

Market Commentary – Late June 2008

Circulated to Antler investment clients



The fuel price is likely to increase by yet another 80c/l in July. Tito raised rates by a further 0.5% in June. "For sale" signs litter our pavements. Mugabe continues unrestrained with global apathy preventing any form of meaningful intervention. Inflation has now gone above 11%, and appears unlikely to peak below 13%-14%. New cars are piling up in showrooms as all of the above erodes both our will to spend and our ability to do so.

Please expect a drop in the capital value on your investment statements dated 1 July 2008 that should be reaching you in mid-July – the impact will be worst on those with Living Annuities who have not only been impacted by falling markets, but this impact is being compounded by regular withdrawals/income payments. My advice remains predictable – **Hold on!**

	1 Jan	24 Jun	Year to date (%)
SA MARKETS			
All Share	28958	30223	4.37
Price/Earnings Ratio	14.7	15.3	3.95
Dividend Yield (%)	2.5	2.6	1.59
Financials	22654	16365	-27.76
Industrials	29824	24667	-17.29
Resources	30448	39680	30.32
Listed Property	354	243	-31.26
Gold Mining Index	2309	2124	-8.01
Platinum Index	99	127	28.50
EXCHANGE RATES			
R/\$	6.81	8.01	17.55
R/€	9.97	12.48	25.18
R/£	13.64	15.78	15.64
GLOBAL MARKETS			
Dow Jones Industrial Index	13265	11807	-10.99
US S&P 500 Index	1468	1314	-10.49
UK FTSE 100 Index	6457	5635	-12.73
French CAC 40 Index	5614	4474	-20.31
Hang Seng Index	27813	22715	-18.33
German DAX Index	8067	6536	-18.98
Japanese Nikkei 225 Index	15654	13857	-11.47
US Nasdaq Index	2652	2368	-10.71
MSCI (\$)	1589	1421	-10.56

We are all driven to some extent by a combination of fear and greed – fear is the currently overriding factor for all of us. The bad news surrounding us leads to us wanting to make emotional decisions in all aspects of our lives, but our finances should not be one of them.

Economics 101

Why is the SA Current Account Deficit important?

South Africa's Current account is essentially our collective cash-flow statement. Like any individual or enterprise, there are incomes and expenses – should the expenses exceed the income, the result is a reduction in capital or an increase in debt. SA is currently running the largest current account deficit in 23 years at 9.3% of GDP – this means that SA as a country is spending (Importing) significantly more than it is earning (exporting).

The point

Rands must be sold in order to buy the foreign currency needed to fund the purchase of these imports. Conversely, foreigners need Rands in order to fund the purchase of SA exports. As SA is currently importing significantly more than it is exporting, the supply of

Rands exceeds the demand for those Rands. Like anything else, this leads to a fall in the value of the Rand as those needing foreign currency are forced to offer their Rands at a discount in order to entice a purchaser to buy them.

What do interest rates have to do with all of this?

Current SA interest rates have ensured a market for these 'surplus Rands' – as a foreign investor considering both exchange rate risk and geopolitical risk in South Africa compared to their own country, our Repo Rate of 12% appears to be only just sufficient to retain current investment levels. Based on international 'risk ratings'

of SA, our interest rates are not high enough to attract the foreign capital inflows needed to cover the current account deficit.

What do inflation rates have to do with all of this?

If inflation in the UK is sitting at 4.5%, while SA inflation has reached 11%, we can expect the ZAR to depreciate against the GBP by an average of 6.5% (11% - 4.5%) per year excluding any other influences. This is based on the premise that international Purchasing Power Parity (PPP) fluctuates in the short-term, but is always maintained over the long-term. PPP is achieved when the same amount of money (£1.00 or R15.78 by current exchange rates) can be used to buy the same goods in either country.

So What?

In my opinion, there is a strong case to be made for increasing the offshore equity exposure within your investments. Please note that this is not a 'knee jerk' reaction to recent movements - the Rand could very well recover significantly from current levels. If you look at the table above you will see that many of the world's most developed markets have been among the hardest hit - this signals a buying opportunity to me.

How do I do it?

Within retirement portfolios (Retirement Annuities and Preservation funds) you are limited to a 20% offshore holding. Within Living Annuities and voluntary investments, you are able to hold unlimited Rand-denominated offshore funds, and up to R2 million per individual in direct offshore funds. Direct Offshore investments require Reserve Bank and SARS clearance, Rand-denominated offshore funds do not.

It is a simple process to re-work your fund holdings to increase the offshore component of existing investments. New investments are slightly more complicated, but nonetheless nowhere near as complicated as many would expect.

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/Your company group 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

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,



JSE All-Share Index



Rand Dollar Exchange Rate



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