objectives) and choose one out of the six mutual funds in the country to enhance wealth accumulation.

Ghanaian fund managers must take a cue from their US counterparts, (who have increased portfolio investment in emerging markets) and search for investment in other countries in order to diversify risks.

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INVESTING IN SHARES WHEN THE "CHIPS" ARE DOWN

Overview

'Property is the fruit of labor; property is desirable; it is a positive good in the world'. - Abraham Lincoln. The desire to create wealth is an age old aspiration of man. This is because power, control and security [especially financial security] are derived from the possession of wealth. This drive underscores basic savings in commercial banks, investment in treasury instruments, equities, mutual funds and properties [houses, land etc]. While basic savings only accumulates income earned, investment rewards the investor for withholding consumption until a later date. Depending on the nature of the investment option considered, returns may be low, moderate or high after inflation has been factored out. This suggests that, naturally, rational investors would opt for investments that yield the highest returns. There is some risk inherent in investing and investors get a reward for bearing this risk. Risk and the rate of return on any investment are positively related. Thus, the risk tolerance level of the investor determines his choice of investment and how much returns accrue on the investment. Investors must note that the risk involved in any investment is the probability of not receiving exactly the expected returns or receiving returns that deviate from the expected. What should investors do when 'the Chips are Down?' What should investors do when their expectations in stock market investors are not met as has been the case for many invested in the Ghana Stock Market in 2005?

Mechanics of Stock Market Investment

Historic records have proven beyond doubt that investment in stocks yields superior returns than other financial assets. Investors have different goals which determine their choice of investment vehicles [treasury instruments, equities, mutual funds and properties [houses, land etc]]. Investors have dreams which they aspire to achieve through investment goals such as planning for early retirement, children's education, purchase of a dream car, accumulate capital for a business venture or pay off mortgage/to build a home.

Adept investors will seek out the best means to achieve their goals. Is leaving your money tucked safely away in a bank or gilt edged securities [which may give you a lower rate of return than inflation] an option? Or would it be better to resort to the stock market [where the potential for strong returns is greater but the chances of losing money invested is higher?]

Investment decisions depend on investment goals and risk tolerance level. Risk increases with time and is thus key, when determining an investment horizon. For investors with an investment horizon of five years and more, it is well worth investing part of your portfolio in the stock market. Part because it is better to spread risk by investing in a range of assets.

Comparative Return on Financial Assets

Year End	Year-On-Year Inflation (%)	Equity Performance (%)	91-Day Bill (%)	1-Year Note (%)	Fixed Deposit Rate [Avg.] (%)	Cedi Dep. (%)	Dollar App. (%)
1999	13.79	-15	28.12	19.66	20.5		
2000	40.54	15	38.99	26.92	33.5	-49	97
2001	21.29	11	40.87	31.57	23.25	-5	5
2002	15.20	46	25.14	26.65	13.25	-13	15
2003	23.60	156	28.37	29.96	14.25	-5	5
2004	11.78	91	17.29	18.46	13.25	-2	3
2005	14.80	-25.15	15.45	17.69	8.33*	-0.64	0.65
Annual Avg.	*20*	*40*	*28*	*24*	*18*	*-12*	*21*

Credit: Databank Research and Information Limited
Fixed Deposit Rate is a proxy as at September 2006.C

Types of shares available for investment include preference shares, bonds, and gilts but the most popular type is ordinary shares.

Ordinary shares represent part ownership of a company. When an investor buys shares, also known as equities or stocks, he literally becomes a part-owner of that business. If, for example, Canoly Company has 100,000,000 shares worth ¢100 each and an investor buys ¢1,000,000 of shares, he owns 1% of the company's equity by implication.

Why have stock market investments been so successful? The success factor behind investment in shares is the direct link shares have with company profits and the strength of the economy. As the company expands its operations and increases profitability through efficient management, the company's fundamentals become strong. Consequently, the stocks attract demand from investors who are usually willing to pay a premium to acquire them and bid the stock's price up. Existing shareholders then make some capital gains if they opt to take their profit.

