

**INVESTMENT REPORT: AUGUST 2011**

**16 08 2011**

LOCAL MARKET (JSE): First 6 months of 2011

After the strong value growth experienced during the last 6 months of 2010, the performance of our local JSE (ALSI) for the first 6 months of 2011 was quite disappointing, (See graph below)



The table below illustrates the performance of our local financial market the past 3 years; -  
(As on 11 07 2011 – provided by GLACIER – SANLAM)

INDEX	Close	Year to date	1 year	3 years *
All Share	32 002	1.2 %	25 %	7.3 %
Financial	21 758	3.7 %	17 %	16.6 %
Industrial	33 355	(-3 %)	20.7 %	11 %
Resources	29 636	(-3.3%)	20.4 %	(-4.4%)
Property	390.67	5.6 %	22.6 %	27.9 %
All Bond	354.97	3.9 %	11.5 %	13.3 %
Cash	258.05	3 %	6.2 %	8.3 %

(\* 3 year – annualized)

The “past year” results (till June 2011), for shares and property (listed) were very good. Mainly because of the excellent equity performance, the last 6 months of 2010. This, together with solid returns on bonds, contributed strongly to the “past year” results on portfolios. Cash (primarily money market) delivered rather meager returns. It is however the “year to date” statistics that indicate the reason for investors' frustration with current returns. It is also clear, from the 3 year statistics, -that the impact of the 2008/2009 financial crisis still weighs heavily on certain results. This year, since January 2011, it was primarily money markets, bonds and property, which added value to investor portfolios. Equities were basically a non-contributor!

The past year, since July 2010, international exposure in SA Rand value, again did not really add value to portfolios. (In terms of yield). The SA Rand mostly strengthened further (from approx 7.65 R / \$ on 01 07 2010), and diluted the performance of many funds over this period. This also applies to local funds, seeking offshore exposure for diversification purposes.

**INTERNATIONAL MARKETS:**

International financial markets also delivered a very strong performance in the second halve of 2010 but, as in the case of the JSE, disappointed this year to date. It is however good to see markets in the US, UK, Europe, etc attaining returns of 20% + pa. (That is, till 11 07 2011)

2.

INDEX	Closing	1 year	3 years *
MSCI World	1 343.13	29.6 %	0.6 %
S & P 500 (USA)	1 343.80	31.4 %	2.1 %
FTSE 100 (UK)	5 990.58	23.8 %	3.4 %
DAX (Germany)	6 552.90	29 %	5.1 %
Nikkei (Japan)	10 137.73	10.1 %	(- 8.5 %)
<b>MSCI EM (Intern)</b>	1 163.93	<b>27.4 %</b>	4.1
<b>Korea</b>	2 180.35	<b>30.4 %</b>	11.4 %
Australia	4 812.00	10.6 %	(-3.0 %)
Brazil	61 513.24	0.1 %	1.2 %
India	18 858.04	8.0 %	11.9 %

( On 11 07 2011 – provided by GLACIER – SANLAM)

These statistics does not reflect the financial market sell-off the past 2 weeks. (From 01 08 2011)

Since equities, in SA but also globally, offers the only feasible option over the long term to ensure out performance of inflation and current interest rates, it is important that investors take note of the performance of equity markets locally, as well as internationally, and also what potential these markets might offer.

One should also keep in mind that we are part of the financial “global village” and we must therefore take note of the performance of equity markets of similar economies, to that of our own. (To a certain extent). We make this comparison quite often in reports to ensure that we as investors maintain realistic expectations. For example, it would be quite optimistic to expect returns of 12 + on a typical “Moderate – Balanced” portfolio, when the world around us has to be satisfied with 7% or less. It is clear from available statistics that investors in Australia, Brazil, India, etc., were probably worse off in terms of investment returns than we were, the past year. Not only are many of comparable economies in a low interest rate environment like ourselves, but their equity markets really performed poorly the past 6 months. Returns on our investor’s portfolios, were therefore in general, quite reasonable and often better than that of investors in many other emerging economies.

As mentioned in previous reports, the financial crisis of 2008/2009 still affects especially the 4 to 5 year investment results, but each year of good results will improve these averages.

