

Market Commentary – May 2008



Circulated to Antler investment clients

Turbulent times continue... This was the opening phrase of my last newsletter, and it appears little has changed. The All-Share Index reached an all new high in the middle of April on the back of the stellar performance of resource shares in South Africa. This may appear to be a fantastic recovery, but is largely misleading. The overall index remains 'propped up' by foreign valuation of a very limited basket of shares. The recent fall of the Rand against major currencies has ensured these few resources companies' shares (whose revenues are Rand hedged) have grown largely due to Rand devaluation and global resource demand.

You will have seen on your recent statements that the recent market growth has not been fully reflected in your portfolio. The main reason for this is that the general equity managers in the Antler portfolios have taken a more defensive view around resources as they are more volatile than the market as a whole. The expected slowdown of global growth is also likely to result in some pressure on resource prices in the medium term.

Economics 101

Why are SA resource prices so heavily influenced by exchange rate movements and expectations of global growth?

Resources are homogenous – coal, steel, gold, copper etc. are graded by international standards. This means that A-Grade steel purchased in SA is (in theory) identical to A-Grade steel purchased in West Kublakustan. Prices have risen well above the point where international bulk transport costs are prohibitive to profitable international trade. As such, South African companies are able to price their produce at international prices as the current demand ensures that whatever produce they can't sell in SA will be exported.

The USD has been the ruling currency in global trade, and is likely to remain so for the medium term.

The point

If the Rand falls by 10% against the US Dollar, one can expect that the sales prices of commodity products will rise by approximately 10% in Rand terms. In the shorter term, this will lead to an increase in Rand profits of the company selling the products by approximately 10%. I believe in the fund managers I utilise, and have faith that they will remain loyal to their long-term value approach to investing – they will underperform the market at times, but will continue to show their worth and ability over time.

Why are there two logos at the top of this letter?

Things have changed at Antler – We have recently moved into new premises, which we share with Richton. Please take note of our new contact details below. Richton and Antler have entered into a formal association agreement that we believe will lead to enhanced sharing of ideas and resources - leading to improved performance, compliance and client service within both businesses.

Richton Employee Benefit Consultants is a significantly larger business than Antler, and has been in business for over 20 years. Richton is led by motivated, experienced and qualified people, and I believe Antler will benefit greatly from this association.

Thanks to our new association with Richton, we are also collectively available to independently review employers' group arrangements as regards both retirement and risk - Should you have any queries in this regard please feel free to contact our offices.

Further information on Richton is available at www.richton-ebc.com

Why have Financial Stocks remained so weak?

Sub-Prime issues remain at the forefront in this sector, with bad news still arriving on at least a weekly basis. Interest rate increases have raised fears of loan defaults becoming more prevalent in the local market. The apparent consensus is that these stocks have fallen too far, resulting in bargains becoming available in this sector. As such, many value managers have been beefing up their holdings in expectation of the recovery that must follow.

Why have my Listed Property holdings taken such a dive recently?

The increase in interest rates, political risk and the Eskom situation have all led to reduced confidence in this sector. Foreign investors have sold out *en-masse* as they repatriate their funds in a 'flight for safety' from developing markets. Property is included in the portfolios as an income generating asset, and we expect yields (Income) to be significantly enhanced by the expected shortage of supply of new property caused by Eskom's moratorium on new development. The increased inflation in SA, combined with high interest rates, will result in improved rentals on new leases, and larger annual escalations on existing leases. In short, we expect this devaluation to be short-lived.

What is expected from Industrials?

The Eskom crisis has resulted in many industries grinding to a standstill 3 times a week. This is clearly not an ideal situation for productivity, but those companies that are able to best adapt to this environment will succeed. The added impact of increasing fuel and electricity prices will force companies to improve efficiencies in order to remain profitable in what are undoubtedly tough times.

Summary

The SA market is suffering from a combination of nervousness and lack of direction. This is an environment in which some Growth-focused managers have managed to make profits by riding market trends, and Value-focused managers have suffered due to their commitment to only buying and holding underpriced assets. We as investors need to be constantly reminded that investing is a marathon and not a sprint.