Shareholder benefits for owning shares include capital gains, equity growth and dividends. For example, if Dygrey Company Limited [DCL] earns revenue of ¢10,000,000 in one year. After deducting costs, DCL has ¢5,000,000 left as profit. DCL reinvests this amount in the business by investing in better technology, which enables cost-cutting and therefore culminates in increased profit the following year. If DCL continues to improve profits, demand for DCL shares will grow and the share price will rise. This type of company, known as a **growth stock**, is popular with investors **who do not need income** from their investments immediately such as fresh graduates and young [often unmarried] professionals.

Some companies pay **dividends** [especially those in industries at their maturity phase]. For example. Plaizy Ghana Limited earns revenue of ¢10,000,000. After deducting its costs and reinvesting in the business it has c2,000,000 left over. It decides to return this money to shareholders by paying a dividend. If the company has 10,000 shareholders, each shareholder will get a dividend of ¢200 per share. An investor who owns 100 shares will receive a total dividend of ¢20,000. Shares that pay dividends regularly are known as **'income stocks'** and are good for pensioners and those who need income regularly.

Companies can return money to shareholders in other ways such as **buying back** their shares. This increases the value of those shares still in circulation as the float [supply] is reduced.

Holding demand constant, the decline in supply will re-establish price at a higher level [according to the principle of demand and supply].

By investing in shares, investors **link their financial wealth to the health of the economy**. The returns on business operations typically grow when the economy is growing and slow down with the economy in recession. In times of inflation, shares are a better investment option because it has the potential to exceed inflation by a higher margin than other financial assets. Returns on shares are able to beat the effects of inflation because economies stay relatively longer in a growth phase [than in recession]. During this phase, companies expand and return higher earnings to shareholders. Savings accounts do little to protect your money from inflation as the rate of return is smaller, averaging under 10% a year.

Risks Inherent in Investing in Shares

As investors who had money in Ghana's stock market in 1999 and 2005 will testify, **share ownership is not without risks**. Expected capital gains are not always realized because share prices are volatile in the short-run and are difficult to predict with absolute accuracy. In times when the chips are down, should investors still hold in there or abandon their stock holdings? When a particular stock that an investor acquires in anticipation of capital gains performs disappointingly as many stocks have on the GSE this year, what should investors do?

A popular quote by Mike Milken says 'People forget that today's junk is often tomorrow's blue chip'. Many investors act at wrong times and suffer for it. Investors must act appropriately on information in order to beat the odds. The source of information must be credible and should have been provided within reasonable time. Full year financial results released up to a quarter after the end of the year may be irrelevant to act on in an effort to beat the market. This is because a quarter [3 months] is long enough for a company's circumstances to be significantly changed. Some investors also respond either too early or too late to information and are unable to reap good results from their decisions. Some investors for instance are too quick to redeem their profits in a bull or bear market for fear of losses and wind-up with 'unknown meagre' profits, only to watch their former holdings soar even higher afterwards. Such investors are usually tempted to buy at the wrong time at much higher price levels or hold on too long to shares and thus end up making more losses.

A bear market usually occurs after a sustained bullish-run. It is a period of continuous share price declines [as witnessed in 1999 and 2005 in Ghana]. Like a 'financial cancer', capital gains and more are 'eaten away' during bearish markets when the chips go down. Intermediate rallies, which are seldom very strong, keep the hopes of investors alive as is expected in 2006. However some investors rush to sell their stocks before the peak of the rally and lose out.

Shares also tend to fall when the economy is weakening as investors recognize profits will be lower. Ghana's stock market however has been slow in its response to economic and other information.

Beating the Odds when the Chips are Down

There is nevertheless no justification for staying out of the stock market like a 'Nervous Nellie'. Risks are rather to help investors recognize the importance of building **a broad and diversified portfolio** with shares in different companies, industries and if possible countries. For the risk averse, investing in mutual funds such as Epa¢k is a diversified alternative because it spreads your money across a number of companies and financial assets and is managed by a professional fund manager.

