The Weekly Focus

A market and economic update

16 May 2011

STANLIB

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Contents

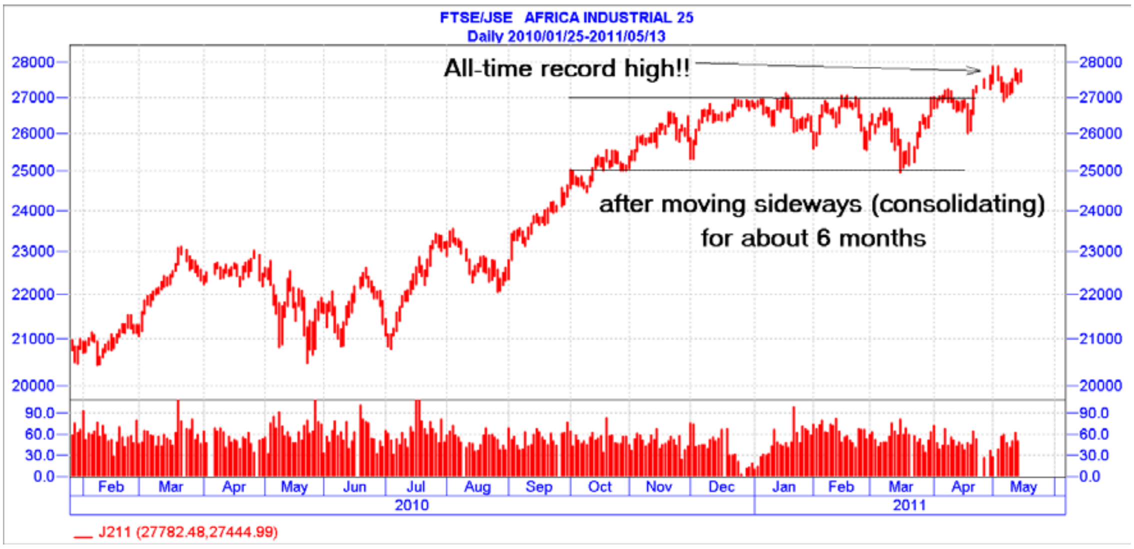
Newsflash

Year-to-date the MSCI World Index is outperforming the JSE All Share Index by over 10%

Market Comment

- Market volatility continued unabated last week, although at time of writing, the JSE All Share Index is a bit higher than it was at the end of the previous week.
- Despite all the volatility of late, it is interesting that over the past 4 weeks, the S&P 500 Index is up 2.2%, the German Dax Index is up 3.7%, Japan is down slightly (-0.1%), the JSE is down 1.7% (but within that Resources are down 6% and Industrials are up 2.5%), Brazil is down 4%, India is down 4.8% and Russia is down 7.8%.
- So far in 2011 the developed markets are outperforming, with the MSCI World Index (of mostly developed markets) up 5.6% in dollars (9.8% in rands) so far this year, while the MSCI Emerging Markets Index is flat and the JSE All Share Index is down 4.5% in dollars (down about 0.4% in rands).
- The two biggest markets in the MSCI Emerging Markets Index, namely China & Brazil - together comprising 35% of the index versus SA's 7.4% of the index - have both broadly moved sideways for the past 20 months, partly or largely because of a bit of overheating in both, causing higher interest rates and other measures to cool their economies.
- The result of this is that both stock markets are looking better and better value, because earnings have continued to rise while shares have trended sideways. Goldman Sachs last week mentioned that in their view the Chinese stock market is close to a big rally.
- Year-to-date the MSCI World Index is outperforming the JSE All Share Index by over 10%.
- Interestingly, three of the biggest companies on the JSE (intriguingly all industrial rand-hedge shares, despite the reasonably strong rand) actually hit all-time record highs in rand terms last week, namely Richemont, British American Tobacco and SA Breweries (SAB Miller)….the latter two being "sin" companies on the JSE!! SAB actually perked up on a day last week when the Financial Times speculated in an article about the biggest brewer in the world, Anheuser-Busch Inbev, buying SAB Miller, the No 2 brewer in the world. Anheuser-Busch Inbev is headquartered in Belgium and was created via the merger of Interbrew and Ambev, which then bought the producer of Budweiser, Anheuser-Busch, a year or two ago.
- Although British American Tobacco, actually the biggest company on the JSE, is not included in any JSE Indices (regarded as a foreign company), SAB Miller comprises 20% of the JSE Industrial 15 Index, followed by MTN (17%), Richemont (14.7%), Naspers (10%), then Shoprite (3.5%) and then others like Rembrandt (3.4%), Bidvest (3.2%) etc.

