WEALTH FOCUS FUND RISK & LEGAL

The Weekly Focus

A market and economic update

16 November 2009

STANLIB

LIBERTY
Own your life

Contents

Newsflash 3
Market Comment 3
What are some of the other market analysts saying? 4
Economic Update 7
Global 7
South Africa 9
Weekly Market Analysis 11
Rates 12
Standard Bank Money Market Fund 12
STANLIB Cash Plus Fund 12
STANLIB Dividend Income Fund 12
Glossary of terminology 13

For the latest information from Group Advisory Services, visit the Group Advisory Services webpage. Click on the following link: https://www.blueprintonline.co.za/msblueprint/focus/index.asp. This site is updated weekly with all the latest articles, presentations and documents which have been produced by the Investment/Fund, Risk and Legal Focus teams.

Newsflash

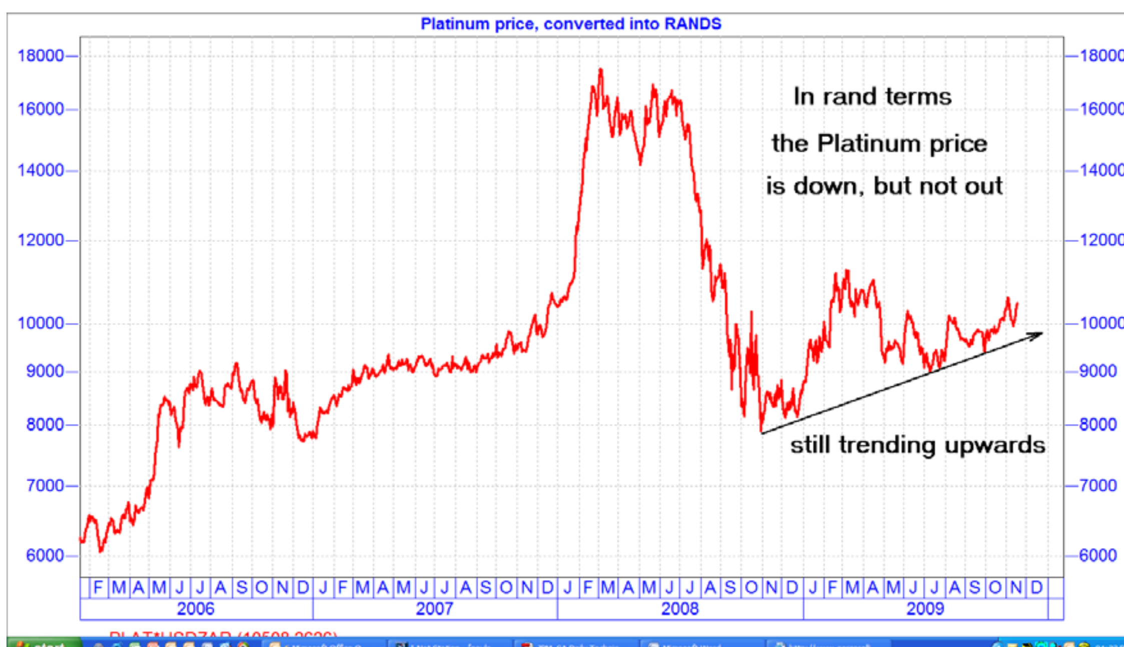
The hope for further global economic growth and growth in company earnings expands

