fail.

So select your stocks here very very carefully.

www.altx.co.za

How to trade?

In short you need to do all trades on the JSE via a registered stockbroker. In order to buy or sell a share you will need to contact your broker telling them what company you wish to buy or sell, at what price and how many shares. Importantly you will need to have enough cash in your brokerage account in order to do the trade.

Further there are other costs apart from just the cost of the shares; these are brokerage fees and taxes.

The costs involved are;

- Brokerage – 0.8% or R110.00 (whichever is greater) and this cost is worked from the direct costs of the shares you are selling or buying (this is before vat)
- Strate - R12.45 including vat if below R200k, otherwise 0.006223%
- Uncertificated Securities Tax (UST) - 0.25% on the buy side only
- Insider trading levy – 0.0007%
- Holding fees – a monthly cost of R47.50 (ex vat). This fee is wavered if one does more then three trades in a month and R10 of this amount is returned to you in the form of live prices. The fee is also for the safe custody of your shares.
- Telephone trades will attract a extra fee of R25 if you trade matches as a result of a phoned in trade.

It is important that you know the share you want to buy, the price and how many you want (can afford).

In the case of selling a share you have to own it before you can sell it.

In the case of buying a share you have to have the required amount of CASH in your brokerage account in order to make the purchase.

Lastly when doing a trade (especially when online) you need to select if the trade is valid for just that day or until cancelled at a later stage (usually one month). Leaving buying orders on the market for protracted periods of time is risky whilst leaving sell order for a long time often makes good sense.

All trades are done in cents.

What shares to buy?

This is the HUGE question. But first one needs to access your goals (why are you trading), how much time you have.

If you're looking to merely get a better return then a bank account then Satrix is for you. If you want returns of around 20% per year then you're going to have to actively manage your shares (or even unit trusts).

Alternatively you could get a broker to trade on your behalf, but they will not really be interested if you have less then R100k.

But lets assume that you've decided that you do want to trade your own account on the JSE, how do you know what to buy?

There are many ways to decide on what to buy;

- Your own fundamental analysis
- Charting
- Tips (either subscribed or via publications such as Finance Week)
- An investor group
- Your broker reports
- Forums for testing ideas/theory

The bottom line here is that if you decide to invest for yourself you are 100% for any profits/losses. Somebody else may give advice but if you accept that advice then you are on your own.

Dual listed shares

It also worth remembering that a number of our larger companies are also listed on foreign stock exchanges, some of them are;

London Stock Exchange
Anglo
BHPBilliton
Old Mutual
Investec
Didata

New York Stock Exchange (ADR's)
Sasol
Durban Deep
Telkom
Goldfields

Europe
Richemont

Australian Stock Exchange
BHPBilliton

What one has to remember here is that these companies will also be influenced by the overall perceptions of the other exchanges they are listed on. If for example the London Stock Exchange is falling Anglo will be under pressure (and moving weaker) on the JSE even if we're having a good day.

The reason behind dual listings many fold;

- Primarily as the JSE is an emerging market and hence priced accordingly so a move to a larger international exchange can increase awareness of a company but also can increase the perception as it moves to a larger exchange.
- Cheaper capital internationally
- Result of mergers or takeovers (eg: BHPBilliton)
- International status

Dividends

Companies that are making a profit will return some of this profit to the owners of the company – the shareholders. As a rule every six-months when they release their results they will also announce a dividend payment.

Smaller companies may not pay dividends whilst the larger companies will generally return an amount equal to around 1% - 5% of the current share price per year.

This payment is tax free in your hands as it is taxed at source (Secondary Tax on Companies – STC, rate is 12.5%). Further the amount announced by the company will already be after tax.

There are a three important dates regarding dividend payments;

- Last day to register –you have to own the shares on the close of trading on this day. If you do own the shares at the close of business on this date you will receive the dividend regardless of whether you sell the shares later or not
- Ex-dividend date – this is the date after the last day to register. The cash will be paid directly into your brokerage account. As a rule the share will fall by the cash amount paid out.
- Payment date. If you held the share on the last day to register you will receive the dividend in your brokerage account on this day (or maybe a day or two later).

