BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

BRENTHURST
THE HOME OF WEALTH

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MARCH 2010 • ISSUE 89

GROW RICH WITH PROPERTY

By Magnus Heystek –Investment Strategist

As investment advisors we spend a considerable amount of time and energy investigating the whole array of investment products available to South African investors.

These investments are considered from many perspectives, including suitability, risk, regulatory oversight, potential for capital gains and liquidity, just to name a view.

Several by-now infamous investments have been offered for consideration to Brenthurst Wealth over the last number of years, including the Madoff ponzi-scheme, Fidentia, Moneyskills as well as Ovation.

It is now well-known that all of these investment schemes have come crashing down, in the process costing investors billions of rands in losses.

In this issue

In some instances, like the Madoff-scheme, family fortunes were wiped out overnight as the extent of the fraud became known.

These investments were, for obvious reasons, not offered to our clients, and therefore our clients will not as a rule be aware of this function we conduct on their behalf.

In terms of the Financial Advisory and Intermediary Act of 2004, generally known as the Fais-act, investment advisors can be held liable for the losses of their clients in such unregulated investment schemes.

It is against that background that this newsletters wishes to deal with the issue of an investment in commercial property via property syndications.

Despite seven property syndications crashing last year, losing investors in excess of R1 billion, we are still often asked our views on property syndications by potential investors.
And our answer each time is: *do not touch with a barge-pole!*

And if that answer is not clear enough, read what Bruce Cameron, editor of Personal Finance and author of several investment books, including co-author with myself on “The Amazing and Scary Truth About Retirement,” recently had to say on property syndications:

> “Do not, and I repeat, do not invest in or through under-regulated companies that are not listed on a formal stock exchange or make investments that requires you to give loans to an unlisted entity”.
> Personal Finance, 15th Aug 09

Continued on page 2...

Global Markets
AND SA ECONOMY

retirement seminar: cape town

Date: Wednesday, 24 March 2010
Time: 15h45 for 16h00
Venue: Liberty Life, The Estuary, Century Boulevard
Century City, STANLIB OFFICE
RSVP: CPT:+27 21 946 2095 or JHB:+27 11 799 8100

Continued…

Cameron was writing in response to three more property syndications - City Capital, Dividend Investments and King Financial Holdings - folding in quick succession last year. These three failed property syndications were only the most recent in a long line of problematic property syndications. This was followed by the collapse of Blue Zone Property earlier this year.

The probability that property syndications will fail increases when:

- The properties are sold on excessively high valuations.
- Are accompanied with excessive marketing costs.
- Excess commissions are paid and
- An economic downturn sees defaults on purchases & rentals.
- Interest rates are significantly higher than available elsewhere in the market place.

Yet, despite all these and other warnings about property syndications, investors continue to pour billions of rands into similar schemes, not fully understanding the risk they are taking with their money.

These schemes are extensively marketed using high-pressure sales techniques, extremely high commissions and very slick (and often misleading) advertising.

We feel that in the current investment climate more property syndications can fail, as rising vacancies, lower demand for rental space and higher operating costs erode investment returns.

It is also significant that very few of the larger and more reputable investment advisory firms offer property syndications to their clients. The sales force of property syndications largely tend to be one-man bands who have very little to lose should these investments fail.

They generally market these questionable and risky investments driven by the enormous commissions and other incentives paid by the promoters of these schemes.
It is not uncommon for intermediaries to be paid as much as 10% commission on the value of these investments.

We therefore do not recommend property syndication as a suitable investment for our clients, despite the consistent pressure from marketers of these products to offer them to our clients.

Unregulated property syndications also have the following drawbacks:

LACK OF LIQUIDITY

Unlike property unit trusts or listed property funds, is there very little liquidity should investors wish to sell all or part of their investments at short notice.
Normally another investor needs to be found to replace the investor who wishes to withdraw.

LACK OF PEER REVIEW

Listed property companies and property unit trusts are liquid and highly transparent investments. The performance and financial strength of these investments are analysed on an ongoing basis by a large number of analysts, investment advisors and even the financial press.

No such activity takes place on property syndications as they are unlisted and regulated.
Investors and even the advisors marketing these products do not have access to company financials.
This is a dangerous situation which often leads to serious malpractices and even fraud.

LACK OF DISCLOSURE

Property syndicators are notoriously loath to disclose any financial information concerning any of their products. When Moneyweb's Julius Cobbett recently tried to obtain some financial information on a Sharemax - development at The Fern, a shopping centre in the Dainfern - area of Gauteng and which is in obvious financial distress, he was unsuccessful. All he had was the assurance from a company spokesman that "all was well..."

All is not well as my family and I shop at what's left of this R44 million shopping centre. I only wonder if the investors in this scheme are aware of the risk to their investments.....

Our views on property syndications do not mean that we do not believe in the investment merits of commercial property.
Far from it as we have produced excellent returns for our clients by using listed property instruments on the JSE for many years.