		1 January 08	6 May 08	Year to date
SA MARKETS				(%)
All Share	J203	28958	31929	10.26
Price/Earnings Ratio	J203 [PE]	14.7	16.0	8.89
Dividend Yield (%)	J203 [DY]	2.5	2.5	-2.38
Financials	J580	22654	19345	-14.60
Industrials	J520	29824	27110	-9.10
Resources	J258	30448	39493	29.71
Listed Property	J253	354	287	-19.03
Gold Mining Index	J150	2309	2413	4.48
Platinum Index	J153	99	132	33.14
EXCHANGE RATES				
R/\$	USDZAR	6.81	7.51	10.22
R/€	EURZAR	9.97	11.63	16.71
R/£	GBPZAR	13.64	14.77	8.27
GLOBAL MARKETS				
Dow Jones Industrial Index	DJINDI	13265	13021	-1.84
US S&P 500 Index	FSPI	1468	1418	-3.41
UK FTSE 100 Index	FT100	6457	6215	-3.74
French CAC 40 Index	FCAC40	5614	5041	-10.21
Hang Seng Index	FHON	27813	26184	-5.86
German DAX Index	DAXXIN	8067	7017	-13.02
Japanese Nikkei 225 Index	FJNK	15654	14049	-10.25
US Nasdaq Index	NASDAQ	2652	2483	-6.37
MSCI (\$)	MORGAN	1589	1537	-3.24

You will notice that this communication does not include an investment statement. This is not an oversight as I have come to the conclusion that getting news out while it is 'hot' is preferable to stale news. As such, to be able to send a group communiqué without confidential client information will mean that these communications can be more frequent and current. Quarterly statements are sent out by the investment administrators, so please let us know if you have not been receiving these. Should you want your latest statement at any time, we are only a phone call or an email away.

As can be seen from these graphs of the All-Share Index – the JSE has grown dramatically over 3 months (Approx. 28%).

Over 1 year you will see that, as a long-term investor, the paragraph above is hardly inspiring as the recent growth is purely a recovery of losses suffered immediately before (Nov 2007 – Feb 2008). Once again, had you 'run for the hills' as a result of these losses, you would have been sitting on the sidelines through this recent recovery.

The news reports and expectations around global market performance remain bearish, so I suggest we all keep our seatbelts fastened and keep an eye on the long-term goal rather than focusing on today.

If you are concerned that your long term goals may have changed, or you would like reassurance that we understand your investment objectives correctly, please let us know.

If you have any neglected old-style life policies or investments that you would like reviewed and possibly overhauled, please let us know.

As usual, please feel free to contact my office should you want to discuss/review any aspect of your investment holdings.

Once again, please remember us for the following services:

- 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

Please find attached a revised Statutory Disclosure form as required by FAIS. This has been updated with our revised contact details.

I have also attached a feedback sheet that will hopefully highlight any weaknesses in Antler. I ask that you please take some time to complete and fax/email it back to me. There is no better way to improve our service than by listening to our clients!

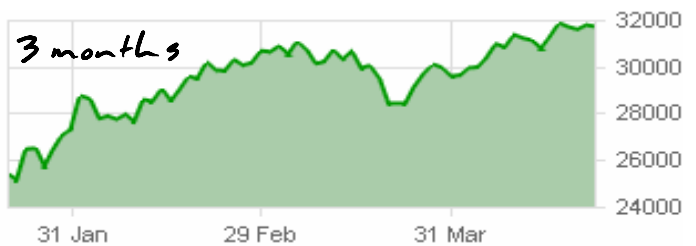
If you are happy with our service, please keep us in mind when discussing financial affairs with family, friends and colleagues – all referrals are acted on immediately, and will be dealt with to the best of our ability.

Until next time.

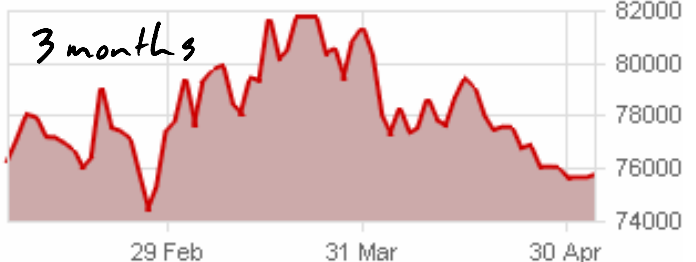
Kind Regards,



All Share Index



Rand Dollar Exchange Rate



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