

## **Long Term Investing**

“If only...If only I had known back then”. In my tenure as an Account Executive this was a phrase I frequently heard when clients sold shares such as, Republic Bank, RBTT Financial Holdings and Neal & Massy. Clients often lamented on the fact that had they foreseen the potential of the stock market or a particular share back then, they would have invested more.

As discussed in articles gone before, we are at a point in time when the bear seems to be sitting comfortably by the trading terminals of the Brokers challenging brokers to remove him from his new found throne. This has resulted in some shares dropping to what many term as ‘bargain’ prices.

While, many people are still feverishly searching for the fastest way to grasp the next star after being spoiled for a three year period with phenomenal returns in the Stock Market, once one is able to come to terms with the fact that the stock market is now charting a different course in its history, one should be keen to discover how to make the market work for them. It is important to remember that all markets go through fluctuations and periods of rise and fall so a depressed market is not necessarily a reason for gloomy faces. As mentioned in articles gone before, now is a good time for clients with a long term horizon to consider entering or re-entering (as the case may be) the market.

This article seeks to explore the performance of a handful of shares picked for illustrative purposes in order to demonstrate the fact that though shares go through periods of slow movement or stagnation, holding them with a longer term horizon could in actuality bring handsome returns later on. If we explore the last five years of the market, we would see that share prices were not initially rallying and there were in fact periods of slow movements or even stagnation. Due to space constraints, the share price movements of four stocks are demonstrated.

Figure 1

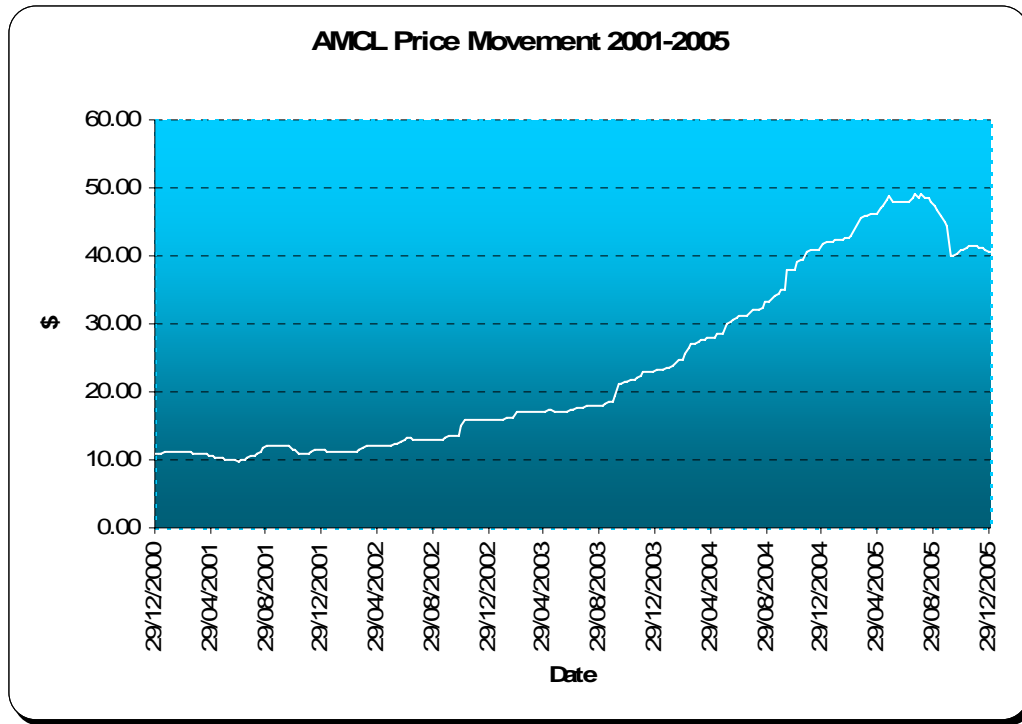


Figure 1 shows the price movement of Ansa McAl for a five year period. Coming off of the year 2000 the Company's performance was affected by the closure of its glass plant in Jamaica as well as being faced with high inventories both in Trinidad & Tobago and Barbados market. Though the Earnings Per Share was up from 2000, it was still not as high as it was in previous years.

In the early part of 2001, there was a general slowdown in the global economy, the political impasse that existed at that time also contributed negatively to the Company. However, inflation and unemployment indicators all continue to be positive. In 2002 the Group achieved a record level of Earnings Per Share and continued to produce impressive earnings since that time which was reflected in the Company's share price.

