BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

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RECESSION HITS SA HARDER THAN EXPECTED

By Magnus Heystek—Investment Strategist

Earlier this year there was a common—but misplaced – view that SA would escape the worst of the global recession. Politicians, economists and even members of the press were gleefully proclaiming that the SA economy would escape the full impact of the global recession.

That this was just wishful thinking has now been exposed by the flood of bad news in recent weeks and days. The economy is in its first recession since 1992 after first quarter Gross Domestic Growth (GDP) declined by 6,4%, the formal economy shed 179 000 jobs in the same period and tax collections are already R10 billion behind schedule—barely two months into the tax collection season.

Finance minister Pravin Gordhan told Parliament (23 June 2009) that it was “hugely unlikely” that the revenue target of R659 billion for the 2009/2010-tax year would be met.

Unless the economy picks up dramatically towards the end of the year, can SA taxpayers be in for a huge shock later this year. A sharp increase in VAT to balance the books cannot be ruled out as the evidence of the sharp slowdown in revenue collections become apparent.

This confirms what we have stated in a previous newsletter: government was badly underestimating the potential impact of the global slowdown on the local economy.

The economic contraction, especially in Japan, Europe and to a lesser extent the USA, has been the worse since the Second World War.

Treasury under previous finance minister Trevor Manuel remained cocksure that the “SA economy was better placed than most” to withstand the cold winds of the global slowdown. This stance was also reflected in his forecasts, hopelessly optimistic as it now turns out, as far the growth in the economy and revenue collections were concerned.

The Treasury’s forecast for a budget deficit of 3,8% of GDP is unlikely to be achieved; instead its likely to be much higher, closer to 6-8% of GDP as more jobs are lost, company profits remain under pressure and revenue collections falter.

It would seem that Manuel has changed portfolios with impeccable timing. Government has already been forced to announce wide-ranging austerity measures and government departments have been told to cut back on non-essential expenditure.

INVESTMENT SEMINAR:

OUTLOOK FOR MARKETS

DATE: WED, 8th JULY 2009

TIME: 15H30 FOR 16H00

VENUE: BRENTHURST AUDITORIUM, BLD 2
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This is seen by some as recipe for social unrest. The ANC's election promise of more than 500 000 "decent jobs", whatever that might mean, by the end of the year has created enormous expectations, especially amongst the unemployed. These promises are unlikely to be achieved and widespread unrest and social discord cannot be ruled out.

SARS's response to this slowdown in revenue is predictable: a much more aggressive and confrontational approach to revenue collection.

Acting revenue head Oupa Magashula minced no words on the state of affairs and told parliament that there would be a sharper focus in the auditing of high net worth individual. SARS would also be scrutinizing aggressive tax planning, transfer pricing, offshore arrangements and trusts.

To this end SARS has employed more specialized personnel in order to find more tax revenue. The chances of high-net worth individuals being audited has just gone up sharply.

The banking sector, although not as badly impacted as some of the large global banks, has also warned that their revenue targets will not be met. Both Absa and First Rand have released trading updates to warn shareholders of declines in headline earnings, ranging from 15-25% lower in the case of Absa and 30-35% in the case of First Rand.

HAVE MARKETS TURNED AROUND?

One would think that the investment markets would react negatively to such a torrent of bad economic news. It needs to be pointed out that economic news is mostly backward-looking, in other word reflecting trends that took place some time ago and which is normally well known in the market place.

Investment markets, on the other hand, are always forward looking, anticipating future developments, either good or bad.

Globally investment markets seem to have made a major turning point in the first week of March this year with equity markets in particular reflecting a certain degree of confidence that the worst of the global slump may be over.
Earlier this week legendary investment George Soros proclaimed the slump to be over.

Our next newsletter will discuss this issue in greater detail, but it would seem as if markets have found a sounder footing. The following table shows how a number of the investment funds we use in the construction of our investment portfolios have performed since the middle of March this year (custom).

The star performer has been the INVESTEC VALUE FUND which is up more than 20%, after being up as high as 40% at one stage.

Month-End performance data (values for periods greater than one year are annualised) **as at 24 Jun 2009**

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
Allan Gray Balanced Fund A	-0.99%	2.90%	1.93%	10.41%	19.42%	
Allan Gray Stable Fund A	-0.11%	2.07%	12.12%	11.98%	14.86%	
Allan Gray-Orbis Global Fund of Funds A	-0.52%	4.00%	-0.30%	8.74%	12.73%	
Coronation Balanced Plus Fund A	0.05%	7.12%	-2.30%	9.56%	19.57%	15.24%
Investec Opportunity Fund R	0.70%	4.14%	-6.24%	8.99%	18.32%	17.41%
Investec Value Fund R	2.56%	14.19%	10.21%	8.11%	21.67%	25.25%
Satrix 40 Portfolio A	-0.83%	5.55%	-27.07%	4.93%		

All performances shown in the table are percentages calculated using NAV to NAV prices net of fees, including dividends reinvested on payment date.

HONEYMOON OVER FOR CASH INVESTORS

INVESTORS with money in cash instruments over the last twelve months have had a relatively smooth ride.
Interest rates have been high and when compared to the volatile returns shown by other asset classes, it was the place to be.

