LEARNER GUIDE

Unit Standard Title:	**Apply a researched trend to individual financial risk**
Unit Standard No:	**242601**
Unit Standard Credits:	**5**
NQF Level:	**5**

This outcomes-based learning material was developed by Masifunde Training Centre with funding from INSETA in July 2014. The material is generic in nature and is intended to serve as a minimum standard for the industry.

Apply a researched trend to individual financial risk

Introduction

Financial risk is normally any risk associated with any form of financing. Risk is probability of unfavorable condition; in financial sector it is the probability of actual return being less than expected return. There will be uncertainty in every business; the level of uncertainty present is called risk.

This module focuses on the trend to individual financial risk.

Module 1

The different indicators used to identify financial trends

This Module deals with:

- The role played by the Johannesburg Securities Exchange (JSE) all share index, inflation indices, interest rates, Gross Domestic Product (GDP) and the gold price as economic indicators for an individual in the South African situation.
- International indicators most commonly used by financial analysts in South Africa and an indication of what each indicator measures.
- The long term relationship between economic indicators and researched trends with examples.
- The relationship between events in the legislative and regulatory environment, financial indices and economic trends with examples.

1.1 The role played by the Johannesburg Securities Exchange (JSE) all share index, inflation indices, interest rates, Gross Domestic Product (GDP) and the gold price as economic indicators for an individual in the South African situation.

Macro-economics is an indication of why the rate of economic growth is higher in some countries than in others, why the inflation rate varies from year to year, why the unemployment rate is so high, why the Rand is so weak compared to strong currencies such as the US dollar and why imports of goods and services sometimes increase quite rapidly.

Let's look at certain key indicators in order to explain the macro-economic environment.

- **Financial Indicators**

Economic factors are important in investment decisions. Interest rates can be directly influenced by government policy but other questions arise, such as trends in consumer sales and capital investment.

The purpose of studying economic data is usually to forecast the future, in terms of investments. Consequently the greatest care is essential, bearing in mind that forecasts are based on assumptions, and this raises questions as to the validity of the assumptions made.

a) Gross Domestic Product (GDP)

A country's GDP is an indicator of the growth of the country's economy. The Gross National Product is also sometimes used as an indicator.
A related indicator is that of Gross Domestic Expenditure, which is a good indicator of the "pace" of the economy.

b) Money Supply

Many economic problems, including inflation, can be traced to an excess in money supply. The supply of money affects the fixed interest market, and the growth of money supply needs to be tracked.

c) The Balance of Payments

South Africa trades internationally, therefore the balance of payments figures are of great importance. Trade depends on imports and exports and, while internal policies can influence both, external influences, such as a recession in other parts of the world, and particularly the state of the economy of the USA, have significant effect.

d) Foreign Investment

Foreign Investment is very important to a growing economy such as that of South Africa.

e) Commodity Prices

The balance of payments and the economic welfare of South Africa are greatly impacted by the gold price. The world prices of platinum, diamonds and other minerals that are exported, such as coal, also have a significant effect, while the importance of the oil price is not to be forgotten. Commodity prices and their effect on the general economy can have an impact on interest rate decisions.

f) The Stock Market

The stock market is a good indicator of the state of the economy of a country, as it not only indicates the (1) health of the companies listed on the exchange but also gives an indication of (2) investment enthusiasm (both local and from international sources).

g) Share Indexes

The JSE (Johannesburg Securities Exchange, now referred to as JSE Limited) was founded by Benjamin Woollan in November 1887, to provide a market place for the shared generated out of the mining industry in South Africa. It is the only exchange in SA. The JSE is directed by up to 12 broking members, elected annually by the members of the exchange as per secret ballot.

Today there are 3 times as many industrial companies as mining companies listed on the JSE. Although this is the case, SA is still the world's leading producer of gold (about 40% of the worlds gold) and that makes the JSE the world's leading gold mining market.

Sectors such as Insurance, Banks and Financial Services, Food and Property thus contain the listing of these companies whose primary business falls within the particular classification.

An index or average of each sector is therefore calculated each day, averaging out the shares in a sector and making allowance for the relative importance of the shares within the sector. The index is then related to the value of the index for the previous day and the percentage movement in the index is shown. Overall summaries or indices are also published, taking into account, for example:

- all the mining / resources shares;
- all the industrial shares;
- overall i.e. the "all shares" index;
- the index of the biggest forty companies listed.

