



INDEPENDENT WEALTH MANAGERS

Authorised Financial Services Provider Number 3145



NEWSLETTER SECOND QUARTER – 2010



From the Directors...

We are very pleased to present our second newsletter in 2010; what an eventful year we have had so far. From the eruption of the Volcano in Iceland and the cloud of ash that held much of the World to a standstill, to the worries over the creditworthiness of the weakest economies in the eurozone. Locally, however, we as South Africans can be very proud of the successful hosting of an exciting 2010 World Cup event.

Volatility returned to financial markets to a large extent in the second quarter of 2010, much of which stemmed from the Greek debt crisis towards the end of the first quarter.

In addition, some investors have grown very wary that in an effort to slow the rapid economic growth in China; the country would apply too much resistance and derail the economy regarded as a key global growth player.

	SPOT	% MOVE YEAR TO DATE		% MOVE PREVIOUS 12 MONTHS	
Gold \$/oz	1245.5	14.11	↑	34.34	↑
Oil Brent spot	75.17	-2.63	↓	5.81	↑
ZAR/USD	7.67	-4.00	↓	0.92	↑
ZAR/GBP	11.53	2.67	↑	9.31	↑
ZAR/EUR	9.36	11.67	↑	13.68	↑
All Share (J203)	26259	-5.87	↓	15.63	↑
Resources (J210)	45647	-12.51	↓	10.26	↑
Financials (J580)	7230.25	-2.02	↓	18.17	↑
Industrials (J257)	21109.9	-2.31	↓	19.70	↑
S&P 500	1035	-7.17	↓	12.42	↑
FTSE 100	4914.22	-9.21	↓	13.21	↑
Nikkei 225	9383	-11	↓	-5.61	↓
DJ-EURO50	235.97	-20.5	↓	-3.68	↓
Nasdaq	2123	-2.68	↓	15.13	↑

NOTE: Values as at 30 June 2010

Most investors want to do today what they should have done yesterday

Laurence H. Summers

The first article of this newsletter deals with the anticipated implications of the 2010 World Cup event on South Africa. It was written by Craig Massey, who is the Head of Stockbroking at Sanlam Private Investments. The second article was written by Jeremy Gardiner, a Director of Investec Asset Management. Jeremy includes valuable insight into the potential shift of sentiment towards the emerging markets in future, based on stronger financial health and growth prospects. The last article presents a relevant discussion of the importance of savings when planning for retirement. It was written by Rob Formby, who is the Director of Retail Operations and Finance at Allan Gray.

We again would like to take the opportunity to thank you for your continued support. Various changes were made to the administrative team during the second quarter of this year; Charlene Tancel and Janine de Blied have left the company to pursue other opportunities. We would like to thank both Charlene and Janine for their dedicated service and wish them all the best in their future ventures. We are pleased to announce that Zandrie Fourie and Leanne Conde have re-joined the company. Zandrie will be assisting our client services team and setting up appointments from Vanderbijlpark. Leanne Conde re-joined the client services department in June; we welcome her return after 2 years in the UK.

We trust that you will find the content that follows both interesting and valuable. Should you have any queries or require any additional information, please don't hesitate to contact us.

Greg, Maureen and Shaun

The four most costly words in investment are: 'this time is different'
Sir John Templeton



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POST WORLD CUP – WHAT CAN WE EXPECT?

Craig Massey



Private Investments

What happens when the sounds of the vuvuzelas die down and things return to normal? What will be the ongoing impact of this wonderful event?

Before we consider that, it is probably a good idea to look at some of the current facts around hosting the 2010 Fifa World Cup™. While the impact on the labour market has been huge, 130 000 jobs were created in building the stadiums alone, the immeasurable and sustainable benefit has been the creation and development of skills, which will support future economic growth.

The capital spend has been impressive with the key projects receiving the bulk of the funding:

	(R)Billion
Stadiums	11.7
Transport	12.9
Telecommunications	1.5
Safety and security	1.3
Public health and Disaster management	0.8
Ports of entry	3.5
Grant to host cities	0.7
Legacy (mass mobilisation)	0.3
Hosting strategy and culture	0.3
Total	33

The impact of the 2010 World Cup on South Africa's annual real GDP growth for the period 2006 – 2012 is estimated at 0.25%. For 2010 alone, it is expected that the impact of the World Cup will add 0.5% to GDP. While initial estimates for foreign visitors were around 500 000 this number was scaled down to a more realistic 250 000. To a large degree this decrease in numbers can be ascribed to the poor state of the global economy and a perceived weak global marketing effort by Fifa.

