

# The Weekly Focus

*A market and economic update*

23 January 2012



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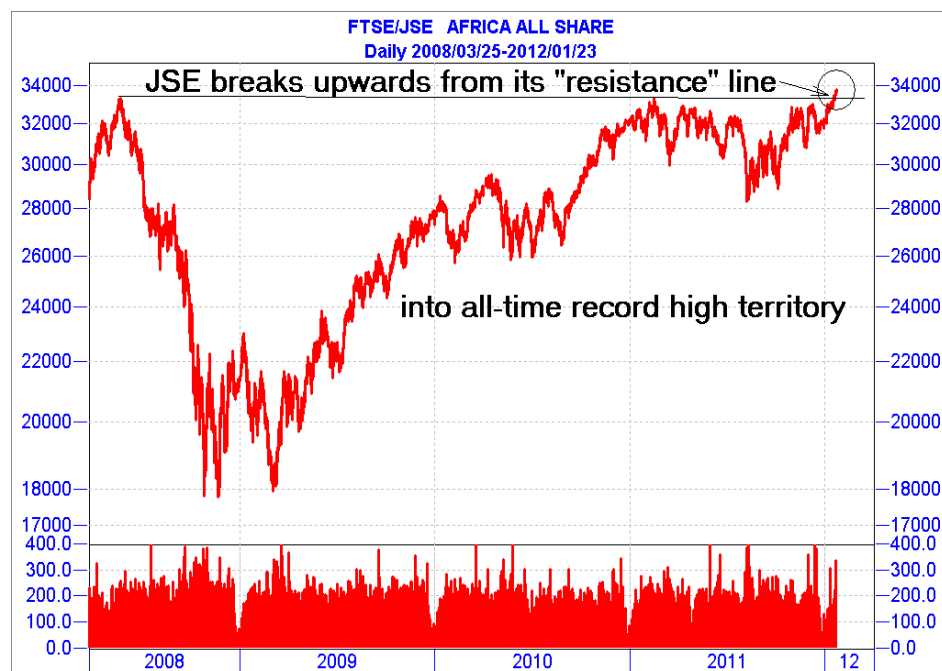
# Newsflash

Optimistic on risk assets like equities, globally and locally, as well as on global listed property shares.

## Market Comment: Europe lifts its game-plan

- In our last STANLIB Weekly Focus on 5<sup>th</sup> December, we mentioned that aggressive and comprehensive policy action by Europe to stabilize European sovereign debt markets would boost global risk appetite. Thankfully, that is exactly what happened. They produced the goods.
- On December 21<sup>st</sup>, while I was taking Disneyworld's biggest roller-coasters to prepare for markets in 2012, the European Central Bank delivered a masterful stroke, lending 489 billion euros at 1% to 523 European banks across the 17 eurozone countries for 3 years (the so-called "long-term refinancing operation" or LTRO). They announced they would do another LTRO in February.
- This has dramatically reduced the risk of a systemic crisis in Europe for the year ahead by ensuring that banks have adequate liquidity.
- "It is monetization European style", notes top-performing global bond manager, Brandywine Asset Management: "bankrupt commercial banks and bankrupt governments are rescuing each other with money printed by the central bank".
- The point is, while that might not sound particularly good, the alternatives are too ghastly to contemplate. So hats-off to the Europeans for coming up with their own clever solution, in effect their own form of "quantitative easing"...and in the nick of time. The result is that so far in 2012 European governments, particularly France, Italy and Spain, have been able to borrow money easily and at lower rates to refinance their hefty debt maturities.
- The next step is for the eurozone to confirm its fiscal pact, whereby governments agree to be bound by disciplined rules on their spending and income. This was the outcome of the 9<sup>th</sup> December meeting.
- This good news, together with continued economic recovery in the US, plus 8.9% year-on-year growth in China in the 4<sup>th</sup> quarter of 2011, plus a renewed global effort to ease economic policy and interest rates (over the past 5 months there have been 62 cuts in interest rates around the world, whereas in 2011 there were twice as many interest rate hikes as cuts) have all combined together to boost investor confidence and lower the fear factor.
- As Fidelity's star fund manager, Anthony Bolton, noted in December last year, investors were in a particularly fearful mode (a reverse indicator), which usually indicates a decent rally is close to unfolding.

