The Weekly Focus

A market and economic update

07 February 2011

STANLIB
the art and science of investing

LIBERTY
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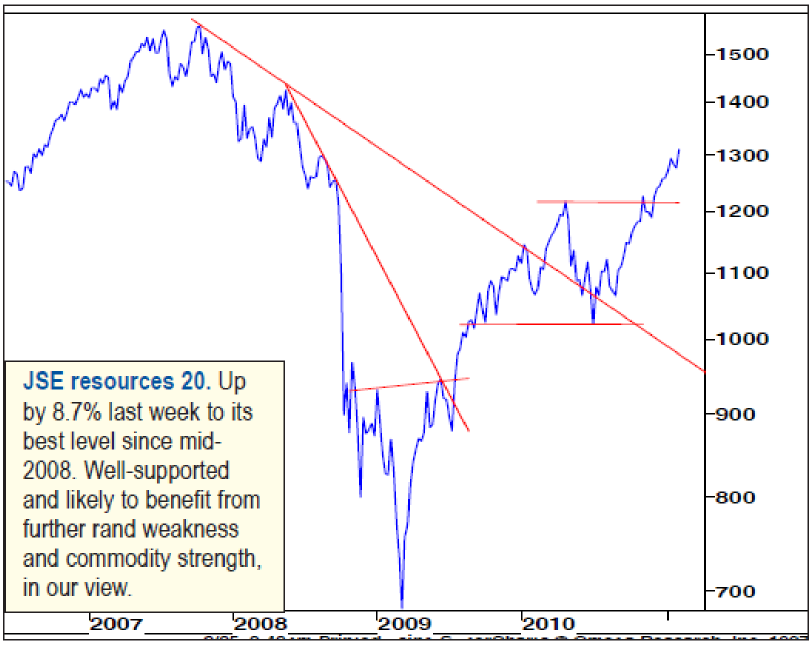
Contents

Newsflash

The JSE All Share Index jumped over 4% last week to another recovery high

Bull market forges on

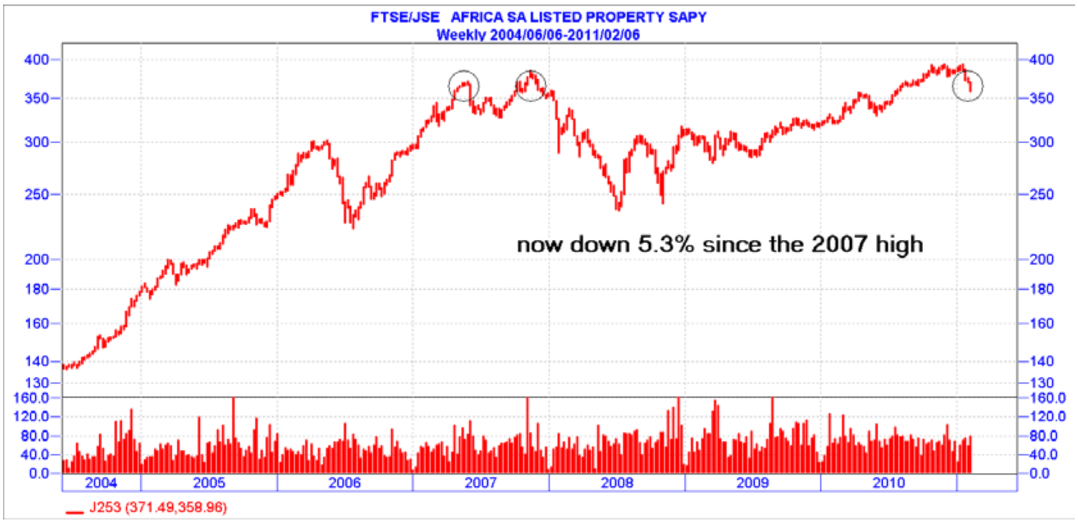
- What an amazing week just passed: just when we thought or 'thunked' that we might be in a market correction, boom, off she took, despite Egyptian and Middle East concerns. That's a bull market for you; waits for no man and will slap you down (or up) just when you least expect it.
- Anyone looking to "go short" this market (such as in the futures market) because it is said to be 'overpriced' is playing with fire. We're being lead (pulled by the snout) by not only a booming commodity market, but also by relatively undervalued offshore developed markets still trading at 1999 levels, couple with a recovering global economy and official interest rates still at record lows.
- With Sasol up over 5% on Friday alone (playing rapid catch-up after underperforming badly for most of the time since March 2009) and up 9% on the week, with Billiton up 9% on the week and Anglo American up an astounding 12% on the week, the JSE All Share Index jumped over 4% (still 3.4% in dollar terms) last week to another recovery high, following the US market's 2.7% jump (in dollars) and the MSCI World Index's 2.3% jump, also in dollars.
- The JSE Resources Index (see chart below of the JSE Resources 20 Index)) rose by 8.7% last week to its best level since mid-2008, while the JSE Financial & Industrial Index still gained, although only just (1.3%). On the other side of the coin, the JSE Construction Index dropped 7% on the week; ouch! Clearly share or sector selection in one's portfolio is making a huge difference so far in 2011. Mind you, it also did so in H1 2010, when Resources underperformed.
- The JSE ALSI 40 Index has 48% in resources, including Sasol, so is very well represented in this sector. Anglo & Billiton together comprise over 29% of the Top 40 Index. Add SAB Miller, MTN, Sasol and Richemont and you have 55% of the index.
- The All Share Index currently has 44% in resources, also quite high. Many SA fund managers prefer to benchmark against the so-called ALSI "Swix" Index (shareholders weighted index), which is much lower in resources (around 32%) because it excludes foreign holdings of our shares, so represents local shareholders much better.



