

# Market Commentary – mid December 2008



## Circulated to Antler investment clients

The silly season is upon us and I am sure most of you will share my sentiment – I will not be toasting in the New Year on 31 December this year, but will rather be flushing away the old year and suppressing the urge to trample all over it's memory. By historical standards, 2008 will find itself in economics textbooks as 'The year that taught the world a lesson!'

### Economics 101

*What is an 'economic stimulus package' and how is it supposed to work?*

The USA, UK, China and many other nations have announced economic stimulus packages in an effort to reduce the severity and duration of the recessionary forces that have resulted from the financial 'meltdown' of 2008. A stimulus package is a program of dramatically increased government spending (generally on infrastructure projects) that is intended to provide employment and increased demand for related goods and services.

South Africa, unbeknownst to all policymakers, happened by coincidence to be in the middle of huge infrastructural spending in preparation for 2010, and thus inadvertently has a significant head-start on the rest of the world in this regard.

|                       | 1 Jan | 11 Dec | Year to<br>date (%) | Change since<br>last letter (%) |
|-----------------------|-------|--------|---------------------|---------------------------------|
| <b>SA MARKETS</b>     |       |        |                     |                                 |
| All Share             | 28958 | 21931  | -24.27              | 4.68                            |
| Financials            | 22654 | 16111  | -28.88              | 5.68                            |
| Industrials           | 29824 | 20958  | -29.73              | -6.96                           |
| Resources             | 30448 | 22148  | -27.26              | 8.82                            |
| Listed Property       | 354   | 305    | -13.75              | 12.13                           |
| Gold Mining Index     | 2309  | 2340   | 1.31                | 37.08                           |
| Platinum Index        | 99    | 47     | -52.41              | 6.82                            |
| <b>EXCHANGE RATES</b> |       |        |                     |                                 |
| R/\$                  | 6.81  | 10.15  | 49.01               | 3.57                            |
| R/€                   | 9.97  | 13.21  | 32.51               | 4.18                            |
| R/£                   | 13.64 | 15.01  | 10.01               | -3.53                           |
| <b>GLOBAL MARKETS</b> |       |        |                     |                                 |
| Dow Jones Industrial  | 13265 | 8761   | -33.95              | -4.14                           |
| US S&P 500 Index      | 1468  | 889    | -39.48              | -11.63                          |
| UK FTSE 100 Index     | 6457  | 4367   | -32.36              | -3.62                           |
| French CAC 40 Index   | 5614  | 3320   | -40.86              | -8.24                           |
| Hang Seng Index       | 27813 | 14753  | -46.96              | 2.57                            |
| German DAX Index      | 8067  | 4805   | -40.98              | -7.01                           |
| Japanese Nikkei 225   | 15654 | 8396   | -46.36              | -7.89                           |
| US Nasdaq Index       | 2652  | 1565   | -40.98              | -6.96                           |
| MSCI (\$)             | 1589  | 899    | -43.41              | -8.55                           |

### *So how does infrastructure spending assist me?*

It is hardly intuitive that because a stadium/bridge is being built, our jobs will be more secure, but spending is supposed to be a self-perpetuating cycle of money similar to a game of pass-the-parcel.

The contractor tenders to build the stadium/bridge, he wins the contract. He is paid and spends a portion, his workers get paid and spend a portion, his suppliers get paid and spend a portion. The government official who took the bribe in awarding the contract got paid and spent a portion. Every person along the line who spends is paying someone else who spends some on someone else who spends some on someone else. This process is known as the 'Money Multiplier' and is critical to every economy.

Using the example above, and assuming everyone in the chain saves 5% of their total receipts, a R100.00 injection into the economy will multiply – R100 becomes R95 which becomes R90.25 etc... If you follow this process down to minute decimals,

a R100.00 injection results in a R2,000 increase in spending in the economy (a 20x multiplier). South Africans are not known for being the best at saving money, so increased government spending should assist to keep us in good shape when compared to countries such as Japan, where the population is notorious for saving money. Assuming in the example above everyone in the chain saved 20% rather than the 5% described above – This would mean a R100 injection would only result in a R500 increase in spending in the economy (a 5x multiplier).

The overly strong savings culture among the Japanese has resulted in past stimulus packages achieving very little – luckily we in SA and they in the US do not suffer from the same affliction. The Japanese government attempted a while back to get spending moving by distributing masses of discount coupons - the Japanese people decided (typically) to rather save the coupons for a rainy day (There were no expiry dates on the coupons) resulting in the exercise being an utter waste of time.

*So what exactly is your point?*

Spending more and saving less keeps an **economy** afloat. Spending less and saving more keeps a **person** afloat. Banks are great drivers in this process, and the financial crisis we have witnessed thus far has resulted in foreign financial institutions being very hesitant to continue lending – this cuts the multiplier associated with any economy dramatically.