- So far in 2012 the MSCI Emerging Markets Index is up 8.6% in dollar terms and the MSCI World Index (developed markets) is up 4.5%. Germany's stock market, down 17% in 2011 in dollar terms, is so far up 8% in dollars in 2012. So 'risk-on' has so far enthusiastically greeted the New Year.
- A number of commodities, like copper (up 9% so far in 2012) and platinum (up 10% so far), also bounced and the euro retraced some of its recent losses too.
- Hats-off to the JSE All Share Index, one of only two national benchmark stock market indices to have reached an all-time record high last week, the other being the Philippines Index. The ALSI closed above 3.5 year "resistance" levels on the charts last week, indicating a technical breakout and resuming its primary uptrend, or "bull" market (see chart below of the JSE ALSI Index).
- When one considers all that has happened since the initial peak in May 2008, this is very pleasing.



Source: I-Net Bridge

- Another noticeable move last week included the US Nasdaq 100 Index reaching a 10 year high.
- On the JSE, we've seen two laggard indices, the Resources and the Financials, recovering nicely on the back of the global 'risk-on' trade. Resources lost 6.5% in rand terms last year (-25% in dollar terms), but have so far bounced up 8% in 2012 and probably still offer the best potential for further upward moves, although of course it is the most volatile sector. Financials have taken heart from the European Central Bank's dramatic LTRO operation referred to above, plus from a better tone in the US banking arena. Eurozone bank shares tumbled 38% in 2011 and rallied by 7.6% on Thursday alone last week. Globally in dollar terms financial shares tumbled by 23% in 2011, banks fell 22% and life assurers fell 20%.

The S&P Financial Index in the US is up 8% so far in 2012, helping the S&P 500 Index to a 4.5% rally so far.

- The revival in confidence in banking shares is crucial because in many ways banks are the lifeblood of the global system, providing the necessary finance.
- Banking and life assurance shares often move together globally. The JSE Banks Index is up 7.6% so far in 2012 (versus the ALSI's 5.2%) and the Financials Index is up 6.2%. Old Mutual is up 33% in the past 2 months after selling its Scandinavian operation for 2 billion euros.
- Meanwhile the SA listed property index has also done very well, rising by 4.4% so far in 2012 and by 6.2% since end November, partly on the back of a firm SA bond market. It is trading at record highs.

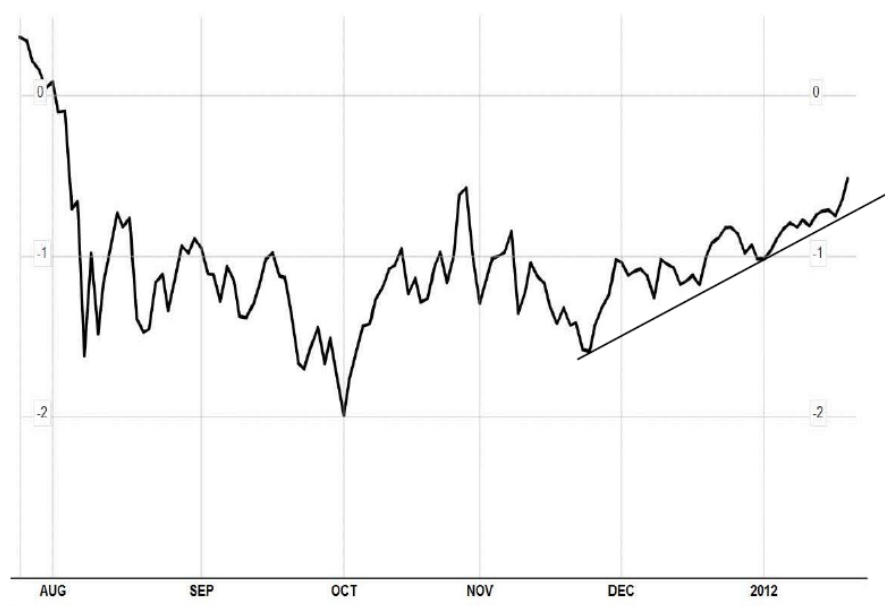
## So where to now?