The price movements of shares, are shown and some idea can thus be obtained of the overall short term trends. When viewed over a period of time, the index can reveal the underlying cycles of the stock market. It should be noted therefore that indices are useful for comparison purposes. Individual prices (which are always quoted in cents) can also be compared but the performance of a sector is important in determining the merits of a particular share. For individual investor it shows him how the average of all companies are doing and business confidence

h) Reserves

The figures relating to the level of South Africa's reserves, which are published by the SA Reserve Bank, must be monitored closely as they are of importance to investors and can also result in interest rate changes.

i) The Consumer Price Index (CPI)

The Consumer Price Index shows the movement of retail prices and is the measure used for inflation. There is typically quite a strong correlation between the rate of inflation and interest rates, since interest rates are often raised in order to dampen inflationary pressures in the market.

j) Interest Rates

The market is adversely affected when the ruling interest rate is raised. Higher interest rates dampen consumer demand and because the higher cost of capital will push the corporate cost up, thereby negatively impacting on the profit margin. This, coupled with the attraction of the higher interest rate, will also tend to see investment money channeled into fixed interest avenues, thereby further depressing the market as demand for shares falls off.

In relation to Inflation when inflation is high the reserve bank increase interest rates to reduce spending and when inflation is down reserve bank drops interest rate to stimulate the economy and to promote spending

k) Other Indicators

Figures are also published by the SA Reserve Bank when there is a new issue of stock to investors for cash. In times of heavy new issue activity, large sums of money can be taken out of investor's pockets and this usually ha an effect on stock exchange prices. Consumer expenditure is another statistic relevant to an investment. Cars and household wares are more important as they are more sensitive to economic cycle. Hire purchase sales, which are published monthly, are an important indicator of consumer durable expenditure. The Central Statistics Services publishes detailed figures covering a wide range of activities.

1.2 International indicators most commonly used by financial analysts in South Africa and an indication of what each indicator measures.

The extent to which international investment is attracted is an important influence on the stock market and shares in general. In turn, this will depend on a variety of factors, including currency exchange rates, tax treatment and the extent to which free trade and movement of funds is allowed between countries.

Any of the indicators mentioned can be applied in the international scene, with comparisons being drawn to better understand the relative impact.

The most relevant of the indicators would probably be the balance of payments, the reserves and the general GDP of the country shows the state of the economy

1.3 The long term relationship between economic indicators and researched trends with examples.

Economic indicators are some of the most valuable tools investors can place in their arsenals. Consistent in their release, wide in their scope and range, metrics such as the Consumer Price Index (CPI) and written reports like the "beige book" are free for all investors to inspect and analyze.

Some people may prefer to understand a couple of specific indicators really well and use this expert knowledge to make investment plays based on their analyses. Others may wish to be a jack of all trades, understanding the basics of all the indicators without relying on any one too much. A retired couple living on a combination of pensions and long-term Treasury bonds should be looking for different things than a stock trader who rides the waves of the business cycle. Most investors fall in the middle, hoping for stock market returns to be steady and near long-term historical averages (about 8-10% per year).

Knowing what the expectations are for any individual release is helpful, as well as generally knowing what the macroeconomic forecast is believed to be at become important functions. On the day a specific indicator release is made, there will be press releases from news wires, which will present figures with key pieces highlighted. It is helpful to read a report on one of the newswires, which may parse the indicator data through the filters of analyst expectations, seasonality figures and year-over-year results. For those that use investment advisors, these advisors will probably analyze recently-released indicators

Module 2

The relationship between events in the macro environment, financial indicators and trends

This Module deals with:

- The relationship between events in the natural environment, financial indices and economic trends with examples.
- The relationship between events in the socio-economic and political environment, financial indices and economic trends with examples.
- The relationship between events in the legislative and regulatory environment, financial indices and economic trends with examples.

2.1 The relationship between events in the natural environment, financial indices and economic trends with examples.

No industry operates in a vacuum. Ongoing changes in the general environment continually impact on business and suitable action needs to be taken to adjust to these.

The link between a country's natural environment and the economic trends can be looked at from several angles:

- Mineral resources - play an important role in employment and foreign exchange earnings (especially in South Africa).
- Water - can be vital to the economy as a whole, is necessary for agriculture and even some industries, could be used for the generation of cheap electrical energy and could even be a foreign exchange money spinner.
- Changing rainfall patterns can have an immediate impact on crop production, with perhaps a longer-term impact on related products such as wine. In some countries the rivers play a major role in cheap transport.
- Climate - affects the production of crops. Flood and drought
- Sunshine / beaches / mountains - play a major role in attracting tourists.
- Earthquakes, hurricanes and other natural disasters - not only result in financial costs but can also turn tourists away.

