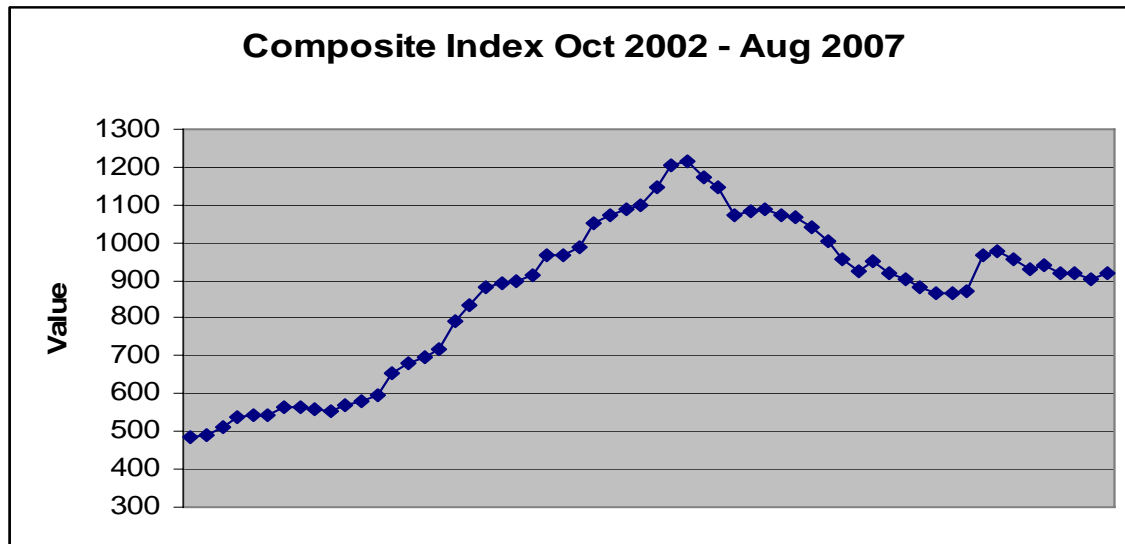


Investing in the Local Stock Market

The Composite Index of the Trinidad and Tobago Stock Market declined by approximately 5.35% in the eight months of trading thus far for 2007. Investors seemingly show little reaction to some phenomenal results reported during the course of the year by companies spanning the Financial, Conglomerate and Manufacturing Sectors. The market appears rather to have reacted to takeover bids and rumors of takeover bids.

Some may recall that around the time this present Administration came into majority elected Government, the Stock Market took off on a bull run with shares climbing to higher price/earnings plateaus. At that time one could choose any share regardless of its operational performance and realize significant capital gains. Even then the catalyst for share price movement was not the reported results of the listed companies. Nonetheless, the Trinidad and Tobago Stock Market was one of the leading emerging markets at that time and ran counter to the declines being experienced then by the world's major stock markets. The rapidly advancing market hit a snag about midway through the governing term as the Central Bank required institutional investors to comply with applicable regulations and this consequently led to a market reversal (**See Graph 1**). As we approach a new election date, we see price\earnings ratios back to levels prevailing prior to the break of the stalemated Parliament in 2002.

Graph 1 showing Composite Index over the period October 2002- August 2007



The Market however, currently does not reflect the reported economic advancement that this country has achieved over the governing term or the continued expansionary fiscal policy of the Government. Although there may be marginal appreciation occasionally, since the call for compliance by the Central Bank, the Market has generally tended downward. In the present burgeoning economy with higher profits and disposal incomes compared to five years ago one may be baffled as to why there isn't a demand-pull on share prices.

The answer may simply be this - Many investors would have been ecstatic in the first half of this period but experienced almost depressive feeling at the downturn of the market. It seems that investors are still a bit cautious after looking at the course of events and may be unwilling to risk the possibility of loss by investing new money into an uncertain or declining Stock Market.