- Below we show an interesting picture of the FTSE/JSE Industrial 15 Index, illustrating how this index has recently shot up to a new all-time record high, after moving sideways (consolidating) for approximately the previous 6 months.



Source: I-Net Bridge

- The broader JSE Industrial Index also hit a record high.
- For the record, the JSE Financials Index is 16.5% below its previous record high of 4 years ago (2007), although the uptrend that began in March 2009 remains intact for now.
- The JSE Resources Index is 28% below its previous record high of 2008, although its uptrend also remains intact.
- BCA Research has turned a bit more cautious on the US and global economy of late, warning of a possible period of softness in economic numbers. They say they are not abandoning their view that the recovery will ultimately be sustained, but that sporadic setbacks are typical in a post housing- and credit-bubble economy.
- They expect the loss of economic momentum witnessed in some of their forward-looking economic indicators will pass, as it did last year. "Importantly, many of the factors currently depressing economic activity are quite short-term in nature, such as car plant shutdowns and bad weather. However, there are two additional factors at work that could cause a more severe setback to growth: rising energy and commodity prices and fiscal consolidation (governments like the UK & US reigning in spending and possibly raising taxes).
- On China, BCA is of the view that measures to slow down the Chinese economy will achieve a soft landing (rather than a nasty surprise or hard landing). They say that despite residential real estate being a risk to their outlook, other factors are also important, such as a massive public housing construction program the government is pushing ahead with and a growing consumer sector, since Chinese households have over-saved and are under-borrowed. This massive amount of savings is a great source of potential growth, if successfully motivated.

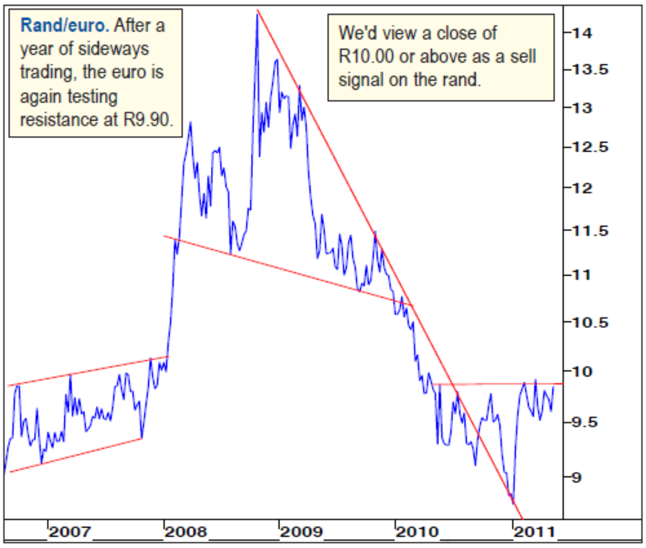
- The latest numbers out of China, which showed manufacturing slowing to 13.4% annual growth (car production down 1.6%, partly because of higher fuel costs, but also because of the Japanese supply chain disruptions), nevertheless confirmed BCA's view on the Chinese consumer, because retail sales were up 17.1% year-on year, while fixed asset investment was up 25.4%.
- Inflation remains a problem at 5.3%, with food inflation at 11.5% and non-food inflation at 2.7%. So the Chinese have tightened once again, raising the amount of cash that banks have to hold at the central bank yet again (the so-called reserve requirement), for the 4th or 5th time this year. This is causing some nervousness in commodity markets/resource shares.