What is more important now is to assess the lasting impact on our economy, equity markets and the global perceptions of the Rainbow Nation.

One of the most significant factors that took place was the huge improvement of infrastructure, particularly airports, ports, rail transport and roads. The government has stated that the spend on the World Cup is only a small percentage of the planned capital spend over the next five years. The areas that have been identified for significant investment are roads, water reticulation and energy/power generation.

For foreign investors wishing to access African markets or locate production facilities on the continent, South Africa can now put forward a compelling case for investment to be made here. By successfully hosting the World Cup, we can demonstrate our ability to deliver on large projects. If South Africa is able to get through the event with no major security incidents, we will certainly be viewed more positively as a tourist destination, which could have significant long-term benefits for our tourism industry and the related benefit for employment.



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All in all, this positive sentiment should lead to a more positive rating of our investment markets that, along with earnings, are possibly the two most important drivers of equity market performance.

Finally, looking at the rand, the hype around the World Cup and the view that economic growth in emerging markets is going to outpace the developed markets has been supportive. Going forward, we should see the rand return to its normalised purchasing power bands and therefore expect the rand to trade in a band of R8.30 – R8.50 to the US dollar.

By Craig Massey,
Head of Stockbroking,
Sanlam Private Investments

Published July 2010



COULD IT BE DIFFERENT THIS TIME?

Jeremy Gardiner



America sneezes and the rest of the world catches cold, or so the saying goes. Traditionally, whenever anything goes wrong it has generally occurred in the perceived riskier developing world, and even if the problem was on the other side of the planet (like in Russia or Argentina), the entire emerging markets class would inevitably be punished as one. Risk aversion would kick in and almost vacuum-like, money would be sucked out of the developing world into the safe arms of the developed world.

This perceived superiority of the developed world transcends into South Africa as well. I was recently asked whether we don't face a greater risk because our Government is supposedly less 'Ivy League' educated than its Western peers. By implication, we were perceived as insufficiently educated. Whilst the 'Ivy League' part of that sentence is probably true, I have no idea and am certainly not qualified to debate the relative education levels of our Government versus others. What I will say however is look what that 'Ivy League' education has done to them! South Africans seem to be largely unaware of how financially superior we are compared to the supposedly less risky developed world. I constantly see Government being judged on the two C's – Crime and Corruption. Indeed, we as a nation spend



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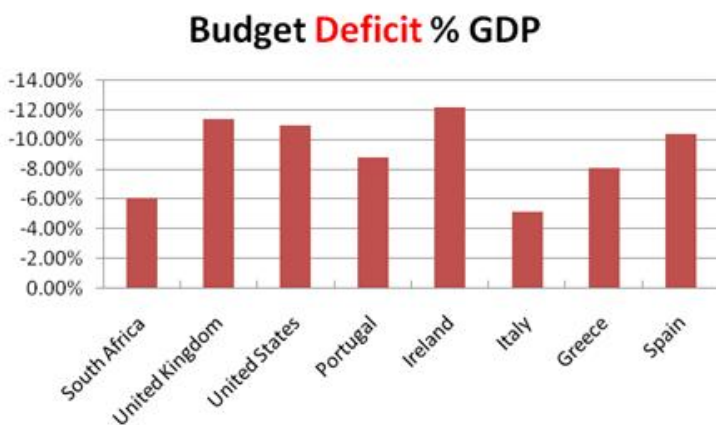
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our time (quite correctly) obsessing over these topics. Without in any way belittling their significance, not nearly enough credit is given to the financial prudence that has been demonstrated in South Africa over the past 16 years.

Whilst there is no doubt that taxpayers' money is not always optimally spent, the succession of finance ministers and Reserve Bank heads that includes Trevor Manuel, Tito Mboweni, Pravin Gordhan and Gill Marcus, deserve enormous credit for resisting the urge (and for stopping others) from borrowing recklessly and spending madly beyond our means. And it must have been tempting, as the needs of homeless, hungry South Africans are far more obvious and justifiable than the needs of the average European, the increasing demands of which have led to the fiscal bankruptcy currently imploding Europe.

