

Making Money in the Nigerian Stock Market

- A Foundational Guide



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Do you know that....

“
between 1993-96 African equity markets ranked
among the best-performers in the world”

**that's just one side of the
story....**

the side of the story that concerns us...

The NIGERIA Stock Market:

“the highest returns in any of the emerging markets for the past 5 years”

—The United Nations Development Programme's first African Stock Markets handbook



Why we are here!

**To learn how to make
money from this
market, right under
your nose...**

The Deliverables

COURSE OBJECTIVE:

Provide a core understanding of:

- The Nigerian stock market
- Investment strategies open to you
- The Proshare online trading tools & access to analyst reports & services



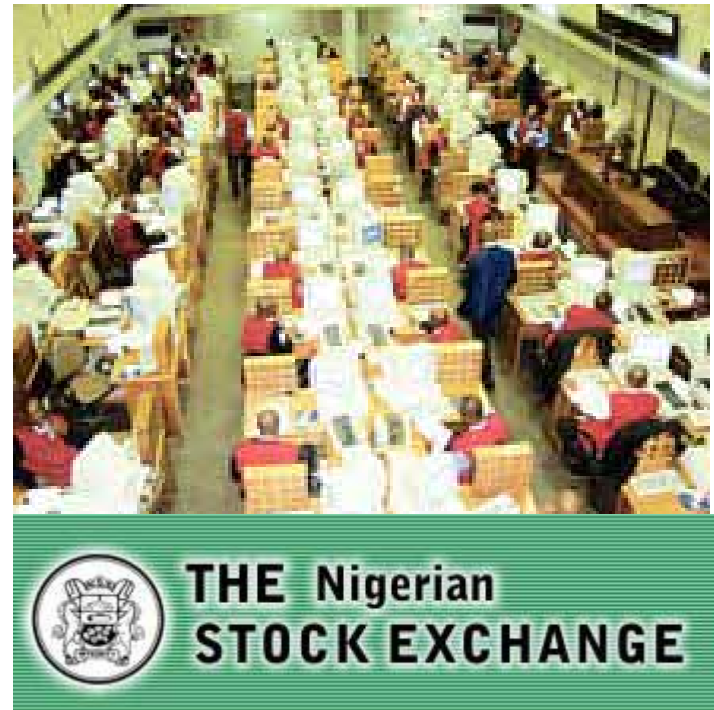
COURSE OUTLINE:

Learn how to:

- Play the Nigeria stock market
- Apply Investment tips & strategies
- Appreciate stock analyst information
- Start out with confidence

Module 1:1

Playing the Nigeria Stock Market



Learning Outline

- **Introduction to the Nigerian Stock Market**
- **The Capital Market Vs. Money Market – an Investment Returns Analysis**
- **Beyond Shares – Other Investment Instruments available in the market**
- **Regulations that may affect your investment**
- **What influences Share Prices in the Market**
- **What you need to monitor**
- **Myths & Realities – Misconceptions Explained**

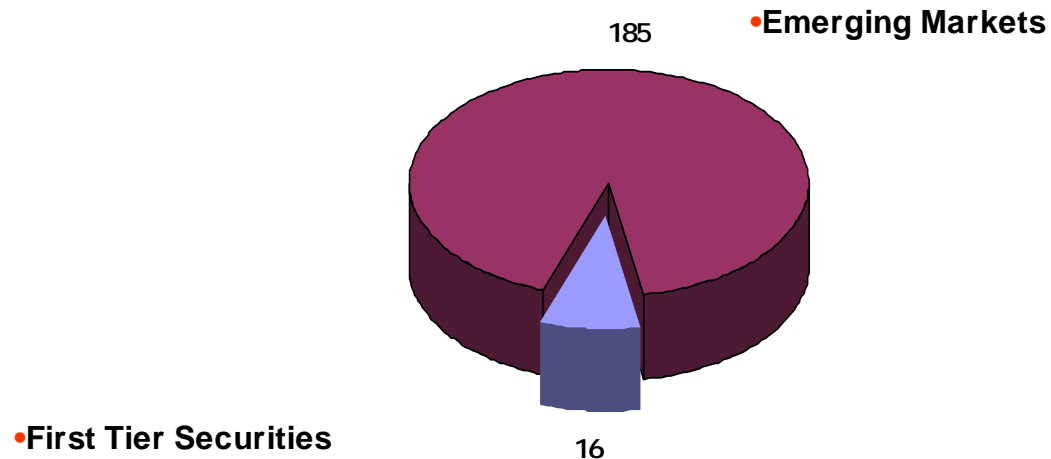
Introduction to the NSE

- Incorporated in 1960 - started business in 1961 with 19 listed securities.
- Non-profit oriented & Limited by Guarantee
- Not government owned institution
- Liquidity arm of the capital market
- Mirrors the economy through the All-Share Index
- Promotes increased capital formation
- Plans to de-mutualize the Exchange in future