Source: PrimeCharts.

Comment on this chart is from Murray Morrison of JP Morgan

- Meanwhile the MSCI Emerging Markets Index continues to underperform the developed markets, partly because of rising inflation worries and therefore interest rate hikes in the more food price-sensitive EM. Last week the EM Index was up just 0.3%, despite our market's good run (we're 7% of the index) and despite strong commodities.
- What is most interesting about the **JSE listed Property Index (see chart below)**, is that it is now down 7.9% from its recent high on the 10th of January and is trading 5.3% lower than its 2007 record high, so it is 5.3% less than where it was 4 years ago (capital only, excluding dividends), which is certainly a lot worse than the All Share Index, which is just a few hundred points below its all-time record high. The listed Property index is now priced on a one year forward yield of 8.8% (similar to the bond yields after a big jump) which seems quite attractive in the current environment with money market yields around 6% now, possibly 6.5% to 7% in, say, 18 month's time.
- However, the unknown is whether the rand continues to lose traction, which causes more bond selling, which causes yields to rise further and property shares to fall further. No-one knows, although chartists are warning that the rand is currently looking vulnerable to further weakness at over 7.22 to the dollar. Often a phased approach to buying works well in this sort of uncertainty: buy a bit now, then watch and wait. As our fund manager, Keillen Ndlovu, has often said, when you buy property, you're buying an income stream and one that is still expected to grow over time; but of course the less one pays for the fund, the higher the income stream yield and we're allowed to be both fearful and greedy in this business of investing.



Source: I-Net Bridge

- Is our stock market expensive? If you look at the way its priced based on last year's earnings, yes at 17.6 times it does look expensive. If, however, you are anticipating good earnings growth this year, as the economic up-cycle gains traction (and that is the key, contrasting now with 2008's very late cycle), then on a forward price of around 11.5 to 12, the market is fair value, not overpriced. Even a share like Naspers, which has leapt in price from 12.50 rand a share in 2002 (after collapsing from 100 rand a share in early 2000) to the current 400 rand a share 9 years later, is still apparently trading at a discount of almost 20% to its net asset value.
- One needs to assess where we are in the economic and therefore earnings cycle. If we're near the end of the cycle, in the mature phase, as we were in 2008, then perhaps using historic earnings is more prudent, because earnings would then be peaking and about to start to decline. If the economic cycle is still in the upswing, as seems the case now, then forward earnings may make more sense because earnings are still rising over the next 12 and hopefully 24 months. However, see STANLIB's new house-view below, as it relates to pension funds and the STANLIB Balanced and Balanced Cautious Funds.