- We mentioned in our December report that globally stock markets were literally bristling with energy to head upwards.
- That has occurred so far in 2012. Usually when a stock market breaks upwards to new highs, as the JSE did last week, it tends to continue to do that, all things being reasonable, especially when it has taken almost 4 years to do so.
- There are tentative signs, notes Brandywine, that the US may have hit a self-reinforcing phase of employment and income growth that will support spending, which is in turn 70% of the US economy. They say that profits, credit growth and jobs go hand-in-hand and for the first time since the crisis all three are expanding.
- Global developed stock markets remain at 1999 levels in dollar terms and earnings growth has been good of late, with US company earnings at all-time record highs, even though growth is slowing sharply and may only rise by around 5% this year.
- Valuations (PE ratios etc) are good in developed and emerging markets, well below long-term averages. In fact the US price-to-earnings ratio (PE) is the lowest in 23 years. In South Africa we are looking for 15%+ earnings growth and the JSE remains in reasonable territory valuation-wise.
- Importantly, STANLIB expects interest rates to remain stable in SA during 2012 and globally rates are declining.
- Overall, pro-growth policy forces around the world are more likely than not to stabilize economic expectations and help stock and property markets.
- Markets were hit again and again in 2011 by a spate of bad news, from Japan's earthquake to Greece, Ireland, Portugal and Italy's debt problems, to US and European political stale-mate and rating downgrades, to fears about a Chinese hard landing, not to mention soaring food prices, rising inflation and rising interest rates in many regions.

- Hopefully 2012 will witness more optimism and a lot less bad news. The new-ish European Central Bank governor, Mario Draghi, seems to be tackling the problems more realistically than his predecessor, Trichet. He seems more concerned that asset price deflation (loss of value) is more of a pressing problem than inflation, which is pleasing markets.
- The change of leadership in Italy is already bearing fruit and hopefully Greece will follow suit under its new leader, although it remains the problem child.
- Of course there are always risks, such as Iran and the oil price and North Korea, not to mention politics in the US and elsewhere where elections are to be held. Many regard Greece as insolvent, meaning that a write-down/default is only a matter of time there.
- Overall, however, we are optimistic on risk assets like equities, globally and locally, as well as on global listed property shares.
- Below we show one of US market analyst Elaine Garzarelli's indicators, the Bloomberg Financial Conditions Index.
- Another indicator she watches is the ECRI weekly leading economic indicator, which has also been rising of late.
- She notes that positive earnings surprises in the US are fading a tad and she is only expecting 3% growth in 2012 in S&P 500 operating earnings. The US stock market is 9% undervalued.

The Bloomberg Financial Conditions Index gives us a good indication of overall conditions in U.S. financial and credit markets. It remains on an uptrend, and it is ranked bullish (Chart 1).

CHART 1 – Bloomberg Financial Conditions Index



Source: Bloomberg

- UBS's Global Investment Strategy team, led by the highly regarded Larry Hatheway (Kevin Lings' favourite commentator) changed their view on Friday from neutral in risk assets to outperform in risk assets, including equities, listed property (REITS) and high yield bonds, whilst acknowledging the heavy issuance in Europe of government bonds in the next few months, as well as the uncertainties surrounding a possible Greek default. On equities, they have a preference for US and emerging market equities.
- UBS notes that there are increasing signs that the US housing market has bottomed in activity and in sales levels, making it likely that price declines will fade this year as well.
- So UBS says their underlying theme for 2012 is diminishing cyclical risk in the US and emerging economies and a "managed crisis" in Europe. That is an environment in which they think risk assets can outperform.
- If markets dip, they would increase allocations to risk assets.

## Snippets of Info

- Deutsche Bank's view is that there is a less than 15% probability of recession in SA in 2012.
- They indicate that both households and companies are in much better shape to withstand headwinds that they were in 2008.
- China's appetite for commodities remained resilient in December, with trade data showing copper imports hitting record levels (up 47.7% from the previous year) and iron ore imports remaining strong.
- For full 2011 China's imports of crude oil grew by 6% and imports of iron ore grew by 11% from 2010, underlining strong demand and Chinese buyers' desire to take advantage of price falls for some commodities.
- Rolls-Royce Motor Cars, owned by Germany's BMW (can you believe it?), reported its best annual sales in its history in 2011, led by booming demand for its luxury limousines in...China. It delivered 3,538 cars to customers in 2011, a 31% rise over 2010's numbers.
- The carmaker, which employs 1,000 people and is based in Goodwood, southern England, said that China was its biggest market, followed by the US. Rolls-Royce's overall Asia-Pacific sales were 47% higher in the Asia-Pacific region, 31% higher in the Middle East and up 17% in North America. In Europe, Germany and Russia were the biggest growth markets.

