



financial services group

MONTHLY MARKET REPORT SEPTEMBER 2009

Asset Management

SEPTEMBER 2009 COMMENTARY

Key Level Psychology (Psychosis?)

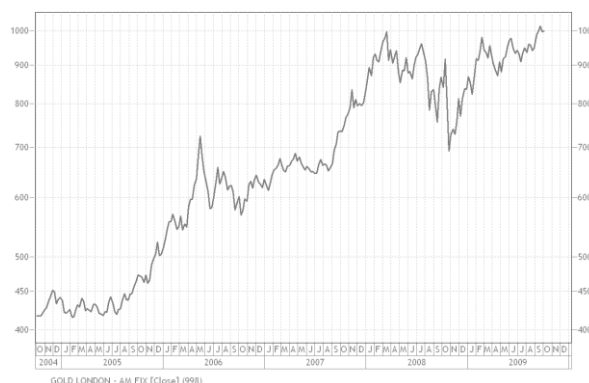
Aficionados of technical analysis - i.e. those that believe that everything is reflected in the price and therefore only study price movements - and proponents of behavioural finance will have noted that September marked a month of key level breaches.

The rand went through 11 to the euro and 12 to the pound during the month. Though the word 'through' conveys absolutely nothing in terms of directionality, so for clarity by 'through' here we mean that the rand weakened. At the same time the exchange rate between the dollar and its neighbour across the pond, the pound, breached the key 1.60 level.

The interesting tie that binds these levels together is that they are all currencies. Extending the key level breach and the currency tie in further allows us to incorporate gold's breach of the \$1,000 mark as well.

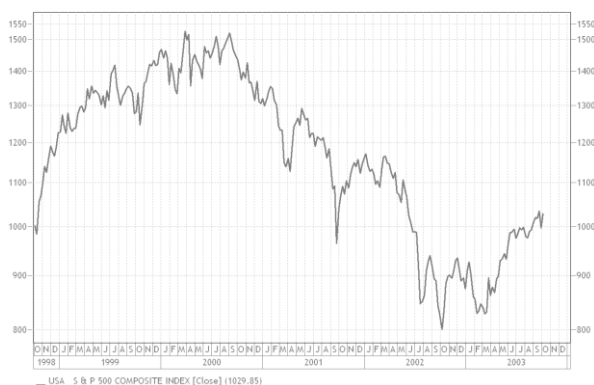
Whilst we don't set much store in these technical/psychological levels as measures of value nor do we think they contain much predictive value they are instructive, in the broadest sense, of market sentiment and are, at the very least, worth reflecting on.

Gold, Weekly
Sep 04 - Sep 09



A Taxing Question

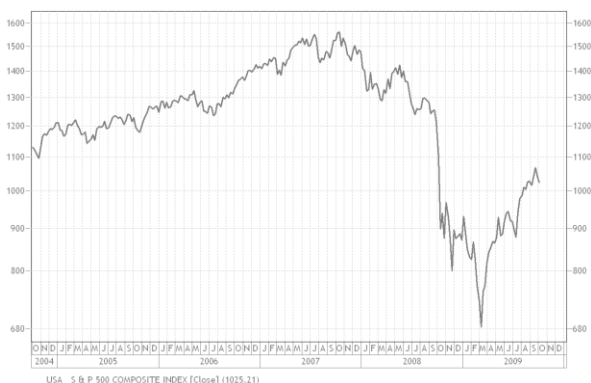
S&P 500, Weekly
Sep 98 - Sep 03



2000/2001 was the time of the telecommunications boom. Remember the term TMT? Technology, Media, Telecommunications; which imploded and was exacerbated by the very sad events of 9-11. Greenspan lowered interest rates dramatically and, effectively, converted the TMT-bubble into the Sub-Prime Bubble.

All bubbles burst and Greenspan's successor, Bernanke, not only lowered interest rates but began a policy now known as quantitative easing. All this achieves is to transfer the bubble from overleveraged American consumers to the US balance sheet. In essence, the bubble has moved from TMT stocks to sub-prime assets to government bonds. A wicked game of pass-the-parcel?

S&P 500, Weekly
Sep 04 - Sep 09



Whether or not the music stops playing, there is no-one left to pass the parcel to. Or perhaps there is one remaining entity? That entity is the taxpayer. However, raising taxes as dramatically as is currently being proposed risks cutting off the one route out of this quagmire: growth, and with it the ability to inflate debt away.

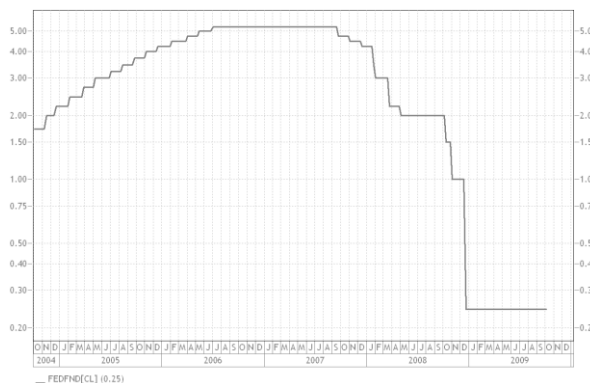
Double Dips

We've recently encountered an interesting economic/aviation analogy that is worth recounting here: stall speed. On takeoff, or even in flight, an aircraft can rather comfortably be enjoying Bernoulli's Principle of Flight by maintaining airspeed only marginally above that of stall speed. Should airspeed fall sufficiently to induce a stall the aircraft, literally, falls out of the sky.

The global economy, at present, is cruising along at just above stall speed. And this with an unprecedented amount of monetary and fiscal stimulus behind it. It might not take much to induce stall speed and should this happen there is very little left that global central banks - interest rates are already at or close to zero and they have already deployed vast amounts of capital in terms of quantitative easing - and businesses - you can only fire your staff once and you can only cut costs back to the bone, beyond that there's very little cutting left - can do. In this environment it is likely we see another recession (the Double Dip), following hard on the heels of the Great Recession we've just experienced.

In such an environment we anticipate that interest rates will remain at these levels for quite some time, that further quantitative easing - though sporadic and not quite as generous - will be forthcoming. We are on the lookout for central bank and government rhetoric, for this will be the last tool available once all others have been depleted. The longer the global economy remains above stall speed and, in so doing, the more time given to the globe to heal and re-establish a new normal, the more likely it is that it will avoid stall speed.

US Fed Funds Rate, Weekly
Sep 04 - Sep 09



SEPTEMBER 2009 DATABANK

	Index Value	Last Month	Year-to-Date	12 Months Ago
SA Repo Rate	7.00%	0.00%	-4.50%	-5.00%
JSE ALSI	24,910.85	-0.07%	15.81%	4.51%
ALBI	159.82	-0.65%	-8.68%	-0.46%
R157	8.29%	8.18%	7.21%	8.86%
USDZAR	7.51	-3.28%	-21.11%	-8.81%

All charts and data are sourced from I-Net Bridge.