Stanlib Balanced (Multi-Asset) Fund Franchise now underweight SA Equities

- After STANLIB's recent quarterly asset allocation meeting, the fund managers of our Balanced Fund unit trusts and pension funds decided that our stock market looks expensive relative to the developed markets in particular offshore.
- Therefore the latest house view on asset allocation shows one big change: from neutral in SA equities to moderately underweight in SA equities relative to benchmark. On offshore equities, they remain very overweight.

- All other asset classes remain unchanged from quarter four: local listed property neutral, SA bonds moderately underweight, offshore bonds very underweight (see below) and offshore listed property moderately overweight.
- We take an 18 month view in this meeting.

Offshore Bond yields take off

- We've been watching offshore government bond yields with keen interest, partly as a clue to what's happening in the world economy. Late last year, despite QE2 (US government pumping in cash to buy bonds), the government bond yields of the US, Germany and the UK suddenly leapt up as bond prices fell sharply, with the US ten year government bond yield jumping from 2.4% in October to 3.4% in October, causing sharp capital losses.
- Late last week, the yields began to rise again, jumping to 3.6%, giving the impression that they have more to go on the upside, largely in response to improving world economies (less and less chance of double-dip) and partly as a result of heavy issuance (supply) as indebted governments raise money from investors.
- Rising bond yields means declining capital values, so we remain very underweight government bonds. Even many corporate bonds offshore will start losing money as their yields get dragged upwards, if this continues.
- Of course, if developed markets do have a stock market correction, there could be a retracement, but it looks like yields are generally heading higher as 2011 unfolds.
- US stock market analyst, Garzarelli, says her quants system continues to be bullish on the US stock market….and by implication most global stock markets (except perhaps Egypt, which comprises 0.5% of the MSCI Emerging Markets Index).
- She notes that for equity markets in the US, it seems there is a "perfect combination of improving consumer sentiment and healthy economic growth". This could change if the US Fed raises rates, negative issues in Europe/Egypt etc become widespread and serious, or manufacturing turns negative year-on-year.
- She believes US inflation will likely stay low, keeping interest rates low, but suspects bond yields are headed higher because of improving economic and market conditions. She notes that US business is offsetting higher costs of production from commodity prices with well contained unit labour costs.
- She continues to recommend overweight equity holdings in Resources (almost double the US benchmark of 3.7%), IT (which she thinks could do almost double the return of the S&P 500 Index in 2011), Financials, Consumer Discretionary and Industrials.
- She remains with her view that US stock market corrections should be limited to 4-7%, unless things change as referred to above.

Snippets of Info

- We spoke about the record high copper price last week; just to expand on one of the reasons (constrained supply of copper), the collective output of the top 4 listed copper miners, Freeport-McMoran, BHP Billiton, Xstrata and Rio Tinto, fell by 12% in the first of 2010 from the previous year - and this while demand was rising. It is anticipated that the second half of 2010 was not much better.
- The SA unit trust industry (local "collective investment schemes) reported last week on their latest numbers, noting that the industry attracted record net inflows of 109 billion rand in 2010, leaving total assets at end 2010 at 927 billion rand. In 2010 55% of the 109 billion rand inflow went into domestic fixed-interest funds (money markets, bonds, income and varied specialist funds), local asset allocation funds attracted 34% of inflows and the local equity sector received a mere 4.4% of inflows.