**Paul Hansen**

**(Director: Retail Investment Marketing - Investments)**

# Economic Update

Locally, the focus was firmly on the SARB MPC rate decision, released last Thursday. The Repo rate remained unchanged at 5.5%. Gill Marcus noted some factors leading to the decision to keep rates unchanged. The global environment remains a challenge. The Eurozone is expected to experience a recession in 2012, but growth in the US and Japan is expected to be more favourable. The SA inflation outlook has deteriorated and is forecast to remain above target for all of 2012. Inflation is likely to return to target range in Q1 2013. Inflation is set to peak at 6.6% in Q2 2012. The higher inflation forecast is mainly due the weak rand. In addition, food prices remain elevated. The SARB has cut its GDP growth estimate to 2.8% from 3.2% for 2012. For 2013 it expects growth to be in the region of 3.8%, down from 4.2%. Business confidence remains weak. Job growth is uncertain and the possibility of wage hikes could pose some risk to inflation. Growth in consumer spending has started to moderate. Credit extension trends remain relatively subdued. Oil prices have been surprisingly stable, but could spike higher. Marcus ended her speech by saying that "the MPC remains of the view that inflation pressures are primarily of a cost-push nature, but is concerned that a persistent upward trend in inflation and prolonged breach of the inflation target could have an adverse effect on inflation expectations which could reinforce the upward inflation dynamics". The MPC is aware of the slowing domestic economy and feels that given the lack of demand pressures, monetary tightening at this stage would not be appropriate.

In December 2011, headline CPI inflation rose by a relatively modest 0.2%*m/m*, with the annual rate remaining unchanged at 6.1%*y/y*. For 2011 as a whole, SA CPI inflation averaged a respectable 5.0%*y/y*. This is up from an average of 4.3% in 2010. For 2012 we expect SA inflation to average around 5.8%. During December 2011 food inflation continued to move a little higher, but most other categories of inflation recorded very little change on a month-on-month basis. Food prices rose by a further 0.5%*m/m* in December, which added 0.1 of a percentage point to the monthly rise in CPI. The monthly increase if food prices pushed the annual rate of food inflation up to 11.6%*y/y*, which is the highest food inflation reading since May 2009. We expect that the upward momentum in domestic food price inflation to plateau at around current levels, but then ease noticeably in the second half of 2012 helped by lower international food prices. Home rentals rose by 0.8%*m/m*. There was a modest decline in petrol prices. CPI excluding food and petrol is still well within the inflation target at 4.4%*y/y*, recording a monthly rise of 0.3%*m/m*. It is however concerning to see that the inflation rate for very low income earners is now at 8%*y/y* (mainly because of food inflation), while the inflation rate for pensioners is up at 6.9%*y/y*. Looking ahead, there are still some upside risks to SA inflation. These include a range of administered prices (electricity, water, fuel etc) as well as the recent Rand weakness. The extent to which these price pressures will impact core/underlying inflation will be heavily influenced by the strength of the domestic economy; which is currently slowing, thereby creating less opportunity for companies to pass-on cost increases.

**Stats SA released the retail sales data for November 2011. Retail sales fell by a disappointing 0.3% m/m in November, in real terms, seasonally adjusted.** On an annual basis, retail sales recorded very respectable growth of 6.8% y/y, but this is down on the 7.5% y/y recorded in October 2011. In the first half of 2011 SA retail data were strong, but also relatively erratic. The volatility reflected a combination of base effects - with annual comparisons distorted by the World Cup in 2010 - as well as the timing of various public holidays. However, during the five month period from June to October sales were more consistently robust, beating analyst's expectations in most months. This relatively strong phase in retail activity, which has been very evident in the economic data since late 2010 or early 2011, is partly explained by ongoing high wage increases (many workers secured well above inflation wage increases in 2010/2011), which led to a strong rise in real household disposable income. Because most SA households do not have a culture of savings, almost all of the rise in disposable income has been spent on a range of consumer goods and services. In addition, there has also been a surge in unsecured credit, which has helped to buoy retail spending. Over the past year, unsecured consumer credit has risen by 32% y/y. Looking forward, SA retail activity is likely to face increasing strain. This is due to the cost-push factors that are systematically eroding the household sector's retail spending power. These include higher energy costs, transport costs, education fees, medical service costs and water costs. Households cannot avoid these increases, as they relate to necessities or essential goods, forcing consumers to either cut-back on non-essential purchases (including general retail activity) or take on additional debt. The situation is aggravated by the relatively high increase in food inflation. The strains on the SA consumer are rising, despite historically low interest rates. Hopefully the labour market will keep improving, thereby alleviating some of the pressure on household income as well as the risk of a repeat of the recent spike in bad debts.