Snippets of Info

- The copper price declined further this week and is now down 16% since its peak in February, putting some pressure on Anglo and Billiton's share prices. Last year the copper price fell by 22% from early April to early June.
- Last week Microsoft used up some of its $50bn cash pile to buy Skype, happily used by numerous South Africans to the disadvantage of Telkom, for $8.5bn, which is a huge jump over the previous price that Skype traded at just three years ago.
- Meanwhile LinkedIn, with 102 million registered members as of March 2011 (versus Facebook's 500 million), is aiming for a valuation of as much as $3.3bn when the professional networking site, also very familiar to South Africans, launches its initial public offering on 18th May.
- Co-founder and Chairman, Reid Hoffman, is reducing his stake slightly from 21.2% to 20.1%, making his reduced stake worth potentially around $660m. Nice! Good for him.
- Greece has been back in the news because of its poor state of affairs. Now the IMF's European department director is saying that Greece has an "extraordinary portfolio" of assets that could be privatized to not only raise crucial funds to pay back debt, but also allow them to become more efficient for the country's good. So far Greece has said it will raise 50 billion Euros via privatization, but the IMF says this is probably less than 20% of all the assets that Greece could privatise (Financial Times, 13th May). Let's hope the Greeks wake up and act.
- The FT notes that India has the highest wage inflation of any Asian economy. Last year average salaries in India rose by an estimated 15% as employers tried to compensate for a double-digit rise in food and consumer prices to retain skilled labour. There is a shortage of skills, despite the billion-plus population (1.2bn) in India. A further rise in average salaries of 13% is forecast this year, while China is forecast to have 9% wage growth this year and the Philippines 7%.
- Jeff Immelt, the Chairman of US engineering company General Electric, said recently that the cost difference between running a call centre in the US and India had narrowed to as little as 10%. It is not surprising that India, famed for its labour cost advantages, is losing its global competitive edge.

- The International Energy Agency (IEA) reports (per the FT) that global oil consumption rose just 0.4% in the year to March, the smallest increase in over 2 years. Total demand fell 2.8% in the developed countries. The IEA forecasts that demand in the developed world will fall by 0.5% this year, while it will rise by 3.6% in the developing world, leading to total global demand growth of 1.5% this year, less than half of the 3.3% growth in 2010. The IEA expects the price of oil to average around $110.
- Sadly, the future of Swedish carmaker, Saab, remains in the balance. Two recent attempts to bale out the company have failed.
- The FT reports that Chinese speculators have emerged as a big driver of silver's spectacular rally and subsequent crash, with trading in the metal in Shanghai soaring nearly 30-times since the start of 2011.
- Silver, nicknamed "the devil's metal" for its wild price swings, surged 175% from August to a peak of almost $50/oz two weeks ago. Since then, it has plummeted 35%, hitting a low of 32.33 on Thursday.
- Soon-to-be the wealthiest South African, Ivan Glasenberg, CEO of Glencore, the commodity trader that plans to list later in May, dismissed the recent drop in commodity prices as "froth" being flushed out of the market, saying that supply and demand fundamentals remained strong.
- Nissan amazingly produced a stronger-than-expected 7.2% rise in quarterly operating profit, despite Japan's huge earthquake and predicted its global output would return to normal in 5 months time (by October). That would see Nissan return to normal production at least a month ahead of rivals Toyota. It also adds to hopes that the global parts bottleneck for carmakers will be resolved sooner than thought.
- In the latest list of the top 100 brands in the world (Brand Z), Apple Computer has overtaken Google as the number one brand, with an incredible 84% increase in its brand value over the past year. Four of the top five brands are technology companies (IBM is 3rd and Microsoft is 5th), with McDonalds at number 4 and Coca-Cola at 6.
- ICBC Bank in China, the only bank brand in the top 15 brands and which owns 20% of Standard Bank, is the 11th biggest brand in the world, followed by Vodaphone in 12th position. Walmart is 15th and Wells Fargo Bank in the US is 16th.
- Finally, everyone talks about the rand to the US dollar. At this stage the rand is still 10% up on the dollar compared with one year ago, although it is down 5% since end 2010.
- Against the euro, however, the rand is at the same level as a year ago and down 10% since end 2010 (similarly against the pound, except that the rand is down 8.6% so far in 2011).
- Against the Aussie dollar, the rand is 10% weaker than one year ago and is down 9% so far in 2011.

