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FROM THE CEO's DESK

We've had Madoff and now we are seeing the "Tannenbaum" thing come to a head. What next? It seems amazing the frequency with which these things happen in a series. Whether it is aircraft incidents, fraudsters, British politicians stealing public money, they seem to happen in numbers.

It is a time to be cautious, and yet having said this, I also believe that it will soon be a time where those with courage and information gained by doing appropriate research, will find investments and projects which will give extraordinary returns. The one caveat is that this time it will take longer to realize.

The biggest dilemma at present is that being experienced by retired people, already drawing from their investments to supplement, or indeed provide, monthly or ad hoc income. With inflation in SA still resiliently high, and with returns on interest low, and income tax due on income being withdrawn, the nett position is rather daunting. This class of investor needs to stick it out. It is neither the time to switch to cash, nor attempt to repair nominal losses by betting the farm. Stay put is my call, and let the ills of the last decade, still haunting banks, corporate and governments alike play themselves out. Be brave enough to stay the race, leaving a moderate portion of your portfolio exposed to growth assets, with the balance earning more muted returns in safe assets. If possible, leaving as much on the table is good advice, even if this means reducing drawings in the short term. This is not always possible, but will be sage advice as the funds left invested will participate in the next upward cycle.

Interest rates, whilst unchanged in the last month, will shortly resume the downward trend, further compromising those dependent on interest for income. Right now I'd like to advise investors to shop around, attempting to find the top available rate, but most importantly, from an institution which is a major bank, life company or one who offers a guarantee, which is reliable. For some years now, I have been using a portfolio, offered by Liberty Life and which derives its returns from their blue chip portfolio of properties, including Sandton City, Eastgate, and other super regional retail centre's, their hotel assets and other very solid properties with secure leases with upwardly adjusting rentals, as a proxy for money market yields. The portfolio has outperformed cash, notwithstanding the fact that interest rates have been at a cyclical high over the last few years. As mentioned repeatedly over the last few months on TV, radio and media interviews, may I again urge readers to avoid the flood of high interest and return guarantees being offered via the media, or at least to discuss these with us at NFB. Alternatively, they can be checked out with the Financial Services Board. We continue reporting these players when we find them, and have had great feedback from the FSB. The problem with this process is the law. This is because the FSB is restricted in its right to investigate these offers. If the company is offering investments via brokers registered with the FSB, they can get involved, if not, the FSB's hands are tied and they report the probable problem to the appropriate regulator. Not ideal you might say, but this is the law!

The bottom line is that the investor should be aware of the reality of risk and return. When it seems incredibly attractive, it probably is!

Now onto matters more important. The biggest soccer event of the year took place recently. The Confederation Cup allowed South Africans to watch our very own Bafana Bafana take on the best the world has to offer. Black South Africans have always supported the team. White SA has not. Following the Confed Cup, my family and I are converted. We saw a team, prepared and committed, taking on the best and having to be taken very seriously. We never scored against Brazil, but had them under major pressure throughout the game.

They scored an excellent last minute goal to win 1-0 and relegated SA to a playoff against Spain for 3rd and 4th position. Spain, for those who don't know, is ranked number 1 in the world at present. We scored first and had them on the rack for most of the game going down 3-2 eventually. Although the coach has difficulty speaking English, he can speak soccer and needs to finesse the striking skills of the team. If this can be done, we certainly have something to look forward to. The spectacle, the soccer, and the elation of another winning South African sporting code is something I look forward to.

Congrats also to our namesake FNB, whose marketing departments have developed a Kuduzela. This attractive kudu horn-shaped and less noisy version of the Vuvuzela is going to be a hit with the supporters, local and international. Viva Bafana Bafana, Viva! The 2010 World Cup is set to be a major success and will, I believe, have a material impact on tourism and the economy at large at a perfect time to help South Africa to deal with the financial malaise the world finds itself in at present. The benefits of a successful 2010 competition will be felt long after the event, and will impact the broader sub-Saharan region bringing stability and economic progress.

Bring it on! I hope our readers will enjoy it as much as we intend to.

Mike Estment, CEO

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Diversification, Diversification, Diversification.

Our regular readers will recognize the topic as one that we have covered before. It is a subject that deserves regular attention and we will, in this article, endeavor to reassess its fundamentals as well as discuss some new ideas. By Stephen Katzenellenbogen, Independent Financial Advisor - NFB Gauteng

When buying a property the adage of 'location, location, location' is commonly used. The question that begs asking is why the same word, 'location', is repeated 3 times? Does it refer to 3 completely different design styles or, perhaps, that everybody should have three properties? My take on it, is that the repetition is there merely for emphasis; specifically highlighting the fact that even if the actual property is not perfect, its locality is critical. Taking this a bit further, if you buy a home that has a great position, but needs a little 'love and attention', you can more easily renovate the home than change its address.