**In December 2011, the Kagiso PMI manufacturing index fell to 49.4, compared with 51.6 in November.** The December data is very disappointing and suggest that SA manufacturing activity remains under enormous pressure, despite the improvement in the November manufacturing data, as reported by Stats SA. It is particularly concerning to see that the key forward looking component of the PMI index (namely New Sales Orders), fell by 3.0 index points to 48.3. In addition the Backlog of Sales Orders was shockingly low at 40.6, while the Purchasing Commitments index plunged by 7.5 index points. Unsurprisingly, the employment index remained well below the key 50 index level at 45.0. This is the tenth consecutive month in-which the employment index has been below 50. The Prices Paid component of the PMI rose to 83.3 from 82.1 in November and a recent low of 75.0 in July 2011, highlighting the ongoing concerns about the generally elevated producer inflation rate. Unfortunately, there is currently a significant divergence between the actual manufacturing data and the recent PMI readings. In addition, both the monthly as well as the annual rate of change in manufacturing data has been extremely volatile for a considerable period, with a substantial divergence in performance at sector or industry level.

Given the volatility in the data, it is, perhaps, useful to look at the trend cycle index for manufacturing which clearly shows that although SA manufacturing has recovered from the 2008/2009 severe recession, it has been stagnating for the past year and remains under pressure. The performance of manufacturing has certainly not kept pace with the performance of the retail sector. For 2010 as a whole SA manufacturing activity grew by 4.8%/y, which was obviously a vast improvement on the 13.4%/y decline recorded in 2009. Year-to-date, however, production has averaged an annual growth rate of only 2.5%. While we still don't expect the manufacturing sector to return to severe recession conditions, it will struggle to gain any real momentum without an improvement in the global economy and/or a revitalisation of the domestic economy in the form of increased investment activity and employment growth.

Offshore, **resolving the Euro-area financial crisis remains extremely complex.** After the EU summit on 8 and 9 December 2011, EU leaders announced the establishment of a new "fiscal compact", which aims to better enforce fiscal discipline within the region. However, the details of the new treaty are still vague. This means that there is a significant risk that the financial markets will remain relatively volatile, especially if growth rates continue to soften. There is also a real concern that the higher cost of refinancing sovereign debt will derail the ability for key governments (especially Italy) to affect the necessary fiscal discipline. Under the leadership of Mario Monti, Italy has adopted a severe austerity package aimed at eliminating its budget deficit by 2012. Italy requested that Germany assist with lowering Italian bond yields. The motivation is that without some incentive, it will be difficult to sell austerity to the Italian people. The EU will break-up without support from the populace, and the populace needs to be given a reason to remain part of the Union. The Italian 10-year bond yield is currently a little below 7%. Unfortunately, Italy has a huge gross financing requirement of €440 billion for 2012, with about €130 billion in the first quarter. Should Italian bond yields push higher, the increased cost of borrowing could start to swamp the budget, and effectively undermine the government's ability to implement a managed and orderly path to fiscal discipline. The Greek private sector bail-out is still unresolved and Greece could still default. The Greek government and private sector creditors are meeting today with the objective of reaching an agreement on a debt-swap deal. A meeting this week of European Union (EU) finance ministers to discuss new budget rules and the proposed Greek debt swap is also scheduled.

Emerging markets opened 2012 with some positive news relating to the latter part of 2011 on consumer prices, while economic growth stayed positive, but softer. **India prices, measured by the Wholesale Price Index (WPI), rose by 7.47% year-on-year in December 2011, a rate lower than that recorded in November of 9.11% - 2.3 percentage points down from the August peak of 9.78%, helped by strong declines in food prices. China showed a similar trend. Data released last week by the National Bureau of Statistics of China revealed that Chinese consumer inflation continued to ease.**

