BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

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SA INVESTORS LOSING OUT ON THE GOLD BOOM

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THE INVESTMENT BUSINESS IS NOT UNLIKE ANY OTHER RETAIL BUSINESS: IT WILL MARKET AND SELL WHAT IT HAS IN STOCK IN ORDER TO MAKE MONEY.
THIS COMPARISON EXPLAINS THE TOTAL ABSENCE OF A GOLD BULL MARKET FEVER IN SA, ONCE A COUNTRY THAT PRODUCED MORE THAN 70% OF THE WORLD ANNUAL GOLD OUTPUT, EVEN WITH THE DOLLAR GOLD PRICE AT RECORD LEVELS.
NOBODY TALKS ABOUT GOLD OR GOLD SHARES: NOT THE STOCKBROKERS, NOT THE ADVISORS NOR THE MEDIA.

Twenty or even ten years ago gold at records levels would have ushered in glowing reports and forecasts about gold and gold shares, the latest fix would be leading every news broadcast on the hour, every hour.
It would have been the uppermost topic around dinner tables and braai-fires.
Instead, what do we have?: very little.

One of the reasons for this absence of a gold fever is to be found in the fact that the gold investment market has by and large moved offshore to London, New York and the other financial centers the world.

Local investment companies, stockbrokers and fund managers have very little to say on this topic because there is very little to sell to local investors.

SA now only has two, relatively small gold funds, while the gold bullion board on the JSE consists of three large-cap gold mining companies Harmony, Anglo-Gold Ashanti and Goldfields) with a scattering marginal gold producers making up the rest of the offering.

The sad irony is that SA investors are losing out on one of the longest and strongest gold bull markets in history.

The decline of the SA gold industry is at once completely obvious and difficult to understand. It's also strange that the demise of this once-great industry is not receiving much attention from the authorities.

As Tim Cohen, investment journalist pointed out in Business Day recently, the car and textile industry gets much more attention from government than the mining industry, particularly the gold mining industry.

South African gold production has been in a downward spiral for many years now.
As recently as the early nineties it still produced more than 1 000 tons of gold per year.
Since then the decline has been as rapid as it has been relentless.

Latest production figures are not looking good and SA will be lucky to produce more than 300 tons of gold this year, having been overtaken by China and the US as the largest gold producers in the world.

The other problems are well known. Gold mining is a very old industry and grades have been declining for many years. Chamber of Mines figures, which date back to 1910, reveal that average grades mined has declined from its peak of around 12 grams per ton mined to below 5gr last year.

At the same time mining depths have increased, costs have risen while safety becomes a bigger issue as mines go deeper and deeper.

Eskom's plans to increase its tariffs by an average of 45% per year over the next three years will further add to the woes of the gold mining industry. It is estimated that such a move will increase costs by another 30%.

The strong rand has also not helped. Its 28% rise against the US dollar over the past year has meant that SA gold producers are currently receiving about R265 000 per kilogram compared with the R310 000 a year ago when the gold price was much lower.

Some problems of the SA gold industry are problems of the industry worldwide. Newmont Mining, the second largest gold mining company in the world, saw its average costs rise by two-thirds per ounce between 2002 and 2007.
At the same time new discoveries are drying up and larger deposits been far and few between.

In some investment circles there is talk of "Peak Gold", in other words, the belief that not unlike oil, the world has long ago passed its period of peak production and that it will continue to decline over time.

This at a time when gold is repositioning itself back onto centre stage as far as its monetary role is concerned.
Earlier this month India's announcement that is had bought more than 200 tons of gold from the International Monetary Fund (IMF) catapulted the gold price into new record territory. Furthermore, there are consistent rumours that China, the country with the largest foreign exchange reserves, is secretly reducing its US dollar holdings and buying up physical gold.

What does this mean for SA investors who might want to participate in the gold bull market?
Our advice has been consistent over many years. If you want to make profits from the current bull market in gold and gold shares, then this will have to be done by means of your offshore investment allowance.

