

INVESTMENT REVIEW: DECEMBER 2010

03 12 2010

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FINANCIAL MARKET REVIEW: 2010-12-09

Because of the lengthy discussion on admin matters, I will limit the information on the markets, asset classes, etc., somewhat.

(a) Local Equity market: With reference to the following graph, it is clear that positive market recovery took place in 2010. Especially, the last couple of months. This recovery follows on the strong recovery that already took place since April 2009. (After the financial market crisis)



The JSE All Share Index is at present very close to its previous record levels. (May 2008)

INDEX	CLOSING	Year to date:	1 Year	3 years *
All Share	31 181	15.7 %	18.7 %	4.7 %
Property	391.14	31.8 %	31.4 %	10.7 %
All Bond	337.62	13.2 %	13.8 %	9.6 %
Cash	249.20	6.4 %	7.1 %	9.4 %

(* 3 Years – annualized)

(As at 29 112010)

(b) International Markets:

Since we often use either “offshore” funds or local International / worldwide funds to diversify our strategy in investment portfolios, it is important to take note of tendencies on leading international equity markets. (Local fund managers also follow this strategy on Balanced or Asset Allocation funds)

INDEX	CLOSING	Year to date:	1 Year	3 years *
MSCI Intern.	1 210.36	3.3 %	5.6 %	(- 8.2)
S & P 500 (USA Int)	1 189.40	5.6 %	9.0 %	(- 6.2 %)
FTSE 100 (UK)	5 668.70	4.9 %	7.9 %	(- 3.3 %)
DAX (Germany)	5 997.20	16.3 %	22.1 %	(- 3.9 %)
Nikkei (Japan)	10 039.56	(- 4.3 %)	5.7 %	(- 12.3 %)
MSCI EM (Intern)	1 081.06	11.0 %	12.0 %	(- 3 %)

From the above, it is clear that the German equity market is having a great year. Emerging markets (Like the JSE) are however still very popular as investment destination and attracting huge capital inflows from international investors. Mostly due to poor investment prospects on international Capital markets. (Low rates, etc)

(c) Exchange Rates

During 2010, the SA Rand gradually strengthened against the US \$. From around R 7-80 / \$ earlier this year to around R 6-90 at present. As mentioned in previous reports, the relative “strong” Rand affects the value of diversified portfolios rather negatively. (In SA Rand values)

CURRENT ECONOMIC ENVIROMENT:

Equity markets are the primary vehicle for asset managers to attain long term, above inflation returns. Our portfolio values and performance are therefore reliant on good returns on equities.

INTERNATIONAL:

In general global economies are better off than a year ago. The potential for competitive returns for our investors on selected international markets are therefore improving. As a result of the financial crisis in 2008 / 2009, some countries are still having a tough time to balance their finances. (The finances of some European countries are frequently headline news; Ireland, Spain, Greece, etc). In the USA, positive news is often followed by “not so good” news. Their residential property market does not seem to recover as expected. Furthermore their unemployment rate is at a record 10% with no immediate sign of improvement. These factors and many others are seriously dampening consumer confidence and spending. (The basis of economic recovery).

In contrast to the finances of the USA, Japan, Europe, etc., countries like Brazil, China, India, etc. are on a steamroller growth path. These economies are growing at the rate that we need as growth rate in SA! (5%pa +). These countries are now, to a large extent, providing the stimulus for global economic recovery.

IN SOUTH AFRICA

What happens in the international economic environment reflects directly on the SA situation. (Plus or minus local issues!). It does however seems as if SA is lagging behind in terms of economic growth of its emerging market trading partners. The reasons for this were already touched on in our previous report

Although our local economy are back on a growth path (after the short recession period at the end of 2008), it is not the strong sustained growth situation that we actually need to fully recover. Economic indicators are often rather erratic to one side or the other. At least some data do indicate strong improvement. For example; Vehicle sales. Consumer confidence and spending seems to improve and recent manufacturing data picked up again after some disappointing data in the third quarter. We will discuss these factors in more detail in our February 2011 report.

INVESTMENT CONSIDERATIONS:

In general, our investors had a good year in 2010. There were relatively few major international issues that disturbed financial markets. Improvement on international markets was, despite a few ups and downs, quite consistent. Internationally there is a major improvement of investor's sentiment. This is about as good as any investor can wish for a year to be! If we had known this to be the case, - we could have been far more aggressive in our investment approach. But, just recovering from a major market "crash" in 2008, we didn't see it that way! So although there were no fire works for most "balanced" diversified investors, our investors can be satisfied that they comfortably out-performed money market rates as well as the inflation rate for 2010. (Except again, on offshore exposure – In SA Rand values)

As discussed in our previous report (Aug 2010) as well as in individual evaluation reports, - investors have to keep in mind that in our present low interest rate and inflation rate – environment, return expectations has to adapt. Especially in the present muted economic environment.

FUND PERFORMANCES:

It is the specific fund selections and combinations thereof that, in time, determine the success of an investment portfolio. Although we will give feedback on specific fund returns in our February 2011 report (when final results are available), I can assure our investors that all our preferred selected funds, for several years already, delivered the competitive returns we expected from them (Each in its specific strategy). From time to time it might appear as if a certain fund does not perform to expectations. This is normally only temporary. Our selected fund managers, mostly follows a longer term, value strategy, and short term lower returns should be expected from time to time. There is not a single fund that we advised to be included in a portfolio in the past couple of years that we would like to totally remove from such a portfolio because of consistent poor performance. (Except a few aggressive portfolio funds)

Each of our selected funds performs their specific tasks in our investor's portfolios, within such investor's risk profile and strategy.

Thank you for the opportunity to be your investment advisor.

Regards,

Kobus Louw, CFP® Cell: 082 881 2892

Financial and Investment Adviser

B.luris; CFP® (FPI licence nr. 9601732)

Tel: 028 272 9918 Fax: 086 619 5809

E-mail: kobuslouw@gerberlouw.co.za Web: www.gerberenlouw.co.za / www.gerberlouw.co.za

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E-mail: financial@gerberlouw.co.za / Website: www.gerberenlouw.co.za PO Box 824 : KLEINMOND; 7195

Tel : 082 8812892 / 028 272 9918

REGISTERED HEAD OFFICE : 3870 Chironia cl

Fax: 086 6195 809

Betties Bay

Director: JC Louw

GERBER & LOUW (PTY) LTD 2001/026033/07