NSX

NAMIBIAN SCHOLARS INVESTMENT CHALLENGE

2021

RULES, PROCEDURES AND DICTIONARY OF FINANCIAL MARKET TERMS

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RULES AND PROCEDURE OF THE
NAMIBIAN SCHOLARS' INVESTMENT CHALLENGE 2021

INTRODUCTION AND HOW TO PARTICIPATE

The aim of the Namibian Scholars' Investment Challenge is to introduce university **and** secondary school students to share investments and to provide them with knowledge on broader aspects of capital market operations, to give them an understanding of commercial dynamics and the macroeconomic environment through a fun and far reaching educational programme. Each participating team is credited with a fictitious amount of N$ 500 000.00 to be used for buying shares. **Trading starts the 03rd of May 2021 closing 22 October 2021.** Progress evaluations will be done over this period. Teams who produce the highest returns or incur the least losses in their portfolios over the period will be announced the winner. It is imperative that the students have the wholehearted support of their supervising educator and that the professor also has interest in the subject.

Students will gain invaluable experience in investment as well as gain useful knowledge that complement their studies in subjects such as Commerce, Accounting and Economics. Furthermore, the challenge provides students with an opportunity to work as a team using their combined research skills to investigate listed companies. This should offer them valuable insight on the workings of the financial market. We also believe that the Challenge will encourage students, lecturers, parents and public at large to become more aware of the workings of the Namibian capital market. This should ultimately lead to a wider participation and lay a foundation for long term-term sustainable growth of the domestic capital market.

General Rules

1. The Namibian Scholars Investment Challenge is open to graduates and undergraduates of Namibian universities and all secondary schools in Namibia.

2. Each participating team is credited with a fictitious amount of N$ 500,000.00 to buy shares on the Namibian Stock Exchange (NSX).

3. Students from the same university and secondary schools may enter groups with each team comprising 3-4 members. Schools may enter a maximum of 5 teams with each team comprising 4 members. This requirement should be maintained throughout the competition.

4. Teams must select one representative to transact and act as spokesperson for the team.

5. Trades are to be submitted via the trading app http://nsx.com.na/index.php/trade once the teams has registered online http://nsx.com.na/index.php/nsic.

6. Trading are to be done on the trading app only.

7. **Each team is restricted to one entry per day and must be for a minimum of 100 shares. Trades may comprise of different companies but may not be traded more than once on the same day.**

8. **Trades placed before market close 17H00 will be completed at the closing price on the day that they are placed. Trades placed after market close will be completed at the closing price on the following trading day.**

9. **To be eligible for any of the prizes each team must complete at least 10 trades over the six-month trading period. In addition, the team must have executed 2 trades each month for the full six-month period.**

10. No change in order may be made once the instructions on the trading app / trade sheet have been executed.

11. Shares may only be bought or sold on the NSX listed shares.

12. Teams may query a trade up to 30-calendar days after the transaction has taken place. No queries will be accepted after this period.

13. Teams will be disqualified if one month after commencement of the competition no trade has taken place and if two months after the competition at least 50% (N$ 250 000) of the initial allocated amount has not been invested in shares on the NSX.

14. Transactions will be levied at virtual brokerage fees of 0.5%.

15. Teams may not invest more than 20% (N$ 100 000) of their cash in any one share at any given time.

16. Dividends are payable on payment date; should own the shares on LDT until payment date.

17. The organisers, sponsors and their immediate families are not eligible to take part in the competition.

18. The decision of judges is final, and no correspondence will be entered into.

PROCEDURE FOR PLACING AN ORDER

Should your team experience problems with the trading app, please notify the NSX immediately.

When placing an order, please state the following:

- University / School name + Team name
- Team leader
- Share name + Share Code
- Sell or Buy
- Number of shares

For enquiries on orders, please state the following:

- University / School name + Team name
- Team leader
- Share name + Share Code
- Sell or Buy
- Number of shares

SHARE CODES

Share codes for companies listed on the NSX are listed below:

Company Name	Share Code
1nvestPalladium ETF	ENXPLD
1nvest Gold ETF NM	ENXGLD
1nvest Platinum ETF NM	ENXPLT
Alpha Namibia Industries Renewable Power Limited	ANE
Anglo-American plc	ANM
Agra Limited	AGR
B2Gold Corporation	B2G
Bannerman Resources Limited	BMN
Barloworld Limited	BWL
Bravura Holdings Ltd	CMB
Capricorn Group Ltd	CGP
Celsius Resources Limited	CER
Deep Yellow Limited	DYL
Firstrand Limited	FST
FirstRand Namibia Ltd	FNB
Forsys Metals Corp	FSY
Investec Limited	IVD
Letshego Holdings (Namibia) Ltd	LHN
Marenica Energy Limited	MEY
Mediclinic International Plc	MEP
Momentum Metropolitan Holdings	MMT
Namibia Asset Management Ltd	NAM
Namibia Breweries	NBS
Nedbank Group Limited	NBK
NewFunds S&P Namibia Bond ETF (NFNAM 10 Bonds NM)	NFNAMA

Company Name	Share Code
New Gold Issuer Ltd NM	NGNGLD
New Gold Palladium ETF	NGNPLD
New Gold Platinum ETF N	NGNPLT
Nictus Holdings - Nam	NHL
Paratus Namibia Holdings Ltd	PNH
Oceana Group Ltd	OCG
Old Mutual Ltd	OMM
Oryx Properties Limited	ORY
Paladin Energy Limited	PDN
PSG Konsult Limited	KFS
Sanlam Limited	SLA
Santam Limited	SNM
Satrix MSCI EMG Markets NM	SXNEMG
Satrix MSCI World Feeder NM	SXNWDM
Satrix Nasdaq 100 Prtf NM	SXNNDQ
Satrix S&P 500 Feeder NM	SXN500
Shoprite Holdings	SRH
Standard Bank Group	SNB
SBN Holdings Ltd	SNO
Stimulus Investments Limited - Pref	SILP
Tadvest Limited NM	TAD
Trustco Group Holdings Limited	TUC
Truworths	TRW
Vukile Property Fund Limited	VKN

WHY DO SHARES EXIST?

Companies began issuing shares to the public during the Industrial Revolution. At that time, technology took great strides forward and it suddenly became possible to undertake huge projects such as building a railroad across America. These large projects could not easily be financed or managed within the organisations existing at that time which consisted of sole traders, partnerships and guilds. A new type of organisation had to be found which could access the savings of the public at large. You will understand that large corporations can never be financed by one person or even a group of partners. So the finance has to come from tens of thousands, or even millions, of people. Most of these people would not be willing to put their money into such an organisation if they had to be involved in its management, or if they were responsible for its debts.

To avoid these problems, companies had to become 'people' in their own right so they would then be responsible for their own debts and their own management. Thus, the concept of a 'legal persona' evolved which refers to an organisation having rights and obligations in the same way as a natural person.

Imagine the chaos that would occur for all Anglo American shareholders if they were involved in its management? Ask yourself, also, if you would be prepared to buy shares in Anglo if, by doing so you became fully responsible for all its debts. As a result of this, companies are treated as separate persons by the law, totally responsible for their own debts and their own management. Otherwise nobody would risk helping them to raise the capital they need for their extensive operations.

The situation with a partnership or sole trader is very different. If a partnership liquidates (i.e. becomes bankrupt) then the partners are responsible for its debts to the full extent of their assets. It's easy to see why people are more willing to invest in companies. The financing of a company is thus broken down into small parts called shares – these may be a million, or there may be several hundred million shares.

Shares exist for two reasons: (1) their primary function is to raise capital by offering investors a share of the future profits of the company in return for their purchase of the shares. (2) Once their primary function is fulfilled, they have a negotiable value, depending on other people's perception of the likely future profits of that company.

Shares in public listed companies are traded on a securities exchange, which is the marketplace where buyers and sellers are matched.

AUTHORISED AND ISSUED SHARE CAPITAL

When a company is formed, the founders have to decide how much money they will need to get the company going. For example, they may decide that they need N$1 million. The founders themselves may be able to come up with only half this amount and then decide to raise the other half by offering shares to the public.

Before such an offer can be made, however, the founders must approach the Registrar of Companies to obtain permission to offer shares to the public. Usually they will ask for permission to raise more money than they actually need. So if N$1 million shares then become the company's authorised capital', and if they are successful in selling one million shares, these then become their 'issued capital'. If you look in one of the JSE handbooks you will find the authorised and issued capital for each dual listed company.

The price at which each share was sold (in our example, N$1) is the 'par value' of the share. More of the shares may be sold later at a 'premium' to par, because the company will then be much stronger and better established, making its shares more valuable.

Whenever a company issues shares to the public, it is required by the Companies Act to publish a 'prospectus'. This is a lengthy document setting out the business of the company, the amount it is seeking to raise, the purpose for which the new funds are required and many other details. You will often see summaries of the prospectus published in your newspapers (especially Business Day and Business Report)

WHAT AM I BUYING WHEN I BUY A SHARE?

When you buy shares, you are buying:

1. The right to attend and vote at general meetings of the company;
2. The right to receive the annual and interim reports of the company.
3. A share of the portion of the company, which is called a 'dividend';
4. The right to get a return of your share of the underlying assets, if the company ceases operating.

Of all of these factors, the third is usually the most important when selecting a share. It is the expectation of the future profitability of the company which, more than anything else, determines the price of a share.

It is important to distinguish between public (unlisted) and private (listed) companies. A private unlisted company is precluded from offering its shares or debt securities to the general public and cannot have more than 50 shareholders. A public unlisted company may raise capital by offering shares to the public and must have a minimum of seven shareholders but may have as many shareholders as it wants. Private unlisted companies have to have '(Pty)' in their names as well as the 'Ltd' which shows that they have limited liability. Public unlisted companies only have 'Ltd' in their names.

When reading through American literature, you will find that what we call 'shares', they call 'stock' or 'common stock'. In South Africa, however, the word 'stock' usually refers to bonds and semi-bonds, hence the terms 'stocks and shares'. The term securities refers to the various types of equities and debt instruments which may be used by firms to raise capital.

Another name for ordinary shares is 'equities', which refers to the fact that owning an ordinary share involves you in both the risks and the profits of the company.

EARNINGS, DIVIDENDS AND DISCOUNTING

Earnings

When assessing whether a share is cheap or expensive, the first thing that the investor should ask is:

"How profitable is the company?"

This question is really the beginning of what analysts call 'Fundamental analysis'. In fundamental analysis we strive to find out as much about the future prospects of the company as we can. The best place to begin is with the company's actual profit in relation to its current share price.

In the share market, profits are called 'earnings' and the profitability of a company is normally expressed as **'earnings per share'** or **'EPS'.**

Earnings per share is an extremely important ratio, so let's devote some time to analysing it. You may find that you need to go over the explanation several times to understand it clearly.

Earnings per share is most simply calculated as the after-tax profits of the company divided by the number of shares in issue:

$$\text{EPS} = \frac{\text{Net profit}}{\text{Number of shares in issue}}$$

Dividends

Once you have established a fair picture of the company's earnings per share, another question that you will ask yourself is 'how many dividends does a company pay?

Preference Share Dividends

Preference shares, as the name implies, are shares that have first preference when dividends are being distributed. Dividends on preference shares are normally a fixed amount determined as a percentage of the issue price or, as has become more common, as a fixed amount in terms of cents per share.

Sometimes the company will have participating preference shares which, as the name implies, participate in the profits of the company. This means that when the profits of the company increase, the dividend on participating 'prefs' does likewise and vice versa. It is common practice for participating preference dividends to have a fixed element and a variable element. The variable element fluctuates with the profitability of the company and, more particularly, with the ordinary dividend.

Ordinary Share Dividends

Dividends on ordinary shares are usually only paid out of current profits of the company. This means that unless the company makes a profit, no dividends will be paid for that period.

Interim's, Finals and important dates

It is common practice for companies to pay dividends twice a year. The first dividend is known as the interim and the second the final dividend.

The total dividend is the sum of the interim and the final dividends in any particular financial year.

From time to time, companies pay special dividends when they find that they have more cash on hand than they need for their ongoing business. Such a special dividend is not a good sign because it indicates that the directors feel that they cannot employ the additional funds as effectively inside the business as the shareholders can outside it. In effect they have lost confidence in their ability to make a good return on shareholders' funds.

Each dividend has four important dates associated with it:

1. The 'Date of Declaration' - when shareholders are told by the company's directors how much the dividend will be;
2. The 'Last Day to Register', or LDR, - the day on which you must own the shares in order to receive the dividend, or the day by which you must have sold the shares in order not to receive the dividend. Up until the LDR the share is described as 'cum' dividend (i.e. 'with' the dividend), which indicates that holders qualify for a pending dividend pay out.
3. The 'First Trading Day' after the last day to register - the first day on which the shares trade 'ex-dividend'. On this day the price normally drops by the amount of the dividend because people buying on this day will have to wait at least six months for the next dividend;
4. The 'Date Payable' - the day on which dividend cheques are posted. You will find each company's most recent LDR's and dates payable for both interim and final dividends in any of the available handbooks or the JSE Monthly Bulletin.

