



Inspector of Financial Institutions and the Stock Market...the continuing saga

In the Preface to his book, "Negative Dialectics", Theodore Adorno writes thus: "The only condition of truth is to allow suffering to speak." Today, I would like just one number to speak; market capitalization. The market capitalization of a company is the number of shares issued by it, multiplied by the market price of those shares. It is, therefore, a measure of the value or worth of the company as determined by investors, given all the relevant material information on its profitability, management, general performance and outlook for the future.

It is a commonplace that investors don't purchase shares in a company solely on the basis of its financial performance in previous years, but rather on what the performance forecast looks like. Therefore, the price an investor is prepared to pay for a stock normally bears some correlation to his/her expectations about the future performance of the company.

The Stock Exchange regulates the stock market and most people view it merely as the entity which monitors buying and selling activity, as well as ensuring that its members (the stockbroking firms), honour their obligations to their clients and to each other. But a Stock Exchange also possesses an economic function, which is to increase the quantity of funds available to finance industry and to direct the flow of savings towards investment in industries where expansion of facilities is most desirable. Of course, we don't see much of that in Trinidad and Tobago, which has prompted me, on more than one occasion, to openly declare that we do not have a stock market. What we have, in fact, is a market for a few stocks. Nevertheless, we must work with what we have.

Getting back to market capitalization, the value or worth of all the companies listed on the Trinidad and Tobago Stock Exchange (TTSE) at the end of May 2005, was \$121.8 billion. By year-end 2005 that figure dropped to \$107.4 billion and, at the time of writing on 10 October 2006, it stood at \$88.1 billion. What does this mean? In very real terms, it means that between May last year and double ten this year, \$33.7 billion literally vanished into thin air. But who has suffered?

There is a widely held view that the people who invest in stocks are the wealthier folk among us who could easily absorb the losses incurred. Without analyzing the statistical data, it is probably true that wealthy individuals do invest in stocks. However, the vast majority of stocks are owned by institutional investors like the Unit Trust Corporation, insurance companies and pension funds and therefore, in an indirect manner, by hundreds of thousands of working people. So the collapse of the stock market is clearly not just a matter for rich people. The chances are that if you're reading this article, you have suffered as well.

How did this come about? The Second Schedule appending the Insurance Act outlines how insurance companies and

pension funds should allocate their statutory funds. One of the stipulations is that pension funds cannot invest more than 50% of these funds in equities.

Let me state that the threshold was changed from 40% to 50% in late 2003 or early 2004 in response to continuing rise in stock market prices. This bull-run continued for all of 2004 into 2005 so that many of these institutional investors would have exceeded the 50% limit by virtue of the rising stock prices and not necessarily by their active purchasing of additional stocks.

In early May 2005 the Inspector of Financial Institutions (IFI) issued a decree that all pension funds should comply with the 50% provision. This meant that many, if not all, of them would have needed to sell off some of their equity holdings to remain within the statutory limits imposed by law.

Now there's no need to remind you that Trinidad is a small place. As soon as people became aware that pension funds may have to sell off some of their shareholdings, the race began. The race, of course, being for individuals to sell out their shares before the pension funds begin to flood the market with shares of their own. Within short shift, the market consisted wholly of sellers and very few buyers resulting in a complete collapse of stock prices. Between May 2005 and 10 October 2006, the TTSE Composite Index has plunged 30%. But some sectors in the market fared worse. For the Non-Bank Financial sector, the fall was of the order of 44% and for the Manufacturing II Sector it was 48%.

To add fuel to an already raging inferno, the IFI has retained consultants to review the existing legislation and according to one of the proposed amendments contained in the second draft, there is an intention to lower the 50% threshold for equities down to 25% over a five-year period. If this proposal gets the green light from the Honourable Minister of Finance and goes to Parliament for enactment, then I can safely forewarn that your SUFFERING has only just begun.

Regional Market Review

The search for optimism continued this week spreading from Jamaica to its counterparts as all major Regional equity benchmarks were in positive territory on modest gains. In Trinidad the Composite Index ended with a negligible gain of .1% and was mainly buoyed by advances from Jamaican stocks like NCBJ and CCMB. On the other hand the All Trinidad Index lost more ground falling .6% to 1,082.57 points. Market activity also improved as winners outnumbered losers 11 to 6 while value traded improved to TT\$27 million. The impact of the budget for 2006-2007 is already affecting Manufacturing stocks namely Angostura Holdings and WITCO. The imposition of an additional 15% on excise duties on locally manufactured rum, beers and other alcoholic beverages and cigarettes has already prompted price increases from both companies. Plipdeco maintained its momentum as interest in the stock continued; PLd was responsible for 2.1 million of the 3.6 million shares traded. Sagicor Financial and Angostura both traded more than 200,000 units.