A closer look at the investment factors may however encourage investor confidence in the Market. At the current low P/E ratios and the rate of growth of company earnings together with a stable Government, continued economic development including maintaining of full-employment, the market once again has some semblance of turning bullish. Though, the ability to keep interest rates and inflation in check is of considerable importance so as not to erode the main sources of investment funds i.e. loans, disposable incomes and profits. Should the about face of the Market occur, we do not expect the same degree of activity as with the last bull-run simply because the demand by institutional investors is estimated to be at lower levels due to prevailing regulations.

Nonetheless, there is expected to be some strong demand for quality stocks. Companies that are able to take advantage of the country's booming economic conditions and realize steady growth in earnings will eventually see their performances matched in the share prices. There is however some foreseeable risk attached to new or inexperienced investors who join the bandwagon when prices have started moving. Many of these investors get into the market late when prices are already high and demand for the share starts to dissipate. It is therefore necessary to take up early positions in order to benefit from the current low prices and maximize gains.

Making Sense With Your Investments Dollars

Investors who are intrigued about the market and excited about its workings but lack experience in investing should consult a Stockbroker in order to minimize the possibility of loss, both in terms of the specific investments to make as well as charges attached to those investments. Investment charges are an important feature that investors sometimes neglect to consider when calculating their expected gains.

There are two charges that apply to trading in equities on the local Stock Market. The first is a transaction charge which is a Stock Exchange fee and represents a (0.15%) of the value of the transaction. The second and more significant charge is the Stockbroker's commission.

The standard commission rate a Stockbroker charges for the completion of a transaction, whether it is the purchase or sale of the equity, is structured as follows:

1. one and a half percent (1.5%) for the first \$50,000.00 value,
2. one percent (1.0%) for the second \$50,000.00 value and
3. half of a percent (0.5%) thereafter.

With this structure, an investor must realize that investments falling within the first tier attract a 1.5% commission on the purchase and a 1.5% commission on the sale of the shares. The investment must then grow by more than 3.0% to be considered worthwhile.

This analysis is simplistic and does not consider dividends, Stock Exchange fees and the marginal difference in actual commissions with a 3.0% share price change.

Smaller investors should also be mindful that because of the costs involved in completing a transaction, some Stockbrokers have minimum charges and this may warrant an examination of the investment strategy. To illustrate I will use an example of two investors, both making similar investments in the stock market: Investor A uses a brokerage firm with a minimum commission of \$150.00 and Investor B uses a brokerage firm without a minimum charge.

Given these circumstances, both investors will have equal returns, *ceteris paribus*, where their investments are from \$10,000.00 and above. This is because the regular commission charge for \$10,000.00 is \$150.00 using the first tier of the commission structure. At \$10,000.00, Investor A is charged the minimum commission of \$150.00 and Investor B is charged a commission of 1.5% which equates to \$150.00. Thereafter, both Investors are charged equally at 1.5%.

The incongruence exists when the investments are below \$10,000.00. Investor A disadvantages himself as he has to pay the minimum commission charge of \$150.00 regardless of the level of the sub-\$10,000.00 investment while Investor B is charged at 1.5% of the value. For example: an investment worth, say \$4,000.00 would attract commissions of \$60.00 chargeable to Investor B; however Investor A is charged \$150.00 and would have already set himself back \$90.00 compared to Investor B. This same type of situation recurs when both Investors dispose of the shares.

This illustration was provided so that new investors who are unaware of such charges do not make ill-decisions which may cause them to incur losses and become despondent about investing. Suffice it to say that depending on the level of investment and tolerance to risk, the equity market may not be the best place for some investors. An investment of less than \$10,000.00 in stocks may not be in the best interest of investors looking for a well diversified portfolio. Rather, a mutual fund will possibly be better suited to meet the needs of such investors.

The public is therefore encouraged to hold careful discussions with a Stockbroker about investment commitments and expectations so as to make the best use of their investment dollars.

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