



financial services group

MONTHLY MARKET REPORT NOVEMBER 2010

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NOVEMBER 2010 COMMENTARY

On why the Best of 2010 is irrelevant

It's nearly the end of the year; nearly the end of South Africa's magical 2010 World Cup year (though there are the Cricket and Rugby World Cups next year to look forward to for those of us who are so inclined). And very nearly that time when publications around the world will begin to look back on the year that was. Expect to see lists of the Best Movies of 2010, the best-selling pop artists of 2010 and along with them - though from rather different publications - you can comfortably expect to see lists of the best Fund Managers of 2010, or perhaps even the best Asset Classes of 2010.

Whilst these lists are instructive, they're not terribly useful from an investment management point of view. Investing on such a basis would be akin to driving by looking in the rearview mirror. Last year's best performing fund manager may not be 2011's best performer, they may not even be in the top half of the next year's best performers; a single year's performance has a lot more to do with luck than it has to do with skill. Looking for those managers that have outperformed their benchmarks and/or their peers on a consistent basis over a meaningful period - three or, even better, five years - is likely to be far more useful to your retirement savings than chasing this year's best performer. The same goes for asset classes. Anyone who's seen a table of periodic investment returns can attest to this. About the only useful aspect of reflecting on the best performers of 2010 is the process of reflection itself.

A word on reflection

Reflecting on whether your chosen investment strategy continues to align itself with your investment objectives is a good idea. Reflecting on whether your contributions toward your retirement savings are sufficient is also an excellent idea. Doing so together with your financial advisor is also a rather good idea.

And having reflected and having found yourself in reasonable position it's then - perhaps - wise to recommit yourself to your chosen objectives and strategies. Investing is not for the short term, that's speculating. Investing requires long-term focus and fortitude.

The fallacy of forecasting

Fortitude and focus are prerequisites; forecasting is not. Short-term market movements are random and long-term market movements are subject to forces not necessarily visible in the present. We set very little store in forecasting what 2011 might hold, though we do enjoy reading what others think 2011 might bring. Forecasting conveys a sense that the future can be controlled, and in such control investors often find comfort. The future cannot be controlled. Investing is about assessing what risks the future might hold and then allocating accordingly. Fortitude is required when these risks come to pass and not panicking and abandoning your investment strategy, which, if correctly established, encompasses the probability that such undesirable circumstances may come around.

Isn't assessing what risks the future might hold not forecasting in disguise, you might ask. Isn't this just a rather clever game of semantics? No, it's not. There is a possibility the stock market could fall 20% next year. If your investment portfolio cannot stomach a 20% fall in value then avoid having 100% of your portfolio exposed to equities. Understand then that if the market rises 20% your portfolio will miss out. What we've described here is vastly different from forecasting whether the market will be at a certain number of points by a certain date.

Could the market rise further in 2011? Yes, but PE ratios are high and dividend yields are low and the risks are therefore stacked in favour of the downside. Whether the downside presents itself in 2011 or not is beyond us. We can with reasonable certainty opine on whether asset classes are at the top or bottom of their historical valuation ranges. What we cannot say is whether these asset classes will rise further, i.e. become even more overvalued, or whether they will fall further from already undervalued territory.

It's all about risk

Investing then becomes all about how much risk you are willing to take on in your investment and/or retirement portfolio. And, perhaps more importantly, how much risk you are willing and able to take on in the context of your personal circumstances. Investing isn't about the portfolio alone, but has a lot more to do with the person doing the investing. Being honest about who you are and what your objectives are is key to a successful investment experience. Perhaps this is something to reflect on during your end of year break? And on that note...

Happy holidays to all of our readers and to those of you who are traveling, do so safely. We look forward to sharing our thoughts with you - and getting your feedback - again in early January 2011. Best wishes, the NFB team.

NOVEMBER 2010 DATABANK

	Index Value	Last Month	Year-to-Date	12 Months Ago
SA Repo Rate	5.50%	-0.50%	-1.50%	-1.50%
JSE ALSI	30,226.40	-0.54%	9.40%	12.54%
ALBI	337.89	-1.99%	13.00%	14.35%
R157	7.46%	7.04%	8.39%	8.42%
USDZAR	7.09	1.55%	-4.15%	-4.20%

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