

INVESTMENT REPORT: FEBRUARY 2010

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Review: 2009 ; - Local Markets:

Equity markets globally closed the year on very positive “recovery values” compared to the low values at the beginning of the year, - during the international financial crisis and subsequent market crash.

Die local JSE performance-graph tells the story! – (or some of it..)



The bigger “picture” of market values and returns the **past 3 years**, however, brings more reality.

Market data as on **31 12 2009** (Unless indicated: ** then ; 11 01 2010)

INDEX	CLOSE (31 12 09)	1 Year (31 12 08)	3 Year * (31 12 06)
All Share	27 666	28.6 % (21 509)	3.5 % (24 915)
Financial	19 326	22.5 % (15 778)	(-5.3 %) (22 813)
Industrial	25 987	27.2 % (20 418)	6.36% (21 598)
Resources	28 108	32.6 % (21 199)	12.73 % (19 620)
Property	323.43	4.4 % (309.99)	11.6 % **
All Bonds	295.85**	(-2.2) %**	5.8 % **
Cash	234.77**	9.2 %**	10.1 % **

(* 3 years – annualized returns)

Although good recovery took place in most market sectors during 2009, none of the above sectors really delivered good performance, over the past 3 years. (With the possible exception of Resources).

The past 3 years was therefore not an easy time for investors seeking additional return from exposure to equity markets in their investment portfolios. (Especially after costs, taxes, etc)

Bonds (government / corporative) furthermore, performed poorly in comparison with their good returns in 2008. **International exposure**, also was of little help the past 3 years, since the **SA Rand** more or less maintained its value AND international markets delivered poor returns over this specific period. (USA, Japan, Germany, etc). The sharp loss of value of the **Rand** during the crisis was soon recovered during 2009.

Investment portfolios, in general, barely out-performed the inflation rate the past 3 years and therefore did not deliver real returns to all investors. (Later, more about this aspect)

International Markets:

Although international markets recovered well during 2009, it was the recovery and growth of the **Asian** markets and other **emerging markets** (excluding Japan) that were really impressive. In retrospect this was the sector to make some profits in 2009. (Obviously with a little more risk!)

2.

The JSE performed in accordance with leading international markets, - especially the FTSE in London and other European markets

INDEX	CLOSE (31 12 09)	1 Year (31 12 08)	3 Year (31 12 06)
DOW J (USA)	10 548	20 % 8 776	(-5.5 %) 12 501
S & P 500 (Intern)	1 126	25.7 % 896	(-7.4 %) 1 418
FTSE 100 (UK)	5 412	22 % 4 434	(- 4.5 %) 6 220
DAX (Germany)	5 957	23.8 % 4 810	(- 3.3 %) 6 596
Nikkei (Japan)	10 546	19 % 8 859	(- 15 %) 17 225
MSCI EM (Intern)	980	73 % 565	2.5 % 910
Shanghai (China)	7 767	91 % 4 047	17 % 4 850
Hang Sang (Hong K)	21 872	45 % 15 042	2.7 % 20 211
India S+P CNX 500	4 310	81 % 2 380	9 % 3 325

In general, the **emerging markets** (and economies) performed very well during 2009. Even their 3 year returns are more competitive than the leading economies (Developed Markets) returns. (In spite of the 2008 market crisis). South Africa are often counted as a serious contender amongst the **emerging market** economies but our local JSE did not show a similar rate of recovery as the leaders in this group. (Brasilia, Russia, India, China, etc, - the so-called **BRIC countries**) In the graph below the recovery of our **JSE** is compared to that of **India's** primary equity market in 2009. (India – on the top line)



There are several reasons for this lag in recovery. To mention a few:

1. As discussed in previous communications, some of these emerging market economies have now evolved in full blown “drivers” of the world, - in terms of their utilization, consumption and development of resources, metals, technology, etc., for the upliftment and enrichment of huge populations. (**China** – ; 1.3 billion, - **India** - ; 1.17 Billion people, etc). In 2009 **China** became the largest exporter in the world. (Previously – Germany). **China** only just lost out to Japan as the second largest economy.