Some companies will offer extra shares in the company rather then a cash dividend and the dates as above still apply and the new shares will also be transferred directly into your brokerage account.

Importantly a dividend is not something a company HAS to do.

Special dividend, sometimes a company will have a surplus of cash and rather then use it to invest in the business they will essentially give it back to share holders as a special dividend. This operates in the same manner as a normal dividend.

Dividend yield is for many an important measure of a company (especially those buy shares for income purposes). Dividend yield is the company share price divided by the annual dividend amount and expressed as a percentage. The average dividend yield of the Top 40 is around 2.5%. So in other words the Top 40 shares pay back 2.5% of their value to share holders.

Indices

An index is a great tool for bench marking how the overall market or specific sector is doing and further you're also able to bench mark your own investments against the index.

In short an index is the averaged move/price of a group of stocks listed on the JSE.

For example the Top 40 index covers the 40 largest stocks on the JSE. The Overall includes all stocks on the JSE. Other examples are retailers; this will be an index composed of retailers listed on the JSE.

http://ftse.jse.co.za/

Further some of the main indices can be traded directly via Exchange Traded Funds (more on these later).

Within each index certain stocks will have more clout as they have a larger value and also taken into account is how much of the company can be traded freely on the JSE.

In other words in the case of Angloplat Anglo owns some 88% and that 88% of the shares is not freely traded so the weighting of Angloplat is hence reduced.

Further in the case of the Top 40 index Anglo and BHPBilliton account for around 30% of the entire index with the other 38 shares accounting for the remaining 70%.

Unit Trusts

A unit trust is getting another company to manage your (and others) money trading in local and international markets, bonds, currencies etc.

What happens is that by pooling all the many investors' monies together the unit trust is able to spread the risk across many stocks, sectors and countries.

The attraction here is that you can use unit trusts to invest directly in the JSE with smaller amounts of money. Monthly amounts from as little as R250 and lump sum amounts from R1,000.00.

Further you can buy unit trusts that invest in a certain market sector. So if you think that the IT sector is about to boom you can buy an IT unit trust that will invest exclusively within that sector of the market.

You also get income producing funds, low to high-risk funds, general funds, international funds etc.

The problem is selecting the correct unit trust and here one has to remember that last year's winner may well not be today's winner and locally we have hundreds of unit trusts.

We'd suggest getting some good advice (www.equinox.co.za) and deciding who the good managers are (such as Allan Grey) as well as deciding what sectors you want to be invested in.

Remember a unit trust is still a long-term investment due to the high costs (up front commission and annual management fees). Typical entry and exit fees are 5.7% for unit trusts compared to brokerage of 0.8%

NOTE – In the USA unit trusts are called mutual funds.

Property on the JSE

There are three different styles of property stocks on the JSE, Property Unit Trusts (PUTS), Property Loan Stocks (PLS) and Listed Property Companies (LPC). Largely they are the same as they have commercial and retail properties as their assets but there are some distinct difference and some tax implications.

Importantly property stocks (of any type) are primarily owned for income as an owner of a property stock you share in the income earned (less expenses) from the property equity. That said one could also get the capital growth from increases in the share price.

We like the concept and whilst most people are streaming into the residential property market a property stock on the JSE can deliver great returns. Further they are potentially significantly less risky then directly investing in the residential market for a few reasons;

- Smaller investment required
- Lower costs as you pay normal JSE costs
- Spread of risk across a number of property assets
- Professional managed by the property company
- Better liquidity, that is ease of buying selling
- Incorporated by either the unit trust or companies act laws

Another point with property stocks is that they usually trade at around their net asset value (NAV) albeit lately they are trading at a premium to the NAV. The issue here is how does the property stock determine the NAV as firstly property values are to some degree subjective and secondly when last was the NAV of all the properties updated?