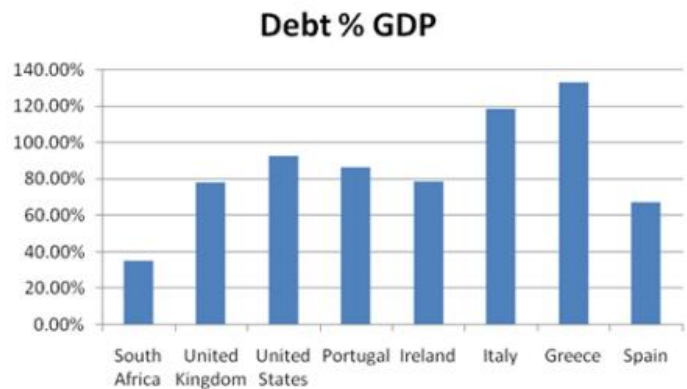
The chart below shows by how much the developed world has been spending more than they are bringing in from a tax perspective. While spending more than you are raising in taxes is fairly common, there is a point at which it becomes unsustainable.

Source: April 2010 WEO and IMF 2010 estimates



And of course, when you run short of cash, you borrow in order to provide. The amount you owe as a country as a percentage of the size of your economy is illustrated very clearly in the debt as a percentage of GDP chart.

Source: April 2010 WEO and IMF 2010 estimates



In fact, our Government's lack of opposition ironically probably allowed them to focus on the right things to do, as opposed to the US, UK and European models, where both newly elected and incumbent parties, for fear of the electorate and their narrow margin of electoral safety, have over the years been reluctant to remove benefits, and in order to ensure future political survival, have been inclined to keep giving more. Eventually, you are giving so much more than you have got, and the system either implodes as you are currently seeing in Greece, and potentially certain others, or you have to cut back on spending and raise taxes which is what most of the developed world has to start doing as soon as possible.



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So what's happening now?

The proverbial dog has caught the tyre. You can't carry on spending more than you earn forever. Essentially it could have gone on for longer, but the credit crunch speeded up the process. The debt problem was moved from company balance sheets to country balance sheets and hence Angela Merkel is quite right to complain that the countries saved the banks and now those same banks are attacking the countries that saved them.

The EU is rallying around Greece. Fixing a debt problem by administering more debt is like fixing an alcoholic with more alcohol. It just defers the problem. The problem is also that it's not just Greece; they all owe each other so much money and they also owe France, Germany and Britain lots of money. Europe is not in great shape and the Euro should therefore remain under pressure.

The interesting thing to watch is what happens when things settle down. During the turmoil, there will be the traditional "rush to safety", but once the storm passes, this time it may be different and you will most probably see investors shun the developed world which is going to have to raise taxes and limit spending for many years to come, in favour of the emerging world, such as South Africa, with stronger financial health and potential growth.

One note of warning: In the ten years after the emerging markets collapse of the late nineties, emerging markets did what they were told to do, and the developed world ignored the advice they were dispensing. South Africa has done

relatively well, but we must avoid the temptation of becoming a welfare state, and the pressures will be there going forward. Otherwise, we too could look like Greece in ten years time.

What should investors be doing?

The current environment is very confusing for investors. Equities ran hard, and though you have seen a correction, they are by no means cheap. Equities are more attractive than other options, however. Which equities and which currencies? Investors would therefore be well advised to stick to asset allocation balanced funds, where a professional will make all these decisions on your behalf. The professional won't always get it right, but given their education, experience and access to information, they should get it right more often than the average investor.

By Jeremy Gardiner

Director,
Investec Asset Management

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GRAYISSUE

Issue no. 107

Commentary by
Rob Formby



If you are 30 years old and wish to retire in 35 years time, you will need to save approximately 12% of your salary to retire comfortably. If you delay saving by 10 years, leaving only 25 years to your retirement, the percentage rises to 21%¹. While the need to save is important, South Africans on average are not getting this right. Here are a few suggestions to contribute to saving effectively:

Make savings count

Investment performance in excess of inflation contributes to effective long-term savings. In the example above, you have to save 12% of your income to retire comfortably in 35 years time. A 1% increase in investment performance will increase your post-retirement income by 31%. If you are retiring in 25 years, this same 1% increase in investment performance will result in a 23% increase in your post-retirement income.