Market Structure

- The NSE has 2 windows
 - Emerging Market (formerly known as 2nd tier Securities)
 - Main Board (1st tier Securities)
- @201 listed companies split as follows:



Market Structure

- The 1st tier Securities are classified according to the operational sub-sector of the economy, e.g.

Agriculture	Construction
Airlines	Food/Beverages & Tobacco
Automobile & Tyre	Chemical & Paints
Banking	Breweries
Insurance	Petroleum

We have 24 sub-sectors of the economy listed in this market

Market Structure

- Memorandum Quotations & Foreign Listing Sub-Sector
- Currently trades 270 Securities valued at N6 trillion

SOME COLD FACTS

- About 3% of Nigerians are individual shareholders!
- Nigeria's main source of revenue is from crude oil **yet** none of the upstream companies are quoted on the exchange!

Trading System

- **April 27, 1999 -**
 - NSE transited from OPEN OUTCRY (or the call over system of trading) to the AUTOMATED TRADING SYSTEM (ATS).
- **April 14, 1997 -**
 - Introduced the CENTRAL SECURITIES CLEARING SYSTEMS LIMITED (CSCS).

Trading System . . . *contd.*

- Automation of the NSE's delivery, clearing and settlement system through the CSCS.
- Reduced transaction risk by fixing the transaction cycle to T + 3
- Trading floor opens at 10 am and ends around 12 noon - Mondays to Fridays. This 'may' be extended as the situation demands.
- The NSE remains the only organised entry and exit point for individual and institutional investors.

Instruments Traded

- **EQUITY**
 - Ordinary Shares and Preference Shares
- **DEBT**
 - Government bonds, Industrial loans, Debenture stocks
- **DERIVATIVES**
 - Options, Right swaps e.t.c (to commence soon)



What Influences Share Prices?

- Company's Performance
- Demand & Supply of shares
- Market information (hearsay, grapevine, anywhere)
- Government Policy
- Liquidity of Stock
- Investors perception of the company's management, products, position in the industry (remote factors)



Indices to Monitor

- Earnings Per Share (EPS)
- Price Earning Ratio (P/E)
- Dividend per Share (DPS)
- Business Done column on the NSE Daily Official List
- Predictability value of its profit forecast - how well has it met objectives it had set for itself in the past.



Capital vs. Money Market

- Inverse correlation between movement in interest rates & Investment in shares in the stock market.
- Money market instruments include:
 - Treasury Bills, Certificates of Deposits, Commercial Papers, Bankers Acceptance, Bank Deposits e.t.c.
- Most money market Instruments have common features:
 - Liquidity, marketability, safety, maturity e.t.c.



Comparing Returns

- IFC and Standard & Poors have identified the NSE as “one of the best markets in terms of returns in Dollars”.
- Better still, many of the listed companies are still in the growth stage
- Benefits for an equity Investor will include:
 - Dividends (income)
 - Bonus Shares
 - Capital Appreciation
 - Use of Shares as collateral to source for funds



Comparing Returns (2)

- A PRACTICAL EXAMPLE:

	Price	Price	Increase
	21/01/04	12/05/04	
	=N=	=N=	=N=
Guinness Nig. Plc	84.70	124.93	40.23
Nigerian Breweries Plc.	64.38	121.27	56.89
Nestle Foods Plc.	124.00	167.00	43.00
Total Nig. Plc.	180.00	198.02	18.02
Mobil Nig Plc.	143.00	160.00	17.00

Lets look at NBL & Mobil as examples

Risk Aversion Measures

- Intelligent Investment decision-making
- Careful selection of portfolio
- Fundamental & Technical Analysis of the company's financials
- Scouting for Off-balance sheet information
- Engage the services of Stockbrokers & Credible Analysts
- Keep a tab on media reports about the company, markets, social, political and economic information