A comparison between the returns of the two SA gold funds (Old Mutual Gold Fund and Stanlib Gold and Precious Metals Funds) and some of the offshore gold funds used by Brenthurst Wealth shows a tremendous advantage for investors in gold shares offshore.

A recent analysis once again underscores this long-held view.
The two SA-based gold funds have returned an average of just over 10% per annum over the last five years.

OVER THE SAME PERIOD OF TIME THE AVERAGE RETURN OF THE TWO FUNDS USED BY BRENTHURST WEALTH HAS AVERAGED 16,1% PER ANNUM, A TREMENDOUS OUT-PERFORMANCE.

IN FACT, GLOBAL GOLD SHARES HAVE BEEN THE BEST PERFORMING ASSET CLASS IN THE WORLD OVER THE LAST NINE YEARS, GROWING AT AN AVERAGE OF 16% PER ANNUM SINCE 2001, THE YEAR THE CURRENT BULL MARKET STARTED.

The two gold shares funds used for this purpose are the Investec Global Gold Fund as well as the Blackrock Gold and Precious Metals Fund.

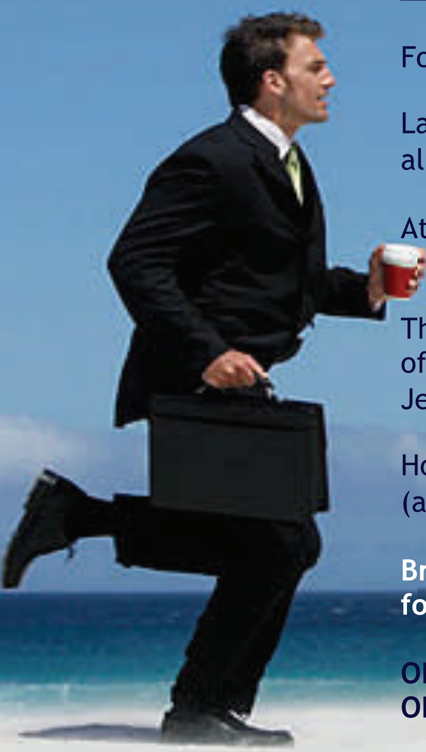
A third fund, the Alliquot Gold Bullion Fund, allows investors to buy physical gold instead of gold shares which are more geared to movements in the gold price and therefore more volatile.

How long can the current gold bull market continue?

Some analysts point out at the very strong relationship between the growth in the US money supply (M2) and the gold price. Based on this the gold price can go to $2 000 per ounce or more over time.

Please contact any of our investment advisors if you are interested in investing in any of the offshore gold funds we recommend.

OFFSHORE ALLOWANCE DOUBLED



Foreign exchange controls for most but the very rich have now completely been abolished.

Last month the new finance minister, Pravin Gordhan ,announced that the foreign offshore allowance was to be increased from R2 million to R4 million per qualifying taxpayer.

At the same time the annual travel allowance was also increased from R500 000 to R750 000 per taxpayer.

The announcement was a total surprise as there were rumours that certain of the members of the Tri-partite Alliance were pushing to have exchange controls revoked, especially Jeremy Cronin, from the SA Communist Party.

However, the further relaxation of exchange controls is to be welcomed, as it gives investors (and their advisors) greater scope in creating globally balanced portfolios.

Brenthurst Wealth has 15-years of experience in running and managing offshore funds for its clients.

ONE OF THE ADVANTAGES OF OFFSHORE INVESTING IS THAT LOCAL INVESTORS CAN OBTAIN EXPOSURE TO ASSET CLASSES AND FUND MANAGERS NOT AVAILABLE IN SA.

We are of the opinion that the current strength in the rand is an excellent time and opportunity to increase exposure to offshore assets, especially offshore equities and specialist funds, like oil, gold and commodities, that are not available In South Africa.

Please contact Gavin Butchart at Brenthurst Wealth on +27 11 799 8100 or email gavinb@brenthurstwealth.co.za for assistance in applying for the foreign exchange allowance

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