Property Unit Trusts (PUTS)

These are essentially unit trusts with one major difference – they trade on the JSE like any other share but they are subject to the rules and regulations that apply to unit trusts.

By law all income less direct expenses must be paid out to investors of the PUTs, **but these payouts are not considered dividends and are hence taxed as interest**.

PUTS can borrow up to 30% of their market values and can only invest in fixed property.

The three largest PUTS are Grayprop, Martprop and Sycom.

The PUTS industry is developing a website of their own and you'll find it at www.puts.co.za

Property Loan Stocks (PLS)

These were introduced in the 80's as initially PUTS could not borrow and hence PLS were introduced to enable loans for property funds. This difference no longer really applies but the two different stock types still exist. They are regulated by the companies act and the JSE acting like any other JSE listed stock except that they only invest in fixed property.

The major difference between a PLS and a PUT is that a PLS you're actually buying a linked unit that consists of a share and a loan. Hence distributions are in part interest on the loan part and then profits from the activity of the PLS. These distributions are in some cases paid out quarterly but mostly every six month.

Once again any distribution are considered to be interest receipts and hence taxed as interest by SARS.

The three largest PLS are Growthpoint, ApexHi and Pangbourne.

Listed Property Companies (LPC)
Although LPC have a strong bias to investing in fixed property they are not legally bound to so they can buy any other shares or assets, but then they run the risk of losing their LPC status if they move to far away from property ownership.

Further unlike PUTS and PLS they do not have to pay out all income less costs on the form of distributions and any distributions are **considered dividends and hence tax free in the hands of the investor**.

The last point is that they are also subject to JSE rules and the companies act.

The best example of a LPC is Liberty International who owns a number of retail and commercial properties in the USA and UK.

Exchange Traded Funds (ETF)
A great product and locally we have four.

What they are is essentially a share that rather then representing a company represents a number of underlying shares. In short a sort of unit trust but with a tight mandate and trading on the JSE and hence cheaper and easier to buy/sell.

The companies who manage the ETF have a mandate that will set out what they are to buy. In the case of Satrix40 they use all incoming cash to buy the shares in the Top40 index within the weightings that the shares have within the Top40.

One of the great things about these EFT products is that they have a market maker. That is a company (or company's) that are always buying and selling the product at fair value. So if you're buying or selling you're always doing so at the best price.

Satrix
Satrix issue three (Satrix 40, Satrix-Fini & Satrix-Indi).

In the example of Satrix 40 (JSE code STX40). It tracks the Top 40 index trading at R1.00 per 1,000 points on the index so with the Top 40 index at 10,600 points the Satrix 40 is trading at 1060c and will rise (or fall) 1c for every 10 point move on the index. The Satrix40 includes all the Top 40 stocks in the same ratio that they appear in the index and the managers of the Satrix40 are always buying the 40 shares that make up the index so that your Satrix40 shares are 100% backed by the actual underlying shares.

The Satrix-Fini (JSE code STXFIN) tracks the Fini-15 index (top 15 financial stocks).

The Satrix-Indi (JSE code STXIND) tracks the Indi-25 index (the top 25 industrial stocks).

So what the three Satrix products do is enable an easy and cheap entry into buying an index and hence reducing your risk while still able to get great returns that out perform inflation and risk free bank rate.

These Satrix product DO pay dividends twice per year, as they receive dividends they keep them to one side until the bi-annual payouts.

You can buy them via a broker on the JSE just as you would buy a stock.

New Rand
The fourth ETF is the New Rand (JSE code NRD) product from ABSA. It includes ten Rand hedged stocks in equal parts the ten being Anglo Platinum, Anglo American, BHP Billiton, Barloworld, Goldfields, Harmony, Impala, Iscor, Sappi and Sasol (as at end September 2004).

It is designed to track the Rand and move higher as the Rand weakens but it is far from a perfect science and doesn't really work. A warning here is that the ten stocks may be changed every quarter.