Dividend Cover and Retained Income

Dividends are normally only a portion of the earnings of a company. The earnings are usually two to three times the amount paid out in dividends and one wonders what happens to what is left. The answer is simple: the amount left is known as 'retained income'. This ensures that the company has the resources to expand and build up the business. Typically, the higher the level of retained income, the faster the growth of the company.

The actual level of retained income depends on the dividend policy, which is usually normally set out in the annual report. This policy can be measured by calculating the company's dividend cover' which is the number of times that the dividend could have been taken out of earnings. Dividend policies vary considerably from company to company. Some companies pay out very little (10% or less) and a company which is doing badly may pay out nothing. Other companies pay out 100% of the profits or, by drawing on the profits of previous years, more than 100%. When assessing this you must remember that the profits that a company has made are often tied up in shares or debtors, and there may not be cash available to pay out a dividend.

Earnings Relationships

The term 'earnings yield' can be loosely compared to the interest rate that you receive on your bank deposits. It is calculated by expressing the earnings per share as a percentage of the current share price.

$$\text{Earnings yield} = \frac{\text{Earnings per share}}{\text{Market price of share}} \times 100$$

For example, if a certain share has earnings per share of 200 cents and is currently trading in the share market for 1000 cents, then its earnings yield will be 20%

Price: Earnings Ratio

The PE ratio is the reciprocal of the earnings yield and is calculated by dividing the share price by the earnings per share – in our example this would be 1000 divided by 200, which is 5:1, although usually only the first part of the ratio is quoted.

Dividend Yield

The dividend yield is similar to the earnings yield except that it is calculated by expressing the dividends per share as a percentage of the share price.

Total Dividend

$$\text{Dividend Yield} = \frac{\text{Interim plus final}}{\text{Current Market Price}} \times 100$$

These ratios are used to highlight the return on your investment in relation to what the share is currently trading at. It also gives you the start of a comparison between shares to show whether they are cheap or expensive in relation to one another or the average of the industry.

Such ratios have their limitations and they may give an incomplete or unfair picture of the company.

The ratios or yield percentages may be based on earnings and dividends which are often months out of date – because they have been taken from the most recently available set of financial statements. You should realise that the financial statements may only be published two or three months after the end of the company's financial year or interim reporting period – so that the earnings per share may reflect profits made a year ago.

Most analysts use the earnings yield because the divided yield does not take into account the different dividend cover policies.

You must be very careful when you use the earnings yield to compare different companies. Where two companies have different financial year-ends, you may be comparing the earnings yield of a company that has already published increased profits with that of a company, which is just about to publish increased profits.

The different financial year-ends are particularly important in companies that are greatly affected by the business cycle such as those in the building and construction or motor industries.

Consider the following extract from the newspaper showing earning yields for some shares in the building and construction sector:

Company	**Earnings Yield**
Basil Read	19.1
Ceramic	7.4
Concor	8.4
Goldstein	26.8
Grinaker	11.5
Group 5	22.7
Group 5 Holdings	22.6

Italtile	5.9
LTA	8.4
Masonite	20.8
Portland holdings	23.7
PPC	7.3
Sector Average:	15.4

As an investor looking through these companies you might be tempted to choose the company with the highest yield (Goldstein with 26.8%). However, where a company published excellent results six months ago and has subsequently fallen into difficulties, the earnings per share will remain at high levels, while the price falls heavily. In such cases, the earnings yield would be very high.

On the other hand, companies with very low earnings yields are generally the blue chip companies. These shares are favourites with institutions and are often over-priced in relation to their profits. Quality can be expensive and poor shares can be cheap - your objective is to find and buy shares when they are cheap and sell them when they are expensive.

Given a share price and the earnings or dividend yield, you can then work backwards to find the earnings per share or dividend per share, which should tie up with the figures given in your newspaper. The newspaper uses the most recent earnings figures so when a company publishes its interim profit, the earnings will be calculated by adding this to the earnings of the last six months of the previous financial year. In other words, earnings from the last two six-month periods are used regardless of whether they constitute a complete financial year or not. If the figures do not match, you have either made a mistake or you are using a different figure, probably for a different period.

Discounting

In many ways, the dividend paid by a company is similar to the interest one receives on a bank deposit. This may cause you to question why you should invest in a company with a dividend yield of 4% rather than putting your money in a bank and getting 14% or more.

The difference is that a healthy, growing company could increase by at least the inflation rate and, hopefully, faster. This means that if you hold on to a share for any length of time, within a few years the dividend return on the price you paid for the share should increase beyond the current bank rate. In securities market jargon, you have discounted the future earnings of the company into the current price of the share. The more solid and stable the company the further into the future the market is prepared to discount future earnings. This explains why a blue chip company like Liberty Life trades at a 2% dividend yield. We would say that Liberty has been accorded a very high market rating. For example, early in 1988 you could have bought Liberty shares for R10.00. For argument's sake, let's say that last year you received a dividend of N$1,32. This would mean that you received a dividend, which has 13.2% of the price paid for the shares.

Net Worth

Another commonly used measure of a company is its net worth, also often called its net asset value. This is calculated by taking the total assets of the company, subtracting the total liabilities and dividing the result by the number of issued ordinary shares.

Net worth is expressed as a number of cents per share and gives an indication of the underlying assets per share of a company. At best it can only give an indication because company accounts tend to be based on historical information which is often out of date.

For example, if a company bought property 20 years ago, that property is going to be worth more today than when it was bought.

The book value of an asset is the value, which has been given in the company's books of account. Many companies show their assets at cost in the financial statements and you often have to adjust for their true up-to-date value.

One common adjustment, which is made by analysts, is that of valuing the listed shares held by a company at their market value rather than at book value. Listed shares are almost always shown at cost, and the adjustment is easy to make.

Look up the company's share capital and reserves figure, and deduct from the book value of the company's listed investment. Then add them back at their current market value – which is the last transaction price from your newspaper.

You will not find the listed investments of the companies in your Handbook and you will need to get a copy of the company's annual financial statements, usually available from its registered office and/or the NSX. The listed investments will be detailed in the notes to the balance sheet.

It is useful to compare a company's net worth with its current share price. If the share price is much higher than the net worth, investors are generally expecting good profits in the future and are therefore prepared to pay more for the share than its value on paper.

Conversely, where the company's shares are well below their net worth, this has either been eroded, since the latest financial statements published on the shares are basically undervalued and may be a good take-over prospect.

The earnings per share can be compared to the net worth to ascertain how profitable the company is. The higher the ratio of earnings per share to net assets, the more profitable the company tends to be and vice versa. This is not an all-embracing measure but will give you some idea of the relationship between earnings and assets.

Typically, when seeking growth opportunities, you should look for a company, which has a relatively high ratio between earnings and net worth. It is also important to look at a company's track record when making an assessment of it, and for this purpose you should look at the Handbook if you do not have a more detailed record available. The Handbook shows the net worth of a share over the past five years. You will find the address details of the company's registered office in it if you want to get a copy of the latest financial statement.

These are the things you should look for in particular:

1. The rate of increase in earnings per share and the dividend per share, remembering to adjust for the inflation rate;
2. Note whether the EPS or DPS has fallen.
3. Assess whether the ratio between earnings per share and net asset value per share has been increasing or decreasing and, if so, whether this has been purely as a result of a business cycle or as a result of a change in the underlying profitability of the business;
4. Whether there have been any major changes in the balance sheet or in the operations of the company in this period; and
5. Look at what has been happening to the dividend cover. A rising dividend cover usually indicates a company, which is hungry for cash because it is ploughing more of

each year's, profit back into the business rather than distributing it to the shareholders as dividends. This tends to be a good sign if it is accompanied by relatively high or increasing earnings in relation to net assets. However, if it is accompanied by a decreasing return on net assets, particularly if this is not really as a result of a slide in the economy, it is a bad sign.

THE SHARE PRICE OF A NEWSPAPER

Your most useful regular source of share market information is your daily newspaper. When choosing a newspaper, you should make sure that it is easily available and, if possible, can be delivered to your home. Perhaps even your school would be able to take out a subscription for your team for the period of the Challenge (April to September). The newspaper must have good business coverage and, from this point of view, either Republikein, The Namibian, Namibia Economist, Business day or Business Report are recommended.

How real trading is reflected in the newspaper

The first thing to understand is that morning newspapers report on the state of the market at the close of trade on the previous trading day from 08:00 to 16:00 (during winter) and 09:00 to 17:00 in summer. During these periods, many transactions are made involving a wide variety of shares. To understand the report in the newspaper you need to know how transactions take place in the market.

The IRESS System is a centralised automated trading system and can be described as an 'on-screen trading floor'. Dealers enter buy and sell orders on the trading system via a remote terminal (workstation). While there are some physical differences between the mode of operation of a trading floor and an automated process conceptually, they are essentially the same.

Significant improvements arise for investors, listed companies and the NSX itself from the IRESS System through improved transparency, security and audit trails which greatly enhance investor protection. Increased capacity and real-time surveillance capabilities using comprehensive audit trail and analytical techniques are special features. The principles underlying the market trading rules ensure a fair and honest market.

Dealers manage their orders in the order book via trading workstations, which are linked to the IRESS System. The order book is divided into a buy side and a sell side.

Additional Information

Some students in outlying areas will not be able to get a copy of the Business Day and they will find that other papers do not carry the same depth of information. However some of the other papers, especially those containing Business Report (Independent Newspapers group) do have good share market reporting and will contain much, if not all.

On the pages adjacent to the price page in the Business Day and in Business Report you will find a great deal of useful and highly condensed information. You should get into the habit of looking at these pages every day and picking out the key points.

1. World Securities Markets

There are useful reports on the New York Stock Exchange (NYSE), The London European and Asian markets. The NYSE is particularly important and it is worth keeping an eye on the Dow Jones Industrial Index which is always given in the column.

The Dow Jones is a simple average of the share prices of the 30 largest industrial companies in America. It is very widely followed and any major decline in it is almost certain to affect other stock markets, including the NSX. The FTSE – 100 (Financial Times) index, from the London stock Exchange, is also worth watching although it is not as important as the Dow & Satrix 40.

Satrix 40 is a new product initiated by the JSE, Gensec, and Corp Capital. Satrix is the same product as the Dow Jones. It enables an investor to purchase a single JSE listed security, which gives the same return as would be received if the incestor directly purchased shares in each company in the JSE's ALSI 40 index. This provides the investor with all the benefits of diversification, for the cost of one transaction.

2. The JSE/Actuaries Indices

These are worth charting on a weekly basis together with a 10-week moving average. Of particular significance is the earnings yield of the market as a whole, which is shown against the overall index. This index will tell you whether the market is over or under-priced. The JSE is seldom at an earnings yield of less that 5 or more than 13. The subject of earnings yields has been covered earlier in this manual.

3. Major Movements

In this section, you will see which shares have moved the most over the past day or week, either up on down. It is worth watching the "Weekly Top Ten Down" for shares, which are falling heavily because some of them might be at bargain prices before they start upward again. Obviously you must carry out your own investigations before you buy them – in particular you must find out WHY they have been falling.

4. New Highs and Lows

By scanning this section each day you will see which shares are breaking new ground and moving up or down. This should give you an idea which sectors are moving and also how the market is doing as a whole. In periods where there are more new highs than new lows you can be fairly certain that the market is in a bull phase and vice versa.

There is a lot of other interesting information on these pages, and in the rest of the papers. You should gradually expand your understanding until you know the meaning of each figure.

BASIC INVESTMENT PRINCIPLES

1. Market Cycles

You will have noticed ups and downs, or booms and busts, in the economy. These are also reflected in the share market by movements in share prices. These movements are called trends if they persist for any length of time. As early as 1900, Charles Dow observed that they fell into three broad categories.

- Primary trends which last between two and five years;
- Secondary trends which are between three and nine months;
- So-called daily fluctuations' which can be anything from a few minutes to two weeks.

Primary upward trends are known as bull trends and primary downward trends are called bear trends. If the share moves up for a while during a bear trend, we call this a rally, and if it moves down during a bull trend it is called a correction.

Your aim, therefore, is to exploit these movements in share prices to your own advantage and to sell them when they are high. Remember good quality shares (i.e. blue chips) can be expensive and poor quality shares are sometimes cheap.

2. Market sentiment

Sentiment is how investors, as a group, feel about a share of the market as a whole – are they optimistic or pessimistic?

Sentiment has an exaggerating effect on the movement of share prices, causing them to swing well above and below the share's real value. These swings can sometimes be so strong that they cancel out the effect of a minor cycle.

Be particularly aware of sentiment at turning points or at times of uncertainty in the market. To see cycles and trends, you will need to keep some charts of the NSX indices and the shares, which interest you.

3. Quality

Your best investments will generally be in good quality shares. These shares are known as blue chips. These are generally well known names such as Anglo-American, Old Mutual, etc. Look for steadiness, profit growth, a strong asset backing and accounting conservative.

4. Risk

When buying an ordinary share you take a greater risk than when you put your money in a bank or building society. You should be rewarded for taking the risk. And as you would expect, the more risky a company, the higher the return you must look for before you buy it. Risk and return should rise together.

