

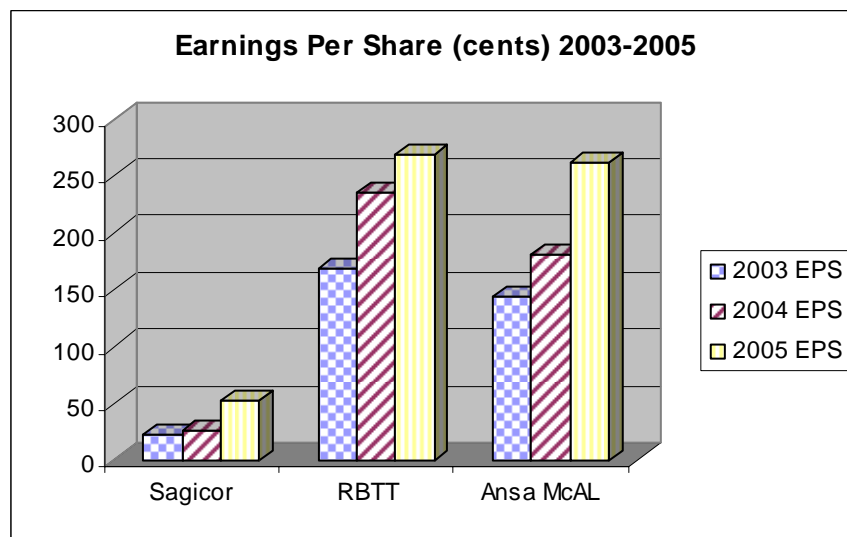
“Timing is everything”

Week after week we read about the decline in the Stock Market and the obvious bear market conditions. We are told over and over again about the Indices going down and volumes traded being lower than the previous year. Some blame the 50 per cent limit on Institutional Investors and others the Electronic Trading Facility. Other reasons such as market correction and rising interest rates have also been mentioned as mitigating factors. Whatever the reason or the reasons- let's be proactive and think positive in this gloomy and uncertain period. After all -Not all is lost!

First, let's think about the timing of the market. The current situation is such that most stock prices are lower than they were a year ago; additionally we are experiencing an economic boom. So, we are faced with lower prices and more money- Opportunity #1!! Now is what we like to call a “Buyer's Market”- prices are low, so there are opportunities for individual investors to create or even re-balance their portfolios.

Not all stocks will be suitable for all investors, as each stock will have its unique risk-return factor. Investors who are looking for long term and less risky stocks will want to invest in the companies whose fundamentals are good, that is, companies with increasing Earnings, Competitive Advantages, and where Risk Factors are low. Examples of these companies include: **Sagicor, RBTT and ANSA McAL**. Each of these three companies has been showing growth in Earnings over the past few years and is well diversified in terms of their business operations (**See Graph 1**). However, like most stocks currently on the market their share prices have seen significant drops from their respective highs in the last year. Based purely on Fundamental Analysis, these three companies each have the right mix of ingredients and should essentially be trading at higher prices. Thus at the current market price, these shares can be seen as trading at a discount and purchasing them now for the long term should prove to be profitable.

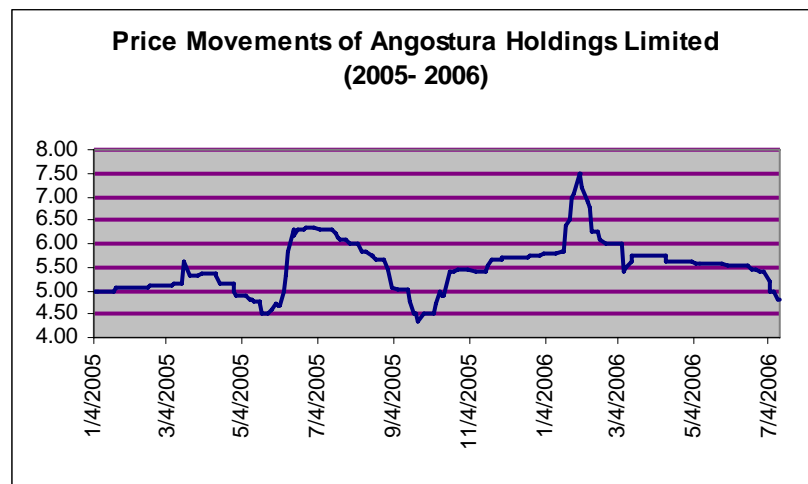
Graph 1



There are also opportunities for the more risky investor, who may want to make shorter term profits by buying more volatile stocks. A current example of this type of share would be Angostura Holdings Limited. The trend for this share in the last year has been to move in dips and peaks. Each time the share reaches a low of about \$4.50 it starts on an upward trend and then finds a new peak. (See **Graph II**). A risk taker may want to buy this share when it is in the \$4.50 region, take a gamble on where they believe it is going to peak and then sell.

Additionally, Angostura is a Company with great potential, commanding a large presence on the local market (over 95% market share for Rum). However, the company's vision is to build a global drinks group and this is no easy feat- it will take time and money. So, for the investor who is willing to wait longer, this share is also a good speculative buy.

Graph II



“No better investment than in yourself”

Opportunity #2- lies in the hands of the Listed Company.

Jamaican Conglomerate, Grace Kennedy, recently announced its intentions to buy back up to 2.5 per cent of its outstanding shares. The question is...“Why would a company do this?” and the answer, quite simply “should be” to increase their shareholders value. Here in lies the second opportunity- increasing shareholder value through a share buy back.

A share buy back is the process by which a listed company either does a tender offer or an open market transaction in order to repurchase a certain amount of outstanding shares. In doing so, the company essentially reduces the available float of shares on the market, thus reducing supply and placing upward pressures on the share price.

In periods of low prices, a share buy back can also be used by companies who need to reduce the dilution caused by an Employee Stock Option Plan (ESOP). An ESOP plan is

an incentive based scheme, whereby employees of a company are given the option to purchase shares in the company at a given price, known as the strike price. Once these options are exercised, the outstanding shares of the company are increased and as such there is a dilution of Earnings per Share. Thus, companies who may be in such situations can use the current low priced environment to prevent or reduce excessive dilution and maintain its shareholder value.

A side benefit to a share buy back is the improvement of financial ratios. Ratios such as the Price to Earnings Ratio (Market Price of Share divided by Earnings per Share) are positively affected- as fewer shares translates into a higher EPS and thus a lower P/E multiple. Return on Equity (ROE) and Return on Assets (ROA) are also healthier post buy back, as both Shareholders' Equity (share capital) and Total Assets (cash) are reduced and spread over the same Net Income.

While there are many benefits to be gained from a share buy back, both from a shareholders perspective and the company itself, one should always keep a critical eye open. A company may not always be seeking the best interest of shareholders and may in fact be trying to camouflage weak financial performance. For instance, a company may pursue a buy back with the main objective being to improve its EPS and P/E ratio. This is not a good sign and would indicate that this company is in trouble-shareholders should be weary of such buy backs.

However, if the main motive is sound, such as the stock being undervalued, then the buyback truly represents the best possible investment for the company and its effects can be viewed as a positive sign for shareholders.

Suffice to say, we all know that the market is down, so instead of just sitting there and wondering what is going to happen next, maybe a more productive move would be to look at the opportunities. Whether we are an Individual Investor or a Listed Company- there is still some hope. Whether we are looking to invest for the future or we are looking to increase our shareholder value- it can still be done. We don't need a Crystal Ball- "It's just a matter of Timing".