Market Comment

- Today, Monday morning, the JSE has opened strongly at a new 2009 high of over 27,000, despite the strong rand. Hong Kong's Hang Seng Index also closed at a 2009 high this morning and is now back at July 2008 levels, as well as July 2007 levels. This index is up 102% since the 9th of March low.
- We have the JSE Resources Index at a 2009 high, again despite rand strength, led by the big mining groups Anglo American at 320 rand (up over 2%) and by Billiton.
- The JSE SA Industrials Index is less than 1% from a 2009 high, while the JSE Financials Index, driven more by Insurers lately (although Absa is virtually back at its previous 2009 high of 131 rand), is just over 1% from a 2009 high.
- So what's happening? As usual, our market is following the offshore trends. Although we have warned that stock markets all over have had big advances since 9th March, the bottom line is that: a) with interest rates at record lows in most of the big countries and inflation also very low, the sweet spot for equities (and risk markets in general) remains intact and b) the CYCLE is in favour of equities and other risk assets. As the economic cycle continues to turn upwards, the hope for further global economic growth and growth in company earnings expands. Combining the two (low interest rates and recovering growth) is a powerful concoction.
- Importantly, as far as we can see, despite all the valid concerns about US consumer spending and unemployment, the economic cycle seems still to be early in its upswing.
- A number of the Asset Managers around SA have announced openly that they have cut back on equities because they think SA equities are too high relative to forecast earnings. However, while one can understand their thinking, the risk they are taking is that they are cutting back at what appears to be an early stage in the economic recovery. History suggests this has not been a good strategy to follow, although one can validly argue that things are a lot different (higher risk) now than in previous recoveries. In this case I'm referring to the bursting of the consumer debt bubble in the US, UK, Ireland, Spain and other countries, the paying back of debt instead of borrowing and spending money, high unemployment etc.
- Whoever said calling the future is a precise science?
- As we've said before, it comes down to a risk versus reward equation. Each investor's risk/reward equation is different because of age, net worth, responsibilities and the ability to handle risk (stomach churn) and sleep peacefully at night.

- The risk/reward ratio of the stock market today is much higher than it was on 9th March 2009 because the market has gained so much. Each person needs to assess where his/her risk/reward ratio lies today - and that's really a judgement call - and decide to what extent he/she wishes to be exposed to risk assets like equities and commodities.
- For example, for a conservative investor like my 85 year-old mother, I switched out of STANLIB's Moderate Fund of Funds (54% in equities) into STANLIB's Conservative Fund of Funds (17% in equities) today because of this risk/reward issue. Back on 9th March, we thought that the risk for equities was actually quite low at that time (ironically enough), so 54% in equities was reasonable. Now the risks have risen because of the big gain.
- Aggressive investors (especially young aggressive investors) may choose to remain in a fairly aggressive portfolio.

Fig.1



- Above is a chart on the platinum price (**Fig. 1**), converted into RANDS. Although it is down quite sharply from the highs of 2008, the rand platinum price has been trending upwards since November. In other words, the dollar platinum price (at a 2009 high today) has been rising faster than the appreciation of the rand against the dollar. This should be positive for our platinum shares. In addition, lately the rhodium and palladium prices have gained quite sharply, albeit from low levels.

What are some of the other market analysts saying?

- US market analyst, Elaine Garzarelli, has turned more positive because of new information/data that has come through. This highlights an issue or problem about forecasting the future: forecasts can change when data changes.

- She refers to the superb productivity gain in the US in the third quarter ending September. US businesses expanded output by 4% in Q3, yet cut hours worked by 5%, which resulted in a productivity gain of over 9%, which is very good news for company profits, although bad news for household incomes; but she says this surge in productivity is unprecedented during the last stages of a recession and the early stages of a recovery.
- Costs per unit of labour fell 5.2% and when combined with the weak US dollar, this combination gives US companies an edge of competitiveness at a time when they're hoping for strong export growth.
- The cost-cutting by companies has translated into strong cash flow and a mountain of cash. Net corporate cash flow as a percentage of GDP (economic growth) is now at record levels! So US companies are now in a very strong financial and competitive position.
- Garzarelli's quantitative system indicators have improved from 45% to 68% - a buy signal. So she is now recommending removing all hedges against market declines.
- She says that with 87% of US companies having reported earnings for Q3, earnings are down 2.5% versus the -13% forecast. So she's revising up her earnings forecasts for 2010 due to the dollar's weakness, lower-than-expected interest expenses and the lower unit labour costs recently reported.
- She says the US will not see a sustained improvement in consumer spending until companies start hiring and spending, although some good news is that temporary employment was up for the last several months and that is a good leading indicator of overall employment. Also employment is already increasing in many economies, including Japan, Australia, Sweden, Brazil and China.
- The OECD's broad leading indicator has rebounded to a level that is higher than it reached early in the 1991 and 2002 economic recoveries, as well as at the start of the 1975 and 1983 strong recoveries.
- World semi-conductor sales are up an annualized 89% over the past seven months, Korea's manufacturing is up 47% over the past nine months, Hungary's is up 20% and Brazil's up 20% over the past nine months. Japanese vehicle sales rose 63% over the past seven months, Canadian housing permits are up 98% over the past seven months and house prices are increasing in many countries, including China, the UK, Canada, Norway, the Netherlands, Hong Kong, Singapore, Australia and the US.
- Germany plans to approve a $12.6bn tax cut and the group of 20 nations agreed recently to maintain measures to boost economic growth. Over the last three weeks, interest rates have been cut in Russia, Serbia, Turkey, Hungary and Iceland. Global short-term interest rates hit a new low of 1.9% last week (down 2.6% over the past year), despite the fact that four central banks have recently raised rates. The US has extended a bill granting first-time homebuyers an $8,000 tax credit and a bill cutting business taxes.
- Garzarelli recommends an overweight in equity portfolios in mining shares, financials, industrials and in technology shares, which you would expect in an economic recovery.