As often as we hear the 'location' statement we are told of the importance and benefits of diversification regarding your investment portfolio(s). Although the compatibility is not completely perfect the rule above can, and should be, successfully applied to an investment portfolio. We expand on and describe this below.

We will in due course talk about diversifying your assets, but will for now, discuss the similarity between the importance of 'location' and diversification. As significant as it is to have a high quality location for your property, it is equally significant to have high quality assets in your portfolio. If you have your asset mix correct it may be in vain if the quality of the assets employed are poor. When assessing the quality of your assets the following check-points can be used as a guide:

- Who is the issuer and what is their credibility (credit quality)?
- Are there any regulatory bodies that govern the investment?
- Does it sound too good to be true? (If 'yes', it probably is!)
- With whom does your risk lie?
- What is your risk? (asset performance, balance sheet, capital)
- What is the potential return and its likelihood?
- What is the potential role of the investment in your portfolio?

These particular queries are a step in the investment process that are often overlooked by investors – not because the investor is not cognizant of the issues, but rather because they rely on their financial advisor to cover these bases. This is most probably fine when dealing with the major investment houses, and reputable advisors, but should not be overlooked when dealing with more exotic instruments or companies. When looking at a new investment it is always recommended to discuss the fundamentals with an individual or institution that is not emotionally attached and can therefore provide unbiased comment.

A current example, and point of much media attention where the above query process may have saved some investors, is the recent uncovering, both locally and abroad, of some high profile ponzi schemes and bogus property syndications. It seems that investors were either lured in by the promise of extraordinary returns or on the basis that 'if it is good enough for Bob it's good enough for me'. Although possibly easier said than done, it seems that the massive losses experienced by some investors could have been avoided by applying logic and some basic investment principles as described above.

Before assessing the assets recommended for your portfolio, you need to determine your appetite for risk, either for your portfolio as a whole or for the investment in question. Once you have a potential investment(s) you can then apply the 'location' principle.

The explanation of diversification provided by wikipedia.com gives us a succinct summary of the fundamental principles supporting a diversified portfolio: "Diversification in finance is a risk management technique, related to , that mixes a wide variety of investments within a portfolio. It is the spreading out of investments to reduce risks. Because the fluctuations of a single security has less impact on a diverse portfolio, diversification minimizes the risk from any one investment."

The typical portfolio dictates diversification across a number of spheres:

- Asset Class (cash, bonds, property, equity, other)
- Institutional exposure ('location')
- Geographic exposure, including currency

If over the long-term, equities have historically outperformed all other asset classes, then why would you elect to have exposure to another asset class? The answer to this is that circumstantially it may actually not be necessary. If you have a portfolio aimed purely at growth where you need little to no income and have a long to indefinite time horizon, then equities may be the only solution required. [However, you may still find yourself exiting from this strategy at a particularly nasty moment in the market cycle. Extreme caution is advised!] If this is the case, then diversification across managers and holdings is still prudent.

Over shorter periods the picture painted is one of volatility; not only regarding equities, but across all the various asset classes. The table below clearly vindicates the case for diversification, and ultimately, for having a portfolio allocated to your risk appetite and investment requirements.

Ranking	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
1	Offshore Equity 51%	SA Equity 61%	Offshore Cash 31%	Offshore Cash 64%	SA Bonds 18%	SA Property 41%	SA Property 41%	SA Property 50%	SA Equity 41%	SA Property 27%	Offshore Bonds 52%
2	Offshore Bonds 39%	SA Property 53%	Offshore Bonds 26%	Offshore Bonds 57%	SA Property 18%	SA Bonds 19%	SA Equity 25%	SA Equity 47%	Offshore Equity 34%	SA Equity 19%	Offshore Cash 38%
3	Offshore Cash 27%	Offshore Equity 31%	SA Property 24%	Offshore Equity 32%	SA Inflation 12%	SA Equity 16%	SA Bonds 15%	Offshore Equity 24%	SA Property 28%	SA Cash 9%	SA Bonds 17%
4	SA Cash 18%	SA Bonds 30%	SA Bonds 20%	SA Equity 29%	SA Cash 12%	SA Cash 12%	SA Cash 8%	Offshore Cash 16%	Offshore Bonds 18%	SA Inflation 9%	SA Cash 12%
5	SA Inflation 9%	SA Cash 16%	SA Cash 11%	SA Bonds 18%	SA Equity -8%	Offshore Equity 4%	SA Inflation 3%	SA Bonds 11%	Offshore Cash 17%	Offshore Bonds 7%	SA Inflation 10%
6	SA Bonds 5%	Offshore Cash 10%	Offshore Equity 7%	SA Cash 11%	Offshore Bonds -15%	SA Inflation 0%	Offshore Equity -3%	SA Cash 7%	SA Cash 7%	Offshore Equity 6%	SA Property -4%
7	SA Equity -10%	SA Inflation 2%	SA Inflation 7%	SA Property 9%	Offshore Cash -27%	Offshore Bonds -11%	Offshore Bonds -7%	Offshore Bonds 5%	SA Inflation 6%	SA Bonds 4%	Offshore Equity -19%
8	SA Property -26%	Offshore Bonds -1%	SA Equity 0%	SA Inflation 5%	Offshore Equity -42%	Offshore Cash -21%	Offshore Cash -14%	SA Inflation 4%	SA Bonds 6%	Offshore Cash 25%	SA Equity -23%

