



Online Share Trading

Want help investing?
We'll show you how.



Why invest?

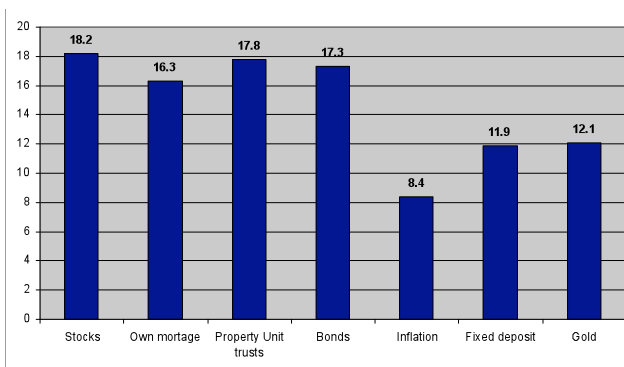
Investment – the word conjures up grey-shaded images of everything you never wanted to be: strait-laced and sensible. But the truth is that investment doesn't have to be boring – in fact it is the only route available to financial independence for those of us who aren't "trust fund kids" or recent lottery winners.

This guide will give you an introduction to the stock market. When you're ready to take charge of your financial future and start investing for yourself, we'll give you the education and tools you need to make investment decisions that could change your life.

To attain that elusive financial nirvana means harnessing the financial equivalent of nuclear fission – compound interest – to produce wealth. "The miracle of compound interest" means, simply, that your money works for you, rather than you working for your money. It occurs because you earn interest on interest on interest over a number of years. For example, if you had invested R5 000 in a fixed deposit earning 11,9% p.a. in 1989, it would be worth around R47 000 today. That same R5 000 invested in the stock market earning 18,2% p.a., however, would now be worth over R141 000.

This is one of the reasons why you should consider investing in the stock market. As the graph below shows, shares have shown the highest returns in the long term, outstripping other assets such as bank deposits and even property.

The 20-year return of various asset classes



With a little time and knowledge, anyone can invest in shares today and reap the benefit of future financial security.

Setting financial and investment goals

If you're ready and willing to invest your hard-earned cash today for a better future tomorrow, you will need a blueprint for doing so.

The first step is to set the financial goals that your investment will meet: whether it's saving for that once-in-a-lifetime holiday or working towards a financially secure retirement.

Your next step is to make sure that you have the cash available for investment – and how to free it up if you don't. Write up a personal balance sheet that calculates your net worth: your assets less your liabilities. This will show you if there is spare cash available that can be directed to other, higher-yielding investments. For example, you could take money out of a low-yielding savings account and put it into a money market account, if you need the cash, or into shares. It is not wise to invest with borrowed money – so pay off all your short-term debt before you start investing.

Lastly, look at your monthly cash flow and see if there is an excess that can be invested each month. If not, see if you can cut your expenses or increase your income.

What are shares?

Companies have two choices when they want to raise money to grow their business: to borrow from a bank or issue shares.

A share is a slice of a company that, technically, means that its owner has a small claim on that business's earnings and assets. As a shareholder, an individual is one of many owners of that company.

The key advantage in issuing shares (or equity) is that the company doesn't need to pay back the capital amount or make interest payments. Instead, shareholders – the people who buy those shares – can hope to receive dividends and see a capital gain on their investment.

How a stock exchange works

The New York Stock Exchange (NYSE), the London Stock Exchange (LSE), Tokyo Stock Exchange and the JSE Limited (JSE) are all, simply, markets for shares.

Stock exchanges have two purposes. Firstly, they are places where traders can buy or sell shares and, secondly, companies can use them to raise cash to expand their business by selling new shares to investors.



The old JSE trading floor

Since 1996, the JSE has not had a physical location for its trading floor as it uses an electronic trading system. It earns revenue from charging companies listing fees and stockbrokers pay for using the trading system.

Stock exchanges provide investors with two advantages:

- They reduce the risk of investing by providing a transparent pricing mechanism for trades.
- They police listed companies. Stock exchanges operate in a strict regulatory environment and companies have to comply with stringent listing requirements.