**EXCHANGE RATES**

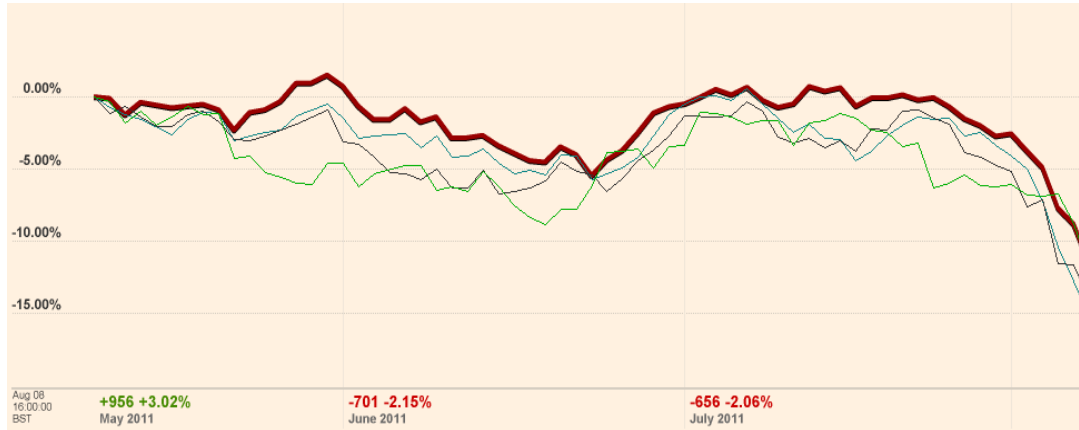
Although the SA Rand more or less maintained its value in 2011 (Till 30 06 2011), it did lose value against the EURO and the UK £. Since the beginning of 2011 till the end of June, exchange rates had little affect on portfolio or fund returns in SA Rand value. (As mentioned earlier, it is a different situation if compared to values one year ago. – There was a substantial strengthening of the value since 01 07 2010 – from approx 7.65 R / \$ - this definitely affects the 1 year results)

	30 12 2007	30 12 2008	31 12 2009	31 12 2010	<b>30 06 2011</b>
R / \$	R 6- 87	R 9-35	R 7.39	R 6.61	<b>R 6.79</b>
R /Euro	R 10 -12	R 13- 34	R 10.61	R 8.84	<b>R 9.83</b>
R /£	R 13 -57	R 13- 96	R 11.92	R 10.28	<b>R 10.89</b>

**RECENT LOCAL AND INTERNATIONAL EQUITY SELL- OFF:**

Since the first week of August, a combination of negative international economic news and negative investors sentiment or even fear of returning recession conditions, with other factors, contributed to a sell – off in global equities. Also on the JSE in SA. Equity indexes dropped to much lower values within a week.. The final straw probably was USA’s excessive debt situation. The battle to get higher debt approved and the eventual down grading of its credit rating from AAA to AA+. (By Standard & Poor) and certain warnings or reports by the Moody and the Fitch credit agencies. Furthermore, the debt situation in Europe only aggravated international investor anxiety. To make matters worse, Japan is really having a tough time to recover from the Tsunami earlier this year. (Together with their other economic problems) The political and military instability in North Africa and certain Middle Eastern countries is also of no help! By Monday 8 August, financial markets, worldwide has lost approx 10 to 12% of their value.

### 3.



The graph above illustrates the severity of the situation on the JSE (thick line), the S & P 500, the London FTSE and the Chinese Xinhua. All on the same slide to much lower values. By the time of writing this report, market has stabilized to certain extent, But with much volatility, - reflecting the sentiment of nervous investors world wide. Where this particularly negative market sentiment cycle is going to lead to, is uncertain. Without doubt, a more bullish attitude by investors, resulting in positive equity markets, will probably only come after some solid positive economic indicators.

The sell-off on equity markets dominated financial news internationally as well as in SA the past 3 weeks. In general, I am of the opinion that many of the news articles in local news papers were of good quality and often with some good pointers for investors to consider.

I do not however want to ponder to much on the present market conditions, mainly because I do not consider these events on our markets of any real importance or possible threat to the long term performance on the portfolios of our investors. (Portfolios with GERBER & LOUW). Present market conditions are, as far as I am concerned, a normal occurrence in a unsure and nervous economic and financial world, following a period of relative strong recovery. (Since the financial crisis; - from April 2009). It is important though to consider the following; -

#### WHAT IMPLICATION DOES THESE EVENTS HOLD FOR OUR INVESTMENTS?

To ensure long term out performance of inflation and money markets, **all** our investment portfolios, structured from "Cautious" to "Aggressive Market orientated", are to a lesser or greater extent, exposed to equity markets, - Therefore, in times of declining equity values, some value decreases can, and must be expected on portfolios.