Sources: OMIGSA and Morningstar

The return matrix below, adds further support to the diversification cause in that different asset classes have different returns and return characteristics over different periods of time.

	SA Equity*	SA Property*	SA Bonds*	SA Cash
3 Month	6.96%	-4.74%	-0.66%	1.49%
1 Year	-17.71%	10.41%	9.90%	10.26%
3 Years	14.94%	56.13%	24.12%	32.50%
7 Years	194.45%	412.91%	97.32%	88.28%

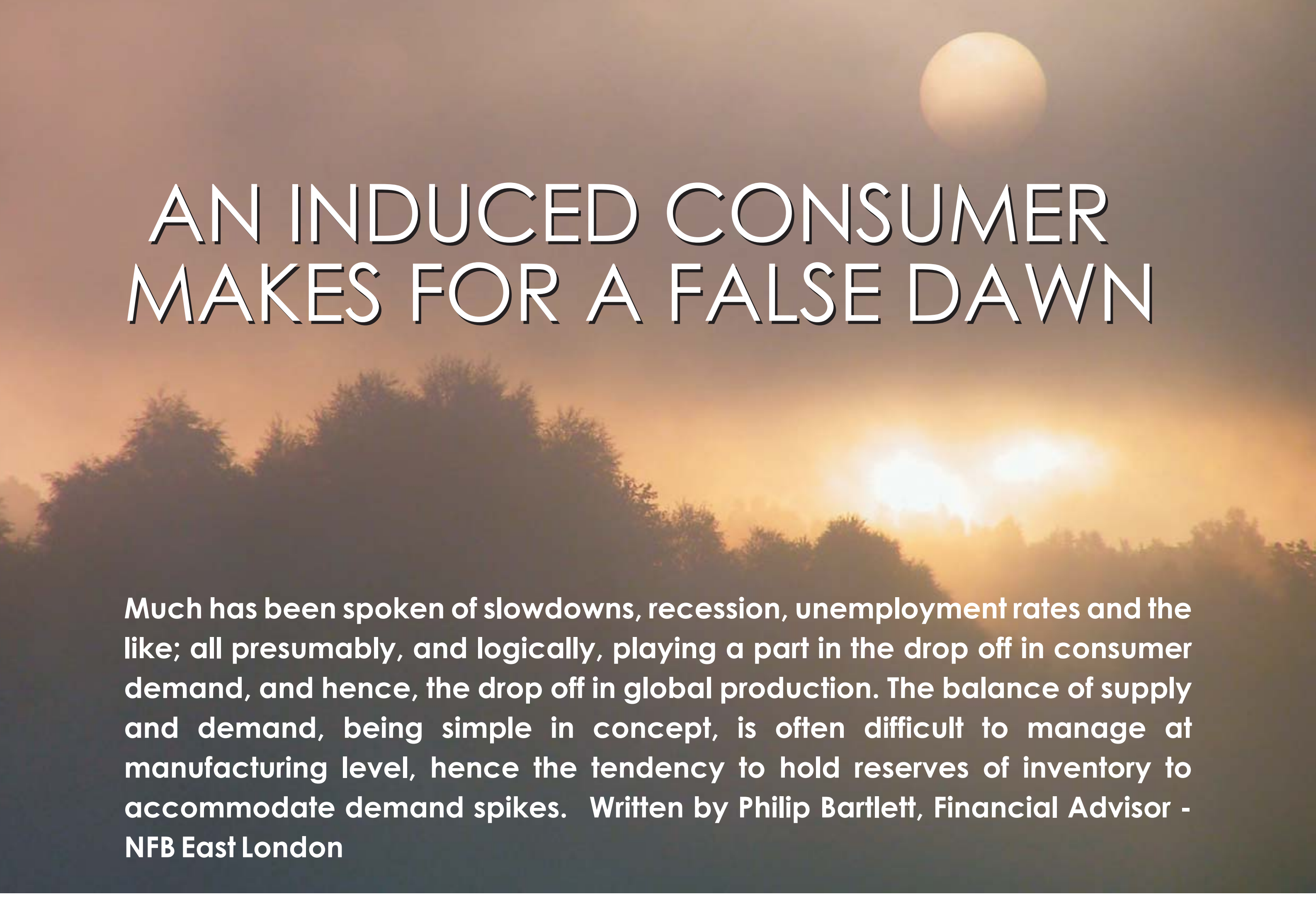
**Returns include distributions*

The wikipedia.com definition of diversification, quoted earlier on, refers to risk. As long as you have assessed the 'location' of your asset the risk does not refer to losing your funds, but rather the volatility of your returns. This is where we need to look at another clichéd saying: 'the higher the risk, the higher the reward'. This saying is in fact accurate with shares being the highest risk asset in a traditional investment environment, as they display the highest level of volatility. Blending assets with different volatility attributes brings down the risk, or variance of returns, within your portfolio. The other solution to reducing the variance in your returns is by holding on to your investments for long periods of time.

Whilst describing the last benefit of diversification to be discussed in this article I will refer to another quotation: 'do not hold all your eggs in one basket'. When you have your portfolio spread across a variety of assets, asset classes and institutions and an unlikely event occurs, such as a certain element becoming illiquid or even more seriously, worthless, then your overall position will not be too adversely affected.

Conclusion:

Interest rates are declining along with world markets and economic conditions, making the current investment environment a very tricky one. There are most certainly a number of very attractive opportunities available, but we urge you to stick to proven investment fundamentals and common sense when investing in any of these. Please remember that your NFB advisor is available for any investment query that you may have as well as to discuss any of our broad range of offerings.



AN INDUCED CONSUMER MAKES FOR A FALSE DAWN

Much has been spoken of slowdowns, recession, unemployment rates and the like; all presumably, and logically, playing a part in the drop off in consumer demand, and hence, the drop off in global production. The balance of supply and demand, being simple in concept, is often difficult to manage at manufacturing level, hence the tendency to hold reserves of inventory to accommodate demand spikes. Written by Philip Bartlett, Financial Advisor - NFB East London