- Below we show the view of the JP Morgan technical analyst (chartist), Murray Morrison, of the rand to the euro:



Source: Prime Charts

Paul Hansen
(Director: Retail Investment Marketing - Investments)

Economic Update

Locally, the focus was firmly on the SA Reserve Bank's decision to keep rates unchanged. Overall, the MPC's view is that the underlying inflation pressures are expected to result in a temporary breach of the upper limit of the target band during the first quarter of 2012. However, the Bank highlighted that these pressures have the real potential to generate second round effects which can result in more generalised inflation. It is now all about monitoring for signs of "second round" inflationary pressures. We still expect interest rates to start to rise in the final quarter of 2011.

Internationally, German exports surged to a record high in March despite the strength of the Euro and the weakness in the region. While the German economy is doing particularly well (reflected in confidence levels, exports, industrial production, unemployment and GDP growth), most of the rest of Europe (with perhaps the exception of France) is struggling to fully recover from the past recession, while some other countries (e.g. Greece) are still in recession.

US Fed has increased its asset by $419bn since announcing QE2. There is still no indication of what happens after June, but QE2 has effectively funded the entire government's bond issuance this year. The key question is what happens to bond yields once QE2 ends? The bond market has rallied in recent weeks, with the yield on the US 10-year bond falling from a high of 3.6% in early April 2011 to less than 3.2% currently. This is despite most private sector fund managers remaining reportedly under-weight US government bonds. Of course, the private sector is not the only buyer of government bonds; most sovereign funds in the world have some exposure to the US treasury market. (China's foreign exchange reserves recently went to a record high of over $3 trillion, a significant portion of which is invested in US treasuries). It seems fair to assume that without the Federal Reserve being an active buyer in the bond market after June, with the US economy continuing to recover, and with some upside risk to inflation, US government yields are likely to move higher. This could have significant implications for risk-trades around the world.

US retail sales were a little disappointing in April, especially when vehicle and gasoline sales are excluded. But previous two months data revised much higher. Non-store retailing growing strongly. The data suggests that US households are in much better financial shape now than a year-ago, and that consumer income and activity levels have recorded a meaningful improvement since the Great Recession. However, this does not imply that households are about to embark on a massive debt/spending spree. Rather, we expect US consumer activity to continue to show a steady improvement, with the growth in employment dictating the overall pace of growth in household spending. It is also useful to recognise that while most aspects of consumer activity have improved measurably over the past year, the housing sector remains depressed and has still not shown any improvement in terms of both activity levels as well as pricing.

In total, the average US house price remains more than 31% below the peak achieved in 2006; and has declined in each of the past 6 months. The recent spike in oil and food prices are obviously also a concern, and will impact negatively on the state of the US consumer. However, these factors are not expected to derail the current economic recovery; but they do lend support to our view that the current US economic recovery is likely to remain somewhat unexciting unless there is a more meaningful increase in employment.

India's Central Statistical Organisation released data projecting a surge in industrial production in March 2011. Industrial output in India rose 7.3% year-on-year, up from 3.7% year-on-year in February. Manufacturing production, which constitutes 80% of total industrial production, rose 7.9% while production of consumer and capital goods rose 12.9% and 7.7% respectively. However, monetary tightening to fight rising inflation may dampen further growth. On May 3, the Reserve Bank of India (RBI) raised its key policy repo and reverse repo rates by 50 basis points, to 7.25% and 6.25%, respectively. The bank warned that it would continue, where appropriate, with further tightening as upside risks to inflation remained.

On the other hand, the Chinese National Bureau of Statistics said electricity growth production had eased in that country by 4.3% month-on-month, confirming that industrial production had slowed in China. April numbers showed that industrial production had slowed from 14.8% in March 2011 to 13.4% in April.