Investors use share indices to track the performance of the underlying shares and sectors. When we refer to “the market”, we’re actually referring to an index that is a proxy for all the shares listed on that exchange. In South Africa, this is the JSE/FTSE All Share Index (ALSI). Other global market indices include the FTSE (Britain), the Dow Jones (USA) and the Nikkei (Japan).



An index is defined as “a statistical measure of the changes in a portfolio of shares representing a portion of the overall market”. That means that when an index is up, most share prices have increased and vice versa.

JSE/FTSE All Share Index 20-year performance graph



What makes share prices move?

In a nutshell, the forces of supply and demand are the key determinants of changes in share prices. In the simplest terms, the share price will go up if more people want to own a share than are prepared to sell it. Over time, a share price will track the underlying trend in the company's earnings: if earnings (and dividends) grow consistently, the share price should follow.

But there are other aspects that affect investor appetite for shares including the performance of international markets, general economic growth, sector or company-specific news, share buybacks and futures trading.

An old adage goes, "When Wall Street sneezes, the world catches a cold". Although the influence of US share prices is no longer as important to the JSE as it once was, the correlation between movements and international share prices increases in times of uncertainty.

Overall, share prices tend to go up when the economic news is good as this means companies should see their earnings increase. In addition, good news from a certain sector or company can drive share prices up as investors expect good future earnings.

There are other buyers of shares apart from investors, including companies (through share buybacks) and futures traders. They also affect the demand/supply equation.

The risks of investing in shares

We've all heard that there's no such thing as a free lunch – and this is as true of investing as anything else. Over time, shares have outperformed other asset classes – like government bonds, property and bank deposits – but this comes at a cost. That cost is that investing in shares is riskier than other asset classes. The old adage "high risk, high return" means that an investor who takes on the higher risk of investing in shares expects a higher return for doing so.



These are some of the risks of investing in shares:

- Share prices can – and do – go down as well as up. Investors can reduce their risk by doing their homework and always knowing exactly what they're investing in. That includes evaluating "tips from friends".
- Some shares can be illiquid. This means that they can be difficult to trade, often because there is a controlling shareholder who owns a large percentage of the company and is not selling those shares on the market. This means that a share can be difficult to sell. To avoid this, invest in more liquid shares.
- Companies do not have to pay dividends. This is not necessarily a bad sign if the company is keeping that money to invest in its future growth, but is a risk for shareholders who bought that share for the dividend income.
- If a company goes bankrupt, shareholders may lose the entire value of their investment. Ordinary shareholders only receive what's left over once creditors and preference shareholders have been paid their due.
- Companies can disappoint the market by reporting lower-than-expected earnings. This can mean the share price either falls or lags behind the growth of its peers.
- Share prices factor in the market's view of management's competence and integrity. Scandals, such as the revelation of fraud or poor corporate governance, can hurt the share price.

But you shouldn't be frightened of investing in shares. Most listed companies are well-run businesses and their share prices should increase over time.

Investing myths

There are four myths about investing in shares on the JSE. These are simply untrue – let’s expose them for what they are.

The first myth is that only professional fund managers can invest on the JSE. South Africa has around 1 25 000 private clients with their own portfolios. However, this is set to increase as private investing becomes more convenient and affordable – and you can be part of this trend.

The second investment myth is that share investing is tricky and only for the super-intelligent. The truth is that anyone can acquire the knowledge to make sound investment decisions that will help ensure financial independence in the long-term.

Myth number three is that investing in shares can make you rich quickly. While investing in shares is an important wealth creation strategy, it has its risks and “the miracle of compound interest” needs time to work.

The last investing untruth is that you need a big fortune to make a small fortune from investing in shares. This is untrue – but it is proportionately more expensive to invest smaller amounts of money directly into the JSE, as stockbrokers have a minimum brokerage fee, as well as other costs. Investors can either save up a lump sum or, through Standard Bank’s Auto Share Invest (ASI), available via Standard Bank Online Banking, put as little as R500 directly into shares each month at a reduced cost.

ASI is a breakthrough in share investing, in that it allows investors to slowly and comfortably build up their exposure to shares, without requiring a lump sum investment upfront.

