BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

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A YEAR OF DANGEROUS FORECASTING

By Magnus Heystek—Investment Strategist

"Forecasting is difficult, especially about the future," the satirist Mark Twaine once remarked. He might as well have been referring to the outlook for investment markets at the beginning of the year 2008.

A year later and investors have just completed the most unpredictable, volatile, hair-raising white-knuckle ride they will ever have experienced.

A year ago there was very little warning of what was to come. Most forecasts were still reasonably optimistic and even though the sub-prime mortgage problems in the US were attracting a lot of attention and comment, was it generally thought that the problem was contained to the US and under control.

Even Ben Bernanke, president of the US Federal Reserve, was fairly sanguine about the outlook for markets. How wrong consensus was. The sub-prime mortgage problems were quickly exposed as being highly toxic, spreading like a cancerous growth to all corners of the financial world.

Against this backdrop investment markets experienced their worst returns since 1929 in some cases (the Dow Jones Industrial Index) and the worst ever (the S & P 500 and other indices). With the exception of cash, physical gold and US Treasuries, were all other investment classes affected by these developments.

While it's true that the JSE's 23% decline was the worst on record since 1970, does this fact not mean that the average client of Brenthurst Wealth suffered a similar decline.

The sharp decline in values over last year were primarily driven by huge losses in the resources sector, which makes up more than 70% of shares on the market.

In fact, several newsletters last year warned of the possibility of a sharp downturn in resources and as result our clients had little exposure to that sector of the market.

We also, correctly, warned of a further weakening in the rand exchange rate. Those investors who followed this advice managed to reduce their rand-losses substantially and in some cases managed to turn in a profit.

A well-diversified balanced portfolio consisting of 15% cash, 55% equities and with a 30% offshore exposure, would have delivered acceptable returns to any long-term investor with a reasonable tolerance to risk.

On average our portfolios were down between 8 and 15% over the year which rewarded our very conservative approach to investing.
This contrasts to the general view that financial markets have collapsed into a heap, leaving a generation of investors penniless and broke.

This is a view anyone would formulate following the media which has tended to focus on the worst-case scenarios and also by following the performance of the various popular indices.

The media are not investment advisors and have a different agenda: theirs is to focus on the negative, the emotional and the destructive. Their job is to attract eyeballs and ears. Many commentators have criticized the media for adding to the negative climate and absolute negativity that has gripped consumers and investors alike.

While still losing money in all local asset classes, excepting bonds and cash were the declines nowhere near the horrendous losses experienced by equity investors ranging from the 48% decline in the S&P500 to losses of more than 70% in the Chinese and Russian stock markets.(See table)

KEY INDICATORS IN A NUTSHELL – WEDNESDAY 7 JANUARY,09

Key indicators	Last price	1 Day	1 Month	1 Quarter	Year to date	1 Year
JSE All Share	**22718.97**	-0.88%	10.05%	6.90%	5.62%	-20.68%
S&P 500	**906.65**	-3.00%	-0.34%	-0.36%	0.38%	-35.98%
Nikkei	**9239.24**	1.74%	10.93%	0.89%	4.29%	-36.28%
Rand/US $	**9.62**	-2.85%	5.13%	-2.97%	-0.96%	-28.10%
Rand/GB Pound	**14.58**	-4.36%	3.25%	9.38%	-5.84%	-6.31%
US$/Euro	**1.37**	-1.10%	-5.29%	-0.46%	2.48%	7.55%
Gold $/oz.	**843.9**	-2.33%	9.19%	-7.48%	-4.09%	-1.63%

MARKET TIMING IMPOSSIBLE

The world's financial markets, already shaken by the widening impact of the sub-prime mortgage crisis, virtually imploded in September 2008, following on the bankruptcy of Lehman Bros. on the 15th of September 2008.

This was an event that literally shocked the banking system of the world making banks, as one commentator put it "catatonic with fear' about third party risk. As a previous newsletter pointed out, inter-bank lending came to a standstill, with the Libor-rate (London inter bank overnight rate) rocketing to above 8%, effectively closing down this market. This market has since cooled down substantially and the US$ Libor-rate for overnight lending is down to 3,6%.

The lack of global credit led to massive redemptions by companies, institutional investors and smaller investors alike and pushed markets down to ridiculous levels. Many hedge funds stopped redemptions, sometimes without warning, drawing much criticism from financial commentators and advisors alike.

One such fund used by Brenthurst Wealth in its offshore portfolios, the Glanmore Property Fund, has imposed a twelve-month's notice period on any redemption of funds. We will most certainly not be using this fund again in future once we have moved all our clients' money out of this fund.

September, October and most of November last year were three of the most horrendous months in investment markets that this commentator has ever experienced. Someone asked if it was worse than the 1987 Black Monday stock market crash that I experienced first-hand as the financial editor of The Star Newspaper, and my answer was an unequivocal Yes.

Black Monday 19th October 1987 was an out-of -the- blue -event which saw the Dow Jones Industrial Index drop 22% one day, and a further 20% in the weeks thereafter. It was brutal but it was quick.
More to the point: markets recovered swiftly thereafter and doubled in the following year!

The drop in Wall Street had little impact on economic activity and barely dented economic output.

This time around the 2008 Credit Crunch is like a giant anaconda getting hold of all markets and all asset classes, squeezing the air out of its prey slowly but surely, over many months.