Your return on an investment in shares is divided into capital gain (which is the difference between your buying and your selling prices) and your dividend. Usually the sum of these two is expressed as a percentage of the price you paid for the share and annualised.

For example, if you have bought a share for 1 000 cents, you sold it six months later for 1 100 and have taken a dividend of 50 cents between the two, then your total return is 150 cents or 15% made in six months – which is an annualised return of 30%.

It is much harder to measure your risk and therefore most investors leave it to their 'gut feel'.

Basic Ground Rules

At this stage you need to know about the ground rules governing investment. The following points will be of assistance to you. Refer to them frequently and ask yourself whether your actions conform to them.

Things You Should Do

1. Keep your eyes open – look at what is going on around you - indications of how the economy is doing;

2. Keep in touch with your investments through newspapers and business publications. Remember that you can't hit the ball unless you are watching it! Allocate a particular task to each team member e.g. reading all the financial newspapers, scanning each of the weekly financial magazines, keeping a file of interesting information on likely investment opportunities for future reference purposes, etc;

3. Spend a regular amount of time on your investments each day. Get into the investment habit;

4. Learn as much as possible about investment – you will never know it all, so keep studying. Everything is relevant. The share market is the world's greatest leveller - it has the ability to make the cleverest of us look foolish;

5. Treat your investment seriously, but not too seriously;

6. Become a specialist in about 15 shares and behave like a detective – dig and uncover as much as possible about them – anything could be important. These 15 will not always be the same shares but will change as the overall position of the market changes; and

7. Concentrate on how you are spending your investment time. Remember that your time is your most important asset; not money – because how you spend your time will determine how you spend your money.

Things You Shouldn't Do

1. Don't buy shares on tips, unless you have thoroughly researched the share and would have bought it even without the tip;
2. Don't aim too high at first. Accumulate wealth by steady, careful investment.
3. Don't be greedy – leave a little for the next man. A professional investor is a man who sells too soon;
4. Don't get excited when you are making money and despondent when you are losing. Your emotions are your worst enemy in the market;
5. Don't buy a share without knowing exactly why – and write down your reasons so that you can review them with the advantage of hindsight; and

6. Don't marry your winners or snub your losers;

Remember

- Buy Low;
- Sell Early;
- Regret It;
- Grow Rich!

MARKET INDICES

An index is merely an average, or sort of barometer, of share prices in a certain sector or group of sectors. There are different methods of calculating an index, some using a simple average of share prices. For instance, the Dow Jones Index, which is used widely in America, is a simple average of the 30 leading industrial shares on the New York Stock Exchange. This is not weighted at all for the size of each company making up the index. In other words, it is simply the sum of the prices of the 30 shares used and divided by 30.

Usually indices are weighted according to the market capitalisation of the shares in the sector. This is calculated by multiplying the current market price by the number of shares in issue. Let us say, for example, that Sasol had 565 million shares in issue. At current market prices (1800c), Sasol's market capitalisation would therefore be 565m x 1800c = R10 170 million (i.e. over R10 million). If the price should drop back to 1700c the market capitalisation would be reduced to R9 605 million.

What Does the Index Tell You?

An index gives you an idea of the broad trend of the market or sector and it is a means of comparing one sector with another. It enables you to judge your performance against the market as a whole and to compare a share with its sector.

Indices, like ratios, have only relative, not absolute significance – in other words you should use them to compare other indices or shares or consider their progress over time. The actual index is an average designed to give as fair a picture of the sector's movement as possible.

The most widely used indices in South Africa are the JSE/Actuaries indices. These indices cover the whole market and break it down into its various sectors.

All securities markets make use of indices. The Financial Times index of the London stock Exchange (FTSE) shows the average performance of that market while the Nikkei Dow shows the performance of the leading securities on the Tokyo stock Exchange. It is useful to keep track of these indices so that you know what is going on in the outside world.

If you look at the share names on the price page of the Business Day you will notice that some of them have a small asterisk next to them. This means that they are excluded when calculating the relevant JSE/Actuaries index. Pyramid Companies, preference shares and debentures are also excluded.

If you look at the pages adjacent to the price page, you will see the JSE indices. The average earnings and dividend yield is supplied for each index. The average earnings and dividend yield is supplied for each index. You can compare these with the earnings yield of a particular company. Average yields for the overall index are calculated and reported daily. These are very important because they can give you an idea of whether the market as a whole is overheating or nearing the bottom of its trend.

SOURCES OF INFORMATION

There are many sources of information on individual shares, sectors, the share market, the economy as a whole, the economies of countries that affect the South African economy or those that deal in our shares. There are many of other subjects which also affect the South African share market, either directly or indirectly.

The information generated in one day would be beyond the grasp of one person in an entire lifetime so you have to be selective. It is vital to focus rather than to attempt to absorb everything.
It has been said that your most important resource in the share market is not money. It is time – because how you spend your time will determine the allocation of your money. It is very easy to become lost in the mass of information that pours out of the market daily. It is very easy to spend hours in vain studying the wrong things or doing pointless exercises. Five minutes of careful thought can save hours of tedious work.

Remember also that most of the material that comes out of the market is what computer experts call "data" – in other words, it has yet it has been processed into useful "information". For example, a moving average or marking up a bar chart turns into something that resembles information. But even then this kind of analysis still has to be interpreted – and interpretation is what makes good or bad share selections and timing decisions.

So, most importantly: don't swamp yourself with masses of material. You have to become a specialist first and then concentrate on the detail. Your decision will depend on a number of factors, especially your levels of understanding – and it will change as you learn more and become interested in new areas.

With this in mind, the information sources, which we regard as essential, have been marked with an asterisk (*).

1. DAILY NEWSPAPER

This is your most important source and some care should be taken when choosing it.

2. MAGAZINES

"Financial Mail", "Finance Week", "F&T Weekly" and "Finansies en Tegniek" all give excellent coverage of the business sector and a subscription to one or more of these is desirable – but ONLY if you find that you are able to read your daily and weekly newspapers thoroughly. New students of the share market often make the mistake of subscribing to too many publications, which they do not have the time to read. Read them one at a time and only after careful consideration of that most important resource - time.

3. NSX DAILY, WEEKLY AND MONTHLY REPORT

These are extremely useful documents and well worth receiving (you can contact the information assistant at the NSX to include your team in receiving the daily, weekly or monthly reports via email). The reports give details of the day's, week's or month's trading on all the listed securities, including preference shares and other listed instruments. In the monthly report, the section called announcements is of particular importance as it gives details of rights issues, capital issues, share splits, consolidations and other major changes in share capital. These events are often well reported in the press, but the report gives a definitive list, with the details of each clearly set out.

4. NEWS LETTERS

Newsletters depend on the business acumen and capabilities of the person who runs the newsletter. Many are one or two-man organisations with few research facilities and scarcely better able to analyse the market than you can. On the other hand there are excellent newsletters which have been available for years containing valuable sources of information and research. Initially, you do not need any newsletters. Later, when you understand more and feel that a newsletter would be useful, make use of the free trial period which most reputable newsletters offer.

5. STOCKBROKERS

These are investment professionals who have passed tough examinations in investment advice and the analysis of financial accounts. In most cases, they have highly qualified research teams to back them up. Their research papers are generally available to clients with portfolios in excess of N$25 000 but you should always enquire whether they will put you on their firm's mailing list or send you specific reports.

6. BANK ECONOMIC REPORTS

Most commercial banks generate a fairly comprehensive report on the economy each month. It is readily available and free of charge from their enquiry counters. You should read these if you have time, as they will give you a good overview of the economy as a whole.

7. SPECIALIST PUBLICATIONS

If you decide to become a specialist in a particular sector you will probably find there are regular trade publications relating to the sector. These will give you a good overview of the specific sector.

8. JSE HANDBOOK

The JSE Handbook is a useful publication. It is updated every six months and obtainable from CNA and leading newsagents. It contains brief financial information on each of the listed companies whose shares are traded on the JSE stock exchange (all dual listed companies on the NSX). It also contains a great deal of other useful information such as the address and phone number of the company's business, the structure of its share capital, its dividend dates and the amounts paid and so forth. There is an abbreviated income statement and balance sheet with five years of history, (always assuming the company has been in business for that length of time), and this is followed by some key statistics and ratios, such as the net worth per share, the earnings and dividends per share, and the highest and lowest price reached in the past years.

9. INTERNET

The NSX has its own website – www.nsx.com.na – where one can see the movements of the market indices, NSX News (announcements of NSX listed companies), Trading Days, Trading App for registration and trades, etc.

GLOSSARY OF TERMS

ACCOUNTING PERIOD

The period for which the affairs of a company are being accounted for. The matching principle ensures that the incomes for the accounting period are off-set against the expenses for the same period to arrive at the profit. The balance sheet shows the asset and liability position at the end of the accounting period. Companies are required to have an annual accounting period, but this may vary if they have elected to change their financial year- end.

ACCOUNTING POLICY

For public companies, the accounting policies are set out in the first note to the accounts. They usually concern the method used to value stock and depreciate assets, the principles used in consolidating accounts, the method by which leases are charged, provisions made for deferred taxation, exchange rates used to value foreign currencies, what constitutes turnover and other items specific to the company.

ACCOUNTS PAYABLE

There are amounts owing to the company's creditors in the balance sheet. These appear under current liabilities. These amounts are owed to the company in the short term, usually as a result of sales on credit.

ACCOUNTS RECEIVABLE:

This is another term for "debtors" and appears in the balance sheet under current assets. This indicates the amount owed to the company in the short term, usually as a result of sales on credit.

ACCUMULATION:

When the volumes traded in a share start to pick up while the share price moves sideways or upwards, this is known as an accumulation phase. It indicates that the share is becoming stronger – after a period of accumulation, the supply of shares will be exceeded by the demand and this may send the share price shooting upwards rapidly.

ACCUMULATION AREA:

A period on a chart where the share is moving sideways at the bottom of a downward move. It is said that the share is being accumulated by "smart" money. See "distribution area" also.

ACQUISITION:

This is when one company "acquires more than 50% of the shares of another. The company acquiring the shares then becomes the "holding company and the acquired company becomes a "subsidiary".

ACTUARIES INDICIES:

The JSE actuaries indices are carefully calculated weighted averages of all the market sectors and the market as a whole. They are published daily on the page opposite the price page in the Business Day (top left-hand corner) and can be used to determine the performance of an entire sector. It is important to understand that only the more important shares in each sector are taken into account in each index. Very thinly traded shares, or shares, which have small market capitalisations, are not included.

ADR:

American Depository Receipt, which is a mechanism through which foreign shares are traded in the USA. Shares are registered into a nominee's name. The issues transferable ADR's in respect of the underlying holding. Foreign-owned companies are required to list on the US stock market through ADR's. They trade in the same way as any other listed share, and dozens of South African companies now have ADR listings in the US.

ADVANCE/DECLINE RATIO:

This is a refinement of the Net advance/decline line calculated by dividing the difference between the total number of shares up and the total number of shares down, by the total number of active shares on that day.

AFTER-TAX PROFIT:

The profit of the company after taxation has been deducted. This figure is shown in the income statement and is used for calculating the return on shareholders' funds.

AGENT:

When a stockbroker acts on behalf of a client and has no personal interest in the order.

ALL-GOLD INDEX:

A weighted average of all gold shares traded on the JSE

ALL-OR-NOTHING:

The full order must be executed immediately, or, if it is not possible to do so, the order must be routed to special term's order book.

ALLOCATION:

The number of shares actually sold to a person who has applied to participate in a new issue. If the issue is over-subscribed, the applicant may only get a small proportion of his total application. The balance of his money is refunded.

ALSI 40 INDEX:

The JSE/Actuaries All Share 40 Top Companies Index (ALSI 40 Index) is an equity index intended to reflect the performance of the South African ordinary share market as a whole. A relatively small proportion of the total number of securities listed on the JSE are incorporated into the index on the basis that movements in the share prices of those Constituent Companies can be said to represent the movement of the market as a whole. Companies selected for inclusion in the ALSI 40 Index are generally larger companies of sound financial standing having widely traded and marketable shares.

ANNUAL GENERAL MEETING:

This is a meeting of the shareholders of a company, which is required by the Companies' Act. The AGM must be held within 6 months of the end of the company's financial year. At least 21 days notice of these meetings must be given to shareholders. At the meeting, the directors present the company's financial statements amongst other things. Shareholders vote at these meetings according to the number of voting shares, which they hold.

ANNUAL FINANCIAL STATEMENTS:

Sometimes known as an Annual Report, this is a document required by the Companies Act to be produced once a year for presentation to the Annual General Meeting. These statements must consist of a balance sheet, income statement, directors' report and auditor" report in terms of section 286. These must be prepared in accordance with Generally Accepted accounting practices, and fairly present the state of the company and its profit or loss for the year. The detail is set out in Schedule 4 of the Companies act.

ANNUALISE:

The process of adjusting performance or return which has been made over a period of less than or more than a year so that it can be compared with the annual results of other entities. For example, if a certain share gives a return of 25% over a period of six months this would be annualised to 50%

ARBITRAGE:

Simultaneous trading in assets, currency or bills of exchange in different international markets, to take advantage of the different rates ruling in each.