2. SA, in terms of international competitiveness, has for some time been on the “back foot” and this is not helped by local factors aggravating the situation, for instance; labour union activities, costly labour in general, limiting regulations, time consuming government bureaucracy, political interference, expensive business, legal and admin processes for entrepreneurs, etc, etc. (SA is 45th in the world, behind countries like Barbados, Puerto Rico, etc. – Second in Africa, - behind Tunisia)

3. Our local JSE has strong ties with the London FTSE. Many of our larger listed companies are also listed on the FTSE (Dual listings). There is a common economic interaction between many SA companies and companies listed in Europe.

Although CHINA became SA single largest trading partner in 2009, the European Union countries, as a trading region, is still our most important trading partners. (Trade with the USA and Japan contracted quite drastically in 2009).

As far as exchange rates with our primary trading partners go for 2009, the SA Rand drastically lost value at the end of 2008, only to recover as quickly during early 2009, - Those who thought it wise to move capital offshore during the sudden drop in value, didn't gain any real value in SA Rand OR in foreign currencies.

3.

Some historical exchange rate stats:

	30 12 2005	30 12 2006	30 12 2007	30 12 2008	<u>31 12 2009</u>
R / \$	R 6- 32	R 7 - 01	R 6- 87	R 9-35	<u>R 7.39</u>
R / Euro	R 7- 48	R 9 - 25	R 10 -12	R 13- 34	<u>R 10.61</u>
R / £	R 10- 89	R13 - 72	R 13 -57	R 13- 96	<u>R 11.92</u>

PRESENT ECONOMIC ENVIRONMENT: - INTERNATIONAL

On this topic there are actually not much to add to what was already discussed in my reports at the end of 2009 (August and December). Except for **China, India, Russia, Brasilia**, etc that recovered very quickly from the impact of the international financial crisis, other leading economies are slowly but surely getting their economies going. Some are showing positive quarterly growth. (Only just, though). The important factor from an investor's point of view is that the world economy, at present, is in a state of recovery and no new major crisis seems to be on the horizon. The billions of dollars pumped into economies globally by governments as financial stimulus packages, seems to have paid off. Herein lies the next problem... These stimulus initiatives are now "running out" and this has to be either re-financed or re-paid or be done without. All of which is going to be very tough options. Who is going to pay in the end? The tax payer or the clients of financial institutions, or both? At present, these issues as well as government regulations, limitations, directives, etc., are causing some economic tension. Some economies are still under severe stress, for instance; Portugal, Ireland, Greece, Spain, etc. These countries are referred to as the "**PIGS**", - the culprits of the economic world! Especially Greece is in serious trouble. Solutions will however be found since most of these countries are now part of the Euro Zone. (First there were "BRICKS", now "PIGS. What's next....?)

The question that can be asked is: In the longer term, - how healthy is this situation of **China** being a leading economy "driver" in our very fragile world economy? Keep in mind, China is not a democracy but is ruled by a communist regime that might have very specific aims. China's growth last year (again) touched on 10%. Even their own government is concerned about this rapid growth and recently implemented some "cooling" measures. For instance they increased the reserve requirements for financial institutions twice already. China's expansion into Africa (and other continents) is quite spectacular. Is the dependency on a **China** lead economy a good thing...?

LOCAL ECONOMIC FACTORS

It is now clear that our economy were affected to a lesser extent by the 2008 international crisis than most of the developed economies. In the 3rd quarter of 2009 we already broke the grip of the recession, and according to latest figures SA actually managed a growth of 3.2% for the 4th quarter of 2009. Hopefully this tendency will be continued. Although our economy is definitely recovering, some sectors are still more or less in a recessionary state. (Vehicle- and general retail sales, consumer spending, construction, property, etc.). Sectors like manufacturing, finance, etc are showing good progress. A lot of hope is vested on the **soccer world cup** but clearly this event can only have a limited positive impact. (According to Minister **Pravin Gordhan**, approximately 0.5% on the annual growth for 2010.) Our present economy is strongly supported by government capital project investments. Many of these projects are now being completed. Quite a few have been cancelled. We will have to see to what extent government projects maintain their stimulating effect on the economy after the world cup.