There are plenty alternatives to property syndications and they include:

- **PROPERTY COMPANIES LISTED ON THE JSE.**
- **PROPERTY UNIT TRUSTS LISTED ON THE JSE.**
- **UNIT TRUST FUNDS (COLLECTIVE INVESTMENT SCHEMES THAT INVEST IN PROPERTY COMPANIES LISTED ON STOCK EXCHANGES).**
- **PARTICIPATION MORTGAGE BONDS WHICH ARE REGULATED IN TERMS OF THE COLLECTIVE INVESTMENT CONTROL ACT) AND...**
- **LIFE ASSURANCE COMPANY ENDOWMENT POLICIES THAT HAVE PROPERTY IN THEIR UNDERLYING INVESTMENT PORTFOLIOS, SUCH AS LIBERTY LIFE, FOR INSTANCE.**

We often have to dissuade gullible investors from investing in property syndications, instead offering cheaper, more transparent and liquid alternatives.

Furthermore, investment returns on property unit trusts for instance, are far superior to those property syndications that in the past have been successful. The big difference in returns can only be ascribed to the difference in marketing costs and commissions.

Much of the advertising around property syndications is not only very questionable but in some instances, misleading and downright lies. Property syndications are often marketed as a low-risk investment to pensioners. We stress once again:

investing in property via a property syndication is a high-risk investment with the potential for a catastrophic investment loss.

Another collapse of a major property syndication cannot be ruled out in the current economic climate. No asset class has been able to withstand the economic conditions of the last two years.

Commercial property has been particularly hard hit with vacancy levels countrywide still rising due to the economic slowdown. A drive on the N1 between Pretoria and Johannesburg clearly reveals many, many empty commercial buildings that were built on speculation during the boom times.

Not far from the head office of Brenthurst Wealth in Fourways, Johannesburg, is a whole retail complex built three year ago by City Capital that has never been occupied.

Many property syndications are also over-traded areas or areas that are experiencing urban decay.
Recently property syndicator PIC had to reduce the levels of interest payable to investors by as much as 40%, citing deteriorating economic conditions.

Even though not all property syndications will fail, do we not consider this route the appropriate route for investors. The risks are too high, the commissions unacceptable while the future returns, even with developments that succeed, likely to be much lower than other comparable property investments.

Recent press reports also indicates that the office property market is currently undergoing an fairly dramatic correction, with declines of up to 40% in rentals as the over-supply of office space pushes up vacancies.

Many investors fail to appreciate the risk of investing in one particular building or development. If that building is not fully let or the area starts deteriorating, for whatever reason, the investors will suffer declining incomes in the future. It is far better and less risky to invest in a pool of buildings in a liquid and listed format in order to reduce risk.

So on to our last word on property syndications…
"Don't, do not and we repeat do not invest in or through under-regulated companies that are not listed on a formal stock exchange or require you to give loans to an unlisted entity".

We cannot be more clear than this.

LISTED PROPERTY THE WAY TO GO

The optimum way for investors to obtain exposure to commercial property is via one of 16 registered property unit trusts. These funds offer daily pricing, instant liquidity and superlative returns over many years (see table of investment returns over the past five years).

Why would anyone invest in a property syndication, with all it's potential pitfalls, if it were not for the aggressive marketing and high commissions payable to so-called investment advisors.

Listed property funds have proven to be excellent generators of high income (only taxable in the hands of the investor) as well as inflation-beating capital growth.

Brenthurst Wealth have been using two funds in particular, the Stanlib Property Income Fund as well as the Investec Property Equity Fund for several years with great success.

We still recommend listed property as a cornerstone of our investment portfolios, an asset class that is once again attracting attention from overseas from yield-hungry investors.

Please contact any of our investment advisors for more information on property funds.

HOW PROPERTY FUNDS HAVE PERFORMED

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
Absa Property Equity Fund	4.66%	5.69%	18.79%	6.24%		
Catalyst SA Property Equity Fund A	4.58%	6.08%	24.45%	8.11%	21.09%	
Coronation Property Equity Fund A	4.83%	6.64%	24.85%	6.66%	17.68%	
Investec Property Equity Fund A	4.82%	5.74%	18.19%	7.97%	21.50%	
Investment Sol Property Equity Fund	4.77%	6.32%	23.85%	7.63%	20.55%	
Marriott Property Equity Fund R	2.02%	2.55%	11.10%	5.33%	12.88%	18.27%
Marriott Property Income Fund A	3.09%	3.36%	14.55%	3.53%	15.28%	20.09%
Metropolitan Property Income Port	4.73%	5.70%	21.83%	6.02%	18.21%	
N-e-FG Property Income Fund	4.09%	4.44%	19.25%	1.97%		
Oasis Property Equity Fund	2.06%	2.84%	25.38%	1.51%	15.38%	
Old Mutual SA Quoted Property Fund A	4.63%	6.39%	22.84%	6.41%	18.72%	
Prudential Enhanced SA Property	4.50%	6.24%	23.03%	7.79%		
STANLIB Property Income Fund A	4.54%	6.24%	24.52%	8.80%	20.95%	
ValuGro Property Fund	4.43%	5.81%	21.62%	5.76%		

CAPE TOWN: RETIREMENT SEMINAR, 24 March 2010

The issue of retirement and retirement planning is rapidly becoming one of the major generational issues of our time.