Chinese prices went up 4.1%y/y in December 2011 from 4.2% in November, driven by sharp slowing in non-food prices, which registered a rise of 1.9%, while food prices grew 9.1% - contributing 68% to the inflation count. 4.1% compares very favourably against 6.5% in August 2011. However, economic indicators showed that growth softened in both India and China. Industrial Production in India rose 5.9%y/y in November 2011, a rate lower than 6.4%y/y recorded in November 2010. Chinese growth for 2011 showed a similar trend. Preliminary estimation of Gross Domestic Product (GDP) by the National Bureau of Statistics placed GDP growth at 9.2% for 2011, down from 2010's 9.8% growth. Fourth quarter GDP grew at 8.9%, following a trend of deceleration over the previous three quarters which saw rates of 9.7%, 9.5% and 9.1% consecutively. Agricultural production was the most notable drag, with grain output up 4.5%, oil-bearing crops up 1.5%, and pork, beef, mutton and poultry expanding by 0.3% (pork in particular contracted 0.4%). The slow growth in agricultural production, and in particular the contraction in pork production is related directly to the elevated headline inflation experienced in 2011, which saw pork prices rise above 50% while headline inflation peaked at 6.5%.

Nigeria's prices also showed a downward-tic in December to 10.3% y/y, after remaining unchanged for October and November at 10.5%. This represents an annual inflation rate of 10.9% y/y in 2011, down from 13.8%y/y in 2010. But prices should increase in the first half of 2012 on the back of higher fuel prices which went up 50% after the government removed subsidies on petrol, sparking nationwide unrest.

**Kevin Lings, Laura Jones and Xhanti Payi**  
**(STANLIB Economics Team)**

# Weekly Market Analysis

Currencies/ indices/ commodities	Friday's Close 20/01/12	Weekly Move (%)	YTD (%)
<b>Indices</b>			
*MSCI World - US Dollar	235.64	2.88	4.18
*MSCI World - Rand	9861.44	0.66	3.02
*MSCI Emerging Market - US Dollar	995.08	4.42	8.50
*MSCI Emerging Market - Rand	7941.56	2.17	7.29
All Share Index - US Dollar	4242.51	4.59	7.02
All Share Index - Rand	33703.38	2.36	5.37
All Bond Index	377.10	1.14	0.77
Listed Property J253	990.20	1.31	4.51
<b>Currencies</b>			
US Dollar/Rand	7.94	-2.13	-1.54
Euro/Rand	10.27	-0.33	-1.58
Sterling/Rand	12.37	-0.66	-1.13
Euro/US Dollar	1.29	1.98	-0.06
<b>Commodities</b>			
Oil Brent Crude Spot Price (\$/bl)	109.28	-0.65	1.92
Gold Price \$/oz	1666.93	1.70	6.52
Platinum Price S/oz	1534.50	2.81	9.61

Source: I-Net Bridge

\* MSCI - Morgan Stanley Capital International

# Rates

These rates are expressed in nominal and effective terms and should be used for indication purposes ONLY.

## Standard Bank Money Market Fund

Nominal: 5.23% per annum

Effective: 5.37% per annum

STANLIB is required to quote an effective rate which is based upon a seven-day rolling average yield for Money Market Portfolios. The above quoted yield is calculated using an annualised seven-day rolling average as at 20 January 2012. This seven-day rolling average yield may marginally differ from the actual daily distribution and should not be used for interest calculation purposes. We however, are most happy to supply you with the daily distribution rate on request, one day in arrears. The price of each participatory interest (unit) is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio.

## STANLIB Enhanced Yield Fund

Effective Yield: 5.86%

## STANLIB Dividend Income Fund

Effective Yield: 4.09%

STANLIB is required to quote a current yield for Income Portfolios. This is an effective yield. The above quoted yield will vary from day to day and is a current yield as at 20 January 2012. The net (after fees) yield on the portfolio will be published daily in the major newspapers together with the "all-in" NAV price (includes the accrual for dividends and interest). This yield is a snapshot yield that reflects the weighted average running yield of all the underlying holdings of the portfolio. Monthly distributions will consist of dividends (currently tax exempt) and taxable interest. Interest will also be exempt from tax to the extent that investor's are able to make use of the applicable interest exemption as currently allowed by the Income Tax Act. The portfolio's underlying investments will determine the split between dividends and interest.