In a surprise move, Ghana's Monetary Policy Committee cut the policy rate by 50 basis points to 13%, while analysts expected no change in policy rates. Ghana's inflation has been easing, and according to Bloomberg, Bank of Ghana Governor K. Amissah-Arthur said "threats to inflation are dwindling due to favorable food harvest and a weak second round effect of oil price increases at the beginning of the year".

In Kenya, the scourge of rising inflation became ever more serious as that country's energy regulator raised the price of petrol, diesel and kerosene. This comes on the back of the government's move to increase minimum wages in order to counter the effects of rising prices. The surging costs of fuel, bread and flour have driven up other costs like transports and electricity and forced the inflation rate into double digits.

South Africa

SA Interest Rates

- The SA Reserve Bank opted to leave the Repo rate unchanged at 5.50%.
- The Reserve Bank last adjusted interest rates on 18 November 2010, when they cut rates by 50bps. Following the Reserve Bank's decision, the prime interest should remain unchanged at 9.0%, which is the lowest prime rate South Africa has experienced since April 1974.

- Crucially, the Reserve Bank has once again revised up its inflation forecast. Back in November 2010 the Reserve Bank expected inflation to average 4.3% in 2011 and 4.8% in 2012. In the next couple of meetings, they revised the forecast higher. Now the Bank is saying that inflation is expected to reach the upper limit of the inflation target range during the final quarter of 2011, and to peak at 6.3% in the first quarter of 2012 before returning to within the target range by the second quarter of 2012 and remaining close to the upper limit of the range for the rest of that year. Inflation is expected to average 5.1% in 2011 and 6.0% in 2012, compared with averages of 4.7% and 5.7% at the time of the previous meeting. The upward adjustment is mainly due to revised assumptions regarding administered price increases.
- According to the Bank the main risks to the inflation outlook continue to emanate from cost push pressures, including administered prices. The acceleration in food price inflation is expected to persist for some time, despite indications that global food price inflation may have peaked.

Globally

German Exports

- The value of German exports rose by a very impressive 7.3%m/m in March to Euro 98.3 billion. This is an all-time record high for German exports in value terms. (The previous high was Euro 88.8 billion recorded in April 2008). The market was expecting a rise of 1.1%m/m. On an annual basis, exports were up 15.8%y/y, having recovered convincingly since the beginning of 2010.
- Most of Germany's exports (40.4%) are with other member states within the Euro-area; which have risen by 14.2% over the past year. A further 19.4% of exports are with European countries that are not members of the Euro-area (growth of +20.0%y/y). The remaining exports around the world rose by 15.4%y/y. These are impressive growth rates given the relative strength of the Euro, as well as the inherent economic weakness within the Euro-area.
- German imports totaled Euro 79.4 billion in March, up 16.9%y/y, which means Germany recorded another trade surplus of Euro 18.9 billion in March and has recorded a trade surplus of Euro 41.0 billion for the first quarter of the year.

US Federal Reserve Assets

- The assets of the US Federal Reserve have now risen to a phenomenal $2.722 trillion, which is $419 billion higher than when QE2 was announced and $1.83 trillion above the level prior to QE1. At the moment the assets are rising by an average of $17 billion a week. If this trend continues then the Fed is likely to fall a little short of its $600bn QE2 target announced in November 2010; although they have been diverting the proceeds from maturing mortgage backed securities into the purchase of government treasuries.

- The FOMC have still not provided a clear indication of what will happen to the excess liquidity once QE2 ends. There are clearly a number of options, including a formal ending of the QE programme, an extension on a “month-by-month” basis, an ending of the formal programme, but with the Fed continuing to use the proceeds from the maturing mortgage backed securities to still purchase government bonds etc etc.
- Logically, the magnitude of QE2 funding has had a meaningful impact on the bond market in the past six months. Since November 2011 the total public debt outstanding of the US Treasury (including interest-bearing and non-marketable debt) has risen from $13.86 trillion to $14.29 trillion. More precisely, the total net new issuance has amounted to $426.856bn, which is less than the total Treasuries purchased by the Federal Reserve. Or, putting it differently, the Federal Reserve has purchased an effective 105.4% of the net government issuance since November 2011.