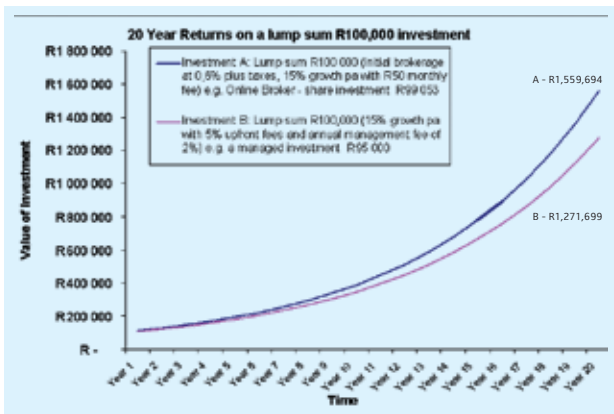
The importance of cutting costs

Ultimately the value of your investments would be determined not only by the return those shares generate in future, but also by how little it cost you to invest in the first place.

As the graph on the next page shows, you would be better off investing directly in shares rather than letting someone else manage your money. In this example you can clearly see how much of the value of your long-term investment you “donate” to third parties through upfront and annual fees over 20 years (Investment A vs Investment B). If you believe that you don’t have the skills to manage your own portfolio of individual shares, consider buying an Exchange Traded Fund (ETF). These let you buy an index of shares directly at relatively low cost.

Different investment scenarios: direct investing vs third-party managed funds

1989 - 2008



The importance of dividends

Investors buy shares for capital growth, income, or both. Shares usually generate income through the payment of dividends. Simply, dividends are the distribution of a portion of a company's earnings to its shareholders.

However, the size of this dividend is not known to investors as it depends on company profits and is at the discretion of the company's directors. This is unlike a money market deposit, where investors know what they will earn upfront.

Dividends are decided upon and declared by the company's board either annually or half-yearly. But directors can choose to use cash that could be paid out to shareholders for other purposes, including reinvesting it in the company's operations, buying back shares or paying off debt.

Investors who require income from their share investments should choose shares with a high dividend yield – the dividend payment as a percentage of the company's share price. Like an interest rate, the dividend yield tells you the income return you will receive from that investment.

For investors, the key advantage of receiving dividend income is that it is tax-free in the hands of the recipient.

Tax implications

Profits on investments will be taxed – and investors need to be aware of the different ways in which this may happen.

Firstly, novice investors should be aware that the capital gains on share investments can, potentially, be taxed as income if the SA Revenue Service believes the investor makes a living from trading shares.

Most investors – particularly those who have committed themselves to long-term wealth accumulation – won't find themselves in this position. Instead, they will be liable for Capital Gains Tax (CGT).

CGT is a lower tax rate than income tax – so it's advantageous to investors. In SA, individual share investors pay marginal (income) tax on 25% of all capital gains. (If you're at the top marginal tax rate of 40%, that equals an effective 10% CGT tax rate.)

Investors' tax liabilities can be reduced in two other ways:

- Dividends are tax-free in the hands of the recipient. This lowers the tax you pay on your overall income.
- Preference share dividends are also tax-free and have lower risk than ordinary dividends as they are pegged.

Standard's Online Share Trading advises investors to consult their tax adviser before making any investment decisions.

Looking at the numbers

Understanding some rudimentary accounting isn't just for accountants – all investors should have some basic accounting knowledge that will help them in the share-picking process. The good news is that it is easier than you think.

There are three main financial statements that investors should read in the annual report:

- The **balance sheet** gives a "snapshot" of a company's financial position on a particular day. That snapshot shows the company's assets, liabilities and its net asset value (assets minus liabilities).
- The **income statement's** purpose is to show a company's profit (or earnings or net income or bottom line). Profit is the amount of money that's left over once all expenses (including operating costs, interest payments and tax) have been subtracted from sales.
- The **cash flow statement** shows all receipts and payments of cash and the company's cash position at year-end.

Investors can also find important extra information in the **statement of changes in equity** and the **value-added statement**. Don't forget to read the notes to the financial statements – they contain the detail you need to evaluate the balance sheet, income statement and cash flow statement.

Investment ratios

For novice investors it can seem strange that a R100 share can be cheaper than a R10 share. The reason is that investors use a number of ratios to determine one share's value relative to another.