The Manager has received a circular, (CISCA Circular No.11), from the Registrar of Collective Investment Schemes regarding a joint investigation of National Treasury, SARS and the FSB, which is currently in progress with regard to dividend income fund type portfolios. The Manager is obliged, in terms of this circular, to bring the following to your attention with regard to this investigation. The outcome of the investigation could affect certain structures and SPVs (special purpose vehicles) used by underlying investments of these types of portfolios, which may result in possible adverse tax consequences, and may require amendments to existing legislation. The abovementioned regulators still have concerns which could impact negatively on the future of these portfolios and the continuation of these portfolios can therefore not be guaranteed. The Manager however do not believe that there is any current cause for concern regarding the STANLIB Dividend Income Fund and should there be a more definitive outcome from the investigation investors in our STANLIB Dividend Income Fund will be informed timeously of any legislative changes that may affect their investment.

## Liberty Investments' Life Annuities

Current Rates for 23<sup>rd</sup> Jan 2012 - 27<sup>th</sup> Jan 2012

Payments are assumed to be paid monthly in advance with no guarantee period or annual escalation in income. Ages indicated assume client is the exact age shown. No tax has been deducted.							
Gender		Male			Female		
Age last birthday		55	60	65	55	60	65
Contribution	R 100,000	R 777	R 819	R 880	R 705	R 741	R 794
	R 250,000	R 2,011	R 2,115	R 2,269	R 1,831	R 1,921	R 2,052
	R 500,000	R 4,069	R 4,276	R 4,584	R 3,707	R 3,888	R 4,150
	R 1,000,000	R 8,183	R 8,598	R 9,214	R 7,460	R 7,821	R 8,344

The table above shows the monthly annuity that an annuitant will receive for life in return for the single premium in the left hand column. Note that the annuity depends on the annuitant's exact age and gender.

The rates above were calculated assuming maximum commission and will be enhanced if a commission discount is selected.

# Glossary of terminology

<b>Bonds</b>	A bond is an interest-bearing debt instrument, traditionally issued by governments as part of their budget funding sources, and now also issued by local authorities (municipalities), parastatals (Eskom) and companies. Bonds issued by the central government are often called "gilts". Bond issuers pay interest (called the "coupon") to the bondholder every 6 months. The price/value of a bond has an inverse relationship to the prevailing interest rate, so if the interest rate goes up, the value goes down, and vice versa. Bonds/gilts generally have a lower risk than shares because the holder of a gilt has the security of knowing that the gilt will be repaid in full by government or semi-government authorities at a specific time in the future. An investment in this type of asset should be viewed with a 3 to 6 year horizon.
<b>Cash</b>	An investment in cash usually refers to a savings or fixed-deposit account with a bank, or to a money market investment. Cash is generally regarded as the safest investment. Whilst it is theoretically possible to make a capital loss investing in cash, it is highly unlikely. An investment in this type of asset should be viewed with a 1 to 3 year horizon.
<b>Collective Investments</b>	Collective investments are investments in which investors' funds are pooled and managed by professional managers. Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares is often out of reach of smaller investors. The pooling of investors' funds makes collective investments the ideal option, providing cost effective access to the world's stock markets. This is why investing in collective investments has become so popular the world over and is considered a sound financial move by most investors.
<b>Compound Interest</b>	Compound interest refers to the interest earned on interest that was earned earlier and credited to the capital amount. For example, if you deposit R1 000 in a bank account at 10% and interest is calculated annually; your balance will be R1 100 at the end of the first year and R1 210 at the end of the second year. That extra R10, which was earned on the interest from the first year, is the result of compound interest ("interest on interest"). Interest can also be compounded on a monthly, quarterly, half-yearly or other basis.
<b>Dividend Yields</b>	The dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its share price. The higher the yield, the more money you will get back on your investment.
<b>Dividends</b>	When you buy equities offered by a company, you are effectively buying a portion of the company. Dividends are an investor's share of a company's profits, given to him or her as a part-owner of the company.
<b>Earnings per share</b>	Earnings per share is a measure of how much money the company has available for distribution to shareholders. A company's earnings per share is a good indication of its profitability and is generally considered to be the most important variable in determining a company's share price.
<b>Equity</b>	A share represents an institution/individual's ownership in a listed company and is the vehicle through which they are able to "share" in the profits made by that company. As the company grows, and the expectation of improved profits increases, the market price of the share will increase and this translates into a capital gain for the shareholder. Similarly, negative sentiment about the company will result in the share price falling. Shares/equities are usually considered to have the potential for the highest return of all the investment classes, but with a higher level of risk i.e. share investments have the most volatile returns over the short term. An investment in this type of asset should be viewed with a 7 to 10 year horizon.