US Retail Sales

- In April 2011, US headline retail sales rose by 0.5%m/m. The market was expecting a rise of 0.6%m/m. This is the tenth consecutive monthly improvement in overall retail spending, following a decline in mid-2010 that at the time raised fears of a ‘double-dip’ recession. Importantly the growth rate for each of the previous two month’s data has been revised up from 1.1%m/m to 1.3%m/m for February 2011 and from 0.4%m/m to 0.9%m/m for March 2011. On an annual basis, US retail sales are up a very respectable 7.6%y/y (in nominal terms), although this is down from 9.1%y/y in February.
- If motor sales are excluded, retail sales rose by a slightly higher 0.6%m/m in April 2011 (in-line with expectations). However, if vehicle and gasoline sales are excluded (i.e. core retail sales), retail spending was up only 0.2%m/m, well below expectations for a rise of 0.5%m/m (see chart attached on core retail activity). On an annual basis, core retail spending has lost some momentum.
- It is fascinating to see the continued strong rise in ‘nonstore retailing’ which includes electronic on-line shopping. Nonstore sales rose by a further 1.0%m/m in April and are up a robust 15.5%y/y over the past year. We will provide a more complete analysis of US nonstore retailing tomorrow.
- As mentioned last month, after a long period of consolidation, in which US consumers repaid debt (on a net basis) each month for 20 consecutive months, the household sector has measurably improved their financial position and has systematically increased their activity levels.

- The improvement in the consumer environment is now reflected in a range of indicators:
  - US consumer confidence has trended higher in the past 7 months. It is still well below the long-term average level of confidence and massively below the peak level, but it has certainly improved meaningfully relative to the all-time record low in February 2009.
  - US vehicle sales have risen consistently over the past year and are now back to the levels recorded in August 2008 (ignoring the impact of the 'cash-for-clunkers' deal). Volumes are still below their peak levels achieved in earlier years, but have shown a meaningful improvement in recent months.
  - US personal income and expenditure has risen on an annual basis in each of the past 12 months, and continues to improve
  - US personal savings rose from an average of only 2.1% of disposable in 2007 to an average of 5.8% of disposable income in 2010. While this is still not an especially high level of savings (a more appropriate rate would be around 10% of income) it is certainly a more respectable level.
  - Over the past twelve months the US economy has created 1.3 million jobs, at an average of 109 000 jobs per month. Despite this improvement, US employment is still a massive 6.9 million below the level prior to the start of the recession.
  - At the end of Q4 2010, US consumer debt to disposable income was recorded at 120.9%. While this is still relatively high, it is the lowest level of household debt relative to household income in the US for 6 years and well below the peak of 135.2% recorded as recently as Q4 2007.
  - The burden of servicing household debt, in the US, peaked at 14.0% of disposable income in Q3 2007. It has since moderated to 11.75% in Q4 2010, helped by the reduction in debt levels and lower interest rates. This is the lowest debt servicing cost the US consumer has experienced since Q1 1999, which is over 10 years ago.
  - US home owner's equity has stabilised in the past year, having fallen by a massive $7.5 trillion during the credit crisis
  - US net household wealth has risen by around $8 trillion since the low in Q1 2009. This improvement reflects a combination of higher asset values (+$7.9 trillion, mainly due to rise in the value of equities) and lower debt levels (-$193bn). Net wealth remains a massive $8.8 trillion below the previous peak.

