

# The Weekly Focus

A market and economic update

26 July 2010



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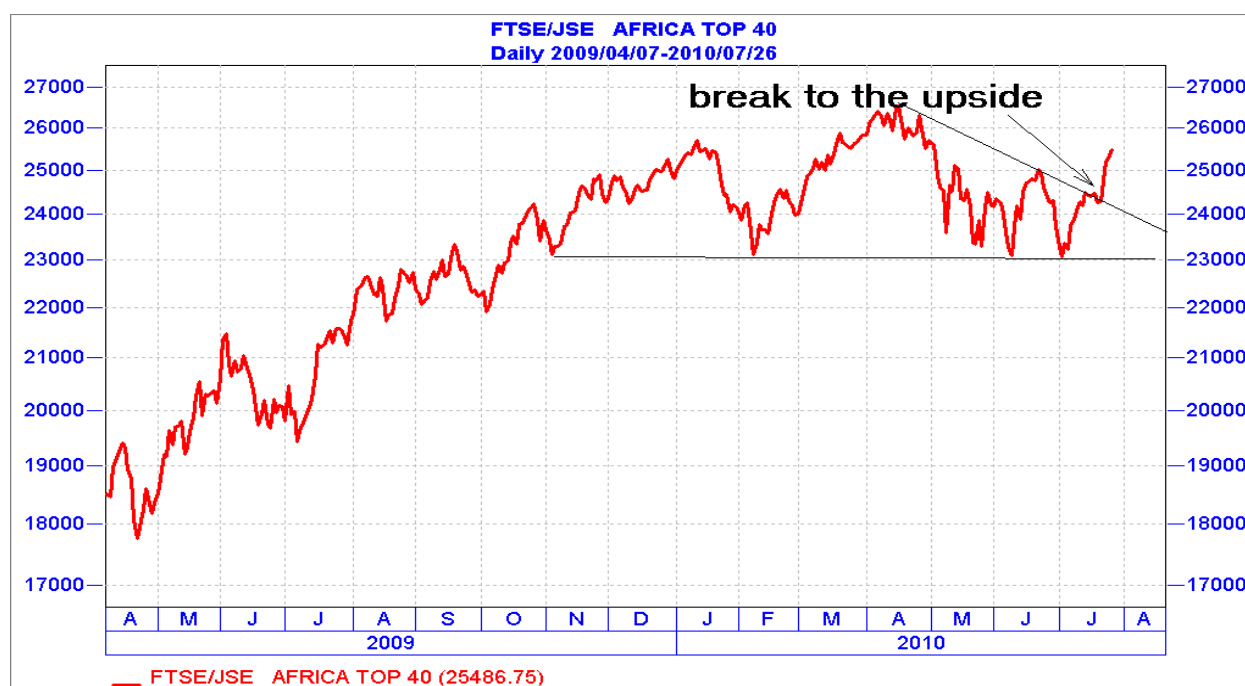
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# Newsflash

The All Share Index continues to outperform the big offshore developed stock markets