Stock Market vs. Real Estate

Stock Market		Real Estate
Stock market creates liquidity		Possibility of expropriation
Exit is easy if the stock is vibrant		Property cannot be sold as quickly
Good to Go!		High trading cost
		Dangers of government legislation



Regulations that may affect your Investment

- The NSE is a self regulatory organisation (SRO)
- Enforcement of 5% upper limit on share price movement in a day
- Taxation
- VAT
- Stamp Duties
- Transaction Charges - brokerage fees & statutory charges



Myths & Realities – Misconceptions Explained

MYTH

- High returns through investment across the board
- Investment in shares hedges against inflation
- Stock Exchange is an “*exclusive*” club

REALITY

- Intelligent selection of stocks
- Contact your stockbroker
- Demutualization





- Home
 - The Stock Exchange >
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- Search Symbol: GO



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Summary

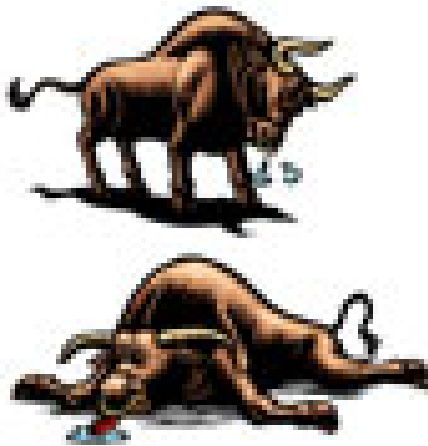
- Stock market , the best defence against inflation
- Generates better and higher returns in the long run
- With clear objective , you can hardly lose in the stock market.
- There are multiple income streams-dividend, capital appreciation, bonus shares



In Stock Investing: The race is not to the swift...

Module 1:2

Smart Investment Strategies & Tips



Perspectives:

An Informed Investor



Vs.



A Professional Stockbroker

Risk Reward

- You win some! You lose some!!
- Just as you can make money in shares, you can also lose money
- The starting point is to recognise your risk appetite and select your portfolio accordingly.
- There is always a trade off between risk and reward
- Master your emotion and you will master the market



Starting out: What is key?

- Make a choice on your investment horizon
- Strike a balance between fixed and fluctuating income.
- Between investments that will provide rising income in the long run and those that bring income now
- Each has requires different temperament
- With age , advisors suggest that you reduce the equity component of your portfolio
- Always investigate any component before investing



Leveraging on Investment

- Would not advise that you incur consumer debt for the following reasons:
 - The high rate inflation of the Nigerian economy
 - The unstable value of the Naira vis-a-vis its long term depreciation prospects
 - Banks traditionally do not lend long term
 - Unstable monetary and fiscal policies



Should you use fund managers?

- It is important that you get a fund manager
- The market is very inefficient as information does not 'necessarily' go round
- This is key when you have a large portfolio
- Develop interest in analysing the companies by yourself.
- Develop personal relationship with your financial advisor



Your eggs in one basket?



- Some say put your eggs in one basket and watch but you may consider putting your eggs in many baskets and watch.
- Consider diversified instruments - shares, treasury bills, bonds, preference shares, etc
- Consider each instrument for different reasons.
- Your risk appetite is also key; the older you become the less adventurous you are likely to be in investing your money.



Danger spots: what to avoid

- Don't go near a **o**ne man business.
- Avoid companies that are tied solely around an individual – look for strategy, structure/process and people.
- In taking investment decision, do not *blindly* follow what others are doing.
- Don't go in without researching the companies you are investing in.
- Avoid heroes when you invest, be your own hero



How to be a smart investor

- Develop a good investment plan and work the plan.
- Ensure by all means that you achieve desired return on investment and guard your principal jealously
- Pick a good stock broker who is good in research and has access to good information



What of Leveraged Investment?

- It is a question of choice and appetite for risk
- You can make a lot of money from leveraged stocks if your strategy is right
- Be warned also! You can l-o-s-e money
- You have to pay interest whether you make money or lose money
- Stock purchased is not yours until you pay your debt



Over to
The Professional
Stockbroker..



That is me...

The Successful Investor

My View and Definition:



-is one that has achieved his investment objectives as spelt out in his investment plan
- ...is one that has achieved his desired Return on Investment (ROI) and his principal is safe
-is one that has his money working for him.....

