



GO BRAVE...

"It's better to be approximately right than to be precisely wrong"

Author Unknown

We all want our investments to blossom but it is the approach to investing that defines the investor. Some individuals are risk adverse and adopt a passive approach to investing; relying on wealth managers advice and prudence. Other investors are risk loving, ready to grab the 'bull by the horns' and actively cut their path in the investment world. If you fall into the latter category or want to explore this option, then read on as I attempt to identify some tools and techniques that may help your understanding as you attempt to actively trade international stocks.

The main techniques utilized by traders are fundamental analysis or technical analysis, or a combination of both.

Fundamental Analysis

Warren Buffet, one of the most successful investors, has utilized fundamental analysis. This method attempts to determine a stock's intrinsic value with the aim of identifying under or over-priced stocks. The analysis may utilize a top-down approach that is analyzing the domiciled country, the industry and the issuing company.

Firstly, country analysis involves identifying the overall state of the economy. Some factors that can be considered are, but are not limited to, Gross Domestic Product (GDP), economic growth, balance of payments, inflation and unemployment. Changes in these factors and the resultant government policies can have an unreal effect on the stock's price. For example, by examining these economic factors for the US economy, you conclude that the US may be heading into a recession, which should prompt (a red flag) you to shy away from investing in companies that can be adversely affected in a recessionary climate, for example the auto industry.

Secondly, research and analyse the industry for the company that you want to invest in. Utilizing a SWOT (Strength, Weaknesses, Opportunities and Threat) analysis, some key industry factors that should be reviewed are level of competition, availability of substitutes, rivalry in the industry, government influence and barriers to entry. The aim of the analysis is to determine future growth prospects and industry profitability.

Thirdly, analyse the company whose stock you want to invest in. Note that this step is essential as (even if the above two analysis are promising) the company's prospects can be a spoiler to your detriment. The analysis involves determining the competitive positioning of the company as well as gauging its financial strength via the review of their audited financial

statements. Optimal analysis involves reviewing financial data for at least a five year period to determine trends. Some key ratios assessed are, but not limited to, net profitability margin, return on asset (ROA), return on equity (ROE) and price/earnings (P/E) ratio. Note special attention should be devoted to the Statement of Cash flows as it addresses whether the company generates enough cash from its own operations or if it must generate cash from investments and/or financing to meet its cash needs.

Technical Analysis

This method involves the study of price and volume charts, as well as trends, with the aim of forecasting the future direction of stock prices. It is based on the assumption that prices trend, meaning that past behaviour and market activity will be repeated. It delves into the realm of understanding the psychology of investors and averages. There are many tools utilized by technical traders and these are available on many on-line trading platforms. Some of the techniques utilized by technical traders include:

1. Identifying key historical resistance levels – price at which a stock can trade, but not exceed, over a certain period of time, meaning that upon reaching resistance levels one would expect the stock price to fall.
2. Identifying key support levels – price at which a stock can trade, but not fall, below over a certain period of time, that is upon reaching support levels one would expect the stock price to rise.
3. Relative strength indicator (RSI) – aims to identify over bought (meaning security price may soon fall) and over sold (that is security prices may soon rise) conditions. RSI ranges from 0 to 100. An over bought security should have an RSI over 70, whereas an over sold security should have an RSI under 30.
4. Moving Average – used to measure momentum. Generally a stock becomes bullish (price may rise) when a short-term average (e.g.10-day) crosses above a longer-term average (e.g. 50-day). The stock becomes bearish (price may fall) when a short term average crosses below a longer term average.
5. Stochastic Oscillator – It is a momentum indicator that compares a security's closing price to its price range over a time period. It is based on the assumption that in an upward trending market, prices tend to close near their high and vice versa. Generally stochastic above 80 indicates the security is overbought, whilst a stochastic below 20 indicates the security is oversold.
6. Average Directional Index (ADX) – used to gauge the strength of a particular trend, though not its direction. ADX ranges from 0 to 100 and readings below 20 indicate a weak trend whereas readings above 40 indicate a strong trend.

Active trading is a test of one's emotional and mental stamina. Development of trading discipline, patience and adherence to one's risk limits is key as the financial market can be unforgiving. However, even though the above techniques are not foolproof, they can be useful guiding tools to aid an investor in making a rational trading decision.

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FINANCIAL & ECONOMIC INDICATORS

As at 4 September, 2008

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	107.08	109.50
Euro	1.43	1.47
Jamaica	72.14	72.08
Guyana	204.70	204.40

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	107.89	115.59
Natural Gas (US\$/mmbtu)	7.23	8.35
Gold (US\$/Troy Ounce)	796.45	834.05

Eurobond Indices (Return % YTD, as of 04-September-08)

Lehman Brothers Global Aggregate Index	1.41
JP Morgan EMBI+ (percentage change)	28.40
CMMB Eurobond Index	n/d

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	1.88	1.75
Euro Zone	4.25	4.25
Japan	0.50	0.51
Brazil	13.00	13.00
Trinidad	8.50	8.50
Jamaica	13.50	13.50
Barbados	4.50	4.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	1.65	1.71
US 10-Yr Treasury	3.63	3.78
3-month UK Libor	5.74	5.75
Japan 90-day T-Bill	0.53	0.53
Brazil 90-day T-Bill	14.32	14.22
TT 90-day T-Bill	7.30	7.17
Jamaica 90-day T-Bill	14.58	14.58
Barbados 90-day T-Bill	3.77	3.77

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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