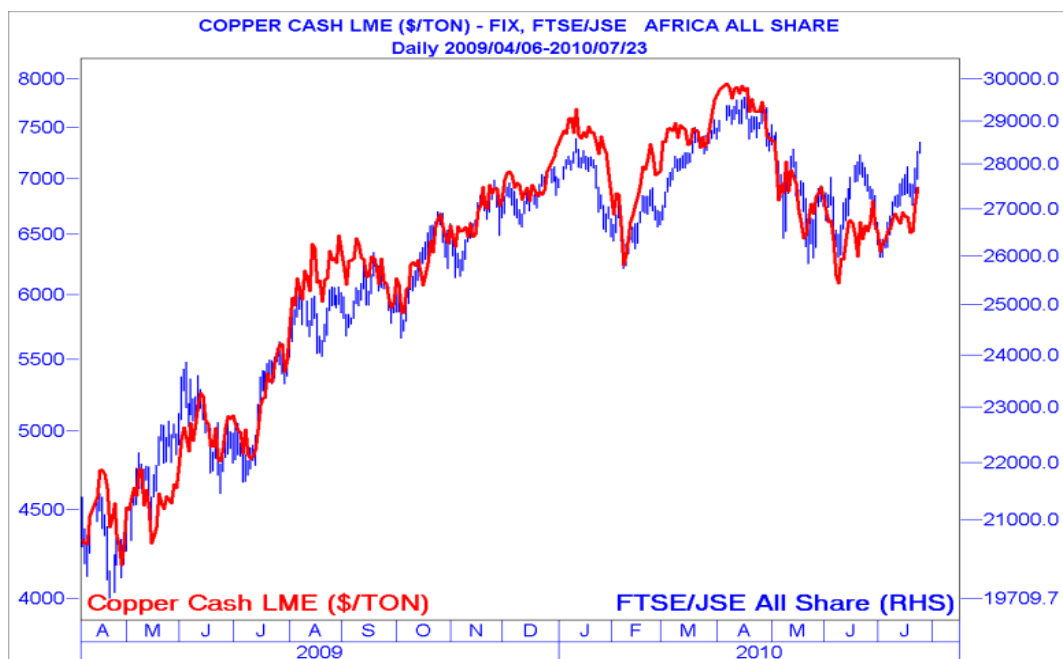
## Market Comment

- Last week was a very good one for the JSE (up 3.3% in rand terms to the highest level since late April and up a very impressive 5.4% in dollar terms). This outperformed the MSCI World Index's 2.5% and the MSCI Emerging Market Index's return of 3.4% in dollars.
- The All Share Index is now up almost 10% since its low on the 15<sup>th</sup> June and continues so far to outperform the big offshore developed stock markets. Take that, fine fellow South Africans!
- Year-to-date 2010 the Dow Jones Industrial Average is flat (not bad after such a good year in 2009) and the JSE All Share Index is up 3.9% (total return) in rands and dollars, after doing 33% in 2009 in rands and 69% in dollars. Hey, that's not bad considering all the nasty news we've endured since early May.
- A few weeks ago, we showed a chart of the JSE Top 40 Index, mentioning (only, of course, for those interested in charts) that the index was working its way into the 'apex of a triangle', which implied a breakout one way or another. It looks at this stage as if the breakout has occurred on the upside (see chart below). The Index (along with the All Share Index) has so far confounded the fears of many chartists who thought that there was a "head and shoulders" pattern there.



Source: I-Net Bridge

- While nothing is guaranteed in this business (about the future), this is a positive sign for our stock market, implying that the odds are good that the index shown above is more likely to challenge its April high in the near future, even though it may retrace some of its recent gains before doing that. This is a case of “the market” showing us its intentions (by breaking out of the triangle on the upside).
- One of our bigger shares, Anglo American, finally started to move a bit last week after receiving good results from De Beers. Deutsche Securities says Anglo will report its first half results on Friday and they are expecting earnings to be up 90% on 2009’s first half, plus a return to dividend payments with a payment of around 75 SA cents per share. They are rating the company a buy on a forward PE (price-to-earnings ratio) of just 6.6 one year out. The share is up 4% in the past week, although it is still down 16% from its 2010 high in January.
- Another interesting chart comes from research house Noah’s technical analyst, Tricia Lunenburg (see below). She says that the JSE All Share Index in rands has a close relationship with the price of copper in dollars and quite often tends to follow its lead. Copper has recently reversed a two month old down-trend and registered a short-term “buy signal”.
- The chart below shows the copper price in red (in dollars) and the All Share Index in blue (in rands), with both lines ticking up nicely of late. Copper’s uptick is surprising many analysts who thought that it may head south because they suspect China is overstocked on copper. However, there are potential supply problems down the road for copper, made evident recently when Billiton indicated that its production at the world’s largest copper mine, the Escondida copper mine in Chile, was down 10-15% over the past year because of falling grades.
- The fact that many top analysts frequently get copper’s price direction wrong is an indication of just how difficult it is to call this and other commodities, let alone currencies, i.e. the risk/reward ratio is high and is the reason why so many asset managers in South African typically remain underweight the resources sector in their equity portfolios.