2.2 The relationship between events in the socio-economic and political environment, financial indices and economic trends with examples.

In South Africa, with its wide range of cultures and race groups and broad range of income per family, urban and rural differences and different religious denominations, the substantial change that is being enforced on society via legislation passed since the first truly democratic elections in 1994 has focused much of the challenges faced by industry on the socio-economic and socio-political realms.

Socio-economics focus on the implications of the different economic circumstances of various social groups (in South Africa largely defined along racial or ethnic lines).

Socio-Political refers to the way in which politics and changes in political regimes and the thinking of the country impacts on the people of that country, specifically through the laws that are developed to drive the changes that are deemed to be necessary.

Specific events that will need to be taken into account by the financial services sector in the following years include the consumer education drive and the drive to broaden the base of insurance users, especially into the lower income groups. This can be done by using the Mzanzi concept.

The challenges of the Financial Services Charter (and the equivalent DTI Codes) are considerable. For example, while the necessary points can be scored on the charter for using BEE service providers, the industry sits with a problem of the available capacity, for example the shortage of qualified artisans in South Africa. This and the general Black empowerment initiative have both positive and negative potential on the economy and needs to be carefully balanced.

In the broader sense, the extreme difference in income earnings between the more affluent minority and the less affluent majority, together with the problem of migration (often illegal) from African states to the North, has the effect of introducing an endemic crime situation, which has a severe impact on the short term insurance industry.

The growing awareness of public liability in all fields, with pollution and the environment probably is another development taking place.

2.3 The relationship between events in the legislative and regulatory environment, financial indices and economic trends with examples.

Legislation has a direct as well as indirect impact on economic trends as well as the economic indicators.

When we talk about an indirect impact, we can refer to the example of the Zimbabwe Government's decision to allow expropriation of the land of many farmers, with possession being granted to "poor" Zimbabweans. The immediate consequences included a fall-off in (or even removal of) foreign investment due to the uncertainty of the right of ownership of assets. The longer term financial implications were, amongst others, the loss of farming production, resulting in food shortages and a drop in the country's reserves as food had to be bought from the international market rather than being sold to other countries.

If we look at direct impact or intervention, we can refer to the field of State expenditure (such as the Gautrain project or expenditure on improvements to the soccer stadia) which impacts positively on unemployment and pumps money into sectors such as the construction field. (2010)

Regulation, especially through the Reserve Bank, is largely aimed at controlling and stabilising the economy. The following example may be used to demonstrate the sereneness of the impact: a decision to cut bank interest rates via a reduction in the Reserve Bank's "repo" rate may result in a slowdown of overseas investment into the country.

This would put pressure on the rate of exchange of the currency, which should stimulate local business and drive up exports, in turn yielding an increase in the inflow of foreign currency, thereby easing the pressure on the Rand, etc.

Module 3

Predict the implications of identified trends on financial risk

This Module deals with:

- Different kinds of financial risk with reference to the implications associated with different kinds of investments.
- General trends and results published in different sources to determine whether they support or contradict an identified trend.
- Knowledge of trends and their implications to make a generalised recommendation.

3.1 Different kinds of financial risk with reference to the implications associated with different kinds of investments.

There are different forms of risk in investments. In layman's terms a person would say that the investment risk is that the return is inadequate, but the topic is far more complex. When considering the various risks to investments listed below, one needs to understand that different investment types carry a greater or lesser exposure to each of the risks, while the degree of risk is also influenced by the broader economic environment.

- **Interest Rate Risk**

The market is adversely affected when the ruling interest rate is raised. Higher interest rates dampen consumer demand and because the higher cost of capital will push the corporate cost up, thereby negatively impacting on the profit margin. This, coupled with the attraction of the higher interest rate, will also tend to see investment money channeled into fixed interest avenues, thereby further depressing the market as demand for shares falls off.

