



Classic FM Business with John Fraser, 9/10/2008

“Wealth”

with Mike Estment CEO NFB Financial Services Group

JOHN FRASER: How is the average investor coping with all the turmoil? It's great that we didn't have any increase in interest rates today. It's a bit sad that we didn't see a decrease but nonetheless it's a turbulent time. Markets go down by massive amounts. The volatility of the JSE is probably the highest it has been for a very long time and some investors may be prone to panic. One man who gives advice to investors and is here to talk to us tonight is the Head of NFB, Mike Estment. Are you getting many calls from puzzled, worried, alarmed, panicky investors?

MIKE ESTMENT: Yes certainly we are and I think that's to be expected. I think the industry we are in is one where people set sail, understand that they are in a cautious, balanced or an aggressive portfolio but forget that very quickly and forget the gravity with which things can change when they do. That probably precipitates a run for the door and the door is only one person wide and you have a hundred folk trying to get through it at the same time and that leads to probably injury and memory so if you were wanting to get out of the market last year would have been a good time but the other side of this panic is the emotion of greed where people would like to stay in as long as they can; probably overstay their welcome and long after the institutional investors had moved out they are still hanging on there waiting for that last five or ten percent.

JOHN FRASER: Presumably any investor who has the luxury of being in the markets for a while should take the long-term perspective?

MIKE ESTMENT: That's absolutely correct and there has been a lot of discussion. There are a lot of very smart people in the various forms of media advising investors that are invested into equities and growth assets to hang in there because the pain has been taken. That's not to say for a second that we are at the bottom of the curve but we are certainly at the

bottom end of it and there are some unbelievable companies available at some incredibly interesting prices. The South African market is at a price earnings level last seen four or five years ago and for the last four or five years people have bought those companies into high yields. So I would certainly think that it is time to take stock but not to run for cover because you are probably going to leave all the money that has been lost on paper on the table whilst markets will certainly take a bit of time to come back but when they do it will probably be with some gusto.

JOHN FRASER: Mike, how personally have you been reacting to the news flow over the couple of weeks? We have seen established names which have been going for hundreds of years collapsing in some of the US financial institutions. You think of Lehman Brothers, we've seen this \$700 billion bail-out followed by the UK bail-out and partial nationalisation of some of their big banks. That was \$50 billion. We've seen various central banks co-ordinating a cut in interest rates. We are living in very interesting times aren't we?

MIKE ESTMENT: John indeed we are and probably one of the most probing questions asked to me in the last while was one of the four big commercial banks - is it safe to have R30 or R40 million in a money market fund in that place and the answer I gave to that person was "I believe so". Not yes. Having said that I qualified that by commentating that this particular bank in question probably banked 20% of the economy and it would probably be incumbent on the central bank in South Africa to step in should that be the case because otherwise you have systemic collapse and if there is no monetary system or the current system as it is understood around the world isn't there, well then what happens? We go back a couple of hundred years in terms of the sophistication and we start bartering with people. Not a good industry that I would be looking to go to - radio probably - out of financial services, but really it is unprecedented in people that are alive today's life times to see what has gone on and the crazy thing is that it has been the result of ridiculous amounts of greed and incredibly inept governance but it has created a situation a couple of weeks ago where one woke up and wondered whether it was safer to be in the market or in traditional safe investments which were on call in a bank or in a bond.

JOHN FRASER: Market or the mattress almost.

MIKE ESTMENT: Indeed.

JOHN FRASER: Mike looking forward I suppose it is impossible to predict whether the global economic system has stabilised and therefore one just has to be alert. One has to look at opportunities when they arise but I suppose it goes back to that initial discussion we were having at the

beginning of this interview. Don't do anything rash; think before you leap because you can destroy a lot of wealth through panic.

MIKE ESTMENT: Yes you can and it's destroyed because the loss is realised. If one looks back in the South African index, just three or four years, the dramatic correction that we are living through right now still pales into insignificance relative to the growth that has taken place. The South African economy is not in an incredibly healthy state because if you look at the underpins; the retail investor has taken and is taking strain with this high interest rate environment. Governor Mboweni wasn't able to cut the rate today but that is probably good governance as well - to protect the currency from going into freefall and other issues that confront him. Investors are getting a decent return in supposed risk free rates but certainly we are in a market where it will come back and right now some top companies are available. Their share prices are at very seriously low prices and I think you need to watch the institutions, they are starting to nibble and they are looking at opportunities and taking them. The big investors, the big pension funds will start to load up because they have deep pockets and long term horizons. It's not a market where I would be speculating because I think the bottom is not easy to call and I think certain companies will have bad news that they will have to bring to market sometime in the near future as well. When stress like this happens you also find that some companies use it as an opportunity to clear out the skeletons in the cupboard and that might also cause some confusion and consternation.