Source: I-Net Bridge

- Of great interest last week was the SA Banks Index's rise of 5.6%, much better than the rise in most global bank indices. Only Argentina's banks rose a bit more during the week (6%). The SA rise was initially thought to be in anticipation of an interest rate cut, which of course failed to happen. However, even after this our banks held their prices well.
- This Monday morning the Banks Index is amazingly trading at a new recovery high, surpassing March's high. It is now only 3% below the record highs of 2007. On the face of it, the banks look expensive here (highest historic PE ratio in eleven years), but once the results come out for the six months to June 2010, this should bring the PE ratio down quite sharply.
- Also, although there was no cut in interest rates last week, rates are still at a 29 year low, which is typically a good sign for many of our industrial and financial shares, which tend to trade with a view on (in anticipation of) the future some six to twelve months out. In other words, the market is a "discounting mechanism", a concept which investors frequently struggle with ("how can these shares be so strong when business remains so weak?"). Of course the market sometimes gets ahead of itself, both on the downside and on the upside, but usually it is right over time.
- Last week Macquarie Research stockbrokers visited us with their latest view on the world and on the SA market. They are particularly positive on the Resources sector (as is both JP Morgan Cazenove and Investec Securities), anticipating an index move of around 20% for the next twelve months. Their investment strategist is the highly experienced Franco Buseti, who is the author of a book on the SA investment scene. Franco is not looking for much return from Industrials over the next year (5%), but is a bit more positive on Financials (12%).

- He showed a very interesting graph of the Macquarie Global Container Index, which measures container volumes at the big ports around the world. This index has just hit an all-time record high in May, indicating just how buoyant global trade is, at least in goods shipped in containers. This index had fallen by over 50% during the crisis but has now more than made up for that fall. The better known Baltic Dry Index, which is the cost of moving dry bulk goods like grains, coal and iron ore, has recently declined by some 50%, causing nervousness. However, the word is that its fall is more due to an oversupply of ships in that space than a drop in volumes shipped.
- Macquarie's latest view is that the JSE All Share Index could end 2011 at around the 35,000 mark, which is just over 20% higher than the current level (over the next 18 months), obviously assuming no double-dip recession globally. However, they are quite negative on the rand, looking for an exchange rate of close to 10 to the dollar by end 2012, which is a very difficult forecast to make. If they're right, we'd be very happy as far as the stock market goes. If they're right, it may also put pressure on some of the asset managers in SA who are underweight equities relative to other asset classes, although a weaker rand would help offshore assets.
- Foreign investors continue to pour money into our bond market (R56bn net year-to-date), because of our much higher bond yields in a world starved of yield and to a lesser extent into our stock market (R24bn net). So the total of R80bn in less than seven months so far in 2010 is helping the rand remain relatively firm.
- Meanwhile, the JSE Industrial Index (J257) is now trading at an all-time record high and is up 10% since its recent low in early July. The Financial & Industrial Index is very close to its record high set in 2007.
- Should one be getting nervous here because of these facts? Well, let's put it this way, the past two months have offered some great opportunities to up-weight equities when they were "down and out", such as during May and early July. After the recent sturdy rallies, this is probably not the time to be looking to up-weight. Although we've hopefully seen the worst of the bad news on the economies, there is no certainty on this and the May to August period (northern hemisphere summer months) is still in progress, so perhaps some caution is called for in the short-term.

## Stanlib Quarterly Asset Allocation Meeting

- At our recent quarterly asset allocation discussion, the STANLIB team voted to retain a neutral allocation to SA equities, taking an 18 month view, within a balanced portfolio of SA assets, although fund managers have the discretion to go 7.5% either side of this in the portfolios with higher equity allocations. STANLIB on the whole appears to be more overweight SA equities than most of our competition.
- There is a view amongst some at STANLIB that globally stock markets may be stuck in a broad trading range, rather than being in a cyclical bull market.

- The vote was to up-weight offshore equities from moderately overweight to overweight in the belief that the risk/reward ratio favours offshore equities more than local equities over the next 18 months, although portfolios do have far more invested in SA equities because of foreign exchange regulations limiting offshore in total to 15 or 20%.
- We remain moderately underweight local property and moderately underweight local bonds, but decided to revert to an overweight position in offshore listed property, which is offering good dividend yields of around 4%-plus, superior to bond yields and money market yields offshore.