Should the investor choose to sell the bond before the maturity date and while interest rates are higher than the annual interest rate declared with the bond, a purchaser would wish to earn the higher interest rate on his/her investment. This will be reflected as a lower price than the one originally paid for the bond and will thus result in the realisation of a capital loss. (The opposite applies if interest rates drop and there could be CGT payable) Inflation erodes the buying power of the proceeds

- **Reinvestment Risk**

A reinvestment risk is the risk that this rate at which cash flows are to be reinvested is at some stage during the term of the investment, lower than the stated yield on the bond.

Where an investor wants to realise a yield over the full term of the investment period that is equal to the yield stated on a government bond at the time that it was purchased, s/he will have to reinvest the annual fixed interest payments. (A similar issue arises with other income producing investment options.)

These interim cash flows (generally known as coupon interest payments) have to be reinvested at an interest rate equal to the stated yield on the bond when it is purchased in order to achieve the stated yield over the entire term of the bond.

- **Default Risk**

Fixed interest bonds issued by the government as well as the provinces, municipalities and other parastatals. Any bond purchaser runs a risk, however slight this may seem that the issuer will default on its contractual annual interest payments of interest and/or the final repayment of the principal (that is, the capital) on the maturity of the investment. Naturally there is a relatively low default risk with bank and insurance policy investments because of strict controls on the industry.

- **Call Risk**

An investment, when it is issued, can contain a clause through which the issuer retains the right to recall the investment at his/her discretion. From the investor's perspective, there are three disadvantages of such a call provision:

- the uncertainty of future cash flow, resulting in a difficulty with planning;
- the exposure to reinvestment risk. A recall will generally be done when interest rates are low and so the chances of the investor attaining a projected yield will be diminished;
- the potential of a reduced capital appreciation.

- **Property**

Property can be seen as a good long term investment choice but it also has inherent risks. If interest rates rise the bond cover or holding cost may be great and resale prices could drop, taxation play a part and could be subject to transfer duty, executor fees, CGT and even donations tax, real estate agent commission further erode profits. If property being rented lack of tenants add to costs and diminish profits.

- **Inflation Risks**

With low return investments there is always the chance that the return will not match the inflation rate experienced during the term of the investment, resulting in a loss in real (after inflation) terms.

This is usually the case with bonds, which are issued at a fixed annual interest rate for a period that may be as long as twenty years they are particularly susceptible to rising inflation rates. Should the rate of inflation exceed the fixed interest rate being paid by the bond there will be a real loss in the returns being earned.

Short term deposits with banks will rarely earn a rate of return in excess of the inflation rate.

- **Currency Risk**

The Reserve Bank has made a concerted effort to reduce the currency restrictions imposed on South Africans and so overseas investments have become a viable alternative to the restricted options available at home.

South African investors are now thus exposed to foreign exchange risks within their investment portfolios if they should choose to invest in overseas markets.

- **Equity**

Shares are often issued by a company in order to obtain the money needed to finance the operations of the company. The total amount of shares constitutes ownership of the company. Shares can be bought and sold.

- **Liquidity Risk**

The liquidity risk refers to the ease with which an investment instrument can be sold at or near its prevailing market price. The greater the spread between the bid price and the ask price, the greater the marketability / liquidity risk. With government or other bonds this type of risk is, however, only applicable when the investor does not hold the bond until the maturity date.

Listed stocks are generally liquid, while property investments are generally not, depending on the economic cycle. (It may seem that all stock exchange securities are readily realisable. However, two factors work against this. Firstly, the amounts involved can be so vast that sales of securities could depress the market resulting in an unnecessary loss on sale being “artificially” produced. Secondly, any profit on the sale over the purchase price will give rise to a tax charge.)

- **Risk of Lost Opportunity**

Of course, another way of looking at investment risk is to assess the so-called “lost opportunity cost” of an investment which relates to the return that could have been obtained from avenue B on money invested in avenue A. To a certain extent, this can be seen to be akin to the liquidity risk.

- **Physical Risk**

With some forms of investment there is a physical risk of the asset being lost, stolen or damaged by fire, etc. This is of particular relevance to hard asset investments such as paintings, jewellery, etc.

Module 4

Apply a researched trend to individual scenarios

This Module deals with:
- A financial trend based on a selected indicator in terms of its potential effect on financial risk.
- The implications of changes in a selected index in terms of their relationship to a trend and economic factors.

4.1 A financial trend based on a selected indicator in terms of its potential effect on financial risk.

- **A Trend Analysis**

The term "trend analysis" refers to the concept of collecting information and attempting to spot a pattern, or trend, in the information. In some fields of study, the term "trend analysis" has more formally-defined meanings.