Here are three common investment ratios:

- The **price: earnings** (p:e) ratio is the most common investment ratio. It tells you how many rand you are paying for each rand of earnings.
- The **price: book** ratio shows whether the market has factored a company's asset value (on its balance sheet) into its share price.
- The **price: sales** ratio is the share price divided by sales per share.

One share is cheaper than another when its relevant investment ratio is cheaper than that of the second share.

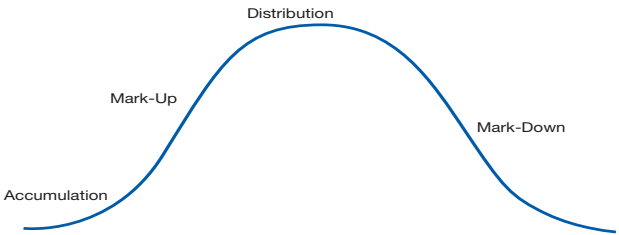
The **dividend yield** is the dividend per share divided by the share price. The share with the highest dividend yield is the cheapest, all other things being equal. Shareholders can compare this to how much money they will earn if they put their cash into a money market account, remembering that dividends are tax-free whereas interest (above a threshold) is not.

Market cycles

Markets go through different stages – or cycles – even though the long-term trend has been for share prices to appreciate. All markets are cyclical: they increase, peak, fall and then bottom. Market cycles are more important for traders than long-term investors who leave their money in the market for longer than a complete cycle.

Typically there are four phases in a market cycle. The first, or accumulation, phase occurs once a stock market has reached the bottom of the last cycle. However, most investors don't recognise this as the beginning of a new upward cycle so only very astute and experienced investors enter the market at this stage. Though valuations are attractive, market sentiment remains bearish (negative) and then, slowly, turns neutral.

Market cycles



Source: www.investopedia.com



Examples of annual reports

In the mark-up phase, share prices begin to increase as more investors realise that the cycle has turned.

During the distribution phase, sellers begin to dominate. The market's bullish (positive) sentiment becomes mixed and prices can be range-bound. This third phase can be short or long, but it inevitably gives way to the final stage of the cycle.

The mark-down phase is the last stage of the investment cycle. Ironically most die-hard investors, who have held onto their shares as prices crumble, will sell just as the market reaches its bottom.

There are variations within this simplistic framework as investor sentiment can stretch market cycles to extremes such as bull markets, bubbles, crashes, corrections and bear markets.

- In a bull market, positive investor sentiment drives share prices higher – sometimes to beyond what the earnings' fundamentals can support. At this point the bull market risks becoming a speculative bubble.
- Corrections are where share prices retrace some of their gains. Typically, share prices will make up their loss quite quickly after a correction.
- A bear market occurs where share prices continue to fall for some time after a correction.
- Over-inflated stock market bubbles may be ended by crashes, where share prices fall sharply in a short period. The good news is that the share prices of the corporate survivors of these



crashes do recover. As the chart below shows, it took the JSE 20 months to recover to its pre-crash levels after the 1987 crash.

JSE All Share Index July 1986 – Dec 1990



Exchange Traded Funds

Investors who feel they do not have the time to manage a share portfolio or insufficient capital to achieve a large enough spread of shares or the right stock-picking skills have the option of investing in third-party vehicles such as unit trusts or Exchange Traded Funds (ETFs).

ETFs are index-linked funds that trade on the JSE itself. Investors can buy and sell units directly through their broker. ETFs provide investors with index-linked returns at relatively low cost. For example, the Satrix 40 tracks the JSE/FTSE ALSI 40's movement exactly.

South African ETFs are registered as collective scheme investments and so are regulated by the Financial Services Board (FSB). This means that they have credibility. ETFs are cheaper than any other managed investment product. Investors are charged brokerage and related costs when they trade in ETFs, but no, or limited, annual management fees.

ETFs have a number of other advantages for investors compared to unit trusts. Firstly, ETFs are listed and trade all day compared to unit trusts that are priced once daily. Secondly, the spread (difference) between the buying and selling prices is smaller for Satrix (one example of an ETF) than for unit trusts.

Where to find information

Wealth begins with better knowledge and any investor should take the time to educate themselves about the assets into which they are putting their hard-earned cash. There are a number of places where you can find valuable information that can help you in your investments including newspapers, magazines, television and radio.