## Snippets of Info

- Ben Bernanke said in his prepared testimony last week that “we will continue to carefully assess ongoing financial and economic developments and we remain prepared to take further policy actions as needed to foster a return to full utilization of our nation’s productive potential in a context of price stability.” He reiterated the Fed’s most recent economic forecast, which forecast moderate growth, low inflation and a labour market that will probably require a significant amount of time to restore the nearly 8.5 million jobs that were lost.
- The JSE Food Retail Index is now up ten times from its 2003 low. This index includes Shoprite, Pick n Pay (both of which are at all-time record highs) and Spar; that’s a fantastic return for a conservative type of business that sells mostly necessities. This index is already up 32% so far in 2010, while the general retailers index is up 28%, no doubt thanks to mostly foreign buying. Mr Price and Massmart have been particularly strong of late, while Truworths (record high) and Woolies have also done well.
- The US bank stress-tests looked at the top 19 banks, whereas the European tests (just completed) looked at 91 banks.
- Of these 91 banks, only seven failed, with a combined capital shortfall of just 3.5bn euros, a result that regulators insist is reassuring.
- The Financial Times notes today that McKinsey forecasts that the number of African households earning \$5,000 or more is forecast to grow from 59m in 2000 to 106m in 2014. Because of this growth and the weak developed markets, more than 33% of institutional investors offshore in private equity is investing money into Africa, against just 4% four years ago. This growing appetite is underlined by US-based Emerging Capital Partners announcing that it has raised \$613m (R4.6bn) for a fund investing in private equity in Africa. One commentator says Africa is cheaper than other emerging markets due to a big gap between (negative) perceptions and more positive reality. Go Africa!

- On a totally different, but beautifully positive note, it was cheering to read in yesterday's Sunday Times that when Louis Oosthuizen was approaching the golf club for his final round in the British Open, his car was stopped and someone popped his head into the car to say to Louis that he was backing him to win. This someone was none other than 60 year old Tom Watson, winner of 5 British Opens and who memorably almost won last year aged 59. Then after his victory, Louis received a phone call from none other than Greg Norman, who told Louis that he watched his entire final round on TV and that this was the only time he had ever done this, ie had been fascinated enough to watch an entire round on TV. Well done Louis! We're proud of you.

**Paul Hansen**

**(Director: Group Advisory Services - Investments)**

# Economic Update

The local highlight last week was the decision by the SA Reserve Bank to leave the repo rate unchanged at 6.5%. Overall, the Reserve Bank is clearly relatively comfortable with the outlook for inflation; the main upside risk being wage increases and administered prices. The Reserve Bank is still very concerned about the growth outlook, especially globally, but one could argue that the Bank feels that they have already done enough to stimulate domestic growth (rates are essentially at 30 year lows). The next MPC meeting is on 8 September 2010. We expect rates to remain on hold for the remainder of 2010.

The Organisation for Economic Cooperation and Development (OECD) released its economic survey of South Africa early last week. The survey looks at measures to boost long term growth and employment in the country, ranging from labour markets to fiscal policy issues. In a nutshell the OECD is arguing for a weaker Rand to help exports, increased domestic savings to encourage investment, a further relaxation of exchange control, increased de-regulation of industry (encourage investment spending), better access to credit especially for small business, counter-cyclical fiscal policy, strengthening the inflation target process by announcing a policy rate path consistent with the inflation objective, significant labour market reform, improved education, increased skills development and a focus on providing employment for the youth.

In the US, housing starts for June fell by a disappointing 5%*m/m*. More encouragingly, building permits rose more than expected, but overall, the level of US housing activity remains extremely depressed. Following the expiry of the relatively generous Federal Housing Tax Credit at the end of April 2010, a range of housing indicators are now at, or near, record lows. These include new homes sales, housing permits, housing starts and mortgage applications for purchase.

The US leading economic indicator fell by 0.2%*m/m* in June. This is the second monthly decline in the past three months. The indicator has lost momentum, but over the past year, the leading index is still up a healthy 8.4%*y/y* BUT, importantly, it is below the peak annual rate of change of 11.7%*y/y* recorded as recently as March 2010. The leading indicator has turned-over and is likely to trend lower on an annual basis over the next few months. The 6-month rate of change has already moderated.

The Euro Zone, EU-27 Bank Stress Test released last Friday, determined that only 7 of the 91 banks failed the test, although the outcome of the test is partly due to the continued reliance on government support for at least 38 of the banks. Overall, assuming that the stress test was rigorously and consistently applied to all 91 banks, the results suggest that the EU banking system is fairly resilient as a whole.

## South Africa

### SA Interest Rates

The SA Reserve Bank opted to leave the Repo rate unchanged last week at 6.50%. This was in-line with the market consensus, although 7 out of the 26 analyst surveyed had expected a further rate reduction (STANLIB was looking for rates to remain unchanged). The Reserve Bank last adjusted interest rates in March 2010, when they surprised the market with a 50bps reduction. The prime interest remains unchanged today at 10%, which is the lowest prime rate South Africa has experienced since January 1981; which is over 29 years ago.