ARTICLES OF ASSOCIATION:

A document, drawn up by the subscribers of a company at its inception, which governs the internal affairs and management of the company. The articles deal with the nature of the company's shares, the transfer of shares, holding of meetings, powers and qualifications of the Directors etc. The articles must be lodged, together with the "memorandum", at the Registrar of Companies in Windhoek before the company can commence business. An example of the format of the articles is given in table A of Schedule 1 of the Companies Act.

ASK PRICE:

The price at which a seller is prepared to part with his shares.

ASSET:

An item on the balance sheet that indicates the possessions of a company, an organisation or an individual. Assets can be tangible (e.g. a vehicle), or intangible (e.g. goodwill). They can be fixed (e.g. land, buildings, vehicles, office furniture) or current (e.g. stock, debtors, cash). A fixed asset is one which is expected to last for a period of years, and which cannot easily be exchanged for cash, while a current asset is temporarily owned by the company and has a high liquidity.

ASSET BASE:

Money raised by a company as a result of issuing shares to the public is protected by the Companies Act from being distributed in the form of dividends. The general rule is that companies may only pay dividends out of profits, and not out of the money that was put into the company to set it up. There are exceptions to this rule. You can get a good idea of the asset base of a company by adding its share capital to its non-distributable reserves.

ASSET BACKING:

A strong asset backing indicates that a company has large resources of assets. These may reside in a parent company, or they may belong to the company itself.

ASSET MANAGEMENT:

The management of the listed assets (equities, options, etc.)

ASSET STRIPPING:

This occurs where a company is purchased because the market price of its shares is less than the value of its assets. Assets are then sold and a profit is realised.

AT BEST:

An instruction given to a stockbroker by his clients to sell or buy "at best" would give the broker freedom to purchase or sell the shares concerned at the price most advantageous to his client and as soon as possible.

ATTRIBUTABLE PROFIT:

Profits after extraordinary items, taxation, preference dividends, and outside shareholders' interest which are attributable to the company's ordinary shareholders. These profits are not usually distributed in total, as a portion will be retained in the company to finance future growth.

AT MARKET:

An order to be transacted immediately against the best opposite order in the book at the time of making such entry.

ATS:

Automated Trading system (see JET).

AUDITORS' REPORT:

A part of the annual financial statements where the auditors state that they have examined the statements and that in their opinion they represent a fair picture of the company's financial activities over the period in question. Occasionally, the auditors' report is qualified because they did not approve some aspect of the accounts or accounting controls. You should always glance at this report to see if the statements have been qualified.

AUTHORISED CAPITAL:

The number of shares in each class, which a company is authorised to issued to the public or in exchange for assets. The authorised capital must be stated in the Memorandum of Association, but may be increased or reduced. Once the shares have been purchased by the public or swapped for assets, they are known as issued capital.

AVERAGE COST:

A method of valuing shares at the average of what they cost. For example, if 100 shares are bought for 100 cents each and then a further 100 of the same shares are bought for 150 cents each, then the average cost would be 125 cents per share.

BACK OFFICE:

The department in a stockbroking firm, which deals with settlement procedures, such as forwarding share certificates to clients and the maintenance of accounts.

BAD DEBTS:

This is a debt, which cannot be recovered – thus forcing the company to write it off against profits. Most companies make provision for bad debts, a figure which is adjusted annually. When the economy is in recession, such provisions will tend to be higher, especially among banks. A provision for bad debts is a current liability.

BALANCE OF PAYMENTS:

The combined net position on the capital and current accounts of the country. The current account indicates whether Namibia is spending more foreign currency on imports than it is receiving from its exports, while the capital account shows how much money foreigners are investing in Namibia.

BALANCE OF TRADE:

This forms part of the balance of payments calculation, but refers only to the difference between the value of exports offset against imports. While balance of trade will reflect the level of physical imports relative to exports, the balance of payments reflects non-physical flows such as capital and dividends to and from abroad, debt repayment and receipts, interest payments and receipts (the so-called invisible items).

BALANCE – SHEET:

A list of all balances taken from a company's ledger after incomes and expenses have been offset to arrive at a profit or loss. These balances are combined in carefully prescribed ways. The objective of the balance sheet is to give a snapshot of the company at a precise moment in time. This shows where the company obtained its money (liabilities) and how it has allocated that money (assets) so as to generate profits. Obviously, the sources of money must be totally accounted for in assets of one sort or another and therefore the "two sides" of the balance sheet must always balance.

BDA SYSTEM:

Broker deal accounting service provided for member firms by the JSE information technology division. The system keeps the scrip records and books of account for individual member firms in respect of their clients.

BEAR:

An investor, who believes that the market or a particular share is going to decline from its current position.

BEAR MARKET:

Describes a situation where the majority of shares are dropping and the market is declining generally.

BEAR RAID:

Where investors who have sold short (made bear sales) attempt to force the price of a share down by making further bear sales so that they can cover their positions profitably at lower prices.

BEAR SALE:

A sale of shares before they are purchased. In reality, a bear sale (or short sale) is the sale of an UNDERTAKING to supply a certain number of shares at a specified date in the future. Bear selling was originated by the Eskimos who used to sell polar bear skins to European traders. Like all markets, the demand for polar bear skins varied, depending on whether they were fashionable or not. The Eskimos, realising this, took the opportunity when demand for skins was high to sell not only their current stock of skins, but also their next hunting trip's skins. They actually sold the skins of polar bears that they had not hunted to take advantage of the higher prices. If the demand (and therefore the price) dropped by the time of their next visit to the trading post they would have made a wise decision. The term was adopted by share markets to describe a situation where someone who feels strongly that the price of a share is about to fall can take advantage of this by selling the shares at current prices for delivery in a few months time when he can buy them much more cheaply. Bear sales on the JSE must be done at a price, which is higher than that of the last transaction in that share. Only about 1% of deals on the JSE are bear because of the high risks involved – if the shares go up instead of down then theoretically there is no limit to the extent of your loss.

BEAR TREND:

A long downward trend in a share's price, a sector's index, the all-market index or other indicator.

BID PRICE:

The price offered by a buyer for a share.

BID/OFFER SPREAD:

This is the difference between the prices at which market makers will buy and sell shares. For example, the market maker may offer to sell FNB at N$12 and bid (to buy) the same share at N$11. A spread is the difference between the bid and offer prices, i.e N$12 – N$11= N$1. If the spread is attractive enough (i.e. bid and offer prices are not too far apart) it may succeed in trading millions of shares over the course of a month, providing a healthy source of income for the business. For smaller companies the percentage difference between the bid and the offer price will be greater than for larger companies.

BLACK CHIP:

Black empowered company.

BLOCK

A large amount of stock sold as a single unit. This term is most often used to describe a unit of 1000 shares or more.

BLUE-CHIP:

A very safe share that has a history of sound management and steady dividends. Examples of such shares are Sasol, S.A. Breweries, First National Bank, Pick 'n Pay, and Anglo-American. Investors buy these shares for security rather than quick capital gains.

BONUS ISSUE:

A term synonymous with scrip issue and capitalisation issue, which describes shares given without charge to existing shareholders in proportion to the shares already, held.

BOOK VALUE:

This is the value at which an asset appears in the books, or accounts, of a company. Very often, book values are higher or lower than the real values of the assets, and can be misleading when considering the balance sheet. A good example of this is where a company buys land and records it in its books at cost. Over the years, the land becomes much more valuable, but no adjustment is made to the book value.

BOOM:

This describes a stage in the business cycle when economic activity is increasing.

BORROWINGS:

This is a term used by share market analysts to refer to a company's long-term indebtedness. It excludes those current liabilities, but which arise as the result of normal business practice.

BOTTOM:

The lowest point in a share's price cycle.

BOURSE:

A European term, for a stock market. For example, the Paris Bourse, or the Frankfurt Bourse.

BREAK-EVEN:

A term used by accountants to indicate that a company has reached the point where it is not making a loss or a profit.

BREAK-OUT:

A technical term which indicates that a share price has moved clearly up or down after a period of relative indecisiveness or stagnation. A breakout is often a buy/sell signal, especially in Point and Figure charting.

BRIDGING FINANCE:

This is a loan obtained by a company to tide it over a short temporary cash flow problem.

BROKER'S NOTE:

A contract document sent to the buyer or seller of shares by his stockbroker to act as confirmation of the transaction. It shows the name of the client, the share or stock in question, the dealing price, handling charges, brokerage and the net proceeds of a sale, or amount owing for a purchase.

BROKERAGE:

The stockbroker's fee for completing a share transaction. Brokerage is calculated on a sliding scale depending on the total value of the transaction. The highest brokerage is 1.1% paid on the first N$10 000 of any transaction. Amounts over N$5 million are charged 0.385%.

BULL:

An investor who believes that market trends are rising.

BULL TREND:

A long period of consistently rising share prices, or index levels. Usually such trends last from 2 to 4 years.

BULLION:

Any precious metal (most commonly gold) which has not been processed into jewellery, coins, or used for any other manufacture. It is normally kept in bars known as ingots.

BUSINESS CYCLE:

The overall upward – peak – downward – trough pattern that is followed by business activity. There are a number of theories about the causes of these cycles, but no real explanation for this. The share market tends to anticipate major changes in the direction of the cycle by about 6 months. The cycle normally lasts about 3 to 5 years.

BUYER’S PRICE:

The price at which someone is prepared to buy the shares at a certain time. On the price page of your daily newspaper, this is shown at the close of the session reported on, usually under the heading “buy”. It means that at the close of trade there was someone prepared to buy the shares at the price shown – but no seller was found.

BUYING PRESSURE:

A high demand for a particular share or class of shares which exceeds the supply and so causes the price to rise.

CALL OPTIONS:

Right to purchase (call) specified shares within a specified time (option period) at a specified price (strike price). By the payment of a premium per share, the investor buys the right to demand a delivery of the shares at any time during the currency of the contract, at the ruling price when the call was purchased. This is useful when a sharp rise is anticipated, as the only immediate capital required is the call money, thus gearing the investment.

CAPEX:

An abbreviation for capital expenditure. It is often used when referring to gold mines. It refers to expenditure, which is of a capital nature – in other words used to purchase some sort of fixed asset.

CAPITAL:

Money which is used to supply “working” capital or to purchase capital goods, which are to be used to generate the income of the company. Capital can also include the reserves of undistributed profit retained by the company. Share capital refers to the money raised as a result of the sale of company shares. Working capital is used to buy stock and finance debtors.

CAPITAL GAIN / APPRECIATION:

When a gain is made when an investment is sold for more than its purchase price, it is called a capital gain. A dividend is an income gain, or the natural return on an investment. Capital appreciation occurs when shares or other investments are at a higher market price than they were purchased. Until the shares are sold, no capital gain has been realised.

CAPITAL STRUCTURE:

This is the way in which a company has raised the capital needed to establish and expand its business activities or, more specifically, the number of shares and long-term loans in each class that have been authorised and issued.

CAPITALISING LOANS / INTEREST:

This is the process when loans or interest payable are converted to capital. This alters the gearing or borrowing ratio of the company by shifting loans into permanent capital. It also improves the operating performance of company's. Whereas a loan usually carries obligatory interest charges (although many inter-company loans are interest-free) which must be deducted from operating income to arrive at net income (shareholders are only paid dividends if there is sufficient net income). Banks will often capitalise loans outstanding from a borrower in trouble by converting the loan into capital but only if they perceive that the chances of recovering the money would be improved by allowing the company to continue operating without the burden of monthly interest repayments and when company liquidation is unlikely to result in full recovery of the outstanding amount. In this way, they hope to recover the original loan through dividend payments or by selling their equity once the company is functioning well.

CAPITALISATION ISSUE:

Also called 'bonus issues", these do not involve transfer of cash between the company and its members. They occur when a company feels it desirable to convert part of its reserves (profits from earlier years, which have not been paid out as dividends) into new shares. This often arises when the number of shares in issue is small in relation to the total value of the business. This makes them too scarce or highly priced to be easily traded. From a member's (shareholder's) point of view, the effect is to give him a greater number of shares than he already has. As the company itself has not grown any larger or smaller in the process, the percentage of his holding has remained unchanged, his stake therefore consists of more shares, each representing less of the company.

CARTEL:

A group of companies that together have a sufficiently large share of a particular product or industry say that they can force prices up by not competing with each other. An agreement is reached not to compete on price and what is effectively a monopoly is established. For example, The Organisation of Petroleum Counties (O.P.E.C.) has been controlling prices in the oil industry from 1973.

CASH COMPANIES:

This is a new sector, introduced in 1995, to accommodate cash shells. These are companies with cash or near-cash as their only assets. When a company becomes a cash shell (i.e. all the assets are sold off or transferred out, leaving only cash in the company), it is transferred to the Cash Companies sector for a period of six - months, during which time it must acquire viable assets and comply with the initial listing requirements of the JSE. The shares remain listed and can be traded during this six month period, but if at the end of this period the company has not acquired any viable assets, the share is suspended for a further three months. After this period, if it is still not compliant, its listing is terminated.