However, investor behaviour tends to detract from this performance. The performance an average investor in a fund sees lags the performance of the fund (see **Graph 1**). You should avoid inappropriate short-term decisions based on emotions (e.g. switching to chase past performance, switching due to panic,

being overly conservative). Try not to undermine a long-term saving approach with short-term, emotional investment decisions.

Resist the pressure to spend in favour of saving

When it comes to financial products, people are prone to 'herd mentality', where a large number of investors follow a direction even if it is not particularly logical. This is well illustrated by a study which shows fund flows as a percentage of assets against fund performance (see **Graph 2**). Investors tend to sell when the market is low and buy when it is high or rising. In other words, the appetite to buy increases as the price of the product goes up.

Saving is driven by the same 'herd' movements associated with financial products. In South Africa, the very low or negative levels of household saving indicate that currently most people are spending as opposed to saving. For a portion of our population there is no option of saving; for the rest, saving is an option, yet they still often elect to follow the crowd and spend, even though the consequences at retirement are devastating.

Be disciplined

According to research, when offered the choice of a certain gain, or a gamble for a bit more but with the risk of loss, most people will take the certain gain. For example, if offered R3 000, or an 80% chance of gaining R4 000 but a 20% chance of losing the R3 000, most people (80%) will take the certain gain. However, when offered a certain loss against a



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gamble of losing more, with a small potential of breaking even, most people will take the gamble. For example, if offered the option of losing R3 000 versus an 80% chance of losing R4 000, but with a 20% chance of breakeven, most people (92%) will take the gamble².

When confronted with a losing position people are more inclined to gamble. By putting off saving in favour of spending now, a person is gambling that he/she will be able to save in future for retirement. As the time passes the relative position falls further behind and the person is likely to continue to gamble.

Saving is not a get rich quick scheme, it is not about chance and it will not suddenly happen. It is about starting early, planning and being disciplined. Take a long-term, approach.

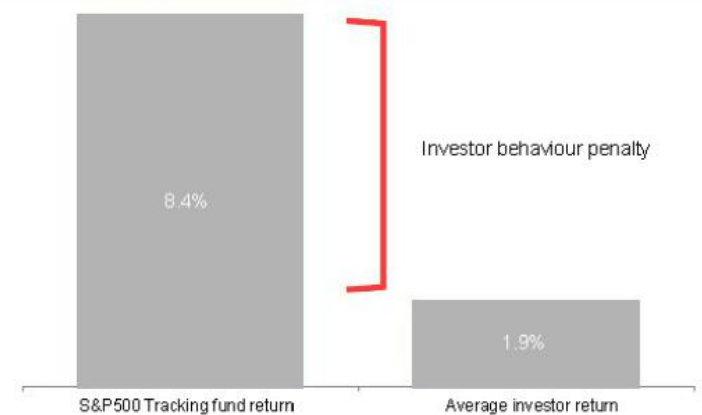
¹ Assumes: initial salary of R10 000 per month; inflation 6%; salary inflation 7%; 70% replacement value post retirement; 6% benefit increase post retirement; retirement at 65 and post retirement saving will last until 85; investment return 11%

² Source: gametheory.net based off research from Tversky and Kahneman

By Rob Formby
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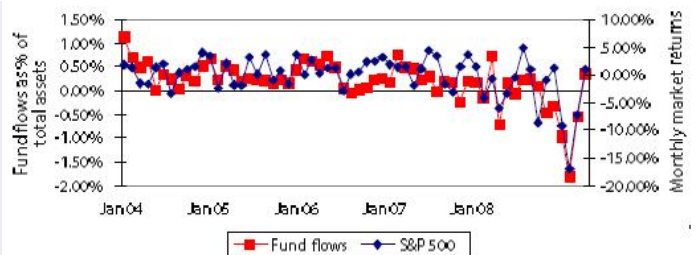
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GRAPH 1 | Fund return versus average investor return



Source: DALBAR Inc. www.dalbar.com

GRAPH 2 | Investor fund flows and market performance for the five years ended 31 December 2008



Source: DALBAR, Inc www.dalbar.com