In making the decision to leave rates unchanged, the Reserve Bank highlighted the following:

- The SARB inflation forecast is little changed. Food inflation remains favourable.
- Inflation is expected to remain within the inflation target range until the end of the forecast period, which is end of 2012, helped by a benign global inflation environment.
- Despite the persistent moderation of inflation, inflation expectations have remained relatively high.
- The global economic environment is still very uncertain, with a high degree of risk to the downside. Growth in a number of advanced economies appears to be losing some momentum.
- Global inflationary pressures are expected to remain subdued and are not seen to pose a risk to the domestic inflation environment.
- The Rand has benefited from a global search for yield. The Bank is fully aware of the impact of a strong Rand on the economy, and clearly a potential change in the policy response to the Rand is currently being debated within Government/Reserve Bank.
- The main upside risk to domestic inflation emanates from wage increases and administered prices. The major downside risk is lower food inflation and global deflation. The Bank feels that the upside and downside risk are currently fairly evenly balanced.

## OECD

The Organisation for Economic Cooperation and Development (OECD) released its economic survey of South Africa on Monday, 19 July 2010. The survey looks at measures to boost long term growth and employment in the country, ranging from labour markets to fiscal policy issues. (The OECD released its first Economic Assessment of South Africa in 2008).

Below is a summary of the key policy recommendation contained in the report. According to the OECD, evidence suggests several ways to improve South Africa's trend growth performance:

- All economies experiencing successful rapid economic development in recent decades have had much higher savings and investment rates and stronger export growth than South Africa, and policy action to increase saving and strengthen export performance are therefore warranted.

- South Africa should do more to resist waves of real appreciation of the rand associated with surges in private capital inflows, which are largely driven by investor sentiment towards emerging markets in general, and commodity plays in particular.
- Tighter and more countercyclical fiscal policy, verbal and foreign exchange intervention, and liberalisation of capital outflows all have a role to play.
- Another key to better trend growth is reform of the regulatory environment. South Africa has low levels of competition and relatively restrictive product market regulation, which hampers more broad based innovation. OECD research suggests that lowering barriers to entrepreneurship could substantially boost South Africa's long-term growth rate.
- South Africa would therefore benefit from stronger fiscal institutions to prevent unwarranted fiscal expansion when the economy is strong.
- The monetary policy framework is sound, but could be refined to bolster the credibility of the inflation targets and to exploit scope for limiting exchange rate fluctuations, to the extent this is compatible with achieving the primary goal of keeping inflation within the target range.
- Labour market reforms should complement improved macroeconomic policies to deliver higher employment. A greater level of co-ordination of wage bargaining focusing on wage and price moderation as the ultimate goal, with the government providing a voice for labour market outsiders, could deliver greater wage moderation and increase the credibility of the inflation target.
- Limiting the legal extension of sectoral bargains would also foster wage moderation and lead to stronger job creation, particularly among smaller and medium sized firms.
- Other important measures to raise employment over the long term include improved basic education, reduced spatial mismatches between jobseekers and jobs, and better access to credit for small enterprises.
- Within an overall employment strategy, measures should be targeted at tackling youth unemployment. These could include job search assistance, training-based wage subsidies, age-differentiated minimum wages and extended probationary periods for young workers.

## United States

### US Housing Starts

- In June 2010, US housing starts fell further to an annualised 549 000. This is down 5.0% relative to the May revised reading of 578 000. The decrease was below market expectations for a decline of 2.7%<sub>m/m</sub>.
- Housing starts reached a record low of 477 000 in April 2009, and have since increased by a total of 15.0%. Despite the increase, the overall level of housing construction is still dramatically below the 2006 peak level of over 2.2 million. It will probably take the housing market many years to re-gain the previous peak.

- More encouragingly, housing permits rose more than expected in June, up 2.1%*m/m* to 586 000. The market was expecting a rise of 0.2%*m/m*. There is a reasonably close relationship between the growth in building permits and housing starts, which would suggest some (modest) improvement in housing activity in the months ahead. Despite the latest monthly rise, building permits remain extremely depressed overall.
- Although the housing market is probably the single weakest aspect of the US economy, there are some supportive factors (including the affordability index and the most recent evidence of stability in house prices), which suggest that the housing market is unlikely to cause the US economy to move back into recession. The damage inflicted by the bursting of the housing finance bubble is mostly already in the base.