CASH ASSET / SHELL:

A company which has cash or near-cash as its only asset. Besides the income derived from investing this cash, these companies have no-income-producing assets and are not conducting normal business in any industry. They are often the subject of take-over bids by companies wishing to obtain a listing. Take-overs like these are often accompanied by considerable insider trading (which is illegal, but quite common). This shows in the volume of shares traded before the take-over is announced to the general public. These high volumes are a good indicator of an impending take-over, but sometimes reflect a wild rumour in the market.

CASH FLOW:

This is the amount of cash coming into a company less the amount going out. Cash flow is important because a profitable company can easily go bankrupt if its profits are tied up in stock or debtors, leaving it with insufficient money to pay its creditors by the due date. Cash flow can be improved by reducing the "working capital" of the company.

CAUTIONARY ANNOUNCEMENT:

This is a publicly advertised announcement made by a listed company to urge shareholders to exercise caution when trading in its shares. These announcements are advertised in the Business Day (and other leading papers) whenever a company is involved in any activity (such as negotiating a take-over) which would materially affect the price of the shares. The idea is to avoid any insider trading which might result from the leakage of the information and to make sure that all the interested parties receive the information as quickly as possible.

CHAIRMAN' REPORT:

The chairman of the board of directors of a company is appointed by the shareholders. His position is in no way different from the other directors unless he is given a special mandate in the company's articles. Often this position is merged with that of the Managing Director. Normally the articles provide that he should preside at general meetings and give him a casting vote at such meetings.

CHAIRMAN'S REPORT:

Unlike the Directors' Report this is not a legal requirement, but has become customary, especially for the listed companies. The report is often published in the daily press or in some cases an abridged version is included in the McGregor's Quick Reference. Normally, it contains the policy of the company and its strategy for the coming year. This often includes a picture or projection of what is expected in terms of growth in the year ahead. It is interesting to look through the past projections of a particular chairman to see how accurate they have been. This will give you quite a good measure of his understanding of his company and industry.

CHINESE WALL:

A communications barrier between members or departments of a financial institution to prevent the transfer of price sensitive information. Chinese walls are imaginary but are taken seriously in an attempt to minimise conflicts of interest.

CLEARING SYSTEM:

Computerised clearing system on the NSX, which confirms deals between member firms on a daily basis and prepares weekly statements for the purpose of settling these deals.

CLOSE OF TRADE:

When the share market stops trading at the end of each trading day. For the NSX this is at 4pm during winter and 5pm in summer.

CLOSING DAY OF OFFER:

Last day on which an offer made by a company to its shareholders may be accepted (e.g. in the case of a rights offer or an offer to purchase a shareholder's shares in a take-over bid).

CLOSING PRICE:

This is the price at which the last transaction of a particular share took place during the trading session being reported on.

COMMODITY:

Basically these are raw materials such as gold, silver, soya beans, sugar, coffee, steel etc. Many commodities are traded in markets around the world. The gold price is set in these markets, so they affect any supplier of gold such as South Africa.

COMMON STOCK:

A term used in America to describe their equivalent of ordinary shares.

COMMODITY CYCLE:

Commodity prices tend to move in cycles lasting several years. For example, the aluminium price bottomed at $1.100 a ton in late 1993 and peaked at $2.000 a ton in early 1995, before declining slowly, Commodity cycles are dictated by world demand and global economic growth rates. They are critical in evaluating the earnings potential of commodity-based companies, such as Gencor, listed on the JSE.

CONDITIONAL OFFER:

An offer made to the shareholders of a company conditional to the occurrence of some event. Typically, where a take-over bid is being made, the predator will make an offer to shareholders conditional to its being accepted by more than 50% of the shareholders.

CONGLOMERATE:

These are massive, sometimes multinational, holding companies involved in a wide variety of industries.

CONSUMER GOODS:

Anything which is normally bought by consumers as the end user. This differs from industrial goods, which are bought with the objective of producing some other product or service.

CONTROLLING SHAREHOLDER:

A shareholder who owns more than 50% of a company's voting share capital and can therefore control the company's activities.

CONVERTIBLE SECURITIES:

These are shares, debentures or other securities which are convertible either voluntarily or compulsorily into ordinary shares at some future specified date. Most commonly, preference shares are convertible. This gives their owners a higher degree of security than buying ordinary shares because they can wait to see the progress of the company before deciding whether or not to give up their preferential dividend for the less secure but potentially more profitable ordinary dividend.

CORPORATE FINANCE TRANSACTION:

A transaction set out in writing and requiring public notification in the press in terms of the listing requirements of the NSX. It may also be an 'asset swap', which complies with all the requirements of the Namibian Reserve Bank in respect of 'asset swaps'.

CORNER:

This is when a share which has been short-sold falls into the hands of a few investors who are unwilling to sell and who thus cause a bear squeeze. Also where one or a group of investors gain control of the supply of a product or commodity; and can influence the price in the industry.

CORRECTION:

This term is used quite loosely to mean any short-term change in the direction in which a share or market is moving. More strictly, it refers to a temporary downward move in a bullish or upward trend.

CREDITORS:

This is an item on the balance sheet, which is subtracted from the assets side as part of current liabilities. Creditors (more often called accounts payable) are all people and organisations to which the company owes money which must be paid within normal commercial periods of 30, 60 or 90 days. This is different from its long-term liabilities, which appear on the liabilities side or the balance sheet.

CROSSED MARKET:

Where a quote's bid price is higher than the offer price for a security.

CUM DIV:

Shares are said to be "cum div" in the period between declaration of the dividend and the last day to register for the dividend. A sale of shares while they are "cum div" passes on the right to the next dividend to the transferee (or buyer).

CUMULATIVE PREFERENCE SHARE:

A preference share accumulates its dividend in the event of the preferential dividend being passed for one or more years. Preferential dividends are paid out before ordinary dividends, but sometimes, when the company makes a loss or too small a profit to meet the preferential dividend fully, then if the "prefs" are cumulative they will pay out any backlog before ordinary shareholders receive another dividend. This puts these shareholders in a more secure position than normal preferential shareholders.

CURRENCY BACKING:

A hard asset, usually gold, that is used to back a national currency. Originally when paper money was first used, these were certificates certifying a deposit of gold at what were to become banks. In other words it was fully backed by gold. Gradually all countries in the world have abandoned fully gold backing of their currencies and moved to partial backing in one form or another.

CURRENT ASSET:

An item on a balance sheet which includes any assets which can easily be turned into cash (have a high liquidity) and which will only be held for a short time. Most commonly, these are stock, debtors and bank and cash balances. Pre-payments of expenses may also be included.

CURRENT LIABILITY:

Any liability that must be paid within a year from the balance sheet date. These are mainly amounts owed by the company, which must be repaid within the normal commercial periods (30, 60 or 90 days). Typically, on the balance sheet you would find accounts payable (or creditors), overdrafts and provisions. Once a dividend has been declared, but before it is paid, becomes a current liability.

CURRENT RATIO:

The ratio of current assets to current liabilities. The objective of this ratio is to determine whether the company can meet its short-term obligations out of its short-term assets (as these have the highest liquidity). If a company's current assets are less than its current liabilities then it is probably has cash flow difficulties.

CYCLES:

Shares, industries and markets move in cycles. There are three types of cycles: primary, secondary and daily fluctuations. Primary trends last from 2 to 5 years, secondary trends from 2 to 6 months and so-called daily fluctuations from 1 to 10 days. If you observe the movement of a share you will probably be able to see certain definite cycles, especially if you draw a graph. You can take advantages of these cycles to fine-tune your buy and sell decisions.

DAY'S MOVE:

The extent to which a share moves during the course of the trading day on the Stock Exchange. You will find the day's move quoted as a separate column in the better newspapers, both in cents and as a percentage. In essence this shows the difference between one day's closing price and the next.

DEBENTURE:

This is a form of long-term loan. A company issues debentures, usually at N$100 each, at a fixed percentage return. Debentures are then redeemable at a certain specified date, but in some cases may be convertible into ordinary shares. Debentures are not part of the equity of the company. Dividends on redeemable "prefs" need not be paid if the company is not profitable.

DEBT/EQUITY RATIO

The ratio of shareholders' equity in the company (share capital and reserves) to company borrowing of the company. The company has two primary sources of capital: - shareholders equity (consisting of the money raised when the shares they hold were issued, plus any profits which have not been distributed as dividends); and money obtained in the form of loans from banks and other lending institutions. The Debt/Equity ratio shows who owns what in the business. For example if shareholders had only N$1 for every N$1.50 of the bank's then the company would be "highly geared" and in danger of going beyond its credit worthiness. This means that the bank would effectively control the company by being able to close it down by simply calling in its loan.

DECLARATION DATE:

The date on which the board of directors declare the company dividends.

DEFLATION:

The opposite of inflation. A period where the purchasing power of money increases in terms of a basket of goods and services.

DEPRECIATION:

The process of charging the value of an asset against the company's profits at the same rate at which it is expected to wear out or become obsolete. It would not be reasonable to charge the full value of a motor vehicle against the profits of one year when the vehicle is expected to last for 5 years. Therefore a system of changing 20% of the purchase price per annum could be employed (this is called the straight-line method of depreciation). Depreciation is sometimes applied on a "reducing balance method" where the percentage is charged against the balance remaining after the depreciation of previous periods. For example if an asset cost N$10 000 and was to be depreciated at 20% (of this amount)
N$10 000, but the second year would be 20% of the remaining tax value of the asset
(N$8 000) and so on. Different assets may be depreciated at different rates using the straight-line method for tax purposes. Depreciation also helps to build up cash in the business to replace the asset when it is worn out.

DEVELOPMENT CAPITAL MARKET:

A primary share market designed to give an opportunity to small, rapidly-growing businesses to list. The listing requirements are less stringent than those of the Main Board.
Requirements are as follows:

- At least N$500 000 of share capital and reserves
- 100 000 shares
- Pre-tax profit of N$500 000.
- A minimum trading period of 2 years and
- 10% of the shares must be issued to the public

DIRECTOR'S REPORT:

Section 299 of the Companies Act requires companies to put before the Annual General Meeting (AGM) a Directors' report with respect to the state of affairs, the business and profitability of the company. The report has to deal with anything, which materially affects the profitability and business of the company, and it must contain AT LEAST the information required by Schedule 4 of the Companies Act.

DISCRETIONARY ACCOUNT:

An account opened with a stockbroker where the stockbroker may make transactions on the client's behalf without consulting him. The opposite is a non-discretionary account.

DISTRIBUTABLE RESERVES:

An item on the balance sheet, which appears on the Capital Employed (or liabilities) side. These are reserves, which may be distributed to shareholders in the form of dividends because they have been built up out of the profits of the company.

DIVERSIFICATION:

The process whereby a company (or individual) spreads its investments among a number of different enterprises so as to reduce its exposure through one of them. Research conducted in America has shown that diversification of a portfolio reduces risk until approximately 15 different shares are held. Thereafter, the reduction in risk is immaterial while the effort of following additional shares remains the same. This is the reason why students are advised to hold between 5 and 15 shares.

DIVIDEND COVER:

The number of times the dividend could be taken out of the earnings. For example, if a company has earnings (profits) of N$50 000 and pays out a dividend of N$5 000 then the dividend cover is 10 times, if a dividend of N$20 000 is paid then the dividend is covered only 2.5 times.

DIVIDEND EQUALISATION RESERVE:

A distributable reserve, which is specifically set up to ensure that dividends remain stable despite changes in earnings. If a company normally pays a dividend of 10 cents per share, the directors might establish a dividend equalisation reserve so that this dividend level is protected against unprofitable years.

DIVIDEND YIELD:

Dividends per share expressed as a percentage of the current market price. For example, if a company pays a dividend of N$10 000 and it has 10 000 ordinary shares in issue (sold to the public) then the dividend per share will be 100 cents. If the current market price is 2 000 cents per share, then the dividend yield will be 5%. This shows that if you bought the share at its current price, and it continued to pay the same dividend you would receive a 5% return per annum.

DIVIDENDS PER SHARE:

A company's ordinary dividend divided by the number of ordinary shares in issue, usually expressed as a number of cents per share.

DOW JONES INDEX:

Various indices are compiled daily of the prices of securities on the New York Stock Exchange. The Industrial Average measures changes in the unweighted arithmetical average of thirty leading industrial shares. There are similar indices for Utilities, Transportation, composite and Bond Averages.

DUAL CAPACITY TRADING:

Dual capacity trading was introduced following the deregulation of the JSE in 1995 and 1996. It means that a stockbroker may act as a principal and as an agent in share dealing activities. In terms of the new rules, a broker must disclose to a client who wishes to buy or sell shares whether he is acting as a principal or agent i.e., is he purchasing shares for the client for his own account or selling the client shares from the firm's own stock. The broker must disclose whether he is acting as a principal or agent in the deal to prevent conflict of interests. Until 1995, stockbrokers were limited to acting as agents connecting buyers and sellers on the market. This is known as a single capacity trading.