NewGold
NewGold (JSE code GLD) is the latest ETF on the JSE and in sense not a true ETF.

What NewGold does is track the Rand gold price and enables one to buy gold in quantities of one hundredth of an oz. In the past one could only buy gold via Kruger Rands and this new product is cheaper and has a smaller buy/sell price difference making for easier trading.

In short these ETF's are great products and in many ways the best investment available to investors. For a small fee you are able to track the market via the Satrix products or the Rand gold price and over time the market will out perform inflation and most other investment products.

I have even started using the Satrix40 instead of extending my retirement annuity as the costs are much lower and can the retirement industry promise to match the Top 40 (Satrix40) growth over a 10/20/30 year period? In short maybe they can beat the index but frankly that comes with the risk that they won't.

As I get nearer to retirement I will start selling some of my Satrix40 products and moving into cash to reduce the risk on my retirement.

Information

There is a huge amount of information produced about the JSE. You'll find it in the press (newspapers, magazines & TV), websites (such as the Standard Bank online websiteand from the JSE itself.

The JSE has both a website and also produces SENS (Stock Exchange News Service). SENS is designed to ensure that all company information from a listed company is released at the same time for everybody so that nobody gets any sort of advantage. SENS information is found on most financial websites and will include the following sort of information;

- Trading updates (profits up or down)
- Results
- Directors dealing in the companies' shares
- Important news regarding sale or purchase of assets
- In short anything that may effect a companies stock price or have an influence in how investors view the company and hence value it

More links for information in the glossary section.

Importantly if you receive information about a company that is not in the public domain and you use this information to make a profit you are insider trading and this is illegal!

Lastly there are a number of online chat forums for people trading and investing on the JSE and some are listed below;

- www.page88.co.za
- www.sharechat.co.za
- www.moneyweb.co.za
- Standard Bank online trading has a chat forum

What's important here is not to believe everything you read on a chat forum, but they can be a very useful place for asking questions, testing new ideas and meeting like minded people.

Security

There are three issues around security. Security of your shares that you own, the security surrounding the process of doing the trade (whether via telephone or internet) and then your broker going out of business.

Trading security

- When you trade via telephone all calls are recorded so if you feel an error was made you can request the broker to go back to the telephone records.
- Trading via the internet is as secure as any other internet transaction and to my mind this is perfectly secure, but make sure you are entering CORERECT data when buying or selling.
- Any cash that is held by your broker on your behalf is actually held by the JSE and is 100% safe and earns a fairly good interest.

Share security

Strate electronically managers all JSE transaction to ensure no fraud and to resolve disputes.

Broker security

Should you choose a brokerage firm that defaults, you'll be able to claim against the member firm through the JSE's Guarantee Fund. The Fund has assets in excess of R80-million, and was specially set up to offer protection and reassurance to investors.

Should your stockbroker offer you sincere, reasoned advice that turns your large fortune into a small fortune, on the other hand, you'll have nothing to show for it but the single most priceless commodity on the market.

Experience!

Glossary
A detailed glossary list is online at
http://webapps.jse.co.za/glossary/browsing/search.htm

Useful websites

www.moneyweb.co.za
www.moneymax.co.za
www.sawarrants.co.za
www.bday.co.za
www.finance24.co.za
www.businessreport.co.za
www.sharenet.co.za
www.profilemedia.co.za
www.resultsdata.co.za
www.jse.co.za
www.page88.co.za
www.forexdirectory.net/zar.html (live Rand price)
www.briefing.com/Silver/Calendars/EconomicCalendar.htm (upcoming US data)
www.bloomberg.com
www.ft.com
http://cbs.marketwatch.com/news/default.asp?siteid=mktw
www.reuters.com

Financial publications

Weekly
Financial Mail
Finance week
Moneyweb Digest
Sunday Times
Business Report

Daily
Business Report (inserted in The Mercury, Cape Times, Star & Pretoria News)
ThisDay
Business Day