A trend analysis is often used to predict future events, but it could be used to estimate uncertain events in the past.

The term "trend analysis" has a history spanning many years. Today, trend analysis often refers to the science of studying changes in social patterns, including fashion, technology and the consumer behaviour.

Trend analysis is used extensively in the financial field. More specifically, here it refers to the study of share prices (or other investments) in order to determine the underlying cyclical movement in order to inform buying and selling decisions, often referred to as “timing the market”.

As an example of this form of analysis, we outline a trend analysis on earnings and dividend yields.

4.2 The implications of changes in a selected index in terms of their relationship to a trend and economic factors.

As the repo rate rises and interest rates rise it becomes too expensive for businesses to borrow from the bank or to service their debt. This erodes profits. If companies don’t make profits then individuals will not invest in equities and as such will move out of equities into money market instruments as the interest rates are high and there is no risk.

Glossary / Terminology

The following terms typically appear in the stock market pages of financial publications and can offer a good basis for trend analysis of shares.

Column	Explanation
PE	The price earnings ratio being the price of the share divided by its historical Earnings Per Share (**EPS**). Where the EPS is 10 cents and the price is 100 cents the price earnings ratio is 10:1 (sometimes also reflected in this column as 10,0). The ratio is the reciprocal of the earnings yield. (EY)
EY	The earnings yield. The EPS expressed as a percentage of the price for example, where the EPS = 10c and the price = 100c the EY will be 10%. The earnings yield reflects the actual profit made (after tax) by the company.
DY	The dividend yield. The dividend per share (DPS) is expressed as a percentage of the price for example, where the DPS = 5c and the price = 100c the DY will be 5%. The dividend yield reflects that portion of the earnings yield distributed by the directors of the company to its shareholders.
Xyz X	This is an abbreviation of the share name for example, Dbn Dp for Durban Deep Levels. Shares that are marked with an (*) form part of the JSE Actuaries Index. The JSE has a number of different indices. The 5 most commonly quoted are: The JSE All Golds The JSE Metals & Minerals The JSE Industrials The JSE Overall. The ALSI 40 (40 ‘largest” counters on the market)
BUY	The price that an investor is prepared to offer for a share.
SELL	The price at which a share is offered for sale. This is not necessarily the price that an investor will realise for his/her shares.
LAST	The last price at which the share was traded during that day.
RP	The ruling price of that share. Should the price reflected in the paper be followed by a "B" this is an indication that someone is prepared to buy the share at a higher price than the "last" price. Where the price is followed by an "A" or a "S" this is an indication that there is someone now willing to sell the share at a price lower than the "last" price.
H	The highest price received for the day.
L	The lowest price received for the day.

Column	Explanation
DM	The daily movement of the price of the share. This is usually followed by an (-) or a (+) sign indicating whether the trend for the share price was upwards or downwards for the day.
DM%	The daily movement reflected as a percentage of the price of the share.
YM%	The year's movement reflected as a percentage of the price of the share. The newspaper being studied will either provide the date from which this value is calculated at the top of the prices page or will indicate that this is a 12 months running average. This value is usually followed by an (-) or a (+) sign indicating whether the trend for the share price was upwards or downwards for the period under review.
DV	The number of shares that were traded during the day. Please note that some papers will give this volume in hundreds whilst others will indicate this movement in thousands. Where the turnover in a particular share for that day is more than the 10 day moving average this is denoted by a "V".
Word	**Explanation**
Actuaries Index	The JSE Actuaries Index is the fundamental indicator that reflects a moving index of the prices of the various shares on the JSE. Actuaries have selected certain shares within each sector of the exchange to represent that particular sector. On a daily basis the prices of these shares are monitored and the index compared with the previous trading day. It is then possible to keep track of any upward or downward movement within the sector. The Index, which started from a base of 100 in 1960 is also a good indicator of the sectors performance against the Consumer Price Index (CPI).
Averaging	Buying more of a share already held when the price has fallen in order to reduce the average price of the overall holding.
Backdoor listing	The injection into a listed company of assets of such magnitude as to change completely the character of the company. This procedure, which is done in order to avoid the formalities of obtaining a listing for such assets in the normal manner is forbidden by the committee of the JSE.
Bid	An offer to buy a share at a certain stated price.