Paul Hansen
(Director: Group Advisory Services - Investments)

Economic Update

Last week locally, SA consumer credit growth for December appeared subdued because of a R5.4bn securitisation issue. Overall credit demand, especially consumer credit, is slowly trending higher. We still expect credit growth, especially consumer credit, to move steadily higher during 2011, as the combination of 30-year low interest rates, improved real income growth, reduced debt servicing costs and the slightly easier lending criteria out of banks start to have a more positive effect.

SA petrol price rose for the fifth consecutive month by 26 c/l in February 2011 attributed to the movement in the international oil price.

The seasonally adjusted Kagiso PMI posted solid gains in January, gaining 2.9 index points to reach 54.6 - the highest level since April 2010.

Offshore, the US added a mere 36 000 jobs in January, well below expectations. The data was heavily impacted by poor weather. The unemployment rate fell to 9.0%, helped by the lower labour market participation rate. An interesting and added dynamic to the US labour is the very high level of part-time workers. To be classified as a part-time worker, one must be wanting to accept a full-time appointment. The number of part-time workers peaked at 9.5 million in September 2010. Since then, part-time employment has fallen by a net 1.1 million, as people have been able to convert part-time to full-time work. However, while this represents an improvement in underlying labour market conditions, it will not reflect as an improvement in the non-farm, payroll data or unemployment rate because the part-time workers have already been counted as employed.

South Africa

SA Credit Demand

- In December 2010, SA growth in broad money supply (M3) was recorded at a 6.9%y/y, which is below the 7.2%y/y recorded in November 2010, and market expectations for a rise of 7.9%y/y. The overall trend in money supply growth is still clearly moving higher, but not at a pace that will concern the monetary authorities. Given the extremely low base that has been established, the annual rate of change is expected to continue to increase during 2011.
- This month there are some ‘confusing’ changes to private sector credit. Overall, private sector credit rose by 0.9%m/m (+R17.9bn) in December. On an annual basis, the rate of change in private sector credit was recorded at +5.6%y/y, up from 4.6%y/y in November 2010. This was above market expectations for a rise of 5.2%y/y. The growth in credit was, however, flattered by a very large increase in the ‘investments’ category, up 14.6%m/m or a massive R17.9bn. Excluding the investment category, private sector credit was actually down 0.1%m/m or R0.993bn.

- However, there was also a R5.4bn mortgage securitisation issue, which effectively reduced the growth in credit, especially mortgage credit and consumer credit. Adding this back, private sector credit actually grew by around 1.1%m/m in December or 5.9%y/y.
- During December, mortgage credit fell by a relatively large 0.4%m/m or R4.7 billion in the month (+4.0%y/y). However, as mentioned above, there was a R5.4bn mortgage securitisation issue during the month, which effectively reduced the growth in mortgage advances. Adding this back, mortgage advances grew by 0.1%m/m December and 4.5%y/y.
- Consumer credit rose by a modest 0.2%m/m in December or by 6.9%y/y. During 2010, consumer credit was up a significant R70.7 billion. This compares with only R29.3 billion during the corresponding period in 2009. On a 3-month annualised basis, private sector credit is growing at 7.3%. Most of the increase in consumer credit has been in the form of asset based finance (cars and houses). In contrast, credit card debt continued to decline, falling by 0.03%y/y in November 2010 (data lags by one month). It is also useful to recognise that during December, the growth in consumer credit is effectively understated by the R5.4bn mortgage securitisation issue.
- Instalment sales credit accelerated by 6.0%y/y in December, up from 5.6%y/y in November. In general, instalment sales credit has grown steadily over the past year, reflecting the dramatic improvement in SA vehicle sales. During 2010, instalment sales credit rose by R12.2bn compared with a decline of R3bn in 2009. That is huge turnaround.
- Growth in ‘other loans and advanced’ (which is mostly corporate credit) increased by R2.7 billion (5.7%y/y) in December. Currently, there is not much demand by corporates for bank credit, partly reflecting their current lack of fixed investment activity within the private sector.
- Overall credit growth is trending higher, especially if the data is adjusted for the latest securitisation issue. It is fair to say that credit growth has generally lagged the overall economic recovery. However, during most upswings, the initial part of the recovery is driven by a rise in incomes (cash sales) and not a rise in credit. Credit demand, typically, emerges a little later in the recovery. The delay in credit growth has also been compounded by the fact that the banking sector has been digesting a surge in bad debts relating to the previous credit excesses, the ongoing impact of the NCA and the fact the banks are no longer offering the ‘two-below-prime” deals they did a couple of years-ago; the pricing of credit has tended to move higher, partly offsetting the 650bps reduction in the Repo rate.