- Canadian-based stock market research house, BCA, acknowledges that the 65% rally in the US stock market since March 9th has been stunning.
- Although they have argued that a correction or consolidation period could be good for the market (to allow the economy to catch up), they say that US equity valuations not yet stretched. Their valuation model suggests the US S&P 500 Index is close to fair value, based on "normalized" earnings (12 month forward price-to-earnings ratio of 15.4).
- The implication of their various models is that the "cyclical bull market" rally has further to run, although "the short-term risk/reward balance has clearly deteriorated at a time when the sustainability of the economic recovery is uncertain". (They are referring to uncertainty about growth in sales and in consumer spending).
- BCA prefers global shares to US domestic shares and also likes technology shares.

Paul Hansen
(Director: Group Advisory Services - Investments)

Economic Update

Last week showed more evidence that the V-shaped economic recovery is in full swing; with the Euro-Area posting GDP growth of 1.6%q/q annualised; and Japan 4.8%q/q annualised. The sustainability of the recovery is still in question though, as are the appropriate policy exit strategies. China had a good October with most of its key economic data continuing to show strong growth, especially the domestic economy. The economy remains on track to achieve 8% growth for 2009, and is expected to accelerate to around 9.0% in 2010.

Locally, manufacturing activity recorded a welcome improvement in September. The (Purchasing Manufacturers Index) PMI index is pointing to further recovery in the coming months. Ahead of the SARB interest rate decision tomorrow, STANLIB held its Interest Rate and Forex forecast meeting on the 12th November. A small portion of the meeting believed there is a chance for a 50bps decline in rates; however, the expectation for this to happen is less than 10%. The general consensus is that we have seen the bottom of the interest rate cycle and that the first upward movement in rates will only occur in the 4th quarter of 2010. The weighted view for the currency is to end 2009 at R7.50/$; 2010 at R8.10/$ and R8.60/$ at the end of 2011. The risk of further Dollar weakness and the positive sentiment around the world cup in the first half of 2010 could see the Rand remain strong or even strengthen over the short term.

The week ahead on the economic front is set to be full of key data being released and the general market consensus seems to be quite positive. The most significant data being released is the US retail sales and inflation; SA retail sales, and the Bank of Japan interest rate announcement and the South African Reserve Bank interest rate announcement.