Column	Explanation
Bear	A bear will sell shares that s/he does not possess in anticipation of a fall in the price. S/he will then purchase the shares at the lower price in time to deliver them, thus making a profit. Legislation requires that shares must be paid for within seven days of purchase. When shares are sold they must also be delivered within the same period. The scope within which a "bear" can operate on the JSE is thus fairly limited. Certain foreign exchanges allow for as long as 90 days for the settlement of a transaction.
Blue chip	These are ordinary shares of strong companies that have, traditionally, shown a good profit record and are still seen as good prospects for the future.
Bull	Where the “bear” on the exchange could be seen as a "pessimist" the “bull” is the “optimist”. A bull will buy shares in the expectation of a rise in the price on the market. S/he will then sell them at a profit before s/he is required to pay for his/her original purchase. Legislation requires that shares must be paid for within seven days of purchase. When shares are sold they must also be delivered within the same period. The scope within which a "bull" can operate on the JSE is thus fairly limited. Certain foreign exchanges allow for as long as 90 days for the settlement of a transaction.
Broker's note	A contract note sent by the broker to his/her client detailing the purchases made on his/her behalf and the amount owing for the specific transaction.
Clearing House	All share transactions are settled through the Clearing House on the basis of brokers net balances at the end of every week. In each stock listed the Clearing House computer determines these balances and instructs brokers how to deliver scrip (a share certificate given in place of money) owed to other brokers. **For example:** Broker “A” sells 1000 shares in company XYZ for a client to broker “B”. Later in the same week broker “A” buys 500 shares in company XYZ for a different client from broker “C”. The Clearing House will thus instruct broker “A” to only deliver 500 shares to broker “B”. Broker “A” will be required to balance the transactions within his own books. All dealings are normally for settlement in the following week. When shares are sold the purchasing broker is responsible for the payment of the account and must pay for the shares on the Tuesday of the week following the transaction. Legislation requires that shares must be paid for within seven days of purchase. When shares are sold they must also be

Column	Explanation
	delivered within the same period.
Counter	Over the years the terminology for shares has grown to the extent than ordinary shares are now known as shares, stocks and/or counters. Basically it all now means one and the same thing. Where one however wishes to be more specific in terminology a counter can be said to mean a specific share that is, an investor is said to instruct a broker to purchase 1000 shares of a specified counter.
Cum dividend	A market quotation of the value of a share which includes the right to participate in a current dividend.
Discount	The amount by which a newly listed security is quoted below the offer price. A share can also be said to stand at a discount to net asset value when the market price is lower than the value per share as determined off the balance sheet.
Diversification	This is a common safety mechanism recommended by brokers to their clients. The broker will recommend a share portfolio that will include a variety of companies operating in different fields. Should a particular sector of the economy then experience a downturn for any reason the balanced portfolio should grant the client a limited level of protection.
Dividends	In purchasing the shares of a company an investor becomes a part owner of the enterprise. Should the company thus make a profit (after taxation and costs) this profit may (at the discretion of the directorate of the company) be distributed to the shareholders. This is done through the declaration of a dividend. Dividends are not only declared at the end of a financial year. Some of the more common dividends declared are: • a maiden dividend: the first dividend declared by the company; • interim dividends: a dividend declared during the financial year of the company; • a final dividend: the last dividend declared in respect of the current financial year of the company; • annual dividends: the sum total of all the dividends declared by the company during its current financial year.
Equity	This is simply another name for the shareholding of an individual within the company that is, the holding of ordinary shares.
Ex dividend	A market quotation of the value of a share which excludes the right to participate in a current dividend.

Column	Explanation
Gearing	Gearing (also sometimes called leverage) is a term that is fairly commonly used by the financial press when describing companies from an investment angle. They will describe the company as being “highly geared” or “low geared”. These expressions refer to the relationship between the fixed interest and fixed dividend stocks on the one hand and the equity shares on the other hand. When payments to service debentures and preference shares are high compared with total “earnings” then the company is said to be high geared. When the fixed payments are small compared with the total “earnings” then the company is said to be low geared. (Total “earnings” include the amount available for ordinary shareholders, whether distributed or not.) If a company is high geared then rises and falls in profits will cause considerably more than proportionate rises and falls in the amount available for the ordinary shareholders. The reverse is true for low gearing. For example: Debenture interest (fixed) R100 000 Preference dividend (fixed) R100 000 Ordinary share earnings R 50 000 Available earnings R250 000 In the above example the company is high geared. A 10% increase on total available earnings (R25 000) would thus represent a 50% increase in the earnings available for distribution to ordinary shareholders. Let us now look at the example of a company that is low geared: Debenture interest (fixed) R 100 000 Preference dividend (fixed)R 100 000 Ordinary share earnings R1 800 000 Available earnings R2 000 000 In this, our second example, a 10% in total available earnings (R200 000) would only represent an increase of 11% in the earnings available for distribution to ordinary shareholders. One must appreciate that it is in high geared companies that cover for ordinary shares can be most misleading.