SA Petrol Price

- With effect from midnight, 2 February 2010, the SA fuel price increased significantly for the fifth consecutive month. The retail petrol price rose by 26 cents per litre for 95 octane. The price of diesel also rose by a recommended 32 cents per litre. The hike pushes the cost of 95 octane fuel to R8.99 per litre and R8.14 per litre for diesel.

- The over/ (under)-recoveries for the period under review were affected by two factors: the movement in International Product Prices; and the movement in exchange rates.
- The price of oil grades in Africa and Asia broke through the $100 level, Brent crude oil contracts were heading for $98, and American oil price contracts were $88 a barrel. The price discrepancy between American and Brent crude is attributed to the limited production from the North Sea and emerging markets' strong demand for Brent on the one hand, and record high stock levels at America's crude oil depots on the other.

Kagiso PMI

- The seasonally adjusted Kagiso Purchasing Managers Index (PMI), which is an indicator of sentiment within the manufacturing sector, rose steeply in January, to 54.6, from 51.7 in December. January's reading is the best since April 2010.
- Indices for new sales orders, supplier's performance and to a lesser extent inventories, posted significant increases.
- Rand depreciation during January could have assisted in boosting the readings. There was also a fairly dramatic increase in the expected business conditions component, suggesting optimism that activity within six months will be better still. On the contrary, it is alarming to see steep declines in the business activity, purchasing commitments and sales orders components.

USA

US Unemployment

- In January 2011, the US unemployment rate fell to 9.0% from 9.4% in December 2010. This was much better than market expectations for the rate to rise to 9.5%. The US unemployment rate had moved up from a low of 4.4% in May 2007, to a peak of 10.1% in October 2009. Since October 2009 the rate of unemployment has generally eased; mainly because the labour market participation rate has declined. This month was no exception, with the labour market participation rate dropping further to 64.2%, which is the lowest level since 1984.
- During the month total non-farm payrolls rose by a mere 36 000, which was far less than market expectations for an increase of 146 000. There was a significant revision to the previous data over an extended period. During 2010, the US economy created only 909 000 jobs, or an average of 75 000 jobs per month. That is below the estimated 100 000 increase in the number of people entering the job market every month. Since December 2007 (when the US recession officially started), payroll employment has fallen by a net total of 7.7 million, or 5.6%.
- More positively, the private sector added 50 000 jobs in January 2011. The rise in private sector employment in January was also well below market expectations for an increase of 145 000, however, the US private sector has added jobs in each of the past eleven months, at an average of 114 000 net new jobs a month.