All companies must, in terms of the JSE's listing requirements, publish all price-sensitive information on the Stock Exchange News Service (SENS). This includes all results announcements, trading updates, directors' share dealings or announcements regarding corporate actions. In addition, that same announcement must also be published in at least two daily newspapers.

SENS announcement example

SBSK: Standard Bank - Audited results and dividend for the year ended 31 December 2005		
STANDARD BANK GROUP LIMITED		
(Incorporated in the Republic of South Africa)		
(Registered bank controlling company)		
(Reg No 1949/017128/06)		
Share code: SBK & ISIN: ZAE000057378		
AUDITED RESULTS AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005		
The group's key financial highlights were:		
Normalized	IFRS	
Return on equity (%)	25,2	27,8
Headline earnings growth (%)	20	12
Headline earnings per share (cents)	646,0	702,3
Headline earnings per share growth (%)	19	23
Overview of financial results		
Standard Bank Group headline earnings per share for the year to December 2005 increased by 23% to 702,3 cents per share and a return on equity of 27,8% was achieved. These results are based on International Financial Reporting Standards (IFRS). Certain of the accounting conventions under IFRS, in the opinion of the board, distort the results from an economic perspective. As discussed under the normalized headline earnings section in this announcement, the effect of these distortions has been adjusted for in calculating normalized results. On a normalized basis headline earnings per share grew 19% and the return on equity was 25,2% (2004: 24,2%).		

Online Share Trading provides many functional tools on its website, to its clients. Research reports – including insights from the Standard Bank Economics Division, plus research notes with recommendations on individual companies from the group's rated research team – are available.

In addition, the website contains the financial statements – for the past ten years – of every single JSE-listed company. Over and above the raw data it also provides key ratios such as price: earnings multiples, beta, dividend yields and many others.

The website also provides analyst earnings forecasts on a number of listed companies. The data is provided by Profile Media, which collates these forecasts and analyst recommendations to provide an average (or consensus) view.

Lastly, the website provides other interesting information such as live share prices, directors' dealings, dividends payable and the biggest gainers and losers and the most active shares on the JSE in any one trading day.

The golden rules of share investing

The secret to successful investing is discipline, not luck. There are some basic trading rules that everyone – from novice to guru – can use to minimise losses and maximise investment gains.

There are five possible outcomes from buying shares: a big profit, a big loss, a small profit, a small loss and breakeven. Successful investing means avoiding those big losses. Here are some pointers to help you do that:

- Never borrow money to invest, nor should you put money into the market that you can't afford to lose.
- Always use stop-losses for capital maintenance and never be afraid to take a loss. However, as much as it goes against the grain, never cut your winning shares before your losing shares.
- Investors should always feel comfortable with their investments. If you don't – sell. Do all your own homework before you commit your money to an investment and only take advice from investment professionals.
- Set realistic expectations. Although there will be years in which the market booms, these are exceptions rather than the norm. Over time, investing in shares will provide real returns that outstrip the inflation rate.

Standard's Online Share Trading

Just as Internet banking revolutionised the way you bank, Online Share Trading has revolutionised the way you invest. We believe that wealth begins with better knowledge and therefore we offer investors a number of investment courses and tools that will help you to take charge of your wealth creation.

Getting started in shares

Online Share Trading and the JSE host a free 90 minute educational seminar on "Getting started in shares" in the major centres in SA. The seminar covers the basics that everyone should know, such as understanding the share market, how to make money on the stock market and deciding which shares to buy. To find out more about this seminar, visit www.securities.co.za.

In addition to the "Getting started in shares" course, Online Share Trading also offers free courses to its clients to help them grow their knowledge and expertise. These include:

FREE client courses Introduction to investing

A five-hour introductory course to share investing and the stock market that includes aspects such as what shares are and how to analyse and pick winning investments.

Other regular client courses

- Fundamental analysis (introduction and advanced)
- Technical analysis (full day)
- Investment outlook of the JSE
- The Buffett Way
- Trade to trade well
- Half day warrants
- Introduction to futures (single stock and currency)
- Share instalments

Online courses

In addition, our website offers interactive lessons in warrants, Single Stock Futures and Share Instalment trading. These online courses take just a few hours to complete, but will provide a comprehensive overview of the instruments, as well as trading tips.

