BRENTHURST WEALTH MANAGEMENT

INVESTMENT REPORT

BRENTHURST
THE HOME OF WEALTH

ISSUE EIGHTY FOUR

SEPTEMBER 2009

THE CREDIT CRUNCH: A YEAR LATER

INVESTMENT SEMINAR:

"ARE YOU RETIRING NEXT YEAR?"

DATE:	WED, 14th OCT 2009
TIME:	16H00 TO 17H30
VENUE:	BRENTHURST AUDITORIUM , BLD 2 CNR WILLIAM NICOL & FOURWAYS BOULEVARD, FOURWAYS
RSVP:	ANTJE +27 11 799- 8100

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Please book in advance as seating is limited!

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By Magnus Heystek—Investment Strategist

GLOBAL investment markets have just completed one of its most volatile and turbulent years on record. But if you invested some money a year ago and went to sleep and only woke up this week, you might think to yourself: "What's all the fuss about? My investments did OK. In fact, I actually made some money".

That's true. Most investment markets have recovered substantially since the lows reached in March this year. Many investment managers actually made some money over this time, but this fact conceals the extraordinary volatility over this period of time.

On September 15th last year giant investment bank Lehman Bros. announced to the world that it would be closing its doors after being in business for more than 158 years. This was a direct result of its exposure to the deteriorating US sub-prime property mortgage bonds sold to investors and investment funds all over the world.

It sent shock-waves through the global banking community which at one time almost came to a complete standstill as banking giants feared doing business with other banking giants, fearful that they might not survive the unprecedented financial hellfire that was threatening to unhinge and destabilize the global financial system.

Future economic historians will, no doubt, look back at these events and conclude that it was the closest the modern financial system had ever come to a systemic collapse. It was only due to the combined massive intervention by Western governments that financial markets started functioning normally again

More than $4 trillion was provided in direct and indirect injection of liquidity into the world financial system that staved off greater turbulence and provided some floor to economic activity.

Markets have recovered spectacularly since then and investors have in some cases fully erased their losses. Further gains are still possible as global economies gain traction and start responding to the massive injection of liquidity into the economies of the world.

But the world will never be risk-free and markets could correct again at any time. We need to stress again that volatility is not risk, even though the media uses volatility as the feedstock of their sometime sensationalist reporting.

Take for instance the untimely advice from local investment magazine Finweek in which its lead investment writer, Vic de Klerk, urged investors in April to sell all investments in order to invest in cash. This was an emotional over-reaction to the sharp declines in March, and is, so far, 100% wrong.

In an earlier newsletter this year we warned about the emotional aspect to investing money. Granted, this was often difficult in the eye of the storm when it seemed as if the whole world was about to plunge into a repeat of the Great Depression of the 1930's.

What is not often mentioned in the reports about the Great Depression was that investments markets responded long before economic activity picked up and the good news started filtering through to the front pages of newspapers. The same has happened again.

On balance our recommended investment portfolios have produced positive returns over the twelve-month period since the start of the Great Credit Crunch. It once again underlines the need to have diversified and flexible investment portfolios.

TABLE SHOWING TOTAL RETURN (%) FROM 07 SEP 2008 TO 07 SEP 2009.

Month-END performance data (values for periods greater than one year are annualised) **as at 07 Sep 2009**

	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years
Allan Gray Balanced Fund A	0.38%	5.80%	9.95%	10.97%	19.44%	
Allan Gray Equity Fund A	1.11%	9.26%	6.03%	10.37%	23.53%	23.52%
Allan Gray Stable Fund A	-0.27%	2.76%	12.87%	11.63%	14.51%	
Allan Gray-Orbis Global Fund of Funds A	-4.06%	0.54%	10.55%	7.90%	12.32%	
Coronation Balanced Plus Fund A	0.39%	7.55%	6.28%	10.99%	19.77%	16.93%
Coronation Top 20 Fund A	1.31%	10.19%	13.04%	15.52%	26.38%	
Investec Value Fund R	1.84%	14.44%	10.37%	11.58%	23.14%	27.08%
Nedgroup Investments Positive Return Fund A	0.57%	2.08%	9.97%	11.41%		
Satrix 40 Portfolio A	-0.04%	8.10%	-0.06%	6.57%	19.96%	
STANLIB Property Income Fund A	5.07%	12.25%	19.36%	18.03%	25.12%	
FTSE/JSE All Share index	-0.20%	8.01%	-1.56%	4.57%	17.57%	13.75%

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

FINANCIAL MARKETS HAVE SIGNALED CLEARLY THAT IT EXPECTS THE GLOBAL ECONOMY TO RECOVER, AND TO EVEN SURPRISE ON THE UPSIDE.