EARNINGS:

Share market terminology for a company's after-tax profit.

EARNINGS PER SHARE:

A company's earnings (profit) divided by the number of ordinary shares, usually expressed as a number of cents per share.

EARNINGS YIELD:

Earnings per share expressed as a percentage of the current market price of the share. For example, a company with 25 cents earnings per share and a market price of 250 cents would have an earnings yield of 10%.

ELECTRONIC SETTLEMENT:

Settlement of transactions on the bond market is done through settlement agents. As the bonds are deposited into the CD, the scrip is dematerialised and settlement, the transfer of the stock from the seller to the buyer, takes place electronically

ENTREPRENEUR:

This is a "go-getter" who runs a business, and shares in the risks and profits.

EQUITY:

That portion of share capital which carries risk, and shares in profits through dividends that are dependent on profitability. Ordinary shares are often called equity shares, and other types of shares, which carry less risk as convertible or participating preference shares are known as "near-equity". Equity is the share capital and reserves of the company – which is the same as its net assets (net of liabilities). You should be careful because in many instances, the book value of assets such as stock and real estate is very different from the market value.

EX DIV:

A share is "ex div" once the last day to register has passed. Any sales after the last day to register are done on the basis that the dividend accrues to the buyer, even if it has not yet been actually paid out.

EXPOSURE:

The degree to which a portfolio or other investment is susceptible to risk from certain factors. For example, a share in a company whose main business is importing would be highly "exposed" to the Rand/Dollar exchange rate.

FILL OR KILL:

(FK) means the full order must be executed immediately or otherwise cancelled.

FIFO:

The "First in First Out" method of valuing stocks. The assumption is made that the oldest stock is sold first when valuing what remains at the end of the accounting period.

FINAL DIVIDEND:

The dividend paid when the directors know what the final profit for the year will be. Added to the interim dividend, this gives the total dividend for the year.

FINANCIAL TIMES INDUSTRIAL INDEX:

A share price index calculated hourly during business hours from an unweighted average of thirty leading chips dealt in on the London Stock Exchange. Until recently this index was the best known barometer for the stock market but this has now been superseded by the Financial Times Share E 100 Share Index.

FIXED ASSET:

An asset which is expected to last and be useful for a number of years, and which cannot be easily turned into cash (i.e. has a poor liquidity). Such assets are depreciated over their expected lives. Examples are vehicles, land and buildings, furniture and fittings, office equipment etc.

FIXED INCOME:

These are investments, which give a set return, such as preference shares, bonds, debentures and savings accounts.

FOREIGN RESERVES:

A reserve of precious metals and foreign currencies kept by the Reserve Bank.

FREE-DEALING:

A term used to describe listed shares, which trade in large volumes regularly and can be bought or sold freely on the Securities Exchange. You should be careful of shares which are "tightly held" because you may have trouble finding a seller, and in particular you should not short-sell them as you will have difficult covering your position.

GEARING:

The relationship of a company's borrowings to ordinary shareholders' funds. A company can obtain the finance it needs to conduct its operations from two sources: by issuing of its ordinary shares and by borrowing from third parties. The ratio of the one to the other determines the company's gearing. This ratio is also sometimes called the debt/equity ratio. We say that a company is "highly geared" if the borrowings from external sources exceed the shareholders' capital by an excessive amount.

GENERAL OFFER:

An offer made to all shareholders of a company for the purchase of their shares. The purchase price could be in cash or in shares of a predator company or a combination of both.

GOING PUBLIC:

A term used to describe the sale of shares of a privately-held company to the public for the first time.

GREEN CHIP:

Environmentally friendly companies.

GROUP:

The holding company of a number of subsidiaries. Such companies produce Group Consolidated Accounts once per annum showing the consolidated position and performance of all the subsidiaries.

GROWTH STOCK:

An American term which refers to a share whose revenues and profits are in a phase of expansion over the long term, and whose earning peaks are still believed to be a long way in the future.

HEDGE AGAINST INFLATION:

Any tangible or hard asset which can be used to protect the investor against a depreciation in the value of paper currencies. Gold and other precious metals are typically the most popular hedges against inflation and this causes these metals to be closely related to the level of world inflation - the higher the rate of inflation, the higher the gold price. A word of caution - this does not refer to inflation in S.A., but rather to inflation in America and the western world generally.

HEDGE:

Action taken by a buyer or seller to protect his business or assets against a change in prices.

HOLDING COMPANY:

Any company, which owns more than 50% of the voting capital of another company, or can be, said to have effective control over the appointment of its directors.

IMMEDIATE DEAL:

Delivery of the shares and payment for them must be made before the end of the current settlement period.

INCOME:

In accounting terms, this refers to all revenues received by a company, both as a result of its sales and other sources such as interest, dividends or rent.

INDEX:

A weighted or unweighted average of the prices of a group of shares. There are many types of "indexes" (indices) for sectors, sub-sectors and entire markets. There are also a number of ways to weight the data, but essentially the idea is to allow for the fact that the market capitalisation of shares differs widely within the same sector. This is partly because each company has a different number of shares in issue. Over and above this, shares leave the sector, and new ones join it. The calculation of indices is the work of actuaries and this explains the term JSE "Actuaries" Indices. Indices are useful for determining the general direction of a sector and perhaps comparing individual shares with the group average. Sectors may also be compared, and a careful study of index trends will allow you to move your money around the market from one profitable sector to another. It is useful to keep records of all the sector indices (there are about 40) on a weekly basis, taking the data from your Sunday paper and working out a 10-week moving average. Securities may be linked to indices. SATS introduced an index-linked bond called ELFI, which is linked to various indices.

INDUSTRY:

A group of companies engaged in similar operations shares are grouped into industries called sectors in your daily paper.

INSIDER TRADING:

The illegal dealing in shares by people who, because of their privileged position, have information, which materially impacts on the value of the shares, before that information has been made public. This type of dealing is extremely difficult to control and is a constant feature of most share markets, especially where special situations such as take-overs are about to occur. The only protection is to keep a careful watch on the volume traded, because massive volumes are an indication that someone knows something that you don't.

INSTITUTIONAL INVESTOR:

An organisation (as opposed to an individual), that invests funds arising from deposits, premiums etc. Examples are insurance companies, mutual funds and investment trusts.

INTANGIBLE ASSETS:

Any asset which is not concrete. For example, goodwill or patents, which belong to the company, are not represented by any physical object, but refer to the company's rights to something or the reputation that the company has in its industry and market. These are very often not reflected in the accounts.

INTEREST RATE:

The price of money. Money behaves in much the same way as a commodity, in the sense that when it is in short supply, it becomes more expensive and vice versa. The interest rate is the cost of borrowing it and the reward for lending money. There are a variety of different interest rates, which apply to different types of money. For example, the prime overdraft rate is the rate at which the banks' most creditworthy clients borrow on overdraft: the bankers' acceptance rate, or BA. rate, is the rate at which the banks discount short-term paper over say 90 days and so on. The size of the money supply is a primary determinant of the interest rate, and also the point in the business cycle. A fall in interest rates is normally seen as an indication of a pending upswing in the economy.

INTERIM DIVIDEND:

A dividend paid out by the company when the directors have received the interim (half year) financial results. The final dividend is paid when the final profits are shown in the final accounts.

INTRINSIC VALUE:

The perceived value of a natural object, e.g. a precious metal, regardless of its actual price at any given time. In economics, value is determined by demand and supply and is denoted by price.

INVENTORY:

Another word for stocks of raw material, work in progress, consumable stores and finished goods. The valuation of inventory is critical to the balance sheet.

INVESTMENT:

An asset on the balance sheet that refers to the shares held in a company or loans granted to other companies, which do not amount to a controlling interest. The Act requires these to be split into listed and unlisted investments, and this is usually done in the notes.

INVESTMENT HOLDING COMPANY:

A Company which holds other companies as subsidiary or associate companies.

JSE TRUSTEES (PTY) LTD:

A company formed by the JSE to safeguard the surplus funds belonging to a client and held by a broker who is operating a managed account on behalf of the client.

JSE MONTHLY BULLETIN:

An extremely useful document, the Bulletin gives details of the month's trading on the JSE of all the listed securities, including preference shares and other listed instruments. Of particular importance is the section at the back, which gives details of rights issues capitalisation issues, share splits, consolidations and other major changes in share capital.

JSE RULES AND DIRECTIVES:

Rules, sets of rules and directives established by the JSE to govern all the workings of the exchange in terms of the Stock Exchanges Control Act (SECA),

JUDICIAL MANAGEMENT:

Where a company is wound up for financial reasons, it is sometimes the case that it could have been saved had it been managed well. Judicial management was introduced to assist this type of company to overcome a temporary setback without going out of business. A judicial management order usually gives the company a moratorium on its debts. Essentially, the court replaces the directors. A provisional judicial manager is appointed, to assume control until the final judicial manager can be appointed. Application for judicial management may be made by the company itself, a creditor or a member. If the judicial manager cannot return the company to solvency, then he may recommend to the court that it be wound up.

LAST DAY TO REGISTER:

A date by which securities must be lodged with the company's office in order to qualify for dividends and rights.

LAST TRANSACTION PRICE:

The price at which a certain share was last traded. This information is normally reported on the price page of your newspaper in a column headed "last". It is sometimes called the "closing" or "ruling" price. Normally, papers report on the position at the end of the morning or afternoon session.

LEADING INDICATORS:

These are indicators, which tend to anticipate movements in other indicators. For example, the paper and packaging industry tends to start experiencing better conditions before the rest of the economy because almost all products have to be packaged before they can be sold.

LEGAL PERSONA:

This is a legal term that refers to the fact that in addition to natural persons, companies are considered by law to be persons independently of their owners or managers. Legal persona gives companies the two essential features that they need to attract capital from the investing public – separation of the ownership from the management of the company and limited liability, which ensures that shareholders (unlike partnerships and sole traders) are only liable to the value of their shares

LIABILITY:

An accounting term, which records monies, owed by the company to outsiders. The most common forms of liabilities are share capital and reserves (which are money "owed" to the shareholders), long-term loans such as debentures, and short-term loans (normally called creditors). These amounts are added to the liabilities side of the balance sheet or subtracted from the assets side. They are credit balances in the ledger, and essentially they show the source of the company's finance.

LIMIT ORDER:

An order, which may only be effected at prices equal to or better than the price on the order.

LIQUID ASSETS:

Assets that can be readily converted into cash. Normally, these are current assets such as debtors, stock and obviously cash or bank balances. The "liquidity" of an asset is the speed and ease with which it can be turned into cash.

LIQUIDATION:

The Process whereby a company is dissolved. The court, the company itself, a shareholder, the Master of the court, the judicial manager, a creditor, or the minister may initiate such dissolution. A liquidator is appointed, who arranges to sell off all the assets of the company and uses the proceeds to pay its creditors (firstly the secured creditors and then the unsecured ones). Once the creditors have been paid then the preferential shareholders are paid, and then finally the ordinary shareholders.

LIQUIDITY:

The ability of a company (or person) to raise cash on short notice, usually with a view to meeting debts, unexpected expenses, or to take advantage of opportunities. It is wise to keep a portion of your wealth in cash so that you will be able to take advantage of unforeseen opportunities (or meet unforeseen expenses) without being forced to sell shares at a time, which may not be advantageous. Excessive liquidity usually means that the company or individual is overly conservative and is not reaping the full benefit of investment opportunities.

LIQUID OR ILLIQUID SECURITIES:

Selected securities so designated from time to time by the JSE's Committee for the purpose of tick sizes and bear sales.

LISTING:

The right to trade a particular security on the exchange. The NSX has stringent requirements for companies seeking to have their shares and other instruments listed. Securities may be listed in the industrial, or mining or financial sectors etc or on the Development Capital Board.

LONGTERM LIABILITY:

A debt, which is to be, repaid over years rather than months. A good example of this would be debentures, which carry a fixed percentage return and are redeemable by the company at some future date. Long-term Liabilities are found on the liabilities side of the balance sheet immediately below share capital and reserves.

LOCAL COUNTER-PARTY TRANSACTION:

A transaction where a member firm trades as a principal with a person, other than a member firm in South Africa.

LOT SIZE (LOT)

This is the standard unit of trade in all equities;

- one round lot (100) in Kruger Rands:
- one coin;
- in debentures:
- R100 nominal value.
- When you want to buy or sell shares there is no need to transfer funds.
- When your savings consist of shares, they immediately begin to earn interest at a competitive call rate.

MANAGEMENT BUY-OUT:

The acquisition of all or part of the share capital of a company by its directors and senior executives. The management is usually assisted by loans from an institution.

MARGINAL PRODUCER:

A term usually applied to gold-mining companies with a very high cost of extraction and therefore a low margin. If their cost of extraction is close to the gold price, then very small fluctuations in the gold price can easily double or halve their profitability. This is reflected directly in their share price, which tends to fluctuate widely for relatively small changes in the gold price.

MARK TO MARKET:

Calculation of the difference between the contract price and the market price.

MARKET APPRECIATION:

The difference between what was paid for a share and its current market price. This is distinct from the realised profit, which can only occur if the share is actually sold and the money is in the bank.