<b>Financial Markets</b>	Financial markets are the institutional arrangements and conventions that exist for the issue and trading of financial instruments.
<b>Fixed Interest Funds</b>	Fixed interest funds invest in bonds, fixed-interest and money market instruments. Interest income is a feature of these funds and, in general, capital should remain stable.
<b>Gross Domestic Product (GDP)</b>	The Gross Domestic Product measures the total volume of goods and services produced in the economy. Therefore, the percentage change in the GDP from year to year reflects the country's annual economic growth rate.
<b>Growth Funds</b>	Growth funds seek maximum capital appreciation by investing in rapidly growing companies across all sectors of the JSE. Growth companies are those whose profits are in a strong upward trend, or are expected to grow strongly, and which normally trade at a higher-than-average price/earnings ratio.
<b>Industrial Funds</b>	Industrial funds invest in selected industrial companies listed on the JSE, but excluding all companies listed in the resources and financial economic groups.
<b>Investment Portfolio</b>	An investment portfolio is a collection of securities owned by an individual or institution (such as a collective investment scheme). A funds ' portfolio may include a combination of financial instruments such as bonds, equities, money market securities, etc. The theory is that the investments should be spread over a range of options in order to diversify and spread risk.
<b>JSE Securities Exchange</b>	The primary role of the JSE Securities Exchange is to provide a market where securities can be freely traded under regulated procedures.
<b>Price to earnings ratio</b>	Price to earnings ratio or p: e ratio is calculated by dividing the price per share by the earnings per share. This ratio provides a better indication of the value of a share, than the market price alone. For example, all things being equal, a R10 share with a P/E of 75 is much more "expensive" than a R100 share with a P/E of 20.
<b>Property</b>	Property has some attributes of shares and some attributes of bonds. Property yields are normally stable and predictable because they comprise many contractual leases. These leases generate rental income that is passed through to investors. Property share prices however fluctuate with supply and demand and are counter cyclical to the interest rate cycle. Property is an excellent inflation hedge as rentals escalate with inflation, ensuring distribution growth, and property values escalate with inflation ensuring net asset value growth. This ensures real returns over the long term.
<b>Resources and Basic Industries Funds</b>	These funds seek capital appreciation by investing in the shares of companies whose main business operations involve the exploration, mining, distribution and processing of metals, minerals, energy, chemicals, forestry and other natural resources, or where at least 50 percent of their earnings are derived from such business activities, and excludes service providers to these companies.
<b>Smaller Companies Funds</b>	Smaller Companies Funds seek maximum capital appreciation by investing in both established smaller companies and emerging companies. At least 75 percent of the fund must be invested in small- to mid-cap shares which fall outside of the top 40 JSE-listed companies by market capitalisation.
<b>Value Funds</b>	These funds aim to deliver medium- to long-term capital appreciation by investing in value shares with low price/earnings ratios and shares which trade at a discount to their net asset value.

*Sources: Unit Trust and Collective Investments (September 2007), The Financial Sector Charter Council, Personal Finance (30 November 2002), Introduction to Financial Markets, Personal Finance, Quarter 4 2007, Investopedia ([www.investopedia.com](http://www.investopedia.com)) and The South African Financial Planning Handbook 2004.*

# Disclaimer

The price of each unit of a domestic money market portfolio is aimed at a constant value. The total return to the investor is primarily made up of interest received but, may also include any gain or loss made on any particular instrument. In most cases this will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of reducing the capital value of the portfolio. Collective Investment Schemes in Securities (CIS) are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a CIS in securities is not the same as a deposit with a banking institution. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from STANLIB Collective Investments Ltd (the Manager). Commission and incentives may be paid and if so, would be included in the overall costs. A fund of funds is a portfolio that invests in portfolios of collective investment schemes, which levy their own charges, which could result in a higher fee structure for these portfolios. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. TER is the annualised percent of the average Net Asset Value of the portfolio incurred as charges, levies and fees. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. Portfolios are valued on a daily basis at 15h30. Investments and repurchases will receive the price of the same day if received prior to 15h30. Liberty is a full member of the Association for Savings and Investments of South Africa. The Manager is a member of the Liberty Group of Companies.

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