Kevin Lings, Laura Jones and Xhanti Payi
(STANLIB Economics Team)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 13/05/11	Weekly Move (%)	YTD (%)
Indices			
*MSCI World – US Dollar	1343.17	-1.18	4.29
*MSCI World – Rand	9465.58	3.48	10.83
*MSCI Emerging Market – US Dollar	1144.69	-1.60	-1.62
*MSCI Emerging Market – Rand	8066.87	3.04	4.55
All Share Index – US Dollar	4559.65	-4.27	-6.60
All Share Index – Rand	31959.93	0.25	-1.08
All Bond Index	345.87	-0.40	0.24
Listed Property J253	852.94	-0.91	-2.29
Currencies			
US Dollar/Rand	7.01	4.73	5.91
Euro/Rand	9.82	2.51	11.17
Sterling/Rand	11.35	3.67	10.87
Euro/US Dollar	1.41	-1.38	5.71
Commodities			
Oil Brent Crude Spot Price ($/bl)	113.80	3.65	19.21
Gold Price $/oz	1494.70	-0.05	5.69
Platinum Price S/oz	1765.50	-1.18	0.09

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 5.29% per annum

Effective: 5.42% per annum

STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 13 May 2011. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

STANLIB Cash Plus Fund

Effective Yield: 6.10%

STANLIB Dividend Income Fund

Effective Yield: 4.06%

STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 13 May 2011. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the “all-in” NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends (currently tax exempt) and taxable interest. Interest will also be exempt from tax to the extent that investor’s are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio’s underlying investments will determine the split between dividends and interest.

The Manager has received a circular, (CISCA Circular No.11), from the Registrar of Collective Investment Schemes regarding a joint investigation of National Treasury, SARS and the FSB, which is currently in progress with regard to dividend income fund type portfolios. The Manager is obliged, in terms of this circular, to bring the following to your attention with regard to this investigation. The outcome of the investigation could affect certain structures and SPVs (special purpose vehicles) used by underlying investments of these types of portfolios, which may result in possible adverse tax consequences, and may require amendments to existing legislation. The abovementioned regulators still have concerns which could impact negatively on the future of these portfolios and the continuation of these portfolios can therefore not be guaranteed. The Manager however do not believe that there is any current cause for concern regarding the STANLIB Dividend Income Fund and should there be a more definitive outcome from the investigation investors in our STANLIB Dividend Income Fund will be informed timeously of any legislative changes that may affect their investment.

Liberty Investments' Life Annuities

Current Rates for 09th May – 13th May 2011

Payments are assumed to be paid monthly in advance with no guarantee period or annual escalation in income. Ages indicated assume client is the exact age shown. No tax has been deducted.							
Gender		**Male**			**Female**		
Age last birthday		**55**	**60**	**65**	**55**	**60**	**65**
Contribution	**R 100,000**	R 793	R 841	R 908	R 720	R 764	R 825
	R 250,000	R 2,046	R 2,164	R 2,332	R 1,862	R 1,971	R 2,123
	R 500,000	R 4,148	R 4,384	R 4,722	R 3,778	R 3,996	R 4,301
	R 1,000,000	R 8,371	R 8,846	R 9,524	R 7,629	R 8,067	R 8,678

The table above shows the monthly annuity that an annuitant will receive for life in return for the single premium in the left hand column. Note that the annuity depends on the annuitant's exact age and gender.

The rates above were calculated assuming maximum commission and will be enhanced if a commission discount is selected.

Glossary of terminology

Bonds A bond is an interest-bearing debt instrument, traditionally issued by governments as part of their budget funding sources, and now also issued by local authorities (municipalities), parastatals (Eskom) and companies. Bonds issued by the central government are often called "gilts". Bond issuers pay interest (called the "coupon") to the bondholder every 6 months. The price/value of a bond has an inverse relationship to the prevailing interest rate, so if the interest rate goes up, the value goes down, and vice versa. Bonds/gilts generally have a lower risk than shares because the holder of a gilt has the security of knowing that the gilt will be repaid in full by government or semi-government authorities at a specific time in the future. An investment in this type of asset should be viewed with a 3 to 6 year horizon.

Cash An investment in cash usually refers to a savings or fixed-deposit account with a bank, or to a money market investment. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. An investment in this type of asset should be viewed with a 1 to 3 year horizon.

Collective Investments Collective investments are investments in which investors‟ funds are pooled and managed by professional managers. Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares is often out of reach of smaller investors. The pooling of investors' funds makes collective investments the ideal option, providing cost effective access to the world's stock markets. This is why investing in collective investments has become so popular the world over and is considered a sound financial move by most investors.