The Stockbroker

My View and Definition:

A professional qualified and knowledgeable individual:

- Certified by The Chartered Institute of Stockbrokers;
- Licensed by the Nigerian stock Exchange to deal (NSE); and
- Registered by the Securities & Exchange Commission (SEC)



Stockbroker - Functions

- Provide sound financial & investment advice to clients
- Take orders to BUY or SELL shares or bonds
- Helps with Investment Planning for clients as well as providing portfolio building & management services



“He must be of high ethical standards, sincere, legitimate and remain capable of making profitable recommendations to his clientele”.

Giving Investment Advice

- Relies on professional training and market awareness
- Exercises sound judgement and respects his honed intuition backed by verifiable analysis
- Has a solid research department
- Well-informed of his operating environment and very comfortable with National & Global economics.



Leveraging your investments

- It is a question of choice and appetite for risk
- You can make a lot of money from leveraged stocks if your strategy is right
- Be warned also! You can lose money
- You have to pay interest whether you make money or lose money
- Stock purchased is not yours until you pay your debt



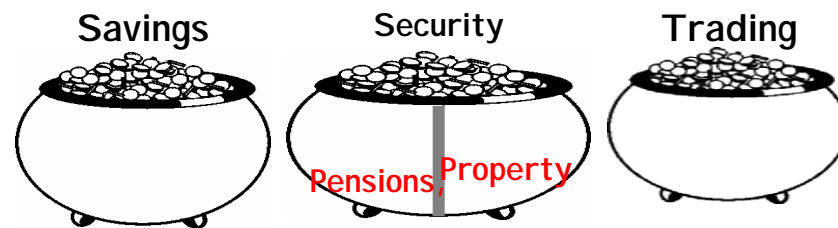
Must you have a fund manager?

- Yes, otherwise your money will develop wings and fly away.
- Look for an honest and competent professional
- You don't have to leave your destiny in the hand of your fund manager, participate actively
- You also need some level of training



Your eggs in one basket?

Diversification is it!



You can lose Money “Big Time”

- If you do not evaluate stocks and reduce the risk involved
- Get in when BULL market has peaked and you sell in a panic when the market turns down
- If you cannot naira average the stocks you purchase
- If you do not know how to master your emotions



What to Avoid!

- Never go into investing without having basic knowledge of how the market works
- Never seek advice from non-proven professional
- Do not invest without asking relevant questions
- I repeat again - Master Your Emotions - Do not invest based entirely on your feel for it!



How I would treat an IPO

- Find out about the quality of management.
- I will also find out if the bank has a good system not tied around personalities even though it is important for certain people to remain longer in a company or post.
- I will research the company and its financials - Ask: what is the key success criteria for past profit performance?
- I will also match my decision with my current holding in the sector.





Summary



Let the **Trend** be your **Friend**

News **Moves** **the** **Markets**

Know the rules **Follow the rules** **have FUN**

Buy **LOW** **SELL** **HIGH**

Buy on Rumour **Sell on News**

Module 1:3

Gain an Advantage:

**Be your own
Analyst**



Be your own Analyst

- Paradigms about analysts and stock brokers.
- The changing face of financial information
- Why you must be an active investor
- Reading the stock market tables
- Analyst Reports – making use of the Proshare 'REPORTS CENTRAL'
- Just do It!



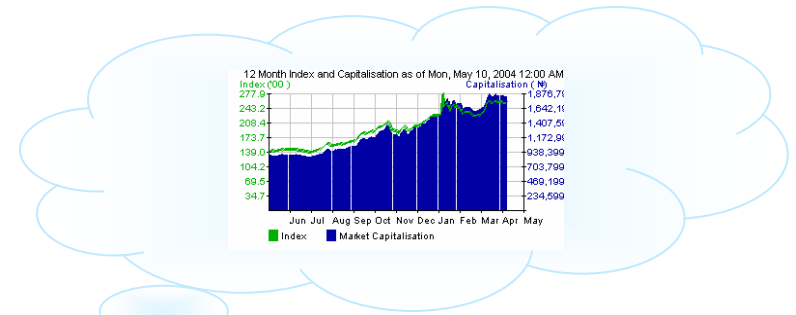
Paradigms - What do you believe?