Global

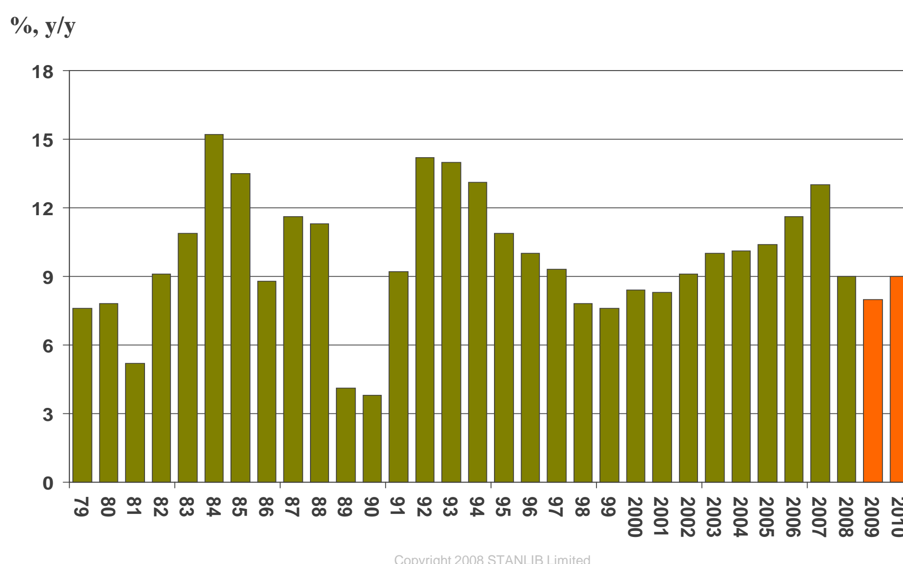
- **Euro area GDP was up by 0.4%q/q in Q3 2009 (1.6%q/q, seasonally adjusted annualised)**, the market was expecting an increase of 0.5%q/q. Compared with the same quarter of the previous year, GDP decreased by 4.1%, after -4.8% in the previous quarter.
- Although the Euro-area 5 quarter recession effectively ended in mid-2009, the early part of the rebound has been muted relative to other countries/regions .The data is a flash estimate, and is thus liable to revision.
- There is significant country diversity within the European region. For example, Spain contracted by 1.2%q/q, saar. By contrast, Germany grew 2.9%q/q, saar, and Austria by 3.6%q/q, saar (as did Portugal). This diversity extended to Emerging Europe, where, for example, Slovakia grow by 6.6%q/q, saar, and the Czech Republic by 3.2%q/q, saar, while Hungary contracted 7%q/q, saar. These extremes were even more evident in the Baltic's.

- It should also be noted that those countries that went down the hardest in Q4 2008 and Q1 2009 have come back the fastest in Q2 and Q3 this year.
- **Much of the bounce in growth looks to have come from net trade and government spending.** Regional consumption looks to have been about flat and capital spending weak. It is unclear what role inventories played, but probably had some influence.
- The global policy response to the credit/financial and economic crisis has been unprecedented. And it appears to be slowly working. However, much of the policy discussion over the coming 12 months is going to centre on the **appropriate policy exit strategies**, especially among the major economies. There are essentially **four policy strategies** that the major economies (G20) are going to have to gradually exit during the course of 2010.
- These are:
    - **Extremely low interest rates.** In many countries interest rates are at their lowest level ever recorded.
    - **A huge increase in liquidity by the major Central Banks**. It is estimated that since the credit crisis started, the major central banks have injected around $5 trillion in additional liquidity.
    - **Massive fiscal stimulus in the form of increased government expenditure and targeted tax incentives**. Public sector debt within the developed world is projected to rise to over 100% of GDP over the coming year.
    - **The 'Too Big to Fail' policy that has been applied to the large commercial and investment banks, especially in the US**. The G20 is going to have to find an appropriate policy that sends the message that the financial sector has to bear the cost of excessive risk taking and not the taxpayer.
- At the recent G20 meeting in the UK, the **IMF outlined a set of principles** that are meant to guide the policy exit strategies. The Principles are intended to establish common ground for the design and implementation of policies during the exit from the extraordinary support measures taken during the crisis. **The over-riding policy approach seems to be that the exit strategies should not be done prematurely (especially monetary policy), but that the speed and timing should be determined by the individual country dynamics.**

- **China released a barrage of key monthly economic data last week**. Overall, the data continues to reflect strong (credit fueled) growth in the domestic economy and further signs of recovery in exports. Imports fell during the month, but the Chinese authorities highlighted that the decline was seasonal.
- China's **industrial production** rose by 16.5%y/y in October, which was better than consensus. Car output was up 79%y/y and steel production rose 42%y/y.