By far the most of our investment clients have portfolios that are, to a large extent, protected against value losses on equity markets. This is mostly achieved by a certain exposure to income or interest bearing asset classes. (Cash, bonds and property). Possible value decreases on portfolios will therefore be, in most cases, very limited. (Especially pension-income portfolios.) Investors with more market related, equity portfolios will experience more fluctuations in values and therefore more severe value losses. These investors are all very well informed on their exposure and the risk of volatility involved, and with the strong growth in values when markets turn positive!

#### PLEASE KEEP THE FOLLOWING IN MIND: -

1. As already mentioned, various economic and financial factors contributed to the present volatility on equity markets. These conditions are with us for quite some time already. It is not because of a new crisis that manifested itself in the past few weeks.
2. The recent sell-off in equities was mostly the result of negative investor's sentiment and fear of the present economic environment worsening at an increased rate.
3. At present, there are no new crises that can lead to an international financial and economic shock and/or lead to an uncontrolled collapse of markets, as experienced at the end of 2008. (When major financial institutions went under within a few weeks)
4. The world economy is still growing quite strongly. Although growth expectations has been lowered from an initial 4% + for 2011, a growth in the region of 3,5% is still expected. Emerging markets are still performing well, with some attaining economic growth figures of well above 6 % pa. These results will eventually reflect in equity values.
5. Internationally, fiscal policy and control is at a much higher level than in previous years.

IMPACT OF THE PRESENT ECONOMIC ENVIRONMENT ON PORTFOLIOS

What can investors expect in terms of returns the past year, etc, given present and historical economic and market conditions: - ( Till 06 07 2011)

<u>FUND CATEGORY</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
INCOME FUNDS	8 %	10 %	9 %
INCOME FUNDS (Var. Strategy)	9 %	11.5 %	9.5 %
BOND FUNDS	11 %	13.5 %	9 %
PENSION: LOW EQUITY	5 %	8.5 %	9 %
PENSION: MEDIUM EQUITY	14 %	9 %	9 %
ASSET ALLOCATION – TARGET RETURN	10 %	10.5 %	10 %
PROPERTY FUNDS	19 %	22 %	16 %
GENERAL EQUITY FUNDS	22 %	10 %	12 %
WORLDWIDE FUNDS (Equity Allocation)	5 %	0 %	2 %
<b>MONEY MARKET FUNDS</b>	<b>6 %</b>	<b>8 %</b>	<b>8.6 %</b>

NB. These results are averages (annualized) by close calculation on primary selected funds utilized by GERBER & LOUW, in above categories, for our investment clients. (As at **06 07 2011**) (Portfolio cost not included – approx 0.5% to 1.25%). Statistics can vary considerably between reporting periods, especially over 1 year.

By far the most of our investor's portfolios are well diversified and balanced between asset classes to fit each clients investment risk profile (From "Cautious" to "Moderate" to "Aggressive"). Portfolios primarily include funds from above categories. From evaluations done on individual portfolios, returns on most of these portfolios varied between 8% and 12 % for the past year. More market orientated "Assertive to Aggressive" portfolios did attain better results, but not by much. (The reason for this is mainly the cautious approach of equity fund managers). Offshore funds or funds with international assets were negatively affected by our currency strength. (From 01 07 2010 till 06 07 2011). Offshore equity funds performed well over this particular period.

The equity market slump since the 1<sup>st</sup> of August will affect above results negatively. As the international economic turmoil (especially the debt issues) calms down, we will again see recovery in equity values, that could still make 2011 a successful investment year. What we don't need at this stage, is a new or worsening international economic situation or crises, that will trigger the present tense economic environment to evolve into recessionary economic conditions in either the US, Europe or Japan.

We must keep in mind, that although the US and Europe still largely leads the world economically, other economies are now evolving as the new role players (China, India, Korea, Taiwan, Brazil, etc). These countries are growing strongly and creates new opportunities for our own economy and fund managers. Despite rather negative financial news the past month, we should not miss the news of good company results, locally and internationally, that will eventually manifest in equity values. It is easy, when bombarded with negative news, to get drawn into a spiral of failure, while the opportunities are plentiful.

As investment specialist, ourselves and the fund managers we focus on, are eager optimists and are all the time considering value opportunities for our investors. I trust that we will be able to report on a successful year by December!

Regards,

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