



financial services group

MONTHLY MARKET REPORT SEPTEMBER 2011

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SEPTEMBER 2011 COMMENTARY

In the ordinary course of writing this Report we attempt to steer clear, as far as we can, of daily headlines and/or weekly market movements because they are, largely, random and, therefore, meaningless. This type of information flow, whilst great for dinner table debate, doesn't have, and shouldn't have, much bearing on your long-term investment strategy. Well... perhaps that's not wholly true. Short-term news flow is exactly what leads the market to the kinds of conditions that can be exploited by sound, rational investment minds. Now, having said that short-term market movements are random and meaningless, we're going to spend the greater part of this month's edition of this Report dwelling on events occurring within the last few weeks.

Starting with the rand...

The rand has been a massive beneficiary (see the first chart in this Report) of foreign portfolio inflows, strengthening significantly as offshore investors seek to move away from their ZIRP (zero interest rate policy) bases and into formerly-ignored destinations where interest rates are significantly higher. As we pointed out in last month's edition of this Report South African interest rates at around 5% are *ten times* higher than American interest rates at around 0.5%.

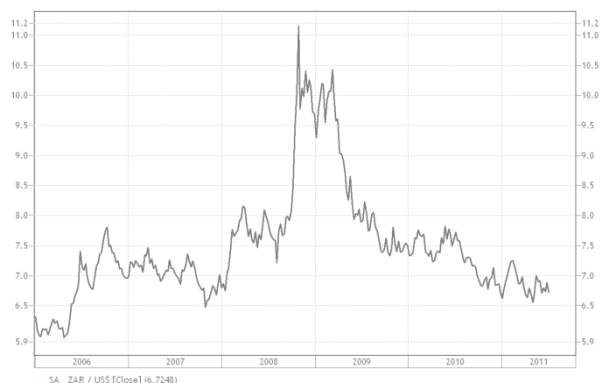
Other notable items:

- Some R350bn has been invested into South Africa over the last ten years,
 - Much of which is in the form of foreign portfolio inflows which are far less preferable to foreign direct investments which increase the productive capacity of the economy, bringing with it the attendant benefits of lower unemployment and higher education. Further discussion of the economics of FPI versus FDI is probably beyond the scope of this Report, the political ramifications most certainly are.
- Resulting in a structural net outflow of 3 - 4% of GDP per annum in the form of dividend and interest payments.

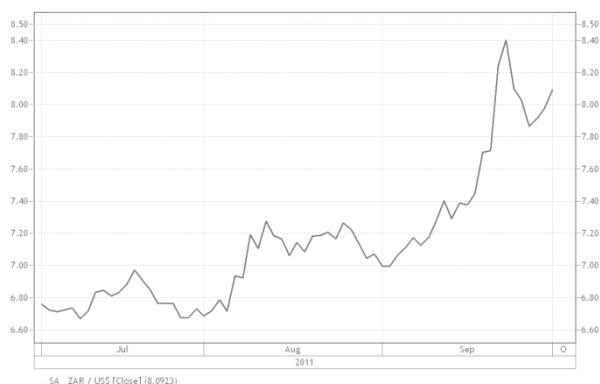
Over the last few weeks, however, we have seen a marked turnaround with some R16bn leaving our shores over the past two weeks. The rand sold off from levels around R6.80 to the dollar to R8.40, or around 25% (see second chart).

Where this process ends we don't know. Within the Fund of Funds we have trimmed offshore exposure by selling 2.5% of portfolio value and bringing the assets back into local cash, effectively taking a little profit on the rand. For the Cautious FOF we previously had around 20% offshore and for the Balanced FOF we previously had around 25% offshore; it was thus prudent to reduce exposure after this most recent sell-off and we may continue to do so if the rand sells off further.

USDZAR, Weekly
Dec 05 - Jun 11

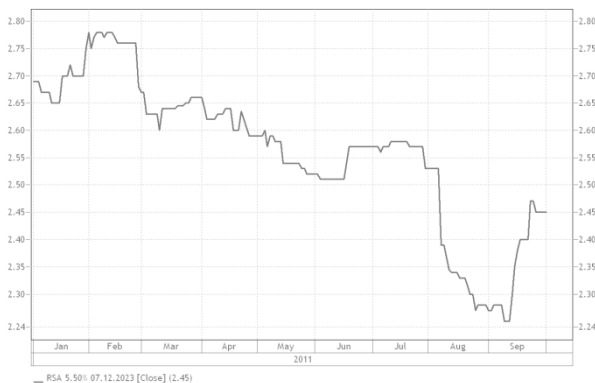


USDZAR, Daily
Jun 11 - Sep 11



...Moving through Inflation Linkers...

**R197, Real Yield, Daily
Jan 11 - Sep 11**



One of the sources of funding for offshore investors as they have reduced their rand exposure has been our local bond market; one element of which is the inflation-linked bond market.

There is an inverse relationship between bond yields (or the real bond yield on inflation linkers, see chart) and the price of a bond. As prices fall, yields rise. Note the steady fall in the real yield on the R197 - an inflation linked bond issued by the South African government - from around 2.75% at the beginning of the year to around 2.25% in early September and then note the rapid change in direction as bond prices fell in late September. The R197 is now trading at a yield closer to 2.45%. Nothing to panic about and for those technical chartists amongst our readers you'll note that the trend for 2011 remains unbroken.

In the period January through September, particularly the period starting in early August, we had been looking for an exit point for our inflation linked bond exposure. That point never came, but then neither has an entry point. Our local portfolios' direct inflation-linked exposure therefore remains at neutral weight.

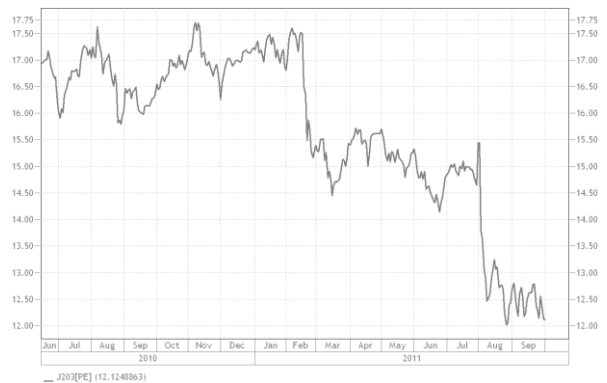
...And ending with local equity markets

Whilst we end this Report on local equity markets much of what we cover here applies to global equity markets as well...

The final chart in this Report sets out the JSE All Share Index's PE ratio for the last year-and-a-half; note the two major steps down as well as the daily swings in the PE ratio in recent times. We have been buyers of local equities across our local portfolios during 2011, attempting to take advantage of those two major moves down but lately have taken to the sidelines whilst the market's PE has gyrated wildly.

Similarly to our comments about the rand; we also don't know where this might go but we do know that the local equity market is presenting better and better value and that these are the types of conditions we like to take advantage of. Buy when others are selling; be greedy when others are fearful are mantras we subscribe to.

**JSE All Share Index, PE Ratio, Daily
Jun 10 - Sep 11**



SEPTEMBER 2011 DATABANK

	Index Value	Last Month	Year-to-Date	1 Year
SA Repo Rate	5.5%	0.0%	0.0%	-0.5%
JSE ALSI	29,674	-4.3%	-7.6%	0.7%
ALBI	361.4	-2.1%	5.1%	5.9%
R157	7.0%	6.5%	7.3%	7.3%
USDZAR	8.1	15.7%	22.3%	16.3%

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