MARKET BREADTH:

The extent or scope of change in stock prices. Market breadth is most often measured by analysing the number of stocks that advanced or declined during the period or by counting the number of shares in issue by their current market price.

MARKET ORDER:

An order given to a broker with no price limitation. The broker is instructed to obtain or sell a specific number of shares "at best" - as opposed to a limit order, where the instruction is only valid above or below a pre-determined price. In practice, the broker will usually inform you if the price has changed dramatically, and give you a chance to reconsider.

MARKETABLE SECURITIES TAX (MST):

A tax which is levied by the JSE on all purchases of shares and other securities.

MERGER:

(Also called an amalgamation.) This occurs where two or more companies come under the control of one, whose shareholders then become the shareholders of the companies that were merged. Sometimes one of the two merged companies is used as a vehicle for the merger, and sometimes a totally new company is formed for this purpose. A merger is seen as distinct from a "take-over" or an "absorption".

MINORITY INTEREST:

A shareholding of less than 50% of the total issued share capital of a company. Companies work on the principle of majority rule – decisions are made by the majority of votes in the company. Because ordinary shares usually have one vote each (although there are sometimes voting and non-voting ordinaries), this means that whoever controls at least 50% of the shares controls the activities of the company. The Companies Act goes to considerable lengths to protect minority shareholders from any unlawful actions of the majority – or any actions, which are not in the interest of the company as a whole. Any such action could constitute what is called a "fraud on the minority". When looking at the consolidated accounts of a company it is common to see a minority interest shown. This means that the holding company has subsidiaries, which holds less that 100% of the share capital. The holding company is obliged by law to consolidate the whole of the subsidiary into its accounts, and therefore must itemise that portion which belongs to minority (or "outside") shareholders.

MONETARY POLICY:

Monetary policy is the control of the economy by changes in the money supply, as a result of changes in the level of interest rates, and the percentage of money that banks are required to lodge with the Reserve Bank. This is as opposed to fiscal policy, which involves the level of government spending and taxation.

MONEY MARKET:

The money market does not take place at a central place; it is really a communications network which allows banks, money brokers, businesses, discount houses, the government and the Reserve Bank to deal with one another and arrange short-term lines of credit with one another. Money brokers and discount houses conduct the market in a full time capacity, and in fact constitute the market.

MONEY SUPPLY:

The total amount of money in the country. There are various methods for measuring the money supply, itemised under "M1, M2 and M3".

MONOPOLY:

The situation where one business controls enough of the supply of a product or service to be able to force the price up by being the only supplier. A good example of this is De Beers, which has a virtual monopoly in the diamond market. Monopolies are discouraged in most western capitalist countries because they tend to lead to artificially high prices and inferior products. In the USA anti-trust legislation attempts to prevent monopolistic mergers and take-overs.

MORNING FIX:

A fixing of the gold price in London at a fixing session. This is done by five leading bullion houses, by matching supply and demand to equalise at a certain price. There is also an afternoon fix.

MOVING AVERAGE:

The most commonly used technical indicator in the world, this is often used in conjunction with other indicators. To calculate a moving average on a data stream (such as a series of daily share prices), it is necessary first to decide on its period. The shorter the period the more sensitive the signals.

NEW ISSUE:

A listing of a new security or an issue of more shares in an already listed security.

NET CURRENT ASSETS:

A balance sheet item showing the difference between current assets and current liabilities. In most healthy companies, this difference will be positive, so that the company is always able to meet its short-term creditors from its short-term assets.

NET OPERATING INCOME:

The profit of the company before the appropriations detailed in the income statement. Most income statements begin with a statement of the company's turnover, which is not arithmetically related to the rest of the income statement. The next figure is net operating income from which the interest paid, extraordinary items, taxation, transfer to reserves preference and ordinary dividends are subtracted to arrive at the retained income for the year.

NET INCOME:

(Also referred to as NET PROFIT or NET EARNINGS.) The earnings of an organisation after deducting taxation and all other expenses. This is obviously an important measure of a company's performance, but you should remember to allow for the inflation rate when comparing one year's net income with another's.

NET WORTH:

The value of the assets of a company less the value of its liabilities. It is common to hear investors saying "a particular share is trading at 20% below net worth". What they mean is that if the company were to sell all its assets and pay off all its liabilities, the balance would be 20% more than its current market capitalisation. This then makes the share good value at the current share price.

NEWS LETTER:

An announcement made by a company, either voluntarily or to comply with legal requirements, to inform the public of some material development which will impact on shareholders. Typically, rights issues, capitalisation issues, consolidations, pre-listing statements, interim and final dividends, annual financial statements and many other announcements are made through the press. You should study these carefully because they often offer good opportunities for profit.

NIL PAID LETTERS:

A security which is temporarily listed on the stock exchange and which represents the right to take up the shares of a certain company at a certain price and on a certain date. Nil paid letters are the result of a rights issue to the existing shareholders (or debenture holders) of a company. A rights issue is one way of raising additional capital by offering existing shareholders the opportunity to take up more shares in the company - usually at a price well below the market price of the shares. These rights are represented by the "nil paid letter" and are renounceable – this means that they may be bought and sold on the stock exchange. You will see them from time to time on your price page. For example, Randex npl or Gencor npl. They are normally very volatile because they fluctuate according to how close the market price is to the "take-up" price.

NOMINAL OR PAR VALUE:

Value given to shares when they are created. This has nothing to do with the true value of the shares and need bear no relationship to the market price.

NOMINEE:

A person or company nominated to perform some function on behalf of a principal. In the share market, the nominee typically owns shares on behalf of the principal, and usually the nominee is a private company – and this makes it difficult to discover who actually owns the shares.

NON-DISTRIBUTABLE RESERVE:

That portion of accumulated shareholders' equity, which may not be distributed in the form of dividends. The Companies Act is at considerable pains to maintain the share capital (or asset base) of a company and to prevent minority shareholders from being defrauded by the majority. Because of this, the shareholders' equity is clearly divided into two main areas – contributed (or paid-in) equity and accumulated equity.

NOTES TO THE ACCOUNTS:

These form part of the annual financial statements of a company. They supply more information on the figures contained in the financial accounts, according to the requirements of the Companies Act. It is very important to consider these notes carefully before buying the shares of the company. They often contain important information, which the company has preferred to show as a note rather than in the balance sheet, income statement or flow of funds statements. For example, any change in accounting policies is contained in the first note, and these can be very important to the final profit or loss picture. Other items which are covered are a breakdown of investments into listed and unlisted, directors emoluments, a breakdown of fixed assets, auditors' fees, details of borrowings and so on.

ODD LOTS:

Share certificates or transactions in stocks and shares in quantities other than round hundreds.

OPEN ORDER:

An order still pending or on the books to buy or sell security, but not yet executed. An open order will remain in effect until it is either executed or cancelled or for a period of two weeks, at which point it lapses. If orders are required to remain open for more than two weeks, they can be placed "GTC" (good till cancelled).

OPTIONS:

Purchased options giving the right of conversion into shares at a fixed price and by a specified date. Options are negotiable on the JSE.

ORDER:

A commitment to buy or sell a specified quantity of a security at a set price (limit), or at best, subject to certain terms.

ORDINARY SHARE CAPITAL:

Capital of a company represented by the number of its ordinary shares.

ORDINARY SHARES:

Also sometimes called "equity" shares, these are fixed shares, which share in the profits and risks of the company. Unlike the fixed dividend paid to preference shareholders, the ordinary dividend is decided by the directors, and is dependent on the company's profits. If the company is liquidated, the ordinary shareholders share out the proceeds after the creditors and preferential shareholders have been paid out. For these reasons, ordinary share prices tend to be far more volatile than preference shares, giving opportunities for capital gains. Most of the shares published in the newspaper are ordinary shares.

OVER-PRICED:

This describes a share, which has a market price in excess of its "real value – in the opinion of the person who uses the term. The real value of a share is always a matter of opinion, and at any one time some investors will regard a share as over-priced – while others will consider it to be under-priced – and if the opinion of pessimists carries more weight than that of the optimists, the market price will fall and vice versa. At any point in time, the market price represents the algebraic average of all investors' opinions relating to the share's real value, while technical analysis is the search for that real value, while technical analysis is the study of investors' opinions concerning the real value – as reflected in the share's price pattern.

OVER-REACTION:

A situation, which arises after news concerning a share, is disseminated, and investors push the price to levels, which are beyond reasonable discounting of the news - ie. they over-react. Such situations can give good profit opportunities to the astute and level-headed investor.

OTC:

Over-the-counter market – a market which is normally not licensed or an informal market for the trading of securities. There is therefore no formal settlement through a clearing house nor is risk formally managed.

OVER-SUBSCRIPTION:

This occurs where the applications for a new issue of shares exceed the number of shares available for issue. This often happens because the shares are offered to the public at a price below their inherent value and people obtaining the shares can make an immediate "stagging" profit when the shares are listed.

PAPER PROFITS:

The difference between the purchase price of a share and its current market price. Another term for this is "market appreciation". There is a potential danger in this figure, because it may not be possible to sell the shares at their market price.

PAR VALUE:

The price for which a share was first sold to the public. Normally, the market price quickly exceeds the par value as the company grows and makes profits. The objective of the par value is to enable the "asset base" of the company to be clearly established at its inception so that no illegal erosion of that base can take place.

PARTICIPATING PREFERENCE SHARES:

Preference shares which participate in the profits beyond a fixed percentage. For example, they might receive an additional 2% if the ordinary dividend is above 8%, or, over and above their normal fixed percentage they might receive 10% of the ordinary dividend.

PENNY STOCK:

Shares, which trade for low prices per share. They may be shares of a very good company, however, they are usually not. They are attractive to private investors who do not have enough capital to purchase more expensive shares.

POLITICAL RISK:

Risk which is political, rather than economic, financial or managerial. This kind of risk is very difficult to determine and can cause tremendous fluctuations in the market. It is not usually a feature of the more stable western countries, but has become an increasingly important factor in South Africa.

PORTFOLIO MANAGER:

This is someone who manages portfolios on behalf of investors. He makes the investment decisions and is not usually obliged to get his clients' permission to change their investments. He is paid a fee plus a percentage of any profit he makes, and is not liable for any losses sustained by his clients.

PORTFOLIO STRUCTURE:

The percentage breakdown of a portfolio over the various market sectors.

PRE-LISTING STATEMENT:

A public press announcement required by the JSE before the listing of a company, which is not accompanied by a new issue of shares and therefore a prospectus. It is felt that the investing public needs the same type of information that is usually contained in a prospectus before they buy shares on the JSE.

PREFERENCE SHARE:

Shares which have preferential rights in relation to another class of share in the same company. These rights consist of:

- The right to receive dividends before ordinary shareholders
- The right to receive a dividend which is a fixed percentage of the nominal or par value of the shares
- The right to a preferential repayment of capital in the event of the liquidation of the company.

"Prefs" are generally uninteresting to any but the most conservative investor because their prices tend to remained more or less static, in line with their fixed dividends.

PREMIUM:

A general term used to describe the difference between the price at which a share was first issued and the current price.
Often, a successful company wants to issue additional shares to raise the capital for expansion. The price of these new shares will reflect the growth of the company since its incorporation and so they will be sold for more than the selling price of shares of the same class when the company was first formed. The additional amount is a share premium, and is shown separately in a share premium account.

PRICE: EARNINGS RATIO:

The market price of a share divided by its earnings per share. This gives the reciprocal or the earnings yield, and is used by some investors to compare shares.

PRICE RANGE:

The difference between the highest and lowest prices at which a particular share has traded over a certain time period – such as one trading day, or one year. The range is a good indication of the volatility of the share.

PRIMARY MARKET:

The market for shares when they are first sold by a company to raise capital. New issues and rights issues are examples of activity on the primary market. Once the company has sold the shares, they enter the secondary market and are sold and bought by members of the public without in any way changing the capital structure of the company.

PROSPECTUS:

This is a requirement of Companies Act for every offer of shares to the public. It must be lodged with the Registrar of Companies, and must conform to Schedule 3 of the Companies Act. The purpose of the prospectus is to ensure that members of the public wishing to purchase the shares on offer are aware of certain key information concerning the company and its directors.

PROVISION:

An item on the balance sheet that falls under liabilities. A provision is "raised" when the company has an expense for which it has not yet received an invoice and therefore does not know the amount. The provision is an estimate, which is charged against profits because the expense was incurred in the accounting period, which is being reported.

PROXY:

A document, which entitles one person to attend shareholders' meetings, speak and vote on behalf of another person who is a shareholder of the company.

PUBLIC COMPANY:

A company as defined by the Companies Act which may issue shares to the public, has no restrictions concerning the number of shareholders, or the transfer of shares from one person to another. Public Companies may have their shares listed, but do not necessarily list. Public companies must have at least 7 shareholders, but there is no upper limit. They are also required to lodge their annual financial statements with the Registrar of Companies.

RALLY:

A temporary upturn in the price of a share or index or other data stream which occurs during an overall bear trend. The opposite of a correction.