### US Leading Economic Indicators

- In June 2010, the US leading economic indicator (as compiled by the Conference Board) fell by 0.23%*m/m*. The market was expecting a decline of 0.3%*m/m*. The May reading was revised up from an initial increase of 0.4%*m/m* to 0.5%*m/m*.
- Over the past year, the leading index is still up a healthy 8.4%*y/y* BUT, importantly, it is below the peak annual rate of change of 11.7%*y/y* recorded as recently as March 2010. The leading indicator has turned-over and is likely to trend lower on an annual basis over the next few months. (See comment below). The 6-month rate of change has already moderated.
- The leading indicator is comprised of ten components. During the month only 5 of the 10 components that make up the index rose, while 5 fell or remained unchanged. Working hours, supplier deliveries, stock prices and weekly jobless claims made the largest negative contributions to the index. These declines were partially offset by positive contributions from the interest rate spread, money supply and building permits.
- In terms of an economic recovery, the leading indicator has clearly been pointing to an accelerating improvement in US GDP growth in 2010. In fact, the Conference Board's Leading Indicator has an excellent track record in forecasting GDP growth by up to one year. However, the most recent moderation in the annual and six-month rate of change suggests that the US economic recovery could lose momentum into 2011, which is our base case.

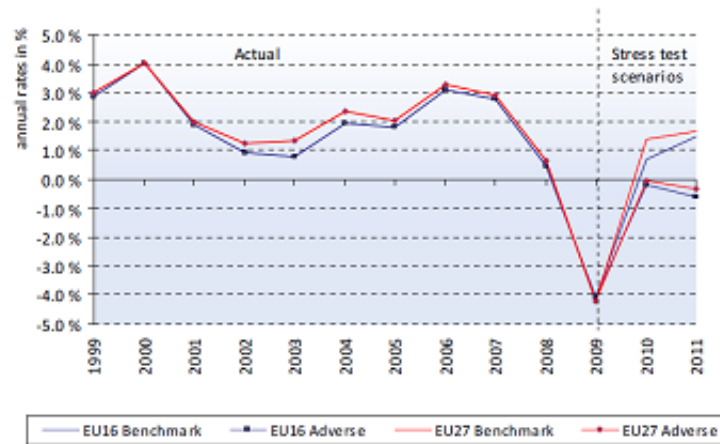
## Euro Area

### EU-wide bank stress test

- The stress test exercise examined a sample of 91 European banks, in the 27 member states, representing 65% of the European market in terms of total assets. The exercise has taken around 2 months to complete.

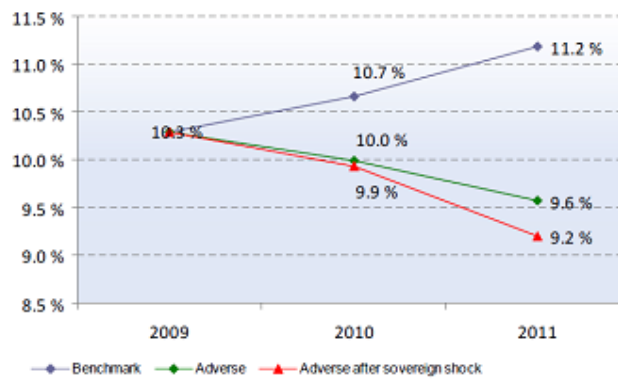
- The objective of the test was to assess the resilience of the EU banking system to possible adverse economic developments. (Two sets of macro-economic scenarios (benchmark and adverse) were developed for the exercise - see discussion in next paragraph). The test focused mainly on credit and market risks, including the exposures to European sovereign debt. Liquidity risks were not directly stress tested.
- The benchmark macro-economic scenario assumed a mild recovery from the severe downturn of 2008-2009, whereas the adverse scenario assumes a “double-dip” recession. For the euro area, the GDP growth under the benchmark scenario was assumed at a level of +0.7 (2010) and +1.5% (2011), whereas under the adverse scenario the euro area would see a decrease of GDP by -0.2% in 2010 and -0.6% in 2011. For the whole European Union (EU27) the benchmark scenario assumes a +1.0% growth of GDP in 2010 and +1.7% in 2011, whereas under the adverse scenario the GDP would not grow in 2010 and would decline by -0.4% in 2011. On aggregate and over the two-year time horizon, the adverse scenario assumes a three percentage point deviation of GDP for the EU compared to the benchmark scenario. (See chart below).
- The results of the test suggest that under stress conditions, in total, aggregate impairment and trading losses would amount to €566bn over the years 2010/2011. The aggregate Tier 1 ratio, used as a common measure of banks’ resilience to shocks, would decrease from 10.3% in 2009 to 9.2% by the end of 2011 (compared to the regulatory minimum of 4% and to the threshold of 6% set up for the exercise). The aggregate results depend partly on the continued reliance on government support for 38 of the institutions in the exercise.
- Overall, only 7 of the 91 banks failed the test in that they would see their Tier 1 capital ratios fall below 6%. (The threshold of 6% was used as a benchmark solely for the purpose of this stress test exercise). All banks that are supervised in the EU need to have at least a regulatory minimum of 4% Tier 1 capital.
- Five of the seven that failed were Spanish savings banks. (On Friday night the Bank of Spain was discussing what kind of contingent liquidity measures could be put in place to reassure customers and counter any threat of a run on these banks). The other two banks that failed were Germany's Hypo Real Estate and Greece's ATE bank. Among the ‘near-fails’ were Italy's Monte dei Paschi, on 6.2%, and Germany's Postbank, on 6.6%. Among the top-rated banks in the tests was Barclays, whose baseline tier one ratio of 13% at the end of 2009 actually rises under the stress scenario to 13.7% by end 2011.