It is also worth noting that apart from those companies that go 'bust', shares that have fallen in value on the market can recover over time. It is sometimes worth holding on to stocks whose value has fallen until it recovers. At other times, it may be better to cut losses by divesting interest in it in order to invest in a company that has better prospects. The option chosen depends on the company invested in and the investor's individual circumstances. Whatever the choice, it is important to build a portfolio with the aim of reducing investment risk. Expert advice and timely equity research information are priceless in beating the odds when the chips are down.

We do not presume nor suggest that all stocks will bounce back in 2006. However, most equities have attained improved price earnings multiples and earnings that are ideal to generate investor interest and subsequent recovery in market value. However, historic trend and fundamental strength of listed companies suggest there will be recovery in 2006 as happened in 2000. Following a -15.1% return on the stock market in 1999, a positive return of 15.3% was recorded in 2000. It should be noted that depending on the particular stocks an investor holds, he could make positive returns even when the market as a whole is making a negative aggregate return. For instance, an investor who had shares in CFAO Ghana, or Camelot Ghana or PZ Cussons would have made 81.8%, 75.3% or 38.3% respectively in spite of the negative 25% return on the market.

When the 'chips are down' after a typical bearish market, it is a good time to buy stocks in anticipation of recovery. Stocks tend to trade on the Exchange at a discount or at fair market value. As demand for stocks rise, the price rises steadily over time. To beat the odds, perfect timing and regular management of portfolio are crucial. There are surprises in investing in shares. Equities with good prospects could suddenly encounter trouble that could alter their growth trajectory and vice versa. When a company whose stock price is expected to rise suddenly dips & trades at a discount to original optimism, some smart investors get excited because, they can increase the number of shares they hold in these stocks. Typical stocks in this category include CAL and Aluworks.

To conclude, it is extremely important not to rush to any conclusions on long-term performance. Patience is of greater urgency and importance than even 'perfect timing' in stock market investing. As Edwin Lefevre, an investor said 'People who look for easy money invariably pay for the privilege of proving conclusively that it cannot be found on this sordid earth'. Stock market investments are not for short-term or overnight quick money! Because 'Long periods of prosperity usually end in scandal' [George Taucher], some bearish sentiment is good for the market after a bullish run. Getting into stocks with good prospects early proves greatly rewarding and even more so during price dips.

At the opening of 2006, most equities were trading at discounts or fair market value and some investors who were swift to buy, may admit that their decision worked in their favour. It is not beneficial either to 'box' a long-term investing strategy without ever selling as some Ghanaians tend to do [framing and decorating their halls with their share certificates]. An investor who specializes in ultimate growth opportunities must realize when growth has peaked and sell or avoid buying. For growth stocks, investors must tread cautiously to beat the odds. Some promising growth stocks may take years of volatility to reward investors because, the investor may have gone in when the company was barely at its infancy phase on the growth trajectory. Nevertheless, some investors won't shy away from these equities.

Stock Recommendation by Analysts and Research Reports [company reports] are useful in beating the odds when the chips are down, provided they are done by investment banks that value integrity and accountability. A closer look at some loser equities on the GSE will reveal that they still have some potential for a turn-around/price gains. Investors thrive on opportunity, and the fact that many stocks are trading for less than their fair value, should make them appeal to even the "Nervous Nellies]*. Although momentum has been on lull, there are heartening indicators of conceivable recovery with a current year-to-date return of approximately 3 per cent on the market.

* A Nervous Nellie is an investor who isn't comfortable with investing and the risks associated with it. If a Nervous Nellie ever decides to invest, he or she is likely to liquidate the investment at any time.

Credit: Databank Research and Information Limited

Thinking is the hardest work there is. That is why so few people engage in it.
-Henry Ford