Market Commentary

22 August 2007

Circulated to all Antler investment clients

Global equity investors have experienced something of a nightmare over recent weeks as Global Markets have reminded us just how volatile they can be. This volatility is a further reminder of how freely market sentiment, and the capital driven by it, can affect global markets.

The main driver of this recent consolidation appears to be concerns around the effect of debt default by American homeowners on financial institutions (Credit Providers). What is termed “sub-prime” in global markets does not refer to interest rates, but rather to irresponsible lending practices.

The extended result of this concern is that the shares of financial companies throughout the developed world have been the subject of “panic-selling” – Largely due to uncertainty as to how much exposure these companies have to the “crisis” in the US housing market. "Investors don't know which banks have got exposure (to the credit problems) and the extent to those potential losses," - Henk Potts of Barclays Stockbrokers

We, on the southern tip of Africa, are often left wondering how this is relevant to us.

The short answer to this is that the global nature of money, as mentioned above, leads to fast and efficient flows of capital across borders and markets. Often, developing markets such as South Africa are the subject of disproportionate outflows as the developed market “runs for safety” – Conversely, developing markets are often subject to disproportionate inflows when the Bulls reign.

Regardless of the many positives in the local economy, South Africa will not be able to side-step the uncertainty in global markets as revealed in recent stock market activities. The knock-on effect of problems in the US will be felt around the globe.

My personal opinion on recent events is that they will be short-lived. My reasoning for this is that US political and monetary policy will ensure that there is sufficient liquidity available in the US financial system to ensure financial institutions will not have to “close their doors”.

So what now?

We have become used to incredible returns from our equity holdings over the past few years - it is widely agreed that this will not continue. I recently attended a function hosted by Allan Gray where the overwhelming tone of their presentation was that we as South Africans need to amend our expectations of the local equity market.

Plenty of economic jargon has been utilised, but the consensus between the likes of Glacier, Coronation, Allan Gray, Investec and STANLIB is that the JSE has over the past 4 years streaked ahead of local and global historical averages. The positive of this is that we have all seen good growth, with the negative being that an average is generally reverted to over time (reversion to the mean). This correction does not necessarily spell disaster for investors, but in all likelihood means that we should expect annual returns significantly below the 40 odd% to which we have become accustomed.

Wood from trees?

When inspecting your investment statement, it is critical to retain the view that this is a long-term investment – As such, some volatility is to be expected in the quest for long-term growth. Di Turpin, CEO of the Association for Collective Investments says: "Historically equities have shown the best performance of any market sector. Local investors need to invest in line with their goals and be less concerned with short-term market cycles." In other words, don't panic about the day to day changes in stock prices.

To assist you with understanding this, I have attached a few graphs of JSE performance over various periods. My hope is that you will see the impact that time has on smoothing out these “shocks”:

As can be seen from these graphs of the All-Share Index over 3 months; 1 year; 3 years and 5 years respectively – the JSE reached an all time high in mid-July.

The last time a shock/correction of this magnitude was experienced was in Feb/March 2006 as circled. Had investors sold out of the market at this time, it is very unlikely they would have bought in again in time for the steep recovery that was experienced shortly thereafter.

It is also evident from these graphs that what looked like a disaster in the markets at that time has been reduced to a “squiggle on a graph” by the growth that has followed.

My advice is to remain invested through these turbulent times, as it is my opinion that the market fundamentals remain strong in SA’s approach to 2010. The fund managers with whom your money is invested remain among the top managers in the country, and they have already proven themselves with their unit prices showing significantly less volatility than the market as a whole.

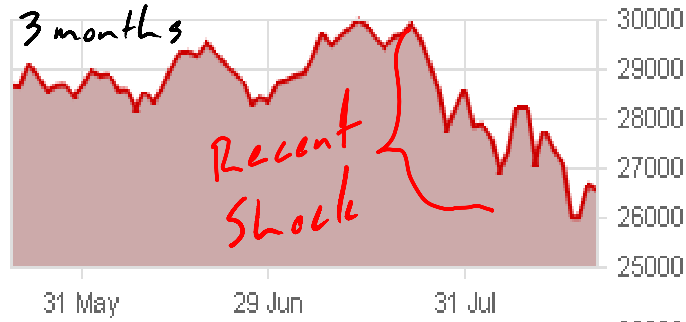
Should you not agree with my advice above, there are numerous alternatives to reduce both risk and volatility in your investment. These risk reduction strategies could, however, affect the future performance potential of your portfolio.

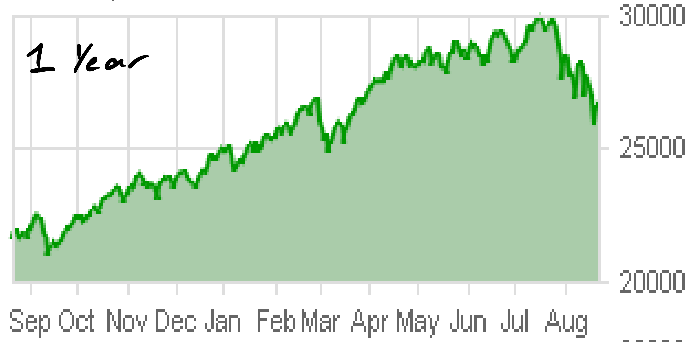
Please feel free to contact my office should you want to discuss/review your investment holdings.

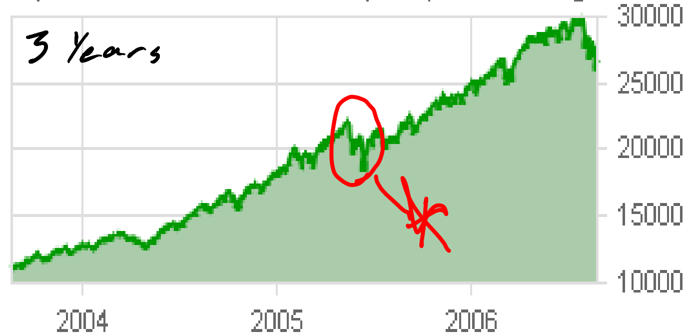
Markets aside, please remember to keep us informed of changes in your contact details, and let us know if we or our select associates can be of service to you at any time in reviewing:

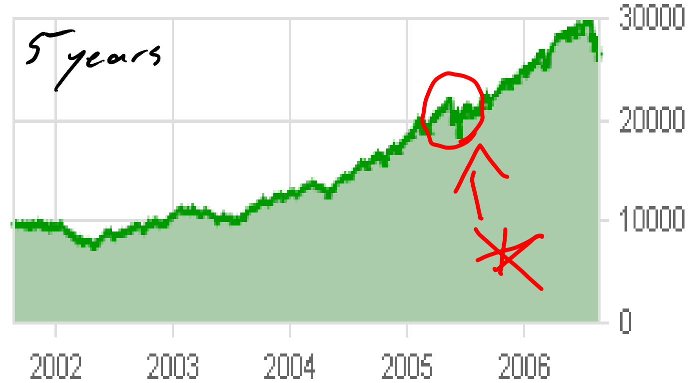
- Your risk portfolio (Life insurance; disability cover; dread disease cover).
- Further investment and retirement planning needs.
- Fiduciary services (Wills and trusts)
- Tax affairs and returns
- Short term insurance needs

I thank you again for your loyal support, and ask again that you please contact me with any concerns now and into the future.









Kind Regards,

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