**Chart 1. Real GDP growth for EU27 and euro area under the benchmark and adverse scenarios in comparison to historical developments**



Source: Stress Test Calculations

**Chart 2. Evolution of the aggregate Tier 1 capital ratio**



Source: Stress test calculations

Source: Stress Test Calculations

Kevin Lings and Laura Jones  
(STANLIB Economics)

# Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 23/07/10	Weekly Move (%)	YTD (%)
<b>Indices</b>			
*MSCI World - US Dollar	1117.45	2.53	-4.37
*MSCI World - Rand	8308.19	0.17	-4.08
*MSCI Emerging Market - US Dollar	981.42	3.43	-0.81
*MSCI Emerging Market - Rand	7296.82	1.04	-0.52
All Share Index - US Dollar	3829.98	5.41	2.44
All Share Index - Rand	28424.17	3.25	2.74
All Bond Index	322.22	0.32	7.74
Listed Property J253	780.41	0.76	16.29
<b>Currencies</b>			
US Dollar/Rand	7.42	-2.05	1.11
Euro/Rand	9.57	-2.11	-8.88
Sterling/Rand	11.42	-1.22	-3.88
Euro/US Dollar	1.29	-0.15	-10.29
<b>Commodities</b>			
Oil Brent Crude Spot Price (\$/bl)	77.12	3.67	-0.10
Gold Price \$/oz	1189.40	-0.31	8.44
Platinum Price S/oz	1542.50	2.19	4.97

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: 6.66% per annum

Effective: 6.87% 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 23 July 2010. 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: 7.26%

## STANLIB Dividend Income Fund

Effective Yield: 4.75%

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 23 July 2010. 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.

## Liberty Investments' Life Annuities

### Current Rates for 26<sup>th</sup> July - 30<sup>th</sup> July 2010

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 768	R 832	R 913	R 698	R 742	R 803
	R 250,000	R 1,943	R 2,103	R 2,307	R 1,765	R 1,876	R 2,031
	R 500,000	R 3,901	R 4,222	R 4,630	R 3,544	R 3,766	R 4,077
	R 1,000,000	R 7,816	R 8,459	R 9,275	R 7,103	R 7,547	R 8,169

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

<b>Bonds</b>	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.
<b>Cash</b>	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.
<b>Collective Investments</b>	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.
<b>Compound Interest</b>	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.
<b>Dividend Yields</b>	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.
<b>Dividends</b>	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.
<b>Earnings per share</b>	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.
<b>Equity</b>	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.

<b>Financial Markets</b>	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
<b>Fixed Interest Funds</b>	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.
<b>Gross Domestic Product (GDP)</b>	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.
<b>Growth Funds</b>	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.
<b>Industrial Funds</b>	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
<b>Investment Portfolio</b>	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.
<b>JSE Securities Exchange</b>	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
<b>Price to earnings ratio</b>	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.
<b>Property</b>	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.
<b>Resources and Basic Industries Funds</b>	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.
<b>Smaller Companies Funds</b>	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.
<b>Value Funds</b>	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](http://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. Forward pricing is used. 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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