Is the worst over? Can we look ahead to a better 2009 with hopefully a continuation of the recovery in markets which started on 20th November 2008?

Amid the coverage of the global turmoil, Xmas-holidays, the cricket tour to Australia and other events, would it have been relatively easy to miss the very welcome and, in some cases, substantial recovery in local and global investment funds.
In the period September to November our biggest task here at Brenthurst Wealth was to convince investors not to panic and withdraw their funds. This would have (a) locked in their losses and (b) ensured that they missed out on the subsequent up-turn.

With the exception of one or two investors are we very pleased to report that our clients took our advice and stuck to their long-term investment strategies.

Is the worst over? Nobody knows for certain and judging by the hordes of opinions and blogs on the internet is their currently a massive divergence in the views of even respected economists and financial analysts on this issue.

Forecasts range from total gloom and doom and a long-drawn out global recession /depression (Marc Faber, Jim Cramer, Jim Rogers and Nouriel Roubini to name just a view) to far more balanced and unemotional view points of Warren Buffet, Jeremy Grantham, John Biccard and others).

Warren Buffet, as was widely reported in the media towards the end of last year, was a substantial buyer of significant stakes in some of the world's largest companies during the market turmoil.

Buffet is well-known for his long-term and often contrarian viewpoint, believing, as does several other shrewd investment managers, that **"bad news is an investor's best friend".**

He made several headline grabbing and substantial investments in October, as all and sundry were heading for the exits.
So far Buffet's timing seeming to have been spot-on and the S&P 500 index, the index of the 500 largest companies on Wall Street, has increased by almost 20% since mid-November 2008.

WHEN THE BAD ECONOMIC NEWS DOMINATES THE OFFERING OF NEWSPAPERS, MAGAZINES, TELEVISION CHANNEL AND INTERNET SITES, SHREWD INVESTORS OFTEN MAKE THEIR BEST LONG-TERM INVESTMENTS.

We've had bad news by the bucket load in recent times and its not stopping anytime soon. Hardly a day goes by without more depressing economic news coming from all corners of the globe: car sales in the US down 40% in December, 1 600 retailers in the UK closing down, unemployment soaring in Spain and Ireland, Chinese manufacturing down, Argentina defaulting on its foreign debt, etc, etc.

If bad news was the only leading indicator then now could be the investment opportunity of a lifetime……

THE BRENTHURST WEALTH VIEWPOINT: HONESTY IN INVESTMENTS

Long-term wealth creation does not come without some form of risk. Also, long-term wealth creation requires discipline and the ability to suffer short-term risks at times.
We have never tried to sugar coat this pill or denied the existence of short term risk or volatility.

The alternative would be money in the bank which, after taxes and inflation, is a terrible long-term investment.
I know of no one who increased his or her wealth over time by keeping it in the bank.

The long-term out- performance of equities, bonds and property over cash is well documented.

Our function is to create and manage the appropriate investment strategy for your particular risk profile and tolerance to risk.
This is often a very subjective and intuitive function and one that needs continuous adjustment and fine-tuning.

In fact, in stead of trying to forecast the "unkown unknowns", which is very difficult if not impossible, our biggest function is to deal with the "known knowns".
What can we know and measure?
Here are a few, for example.

1. Investment objectives.
2. Available capital.
3. Sources of future capital.
4. Income required (for those planning retirement or already in retirement).
5. Tolerance to risk.
6. Current financial situation.
7. Invest time horizon.

It serves no purpose, in our view, trying to forecast what the myriad of investment markets and the countless variables might or might not do over the next 3, 6 or even 12 months.

The role of our investment planners is to truly know and understand each and every one of our clients allocated to them. This is the only certainty we have to deal with.

All our clients are allocated to dedicated and highly qualified investment advisors, all of whom who have now passed the very difficult Certified Financial Planning (CFP) examination.

They are, once again:

- **Brian Butchart : CFP—Head of Investment Planning.**
- **Johan Burger: BCom (Hons), CFP, Certificate in Wealth Management.**
- **Renee Eager: CFP**
- **Michelle Burger : BCom, CFP, Certificate in Wealth Management.**

ECONOMIC OUTLOOK

Having said that are we of the opinion that current values globally and locally are compelling, provided that the world does not collapse into a deflationary spiral. Such an environment would require a different investment strategy and it is our responsibility to alert our clients to any such development.

Key to the global outlook is what happens in the US economy and how soon it reacts to the massive stimulation by the US Federal Reserve and US Treasury. So far the total bailout amounts to a staggering $4 trillion!

There is no doubt that the global economy is in trouble, but will it fall into a deflationary spiral such as Japan since 1990?

Kenneth Rogoff, professor in economics at Harvard University and former chief economist at the IMF thinks not.
Writing earlier this month he had the following to say:
"But, just as optimists were too sanguine in the boom ultra-pessimists probably go to far in forecasting a depression around the corner. This year will be tough. Yet, absent a large scale conflagration there is a fair chance that 2010 will see a restoration of weak growth in the US, Europe and Japan, and probably robust growth in emerging market.
The US economy might have lost fair chunk of its mojo but it will require a lot more bad luck and policy blunders to get to a second worldwide Great Depression."*
Mojo? Drive, stamina, sexual energy (Webster's English Concise Dictionary).

IN CLOSING, WE WOULD LIKE TO WISH ALL OUR CLIENTS AT **BRENTHURST WEALTH** EVERYTHING OF THE BEST FOR THE NEW YEAR.

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