A demographic tidal wave of people is heading towards retirement with very little or dangerous knowledge of investments, investment markets, tax and other issues that will confront retirees during retirement.

At Brenthurst Wealth we believe that well-educated investors make for better investors, thereby vastly increasing their investment success and personal happiness during retirement.

Following on the success of our recent retirement planning seminars in Johannesburg and Pretoria we now offer a RETIREMENT SEMINAR in CAPE TOWN, 24th of March. The venue is the Liberty Life-building in Century City and it starts at 16h00.

SEMINAR WILL FOCUS ON:

- ECONOMIC OUTLOOK FOR FINANCIAL MARKETS
- CONSTRUCTING A DIVERSIFIED PORTFOLIO TO PRESERVE & GROW "REAL WEALTH"
- DIFFERENT ASSET ALLOCATION STRATEGIES FOR DIFFERENT NEEDS
- CASH FLOW FORECASTING
- GENERATING A TAX EFFICIENT INCOME IN RETIREMENT
- GOLDEN RULES OF INVESTMENTS

Speakers at the two-hour seminar will include:

KEVIN LINGS: Chief Economist , Stanlib

MAGNUS HEYSTEK: Investment Strategist

JOHAN BURGER: Senior Financial Planner, Brenthurst

DATE: WEDNESDAY, 24 MARCH 2010
TIME: 15H30 FOR 16H00
VENUE: LIBERTY LIFE, THE ESTUARY, CENTURY BOULEVARD, CENTURY CITY (STANLIB OFFICE) CAPE TOWN
RSVP: CPT: +27 21 946 2095 email lesyl@brenthurstwealth.co.za OR
JHB: +27 11 799 8100 email reception@brenthurstwealth.co.za

Booking is essential for these seminars to secure seating .

UPDATES... CAPE TOWN OFFICE

Appointment:

We are also very pleased to announce that we have appointed Ms. Lesyl Potgieter to head our CapeTown Office.

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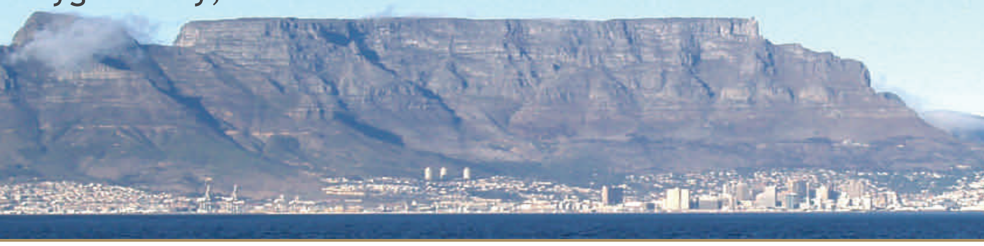

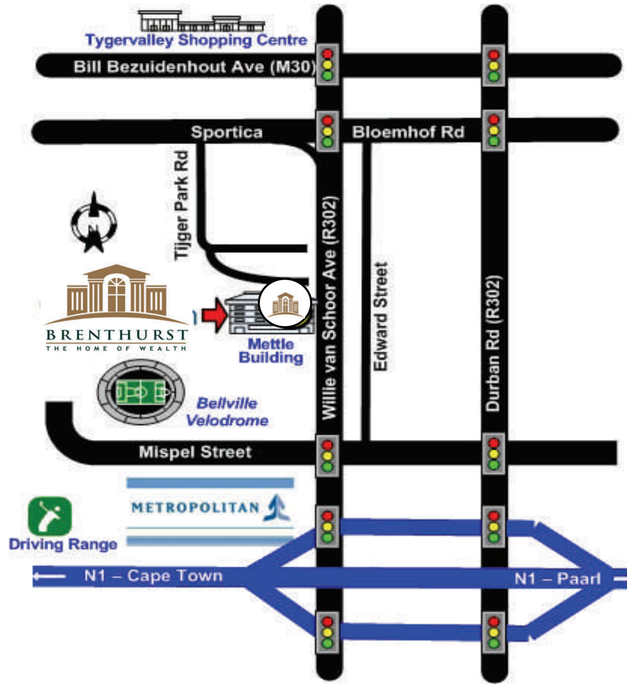

LESYL POTGIETER obtained a B.Compt degree & CTA from UNISA in 1997 and qualified as a Chartered Accountant CA(SA) in 2000.

She completed her post-graduate diploma in financial planning (PDFP) in 2009, and has joined Brenthurst in 2010 to head-up the CPT office. Lesyl has been in financial management for over 8 years in various business finance roles in SA at Investec, BP, Santam, SAB, Stanlib & Ster Kinekor. She has also worked overseas-on-contract at JP Morgan (London) and at The Walt Disney Co. (LA).

In 2006, Lesyl was appointed as a Trustee of a Family Trust and she decided to join the financial services industry in an advice and planning capacity by becoming an accredited financial advisor with Sanlam in 2008. Lesyl is a member of SAICA, and plans to join the FPI as a CFP member, and is fully qualified to give advice on all investment and estate planning matters. lesyl@brenthurstwealth.co.za

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