Column	Explanation
Jobber	A registered stockbroker who buys and sells shares for his/her own account. Whilst jobbers are common on the London exchange the committee of the JSE discourages their operations in South Africa and so there are no jobbers in the exchange.
Listings	Before the shares of any enterprise can be dealt with on the JSE a listing must be granted by the Securities Exchange Committee. The listing is only granted after the committee has been satisfied that the company requesting the listing conforms to stringent criteria with regards stability and solvency. The company is, in fact required to publish the full particulars of its financial position, its activities and its past record. Whilst these conditions cannot and will not provide full protection to an investor against any loss on the exchange they do provide some protection against any fraudulent activities that may occur. It is sometimes possible that a company's request for a listing is turned down, not as a result of any malpractice but simply as a result of a decision by the committee that the counter may present an unacceptably high risk to an investor. A company in this position may then still apply for a listing on the exchange. Should this, however be granted the committee's decision will be clearly apparent as the company would be listed on the development capital market and not on the main board.
Market price	The ruling price of a share on the trading floor of the exchange.
Minority Shareholders	A group of shareholders who, collectively own less shares that the controlling group or shareholder.
Odd lots	On the JSE deals are normally done in blocks of 100 shares. Any transaction in shares where the number of shares traded is not 100 or a multiple thereof is known as an odd lot. Due to the extra work involved in dealing with an odd lot brokers tend to charge a slightly higher commission for arranging the buying or selling odd lots. It is thus advisable to steer clear of a deal involving an odd lot.
Portfolio	All the securities held by an individual investor.

Column	Explanation
Private company	A company with a maximum of 50 shareholders and restricted rights in the transfer of shares. As a shareholder is thus unable to sell his/her shares on the open market a private company would never be found on the exchange.
Public company	A limited liability company with a minimum of 7 shareholders. The transferal of the shares of a public company are unrestricted and, where a large number of shares are traded regularly the directors of the company may apply for a listing on the JSE. Whilst it can be said that all companies on the JSE are therefore public companies it would be incorrect in assuming that all public companies are listed on the JSE.
Public offer	This is an offer made by a company to the general public to subscribe to an issue of its shares. The offer must be made through a stockbroker and a merchant bank and must be set out in a prospectus.
Reverse take-over	An investor may be called upon to provide a major injection of assets (for example, cash) into a company in return of which s/he is issued with new shares. Should the injection be of such a volume that the new shares issued constitute a majority stake the investor would, in fact, gain control of the company.
Rights issue	A company may wish to acquire more capital by offering a new issue of shares to its existing shareholders. The rights issue is offered at a specified price and must be taken up within a set down period. Should the shareholder not wish to exercise his/her right s/he may sell it within the prescribed time on the open market.
Share certificate	The company secretary (who is required to keep an accurate record of all the shareholders of the company) will issue each shareholder with a share certificate indicating the number of shares owned by the investor.
Stag	A stag will apply for an issue of shares in a new company with the sole aim of selling them on the day that dealing in the share commences (hopefully making a profit in the process).

Column	Explanation
Stockbrokers	All dealings on the JSE have to be channelled through a stockbroker. It is not possible for an individual to enter on to the floor and trade his/her own shares. A broker is thus the investor's agent and his/her business is to carry out the instructions of his/her client. Brokers will not make any decisions for an investor. They will, on request, provide advice on the sale or purchase of a counter but the final decision to buy or sell rest solely with the investor. Brokers are paid a brokerage on a scale laid down by the committee. The broker is paid the same scale regardless of whether the share is bought or sold or whether the investor makes a profit or a loss. To ensure the impartiality of a stockbroker s/he is not permitted to sell his/her own shares to his/her client or to purchase shares directly from his/her client. The broker will also be required to deal through a stockbroker.

Bibliography

IISA Learning Materials, 2009
www.wikipedia.co.za
www.persfin.co.za