Supply of product, regardless of economic conditions, is essential to brand longevity and market share. It makes sense that a buyer left hanging is likely to take his business elsewhere. On the flip side, when demand is absent it makes sense to shut down, or scale down on production and nibble away at the stockpile. Where demand resumes, one merely flicks the switch, rallies the troops and the conveyer belts begin to deliver once more. Seems quite clean and clinical, but the complication arrives in the form of job cuts, cash flow and, where duration exceeds the capacity to hang in - bankruptcy.

Foreseeing the potential global economic catastrophe, governments and treasuries around the world stepped in and began to subsidise by cutting interest rates or the provision of financial aid. One merely has to look at the automotive industry, where huge financial packages have been issued in an attempt to alleviate potential job loss and sustain consumer activity. This is all well and good in the short term, and the principal of aid has merit, but what if growth, nourished by subsidy, leads to production beyond the natural economic equilibrium of true supply and demand? The danger is surely that forward earnings become “masked” by an unsustainable demand.

It would be remiss of the investor to look back over the last ten years and take comfort from previous years of earning, as the landscape has been undeniably altered. The fact that the banking and lending world has been turned on its head means the market's sense of what is to come lacks conviction.

The anomaly of increased global unemployment, yet with spikes of resumed productivity, could well reflect the erosion of stockpiles and the coming alive of production, but whether this is to meet the appetite of a revived consumer who is eating unaided or one that is induced, has a very different consequence.

The point is that we are effectively no further down the line in understanding the true present demand of the consumer. While we understand the concept of a cycle, and the chant of what goes down must come up, the real issue and the opportunity cost lies in the time to recovery. To add a further dilemma, with interest rates falling and inflation stubbornly holding fast, one doesn't even have the luxury of sitting in cash without effectively jeopardising capital growth through the erosive effect of negative real returns.

With nowhere to hide it's no wonder money managers are feeding on defensive, and importantly, non-cyclical stock such as SAB Miller, British American Tobacco, MTN and various gold miners, and whether you believe the two runs in December and March to be the birth pains of the Bull, or mere corrections to the weight of the Bear, the road forward is still misty, and dawn is yet to break.

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