GLOBAL ECONOMY STARTING TO STIR

In recent weeks the term "green shoots of economic activity" started appearing in the media, hesitantly at first, but now almost on a daily basis. Earlier this month the finance ministers of the G20-countries, which include South Africa, met in the UK in order to discuss the state of the world economy.
The mood was far better than the World Economic Forum held in January when the global crisis was at its peak.

"It would be an error of historic proportions if we were to repeat the errors of the 1930's UK Prime Minister Gordon Brown was quoted as saying at the opening. "The risks still very much remain", he said.

One of the lessons from history was for governments not to start withdrawing its stimulus packages as soon as governments did in 1931. It also helped that Ben Bernanke, governor of the US Reserve Bank, is considered an expert on the Great Depression, having written his doctoral thesis on it.

One wonders how many students of financial history will write about the Great Credit Crunch of 2008 and what caused it all? What was the trigger? Higher interest rates on mortgages or was it the sharp rise in the US petrol price when oil went to $140 dollar a barrel? Or perhaps the unbridled extension of credit to already-indebted consumers in the western world?

Other finance leaders agreed that it is too early to start implementing an exit strategy. The recovery is still too fragile with global consumers still very much in a taking-shelter mood.
The International Monetary Fund (IMF) has raised its forecast for global growth next year to 2,9% from 2,5% predicted as recently as July this year. It also scaled back its projection for the global contraction this year to 1,3%, from a drop of 1,4% earlier.

At some point it is to be expected that governments will start withdrawing their stimulus measures. This, however, still seems to be some six to nine months away, as the uptick in consumer and business confidence has not, as yet , reflected itself in declining unemployment.

In the US unemployment is set to breach 10% for the first time since 1983 while unemployment is still rife in the UK, Europe (especially Ireland and Spain) and Japan.

The G20-leaders made it clear that they are aware of the need to communicate and coordinate their withdrawal from the economies well in advance. A sudden and badly communicated withdrawal would be bad for markets and confidence.

SA ECONOMY UNDER THE COSH

After shrinking by an annualized 6,4% in the first quarter of 2009 the SA economy shrank by a further annualized rate of 3% in the second. Manufacturing was the worst sector, seeing output slide by 11%. The strong rand, surprising many analysts, is also adding to concerns that the manufacturing sector will remain under pressure for longer.

This is the first recession in seventeen years and the first one the new government has to deal with.

In early January this year government was still trying to convince the country that it would escape the worst of the global credit crunch, predicting growth of more than 2,5% for the year. But this was nothing but brave posturing ahead of the general election in April this year.

The SA Reserve Bank cut interest rates by a further 0,5% on August 14 , bringing the cumulative decline in interest rates to 500 basis points by means of six interest rate cuts. The repo-rate is now standing at 7% compared to December 2008 when the rate was 12%.

Was this the last interest rate cut? Only time will tell but it would seem as if SARB will most probably wait until new governor Gill Marcus has settled into her job before any further cuts, if any, will be made.

The biggest problem facing the authorities is the sharp decline in government revenues, estimated to be between R60 and R80 billion for the full financial year. Against a background of falling company profits and declining VAT collections will this put great pressure on the deficit before borrowings.

There is still no sign that the SA consumer is ready to start taking on more credit but another month or two will tell if the drop in interest rates will get the consumer to spend more.

SUMMARY:

MANY INVESTORS STILL HOLDING ONTO CASH HAVE SEEN THEIR AFTER-TAX RETURNS DROP TO BELOW 5%, WAY BELOW THE INFLATION RATE.

THERE ARE ATTRACTIVE INVESTMENT OPPORTUNITIES FOR INVESTORS WITH LARGE SUMS OF MONEY AND IT IS STILL POSSIBLE TO FIND AFTER-TAX YIELDS OF 6% PER ANNUM.

PLEASE SPEAK TO ANY OF OUR INVESTMENT ADVISORS IN THIS REGARD.

WE ALSO BELIEVE THAT FOR THOSE INVESTORS WITH NO OR LITTLE FOREIGN EXCHANGE EXPOSURE NOW IS AN EXCELLENT TIME TO TAKE MONEY OFFSHORE.
THE LOCAL CURRENCY IS REACHING THE END OF ITS CURRENT BOUT OF STRENGTH AND WE URGE INVESTORS TO MAKE USE OF THIS OPPORTUNITY TO GAIN EXPOSURE TO OFFSHORE EQUITIES, IN PARTICULAR.

AND LASTLY, WE WOULD LIKE TO REMIND OUR CLIENTS AND FRIENDS OF OUR NEXT INVESTMENT SEMINAR ON THE 14TH OF OCTOBER TITLED: **"ARE YOU RETIRING NEXT YEAR?**

PLEASE BOOK EARLY AS SEATING IS LIMITED.

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