Figure 2

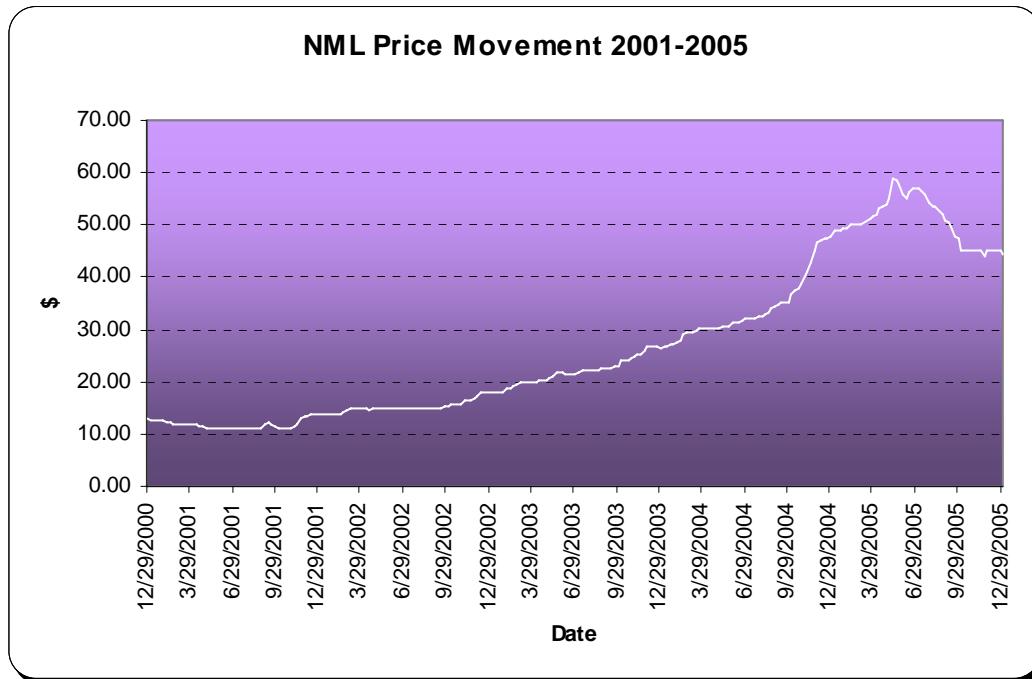


Figure 2 exhibits the price movement of the Neal & Massy Share. Again, some sort of slow down in the share price is seen in the beginning of 2001 at a time when there was a slowdown in world economies further exacerbated by the September 11 terrorist attacks. Though there was little movement in the share price for that year, the Group's Earnings Per Share had grown 10 per cent from the previous year. In 2002, despite continued challenges in the Caribbean economies contributing to the fact that not all of its Companies were able to achieve its budgets, the year saw the Company's Earnings Per Share growing approximately 23 per cent from 2001. From 2003 the upsurge in the world economy and the credible performance of the world economy as well as the delivery of the expansionary budget at the end of 2002 fuelled the performance of the company which is mirrored in the steady rise of its share price. Of course, after the market peaked, the share price came down to the end of 2005 and declined further as a result of the Company's unsuccessful bid for BPTT's Teak, Poui and Samaan Fields.