However, this scenario is changing rapidly and with a further one percent cut in interest rates last month, rates on cash -instruments have now dropped to below the inflation rate.
The best rate on offer for larger amounts is just over 9% while most banks are offering rates of between 7 and 9% for varying amounts of deposits.

Official CPI-figures released earlier this week shows that consumer price inflation in May was 8%. Most savings rates have dropped to below this level on a pre-tax basis.

When tax is taken into consideration savers are now showing negative returns on their money, by up to minus 4% per year, depending on individual tax rates.

Interest rates may be cut further over the next couple of months which will create a bigger dilemma for savers with their money in so-called safe investments.

Money market accounts offer investors an apparent guarantee. Capital values never decline. But over the medium to long-term cash is not a great investment and will not offer any kind of protection against consumer inflation.

For example:

A 45-year old individual has R4 million capital and continues to invest 15% of his R600 000 until he is 65. On retirement at age 65, he needs to draw R300 000 a year after tax increasing with inflation. If all the capital is invested in cash (at current rates) his funds will be depleted at the age of 75.
If the capital is invested in a medium risk portfolio which offers a 4% real return will the capital last until he is 99.

Sharp cuts in interest rates are also normally a good time to be moving back into the equity market, as can be seen by the sharp rise in shares on the Johannesburg Stock Exchange since the beginning of March.

The JSE Overall index is now up by more than 27% with certain funds showing returns in excess of 40% over three months.

However, it is important to point out that many investors, especially those at retirement or even in retirement, are not always suited to the vagaries and unpredictable behaviour of pure stock markets funds. This is also not recommended. But what is recommended is that conservative investors consider alternatives to cash investments, even if just to earn an extra percentage point or two. Over time this could make a massive difference in capital values and also future incomes as the example above clearly illustrates.

EARLIER THIS YEAR BRENTHURST WEALTH CREATED A VERY LOW -RISK PORTFOLIO, MADE UP OF THREE FUNDS FROM SOME OF THE TOP INVESTMENTS HOUSES IN SA, WITH THE OBJECTIVE OF PROVIDING A HIGHER THAN CASH-YIELD TOGETHER WITH THE POTENTIAL FOR SOME CAPITAL GAINS.

This portfolio was specially created in anticipation of an expected sharp decline in interest rates. In addition, many of our conservative clients were requesting an alternative to cash but without taking on too much risk.

Not only does it offer greater diversification than a pure money market fund but is it also tax-efficient in that a portion of both the income and expected capital growth will be tax-free as well. The reason for this is that a portion of the income takes the form of preference shares and dividends, both of which are still tax-free, as well as some capital growth in the portion exposed to the stock market.

This portfolio, called our Income and Growth-portfolio, has been back-tested over a five-year period and has produced a return greater than cash of 2, 78% per year and with very little volatility.

Since the beginning of the year the performance of this portfolio has been performing according to its design: slow steady growth ahead of cash. It is well on track to produce a return about 3% better than cash.

Furthermore, the money is 100% liquid and can be withdrawn at any stage without penalties should it be required.

Speak to any of our five investment planners in this regard. The entry-costs are up to 1%, depending on the amount invested, plus an annual fee of 0, 75% per annum.

The funds in this portfolio are being monitored on an ongoing basis and changes will be made if it is considered necessary.

SONIA DU PLESSIS

CERTIFIED FINANCIAL PLANNERS:

The introduction of the Financial Advisory and Intermediary Act in 2004 has changed the investment industry forever. This legislation offers far greater protection to investors than ever before. The investment advisory industry is now heavily regulated and only licensed investment planners can offer investment advice.

In addition, the industry—while not yet recognized as a formal profession such as accountants, auditors or engineers—is rapidly moving in that direction. Therefore continued and increasingly more intensive ongoing education is becoming a prerequisite to remain in this industry.

The University of the Free State offers a post-graduate diploma in personal financial planning enabling participants to qualify as certified financial planners. Only those who have qualified are allowed to affix the letters CFP behind their names.

Brenthurst Wealth now has FIVE registered and qualified financial planners, making it one of the fastest-growing financial planning practices in Gauteng. The financial planners are: BRIAN BUTCHART CFP® , who heads up financial planning, RENEE EAGAR CFP®, SONIA DU PLESSIS CFP® as well as JOHAN AND MICHELLE BURGER who graduated as CFP's last month. Congratulations to both of them.

NEW APPOINTMENT:

It is with great pleasure that we announce the addition of yet another member to the Brenthurst-team: **Sonia du Plessis,** who recently rejoined Brenthurst Wealth after spending two years in Bloemfontein with Absa Private Bank. Sonia has been in the financial services industry since 2001 and has experience in investment and life insurance matters. She has a B.Com degree from the University of the Free State and went on to qualify as a Certified Financial Planner in 2004. She is a member of the Financial Planning Institute of South Africa and is fully qualified to give advice on all investment and estate planning matters.

WE TAKE GREAT PRIDE IN THE LEVEL OF OUR SERVICE AND PROFESSIONAL APPROACH TO INVESTMENT ADVICE TO OUR RAPIDLY GROWING CLIENT BASE. DO NOT HESITATE TO CONTACT ANY OF OUR FINANCIAL PLANNERS SHOULD YOU WISH TO DISCUSS YOUR PORTFOLIO OR ANY OTHER FINANCIAL MATTERS.

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