RATIO:

The relationship between two figures from the financial statements designed to show the profitability or effectiveness of the management within a company. Ratios have no absolute significance, and are only relevant for comparisons over the history of the company or between companies in the same sector.

REALISED PROFIT:

A profit which is actually in the bank, as opposed to a market appreciation. If you buy shares for R10 and they rise to R12 then you have a market appreciation of R2. Only if you then sell them at R12 will you have a realised profit of R2 less your dealing costs.

RECESSION:

A cyclical period of lower economic activity, occurring at regular intervals. As opposed to a depression which is a period of major economic downturn with high unemployment and declining gross national product.

REDEEMABLE:

This refers to preference shares or debentures, which are paid out by the company at a certain future date. The only real difference between redeemable "prefs" and redeemable debentures is that the debentures are units of loan capital and receive interest, while the prefs are share capital and receive dividends – which may not be paid if the company is not making a profit.

REDEMPTION DATE:

The date on which redeemable preference shares or debentures will be redeemed by the company. These are really forms of long-term indebtedness, which clearly have to be paid back on pre-determined dates.

REMAINING LIFE:

An estimate of how long a mine will be able to extract gold profitably (or other minerals), given the lease area and the expected grade. Clearly an assumption has to be made about the future gold price in Rands. It can be roughly calculated by dividing the tonnage of mineable ore by the average annual rate at which it is extracted. As mining technology becomes more sophisticated and new, cheaper methods of mining are found, the remaining life of mines can be extended.

RESERVE:

A figure from the liabilities side of the balance sheet, which is money ploughed back into the business out of profits, arising from a revaluation of assets, or money set aside for the redemption of debentures or other long-term loans. Reserves can be either distributable or non-distributable in the form of dividends. The general rule is that a company may only distribute profits, and not its capital base. Reserves arising from profits are normally distributable, as opposed to reserves arising from, e.g., a revaluation of land.

RETAINED INCOME:

The entire after-tax profit of a company that is not distributed to shareholders as a dividend i.e. the portion that is usually kept in the business to finance future growth or to act as a reserve against less profitable years. This is known as retained income and appears in both the income statement and the balance sheet.

RETURN:

The return on an investment consists of any dividend, interest, rent or other income added to the increase in the value of the asset over a set period, usually expressed as an annualised percentage of the original investment. For example, if you bought shares for 1000 cents, received a dividend of 25 cents and then sold them 6 months after the date of purchase for 1175 cents, then your return consists of 25 cents dividend, plus 175 of capital growth, which is 20% of your original investment of 1000 cents. This is 40% on an annualised basis.

RETURN ON CAPITAL EMPLOYED:

A ratio used to measure pre-tax profitability. It may be calculated as pre-tax profit plus interest paid, divided by total shareholders' funds.

RIGHTS ISSUE:

An offer of additional shares to existing shareholders, usually at a discount to the current market price. When a company wishes to raise additional capital, one of the ways it can do so is by offering more shares to its existing shareholders. Normally the right to buy these shares is represented by "Nil Paid Letters" which entitle their holder to buy the shares at a price usually below the market price. Some of the existing shareholders may not wish to take up their rights and so are willing to sell their NPL's. For this reason the NPL's are often listed for a short period (until the date when the shares must be taken up) on the stock exchange.

RISK:

The probability that a share price will go down rather than up. All investments have an element of risk which is harder to quantify than their return, and therefore very often left to "gut feel". Generally, the rule is that the more risky an investment, the higher its potential return. To understand this, it is necessary to consider what you are actually doing when you buy a share or other investment. Essentially you are in the business of forecasting. You are saying that you are buying the particular share because you believe that its price will go up. Now ask yourself what is the easiest price graph to predict - obviously a straight line! But if the share's price stays at the same place indefinitely, it may be easy to predict, the share price, the more difficult it is to predict and therefore the more risky it becomes - but its volatility also makes possible much higher profits. So, in the share market, volatility, predictability and risk are really the same thing.

SATISFACTION RULE:

Generally, a rule, which ensures that orders in the public order book are honoured when special types of trades take place, especially market maker trades.

SCRIP:

The physical share certificates(s)

SECURITIES:

Stocks, shares or bonds.

SELLER'S PRICE:

Price at which dealer is prepared to sell shares on the market.

SELLING SHORT (BEAR SALES):

Selling shares you do not possess in the expectation of being able to buy them at a lower price before they are due for delivery.

SETTLEMENT PERIOD:

A numbered week in which member firms must settle their scrip accounts with the JSE clearing house. Brokers' notes to clients carry the number of the settlement period in which the client must settle the deal. (The weeks are numbered from 1 to 52, starting in January).

SHARE TRANSACTIONS TOTALLY ELECTRONIC (STRATE):

An electronic settlement system for the South African equities market.

SHARES:

These represent part-ownership of a company.

SECONDARY MARKET:

The market is made up of share transactions, which do not involve the company that issued the shares concerned. The primary market is where companies sell their shares to the public to raise capital.

SECONDARY SHARE:

A share of a company, which is well-managed and has good markets, but does not have the financial muscle or history of profits of the blue chips. These are sometimes referred to as "growth" stocks, because they have the potential to become blue chips at some future stage. You should expect a secondary share to double its market price within the next 2 to 3 years, and for this reason they form an important middle area in your portfolio between blue chips and speculative shares.

SECTOR:

A grouping of all shares in the same industry, usually represented by a sector index.

SECURITIES:

Any type of marketable investment paper, whether bonds, shares, prefs, debentures or other. The term is much broader than "share", encompassing all types of investments, which can be readily bought or sold.

SELLER'S PRICE:

The price at which someone is prepared to sell a share. At the end of the day's trade, there is often a seller who was not able to find a buyer for his shares at the price he wants, so that his price remains in the seller's column until the next trading day. The seller's price is reported in some papers (Business Day) as it stood at the close of trade on the previous day.

SENTIMENT:

The mood of the market. The way that investors as a group perceive a share, sector or the market as a whole – are they bullish or bearish?

SETTLEMENT DATE:

The date by which you must settle your account with your broker for the purchase or sale of shares. When you buy you must pay your broker within seven days, and when you sell you must supply your broker with a signed transfer form and the share certificates within seven days. This is one of the most strictly enforced laws in this country.

SHARE CAPITAL:

A figure on the balance sheet representing the amount of money raised by the company through the issue of shares to the public.

STAG:

Person who applies for shares in a new company with the intention of selling them immediately when dealing commences (hopefully at a profit).

STOCK EXCHANGE CONTROL ACT:

A statute regulating the establishment and operation of stock exchanges in South Africa. The Act also governs the trading of listed securities, and the constraints on the broking profession. Copies of the Act are available from the NSX.

STOP LOSS:

A simple share trading strategy designed to cut losses and allow profits to ride. When a share is bought, a note is made of the floor price, which is, say 10% below the purchase price. If the price were to decline or go through the floor price, the share would be sold. If however the expected rise in price occurs, the floor rises correspondingly, always remaining at 10% below the current price. At some stage, the price will turn around and go through the floor – resulting in a sale. At this point, a ceiling is calculated at say, 7% above the sale price. If the share price goes on going down, the ceiling goes down too. As soon as the share price cuts up through the ceiling, it is bought, and a new floor price is established

SUB DIVISION:

Also known as a share split, a sub division involves an increase in the number of shares held by each member, with a proportionate reduction in their value so that there is no change in the total value of the shareholding. This is done by breaking each share down into smaller pieces. The effect is to bring the shares within the smaller investors. This normally results in a greater demand for the shares.

SUSPENDED SHARE:

A share that the Committee has suspended from trading for a period of the time. Usually, this occurs where some material event is about to occur which will drastically effect the share price. Until this information is made public, trading is suspended to prevent insiders from buying or selling the shares illegally.

SYNERGY:

This is a fashionable word to denote gains made in addition to the sum total of the parts when two business concerns are jointed. The basis of the concept is the experience that in some mergers the net advantages that accrue to one firm need not come at the expense of the other: both parties may gain.

SYSTEMIC RISK:

The risk that the entire share market will fall, taking all shares with it irrespective of their inherent quality or value.

TAKE-UP PRICE:

The price at which shares subject to a rights issue must be bought. Normally this price is below the market value of the shares, so that the rights themselves have a value. If the rights are not taken up then they fall away and cease to exist.

TAKE-OVER:

The situation where one company makes an offer for some or all of the shares of another company. The offer to existing shareholders is usually pitched at a price well above the existing market price, to persuade shareholders to accept the offer. Many investors select companies that may be ripe for a take-over (some classic indications: the company's market price is well below its net asset value. It has recently cut or passed its dividend, and it has a large assessed tax loss that could be used by another company) and then wait. For example, the value of Wispeco shares was 20c in 1978. In November 1979 Metkor made a take-over offer pitched at 70c per share, which was 16c above the latest market price before the offer was announced.

TAKING A VIEW:

This phrase has two meanings. Firstly, it can refer to an investor taking a bullish or bearish view of the market depending on whether he believes market trends will rise or fall -usually this would be reflected in his transaction. Secondly, it can refer to the length of time that one intends to keep a share - shares can be bought with a short, medium or long-term view.

TECHNICAL ANALYSIS:

The analysis of group investor behaviour, as reflected in the patterns of share prices and volumes, indices, exchange rates and other indicators. More commonly known as charting, this consists of carefully examining the share price, and drawing graphs to establish patterns, which can then be used to give buy and sell signals.

TICK SIZE:

A short horizontal stroke on a bar graph showing the price at which the share closed. The specified parameter or its multiple by which the price of a selected security may vary when trading at a different price from the last price, whether the movement is up or down from the last price.

TIGHTLY HELD:

Shares which are difficult to obtain because the owners are reluctant to part with them. These shares are easy to spot because they have little or no volume traded. Generally, it is not a good idea to deal in such shares.

TIME SERIES:

A term used to describe a list of numerical data accumulated at regular periodic intervals. The daily or weekly closing price of share is a time series.

TIME VALUE DECAY:

A term, which describes the fact that the time value of an option diminishes as the option approaches the expiry date. Time value decay follows a negative exponential curve, which is to say that it is very gradual at first, but builds up momentum until it declines very sharply in the last few days.

TIP SHEET:

A new newsletter, which concentrates on giving its readers hot tips which share to buy and sell and when to transact. Such letters should be followed with caution, and their advice used only in conjunction with your own research.

TOP:

The highest point on a share price or other graph over a defined period.

TRADEABILITY:

The ease with which a share can be traded. Some shares are free-dealing and highly tradable, others are tightly held.

TRADING ASSETS:

Usually taken as the company's debtors and stock – in other words, the assets, which are normally tied up in the direct running of the business.

TRADING SESSION:

There are two trading sessions each trading day on the JSE: one in the morning from 9:30 a.m. until 1:00 p.m. and the other from 2 until 4 p.m.

TREASURY BILLS:

Instruments for short term borrowing employed by governments. The bills are issued by tender to the money market.

TREND LINE:

A line joining the high points on a bear trend and the low points on a bull trend. When the price breaks through the trend line this gives a trading signal. This is probably the simplest, but by no means the least effective technical analysis indicator.

TURNOVER:

The first stated figure in the income statement, turnover consists of the company's total sales or income figure.

UNDERWRITING:

An agreement to buy all the units of a new issue not sold by a specific day. Banks typically underwrite new share issues, thus assuring the issuing company that all shares will be taken up.

UNIT TRUST:

A trust consisting of a management company and a trustee company (usually a bank) which invests unit-holders funds in the share and capital markets for a fee. The public is invited to buy units in order to obtain capital growth and dividend income. Unit trusts are basically a method for lay-people to pass on the management of their money to a management company employing expert analysts. Investors can invest much smaller sums of money in a unit trust that is usually practical when buying shares directly through a broker. Different unit trusts have different biases in their portfolios, which can greatly affect their overall performance.

UNLISTED INVESTMENT:

A balance sheet item, normally shown by way of a note, and indicating share investments held by the company in unlisted companies which may be private or public.

UPSIDE POTENTIAL:

A term used to describe a transaction made at a price higher than the preceding transaction price. Also called a plus tick.

VOLATILITY:

The degree to which a share deviates from its average. High volatility is associated with risk, both fundamental and technical. For example, shares in marginal gold mines are extremely volatile, moving 10% or more in a single day, because their operations are only just profitable or unprofitable so that their performance is highly geared to the gold price.

VOLUME:

The number of shares changing hands during the trading day. In America, this figure is calculated by adding shares bought to shares sold – in other words, it is effectively double the volume traded, as it would be shown on the J.S.E. In London the volume traded is not disclosed, so that the various indicators which rely on volume cannot be used. You should keep a careful lookout for exceptional volumes on a share, because they can give a clue about insider trading and special situations.

WIDOW'S AND ORPHAN'S FUND:

An institutional term referring to a fund which is dominated by the need to generate income rather than rapid capital growth.

WORKING CAPITAL:

The money which is tied up in the workings of the company. Usually calculated by adding the company's debtors, stock and cash balances, and subtracting its creditors and other current liabilities. Most companies try to keep their working capital to a minimum because it ties up money which could be used for other activities and which incurs interest.