Ultimately, the best way to learn is to practise. Our website provides investment and financial news through a news feed from Reuters, as well as SENS in real time and an alert function via SMS and email for any SENS publications of the shares you hold.

Introduction to investing

A five-hour introductory course to share investing and the stock market that includes aspects such as what shares are and how to analyse and pick winning investments.

Investment outlook presentations

Presented every six months by Standard Bank's Economic Research division, this event focuses on the outlook for the JSE for the next three to 12 months and offers recommendations on JSE-listed shares.

Trade To Trade Well

This course is designed for traders looking to move from novice level to achieving consistent profits and avoiding trading pitfalls.

Front page of Online Share Trading website

Online Share Trading offers the lowest brokerage fee in SA – just R50* per share trade.

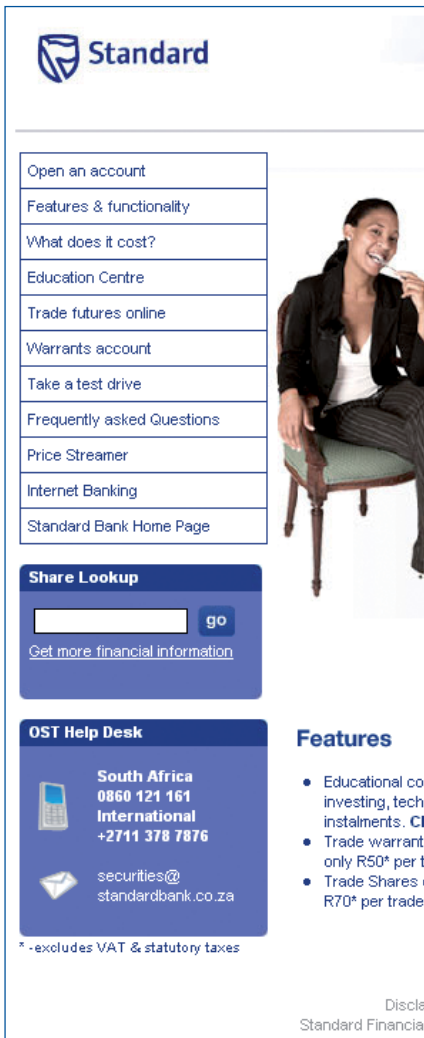
Warrants and Share Instalment transactions carry a R50* flat fee if traded in a warrants account (which costs no extra to open).

Single Stock Futures are charged at a flat R50 plus VAT per trade as well as a 0,4% market-makers commission on the value of the underlying trade.

Currency futures are charged R15 plus VAT per contract with a minimum of R50 plus VAT.

CFDs are charged at a flat R50 plus VAT per trade as well as a 0,35% market-makers commission on the value of the underlying trade.

Many other free courses. View our website for clients: www.securities.co.za



The screenshot shows the Standard Bank Online Share Trading website. At the top left is the Standard Bank logo. Below it is a vertical menu with the following items: Open an account, Features & functionality, What does it cost?, Education Centre, Trade futures online, Warrants account, Take a test drive, Frequently asked Questions, Price Streamer, Internet Banking, and Standard Bank Home Page. To the right of the menu is a photograph of a smiling woman sitting in a chair. Below the menu is a 'Share Lookup' section with a search input field, a 'go' button, and a link to 'Get more financial information'. Below that is an 'OST Help Desk' section with contact information for South Africa (0860 121 161) and International (+2711 378 7876), along with an email address (securities@standardbank.co.za) and an envelope icon. At the bottom left of the screenshot is a footnote: '* -excludes VAT & statutory taxes'. At the bottom right, the word 'Features' is visible, followed by a list of bullet points: 'Educational co investing, tech instalments. C', 'Trade warrant only R50* per t', and 'Trade Shares R70* per trade'.

* -excludes VAT & statutory taxes

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A monthly fee of R50.00 (incl. VAT) is levied; however this fee is waived if you complete three or more transactions in a month.

* Excluding VAT and statutory costs. The R50 share fee applies to transactions up to R10 000, whereafter a brokerage rate of 0,5% applies.

Online Share Trading

Operated by Standard Financial Markets



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