Compound Interest Compound interest refers to the interest earned on interest that was earned earlier and credited to the capital amount. For example, if you deposit R1 000 in a bank account at 10% and interest is calculated annually, your balance will be R1 100 at the end of the first year and R1 210 at the end of the second year. That extra R10, which was earned on the interest from the first year, is the result of compound interest ("interest on interest"). Interest can also be compounded on a monthly, quarterly, half-yearly or other basis.

Dividend Yields The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. The higher the yield, the more money you will get back on your investment.

Dividends When you buy equities offered by a company, you are effectively buying a portion of the company. Dividends are an investor's share of a company's profits, given to him or her as a part-owner of the company.

Earnings per share Earnings per share is a measure of how much money the company has available for distribution to shareholders. A company's earnings per share is a good indication of its profitability and is generally considered to be the most important variable in determining a company's share price.

Equity A share represents an institution/individual's ownership in a listed company and is the vehicle through which they are able to "share" in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase and this translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling. Shares/equities are usually considered to have the potential for the highest return of all the investment classes, but with a higher level of risk i.e. share investments have the most volatile returns over the short term. An investment in this type of asset should be viewed with a 7 to 10 year horizon.

Financial Markets	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
Fixed Interest Funds	Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable.
Gross Domestic Product (GDP)	The Gross Domestic Product measures the total volume of goods and services produced in the economy. Therefore, the percentage change in the GDP from year to year reflects the country's annual economic growth rate.
Growth Funds	Growth funds seek maximum capital appreciation by investing in rapidly growing companies across all sectors of the JSE. Growth companies are those whose profits are in a strong upward trend, or are expected to grow strongly, and which normally trade at a higher-than-average price/earnings ratio.
Industrial Funds	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
Investment Portfolio	An investment portfolio is a collection of securities owned by an individual or institution (such as a collective investment scheme). A funds' portfolio may include a combination of financial instruments such as bonds, equities, money market securities, etc. The theory is that the investments should be spread over a range of options in order to diversify and spread risk.
JSE Securities Exchange	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
Price to earnings ratio	Price to earnings ratio or p: e ratio is calculated by dividing the price per share by the earnings per share. This ratio provides a better indication of the value of a share, than the market price alone. For example, all things being equal, a R10 share with a P/E of 75 is much more "expensive" than a R100 share with a P/E of 20.
Property	Property has some attributes of shares and some attributes of bonds. Property yields are normally stable and predictable because they comprise many contractual leases. These leases generate rental income that is passed through to investors. Property share prices however fluctuate with supply and demand and are counter cyclical to the interest rate cycle. Property is an excellent inflation hedge as rentals escalate with inflation, ensuring distribution growth, and property values escalate with inflation ensuring net asset value growth. This ensures real returns over the long term.
Resources and Basic Industries Funds	These funds seek capital appreciation by investing in the shares of companies whose main business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other natural resources, or where at least 50 percent of their earnings are derived from such business activities, and excludes service providers to these companies.
Smaller Companies Funds	Smaller Companies Funds seek maximum capital appreciation by investing in both established smaller companies and emerging companies. At least 75 percent of the fund must be invested in small- to mid-cap shares which fall outside of the top 40 JSE-listed companies by market capitalisation.
Value Funds	These funds aim to deliver medium- to long-term capital appreciation by investing in value shares with low price/earnings ratios and shares which trade at a discount to their net asset value.

Sources: Unit Trust and Collective Investments (September 2007), The Financial Sector Charter Council, Personal Finance (30 November 2002), Introduction to Financial Markets, Personal Finance, Quarter 4 2007, Investopedia (www.investopedia.com) and The South African Financial Planning Handbook 2004.

Disclaimer

The price of each unit of a domestic money market portfolio is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio. Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments Ltd (the Manager). Commission and incentives may be paid and if so, would be included in the overall costs. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. TER is the annualised percent of the average Net Asset Value of the portfolio incurred as charges, levies and fees. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. Portfolios are valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies.

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