- The stock broker is all knowing -
- The stock broker is specially trained to provide the services he provides -
- The stock broker is the only one that can advice you on what is best for you -
- The stock broker is the approved person to advice, trade and manage stock portfolios -
- Stock analysis is very difficult & complex and is better left to the stock brokers -

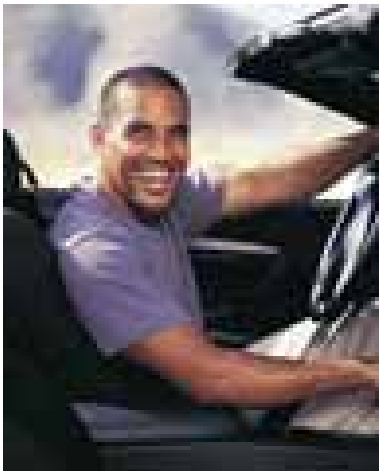
Paradigms - Answers!

- The stock broker is all knowing - YES
- The stock broker is specially trained to provide the services he provides - YES
- The stock broker is the only one that can advice you on what is best for you - NO
- The stock broker is the approved person to advice, trade and manage stock portfolios - YES
- Stock analysis is very difficult & complex and is better left to the stock brokers - Not Entirely

Develop more than a passing Interest



Why you must be at the driver's seat



- Only you can accurately determine what you need
- It is possible that your broker may not be as knowledgeable as he makes you believe
- Test his/her 'claims' Do your research on a fund manager and test his knowledge depth
- You can't afford to gamble with your 'financial' plan
- You need to keep your eyes open

Where do I begin?



- Stock Analysis is not as difficult as imagined
- It starts with you showing an INTEREST in your future
- You have to develop more than a 'money' interest in the financial accounts of the quoted companies
- Best place to start is reading the stock tables
- Take a look at the free 'handbook' provided at this seminar



STOP

**No more Hit &
Miss Investing?**

Process for Good Stock Selection 1

■ QUICK PREQUALIFY

- ↓ Eliminate as many stocks as possible that do not fit
- ↓ Use different criteria to eliminate stocks



■ ESTABLISH TARGET PRICE

- ↓ Use this to determine buy and hold points

■ INDUSTRY & RISK ANALYSIS

- ↓ Is it a growing or declining industry?
- ↓ Are people finding the product/service valuable?
- ↓ Factor in relevant policy that may have effect

Process for Good Stock Selection 2

■ BUSINESS PLAN ANALYSIS

- ↓ What business model are they operating?
- ↓ Outdated or up to date?



■ ASSESS THE QUALITY OF MANAGEMENT

- ↓ Key aspect of analysis
- ↓ May not need to physically visit the company

■ FINANCIAL STRENGTH ANALYSIS

- ↓ Is the company a going concern?
- ↓ Is it likely to file for bankruptcy

Process for Good Stock Selection 3

■ PROFITABILITY AND GROWTH

- ↓ Is the earnings growing or declining?
- ↓ Any potential threat to earnings



■ DETECTING RED FLAGS

- ↓ Consistency and market perception
- ↓ Percentage actualisation of profit forecast and planned performance

■ PRICE CHART

- ↓ Important to check a stock price before buying

Stock Analyst Reports

Proshare “Report Central”



The Proshare Option!

Proshare's mission is to provide a public investment & educational service to help you get the most accurate and independently researched information available and to allow you learn how to apply this through a credible online tool before you start off using 'real money'.

Our service approach is to encourage intelligent decisions/engagement by investors in the market as a component of market safety & confidence.

Why should I use the Proshare report?

- We offer our platform for all 'credible' research units of stock broking firms to present their periodic reports for you, the investor, to have unrestricted access to.
- Most importantly, we work with and through analysts in other markets who have acquired the technical expertise needed to interpret patterns and trends on the Nigerian Stock Exchange. This we share with you through our market reviews; ensuring that the best in class professional provides the information you may rely on.
- You can count on our unbiased market information to influence your investment strategy as we do not sell investment information that bear our name.

Summary

Every Investment plan focuses on
Goals, Strategy, Investment
type, and Risk.

Gain an advantage: Make use of the Report Central and 'Learn to Earn'.....by using the online training tools.

Other Free Training Courses Online – (1)



• **Making Money in the Nigerian Stock Market** – A Foundational Guide

• **Starting out with Confidence**



• **Becoming your own stock analyst**

• **Selecting a Fund Manager**



• **Clubbing to Wealth**

Free Training Courses Online – (2)

- **Parable of the Monkey Market**
 - **Interpreting Stock Tables**
- **A Fools Guide to Investing** – *B. Oni*
 - **Stock Selection Process**
- **Be a CEO of your Own Money** – *P. Babalola*
 - **Monetize Your Certificate**
- **Other E-books available online**

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End

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