The government has an enormous backlog in terms of financing of energy, education, health services, safety and security, social services, etc, etc. The treasury is clearly under pressure; - the question has to be asked how this is going to affect the tax payer in SA in future. Minister **Pravin Gordhan** spared us this time around with a budget that satisfied most. Financing the deficit on his budget should not be too much of a headache, but it is essential that our economy, and especially the private sector, gets going properly. For this to happen, government will have to encourage and stimulate the private sector economy with new and effective initiatives. The private business sector (specifically, small businesses, entrepreneurs, etc), are at present hampered by many unnecessary limitations, regulations, admin and legal barriers, etc. Strong growth in the private sector economy will address our huge unemployment problem and enlarge the tax basis to the benefit of all. This at the same time will address many social problems. Again, Min. Gordhan's announcement of an incentive for the employment of young, unqualified, personnel/ workers, was a step in the right direction. Since investors can only really achieve "on top" performance from their investments if the equity markets perform, it is critical that our listed SA companies perform. This can only happen in the right environment. Government determine this environment to a large extent.

4.

Presently, local (and international) asset managers, in general, are very positive on the potential for growth in our economy as well as international economies. The growth might be slow initially, but is expected accelerate, - and to be sustainable. If they are right, and there is no reason why not, - investors in equity and balanced portfolios should be very optimistic.

IMPACT OF ECONOMIC and MARKET ENVIRONMENT ON PORTFOLIOS

Although historical returns do not necessarily indicate future performance, the following results may be an indication of the return potential of certain funds.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
INCOME FUNDS	8 %	9.5 %	8.5 %
INCOME FUNDS (Var. Strategy)	7 %	7 %	9 %
BOND FUNDS	0 %	5.5 %	7 %
PENSION: LOW EQUITY	8 %	7 %	12 %
PENSION: MEDIUM EQUITY	16 %	7 %	16 %
PROPERTY FUNDS	14 %	9 %	18 %
GENERAL EQUITY FUNDS	25 % +	6 %	17 %
WORLDWIDE FUNDS(Equity Allocation)	- 5 %	7 %	13 %
MONEY MARKET FUNDS	<u>8.6 %</u>	<u>10.1 %</u>	<u>8.8 %</u>

NB. These results are averages (annualised) by close calculation on primary selected funds utilized by GERBER & LOUW , in above categories, for our investment clients. (As at **11 01 2010**) (Portfolio cost not included – approx 0.5% to 1.25%)

From portfolio evaluations done, specifically over the 1Year period: 01 01 2009 to 31 12 2009, a strong correlation was found in performance figures to the returns indicated in above table; -

“Cautious” Portfolios: 7 to 9 %

“Cautious to Moderate – Balanced “ portfolios..... 9 to 12 %

“Moderate – Balanced “ portfolios 12 to 15 %

“Moderate to Assertive Aggressive14 % +

Please Note: Portfolios with **offshore exposure** were, specifically over this period, negatively effected by the strong rally of the SA Rand against leading international currencies. (Especially the US \$). Slightly lower returns were therefore achieved on these portfolios.

PERFORMANCE OF SELECTED FUNDS AND PORTFOLIOS: 2009

Attached is a document with the performance data of selected funds in 2009. These are the funds that you as investor, to a more or lesser extend, were exposed in your portfolios. We only provide the results of the primary selected funds in the GERBER & LOUW practice. In certain cases other competitive funds are utilized. Keep in mind that funds in the same sector are not always directly comparable in terms of strategy followed. Please note that the returns are net of costs in the funds, but not in your portfolios. Depending on your investment amount, portfolio company, etc., your portfolio has a cost component of on average between 0.5% and 1.25%pa.

I would again, strongly recommend that you focus on the 3 and 5 year annualized returns to really evaluate the value and competitiveness of a particular fund. Short term results can be very misleading

Thank you for your continued support. Regards,

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