- **China's retail sales** were up an impressive 16.2%y/y in October 2009. This was also better than expected and slightly above the most recent trend. Interestingly, the growth rate of new bank lending has slowed noticeably on a month on month basis since mid-2009. However, the annual growth rate of credit held steady at 34.2%y/y.
- Overall, China had a good October. The data continues to reflect very strong domestic demand in both consumption and investment spending. **The economy remains on-track to achieve 8% growth for 2009 as a whole, and is expected to accelerate to around 9.0% in 2010.** (see **Fig. 2** below)

Fig.2



South Africa

- In September 2009, SA manufacturing production rose by a substantial 3.1%m/m (seasonally adjusted), compared with a decrease of 2.8%m/m in August. The August reading was far better than market expectations for an increase of 0.8%m/m. SA manufacturing production is extremely volatile on a month-on-month basis, but the trend certainly appears to be improving.
- The rise in manufacturing output during September was relatively broad-based and included key industries such as food, motor vehicles, chemicals and iron and steel. Most of these sectors were particularly hard hit during the recession.
- On an annual basis, production is still down a very substantial 11.4%y/y, but looking at the 3-month rate of change, manufacturing activity appears to be moving through the worst of the recession, although the stability/improvement remains relatively fragile and confined to selected (key) industries rather than the entire manufacturing sector.

- During the three month period from July 2009 to September 2009 manufacturing activity rose by a healthy and encouraging 2.6%q/q (seasonally adjusted, but not annualised). This will certainly help with the Q3 2009 GDP estimate, which is expected to record an increase after three consecutive quarters of decline.
- Overall, given recent signs of improvement in the local PMI readings, we expect manufacturing activity levels to continue to recover in the coming 3 to 6 months; although the path to that recovery is likely to be fairly volatile.

Kevin Lings and Melissa Dyer (née Rankin)
(STANLIB Economics and Group Advisory Services)

Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 13/11/09	Weekly Move (%)	YTD (%)
	Indices		
*MSCI World – US Dollar	1158.26	2.30	25.87
*MSCI World – Rand	8630.83	0.40	-0.77
*MSCI Emerging Market – US Dollar	962.51	2.79	69.74
*MSCI Emerging Market – Rand	7172.21	0.88	33.82
All Share Index – US Dollar	3607.46	4.88	59.75
All Share Index – Rand	26695.24	2.94	24.11
All Bond Index	295.92	-0.61	-2.03
Listed Property J253	662.24	0.91	12.56
	Currencies		
US Dollar/Rand	7.40	-1.86	-21.86
Euro/Rand	11.06	-1.47	-16.18
Sterling/Rand	12.34	-1.15	-11.19
Euro/US Dollar	1.49	0.21	7.06
	Commodities		
Oil Brent Crude Spot Price ($/bl)	75.26	-0.38	99.84
Gold Price $/oz	1119.10	2.18	27.19
Platinum Price S/oz	1392	3.69	50.16

Source: I-Net Bridge

* MSCI - Morgan Stanley Capital International

Rates

The following yields are calculated using an annualised seven-day rolling average as per the unit trust industry standard. These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

Standard Bank Money Market Fund

Nominal: 7.35% per annum

Effective: 7.61% per annum

A constant unit price will be maintained. Past performance is not necessarily a guide to future performance. A schedule of fees and charges and maximum commission is available on request from the Manager. Commission and incentives may be paid and if so, are included in the overall costs. The yield is calculated using an annualised seven-day rolling average as at 15 November 2009.

STANLIB Cash Plus Fund

Effective Yield: 7.55%

This is a current yield as at 13 November 2009.

STANLIB Dividend Income Fund

Effective Yield: 5.52%

This is a current yield as at 13 November 2009.

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

As neither STANLIB Asset Management Limited nor its representatives did a full needs analysis in respect of a particular investor, the investor understands that there may be limitations on the appropriateness of any information in this document with regard to the investor's unique objectives, financial situation and particular needs. The information and content of this document are intended to be for information purposes only and STANLIB does not guarantee the suitability or potential value of any information contained herein. STANLIB Asset Management Limited does not expressly or by implication propose that the products or services offered in this document are appropriate to the particular investment objectives or needs of any existing or prospective client. Potential investors are advised to seek independent advice from an authorized financial adviser in this regard. STANLIB Asset Management Limited is an authorised Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act 37 of 2002 (Licence No. 26/10/719)

In terms of the Association for Saving & Investment South Africa (ASISA) Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, 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 15 November 2009. 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.

In terms of the ASISA Code of Practice for Advertising of Collective Investment Schemes in Securities and ASISA Standard Pricing and Valuation, STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. 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.

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. Different classes of units apply to this portfolio and are subject to different fees and charges. 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. This portfolio may be closed. 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. This portfolio is valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. The Manager is a member of the ASISA.