Figure 3

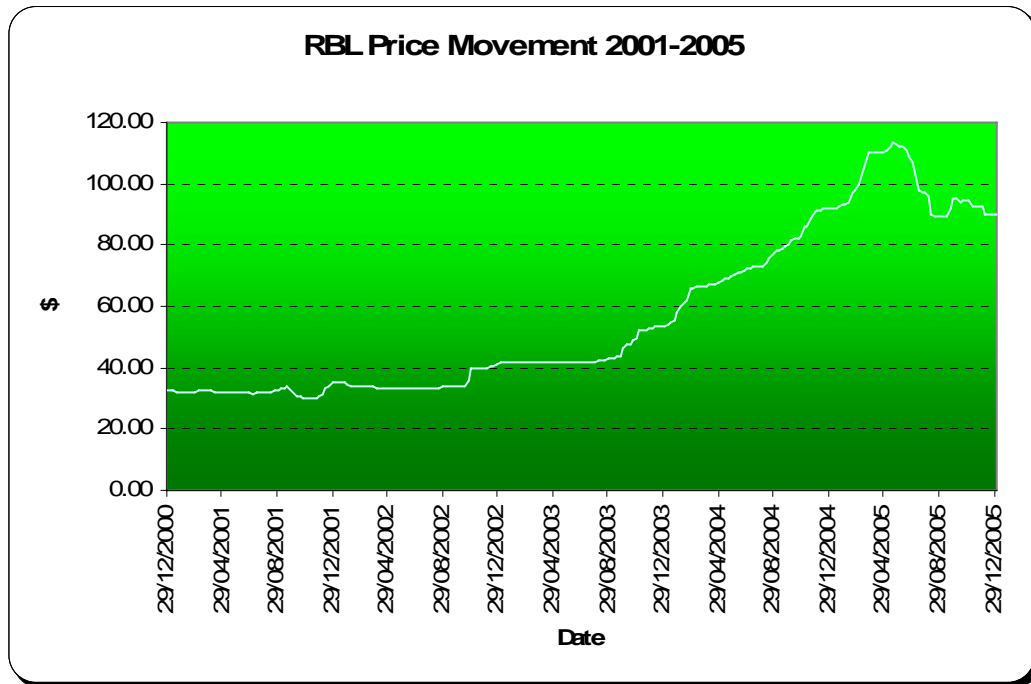


Figure 3 demonstrates the movement of Republic Bank Limited shares for the period under review. Again, one would notice a little movement in the share price in 2001 due to the economic problems and the political instability discussed before. Though the Company's Earnings Per Share increased 15 per cent from 2000 and the Company was trading at a price/earnings ratio of 12.5 there was still some flatness and depression in the share price. Economic challenges in 2002 lead to an increase in Earnings Per Share of only 8 per cent. After the political deadlock was broken at the end of 2002, the Company was able to record consistent, healthy growth in its EPS which is mirrored in the increase in its share price from the end of 2003, until it peaked in 2005 to come down to a its current price.

Figure 4



Similarly with Guardian (see Figure 4), pressures on the Caribbean economies in which the Company operates were of course affected by problems faced by more developed economies. The Group however recorded growth in its Earnings Per Share of 23 per cent for 2001. In 2002 the Company's earnings was not able to meet targets and was affected by the fact that the acquisition of the life and general insurance business of ING Fatum in the Netherlands Antilles and Aruba was not completed as planned in 2002. During this period the Company also incurred non recurring expenses with respect to discontinued activities in its residential property development business. The year ended 2003 however brought significant rewards for shareholders of this Company as the Company experienced a hefty one-time gain concerning ING Fatum which was mentioned before resulting in enhanced earnings potential a stronger cash position and improved leverage. This of course, fuelled the increase of the price to \$31.80.

2004 was of course victim to the damage wrought by four hurricanes in various territories in the Caribbean and Florida in which its general insurance subsidiaries write business. This resulted in some flatness of the price for a prolonged period during that time. However, on release of the Company's year end results for that period, when it was evident that exceptionally strong performances from other Company's was able to offset this hiccup and with the onset of electronic trading, the share was able to rise and eventually come back down due to the effect of the Company's investment portfolio on its results.

It is evident that even though the shares at certain points in time e.g. the beginning of the millennium, may have seemed somewhat stagnant, the view of a longer period (in this case five years) brings a different picture. The reward to be reaped from the investment after leaving it for the given length time would have brought a reasonable gain. In fact I

have annualized the gains of these shares for the five year period in order to truly appreciate the awards to be reaped from long term investing.

Table 1

	<b>Ending Value 2005</b>	<b>Beginning Value 2001</b>	<b>Annualized Return*</b>
<b>AMCL</b>	40.50	11.00	31.72%
<b>RBL</b>	90.00	32.40	24.89%
<b>NML</b>	44.95	12.90	30.28%
<b>GHL</b>	32.08	14.62	18.66%

\*The Annualized Return includes dividends paid during the respective calendar year

From Table 1, one can see that the annualized returns, that is, the returns on these shares if they had in fact grown at a steady pace, range between 18 per cent to 32 per cent per year. One cannot deny that any annualized return within that range is phenomenal and is indeed an investment worth making. Especially when considering the annualized return on a money market mutual fund (five year) was approximately 8.00 per cent depending on the fund you chose.

Though, the stock market is indeed one of the riskier investments available, it is important to discern which Companies have good long term potential and value. Such companies are usually found in the sectors that usually drive the market, for example, the Banking Sector, Finance/Non-Banking Sector and the Conglomerate Sector. Once, this is done, it should grant you enough ammunition so that in five years you would not be saying, "If only".