This week's winners were NFM (13.2%), NCBJ (6.5%) and CCMB (3.8%). NFM lost the most (4.8%) followed by Prestige Holdings and RBTT Bank both retreating by 2% each. Prestige's disappointing earnings continued into the third quarter as the company generated lower profits from more restaurants. Although Revenue seems to be improving, profits continued to be depressed in light of weak results in the first two quarters. In other news RBTT received an investment grade rating from Fitch, up from a BB+ to BBB- with a stable outlook; a reflection of the Group's solid financial strength and stability.

The main BSE Index closed with 964.84 points on 10 October which represent a marginal increase over the prior week. However, trading for the period remained low with most of the 25 traded stocks remaining unchanged. Of the 3 advancing stocks WIB cupped the highest gain of 2%, while GDE followed in a close second inching up by 1.3%. Sagicor was the most favoured stock this week trading 176, 402 units.

The Jamaican Equity gauges continued to rally this week. This recent upswing in value helped to slow overall year on year losses to 16.6% on the JSE Index better than Trinidad's 18.3% decline in the same period. The All Jamaica Index posted a bigger gain of .6% as resident stocks pushed the advance/ decline ratio to fifteen to ten. Investors continued to favour stocks like Jamaica Broilers, Jamaica Producers and Cable and Wireless (Jamaica). The main advancers included Supreme Ventures, Seprod and Cable and Wireless; each grew by more than 5% for the period. Competition for the controlling interest of Dehring, Bunting and Golding is climbing in the financial sector. Bank of Nova Scotia could now be up against the financial institutions like LOJ through PCFS, JMMB and CLICO who also have their eyes set on the brokerage firm for various value adding reasons. The completion of the deal is not only dependant on the company's principals but also the co-operation of minority shareholders as institutional investors also retain substantial interest in the company. BNS would therefore need to seduce these investors to acquire a controlling interest. These shareholders are expected to demand either a high price or a share swop; the latter however would be less costly for BNS.

Table 1: Regional Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	871.49	0.11	0.02	-18.31	-19.64
All Trinidad	1,082.57	-0.59	-1.70	-18.14	-19.68
JSE Index	86,526.32	0.41	3.75	-16.60	-16.03
All Jamaica	86,788.15	0.53	4.80	-16.04	-13.69
JSE Select	2,339.27	0.54	4.67	-17.85	-14.26
BSE Composite	964.84	0.07	-0.21	-6.78	-7.00

Current Happenings

- Social Development Minister: Poverty rate now stands at 17 per cent
- Yetmin: UTC, other mutual funds and pension plans, recorded huge losses on slow action from Government on bad decision by the inspectors of banks.
- Fitch: Upgrade of RBTT Financial Holdings Ltd reflects solid group performance
- Government spending will feed inflation; could move to double digit figures
- IMF study says Barbados interests rate spreads higher
- BNS could face bidding war for DB&G
- Jamaica must take advantage of CWC 2007 opportunities, says economic advisor

Table 2: International Market Performance

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	1,353.42	1.45	4.15	6.67	13.85
Nasdaq Composite	2,315.43	3.20	6.54	3.20	11.10
Dow Jones Industrial	11,867.17	1.19	4.13	9.40	15.58
German Dax	6,117.71	2.09	4.15	12.03	21.57
FTSE 100	6,072.70	2.28	3.79	6.89	12.60
Nikkei 225	16,477.25	1.45	4.32	2.27	21.54

International Market Review

In the U.S, Google, the most used internet search engine purchased You Tube Inc. for US1.5 billion in stock. This boosted returns on the tech savvy Nasdaq which recorded a strong gain of 3.2%. The S&P 500 and the Dow Jones advanced by 1% respectively. U.S treasuries fell after government and central bank reports hinted at faster growth in the economy. European markets rallied by the close of trade on 10 October as economic reports indicated more sustained economic growth in the region and better earnings forecasts. Mining and Communications giants BHP Biliton and Vodafone Group Plc both attracted better than projected profit forecasts. The German Dax, FTSE 100 and the Eurostoxx all gained more than 2% in value. Rumours of another nuclear test in North Korea and weak economic data underpinned the Yen which fell to an eight month low of Y119.50 stirring some level of discomfort in the stock market. Despite this the Nikkei and Hang Seng both advanced to close with 16, 477.25 points and 17,823.70 points respectively.

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