- In the month of January 2011:
  - Manufacturing added 49 000 jobs in January. Over the month, job gains occurred in durable goods, including motor vehicles and parts (+20 000), fabricated metal products (+13 000), machinery (+10 000), and computer and electronic products (+5 000). Employment in nondurable goods manufacturing declined by 13 000 over the month.
  - Employment in retail trade rose by 28 000 in January, after changing little in December. Retail trade has added 123 000 jobs since its recent low point in December 2009. In January, employment in clothing stores increased by 15 000.
  - Health care employment continued to trend up over the month (+11 000). Over the prior 12 months, health care had added an average of 22 000 jobs per month.
  - In January, construction employment declined by 32 000. Within construction, there were job losses among non-residential specialty trade contractors (-22 000) and in construction of buildings (-10 000). Employment in construction may have been impacted by severe winter weather affecting parts of the country during the survey reference period.
  - Transportation and warehousing employment fell by 38 000 in January, reflecting a sharp decline among couriers and messengers (-45 000). Couriers and messengers had an unusually large job gain in December, followed by layoffs of a similar magnitude in January.
  - Within professional and business services, employment in temporary help services was little changed in January (-11 000). Temporary help had added an average of 25 000 jobs per month over the prior 12 months.
- Overall, this month's labour market report was heavily impacted by the severe weather conditions that prevailed during January. The US Department of Labour indicated that, in particular, construction employment was hampered by the bad weather. Hopefully the February report will be a fairer indication of underlying employment activity. The growth in manufacturing employment is also very interesting considering that there was large depletion of inventories in Q3 2010. This would suggest that inventories are too low relatively to demand and that industrial production will rise over the coming months. ISM data also supports that view.
- The job market has clearly improved since the recession officially ended in June 2009. However, in order to start to reduce the unemployment rate on a sustained basis - without any change in the labour market participation rate - the economy needs to consistently add around 100 000 jobs a month, which it is still struggling to do. It still appears likely that the labour market will take a number of years to fully recover from the great recession.

Emerging Markets

- The troubles in Egypt carried on, with no end in sight, and became violent. There are now worries that the economic uncertainty in that country may affect peer economies as investors search for liquidity.
- An official from the Kenya National Bureau of Statistics revealed that consumer price inflation in Kenya rose 5.4% year on year in January 2011, from 4.5% in December. This has brought more questions about the Central Bank of Kenya's decision to cut interest rates as other central banks hiked in a bid to curb inflation pressures brought about by food and energy prices.
- China's purchasing managers index slowed to a five month low in January to 52.9, indicating reduced economic activity as inflation pressures persist. The measure is still above a 50 score, and thus still signifying economic expansion.
- Russia released preliminary GDP data, demonstrating that the aggregate economy had grown by 4% in 2010. In 2009 GDP plunged 7.8%, and therefore a recovery of 4% can only be described as moderate.

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

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 04/02/11	Weekly Move (%)	YTD (%)
Indices			
*MSCI World – US Dollar	1331.65	2.27	3.39
*MSCI World – Rand	9642.67	2.86	12.90
*MSCI Emerging Market – US Dollar	1129.69	0.30	-2.91
*MSCI Emerging Market – Rand	8180.25	0.88	6.02
All Share Index – US Dollar	4545.43	3.36	-6.89
All Share Index – Rand	32902.52	4.31	1.84
All Bond Index	337.01	0.09	-2.32
Listed Property J253	809.44	-2.78	-7.27
Currencies			
US Dollar/Rand	7.24	0.92	9.38
Euro/Rand	9.83	0.66	11.21
Sterling/Rand	11.66	2.50	13.85
Euro/US Dollar	1.36	-6.17	1.74
Commodities			
Oil Brent Crude Spot Price ($/bl)	99.34	0.62	4.06
Gold Price $/oz	1349.35	0.93	-4.59
Platinum Price S/oz	1843.50	2.64	4.51

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: 5.56% per annum

Effective: 5.70% 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 04 February 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: 6.29%

STANLIB Dividend Income Fund

Effective Yield: 4.02%

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 04 February 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 8th February – 11th February 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 806	R 854	R 919	R 735	R 777	R 826
	R 250,000	R 2,081	R 2,199	R 2,362	R 1,904	R 2,008	R 2,129
	R 500,000	R 4,218	R 4,455	R 4,783	R 3,864	R 4,072	R 4,313
	R 1,000,000	R 8,515	R 8,991	R 9,648	R 7,803	R 8,221	R 8,704

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 the 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

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