*What do you suggest I do?*

**SPEND LESS AND SAVE MORE** – This is not crippling for the SA economy if your savings are 'put to work'. Even your cash in the bank is contributing to the economy as your positive balance is someone else's negative balance – the money is not 'dead' as it is if stored under your mattress. If you are spending, try to focus on local products and services as you are then actively assisting our economy, and not that of the foreign manufacturer (Only SA 'sparkling wine' this New Year please – our wine farmers need your money more than the French Champagne farmers do).

*Any changes to my portfolio?*

We have not yet completed the fund review process, and will not embark on changes until we are convinced that any changes are firstly necessary, secondly the best available, and thirdly cost effective.

#### **Notice of December Payments for annuity clients**

Old Mutual (BoE), Momentum Wealth and Allan Gray will be handling their December payments differently through the various weekends and public holidays – Momentum Wealth will be paying on the 29<sup>th</sup> (for those who elected a day between the 25<sup>th</sup> and the 28<sup>th</sup> of each month as 'payday'). Allan Gray and Old Mutual (BoE) will pay on the 23<sup>rd</sup>. In all cases please expect the funds to only reflect in your account on the working day after payment.

I would like to take this opportunity to thank you for your support through 2008, and for understanding the volatility (specifically the negative growth) in most investments this year. We as a company have done our level best to ensure our research remains current, and our heads remain level despite intense fear gripping all of us from time to time. I wish you a wonderful and restful festive season, and ask that you continue to refrain from making impulsive decisions through this difficult time.

Our offices will be closed from 12pm on the 24<sup>th</sup> of December through to the morning of the 5<sup>th</sup> of January thanks to some strategically placed weekends. I will be available via email and on my cell throughout the festive season should emergencies arise.

We at Antler wish you the best of everything through the festive season, and ask that you please travel safely if you are on the roads this December. There is a lot of talk about 2009 being similarly trying, but pessimism is the order of the day at the moment – we are forced to strap ourselves in and wait and see what 2009 brings us.

Until next time.

Kind Regards,



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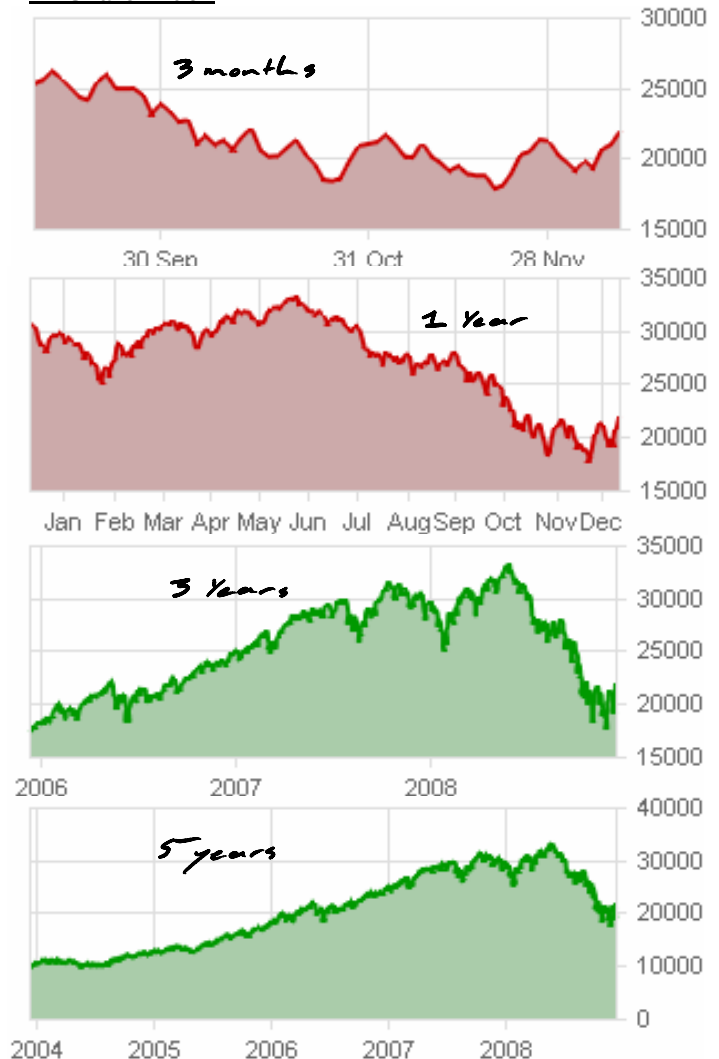
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#### **All Share Index**



#### **Rand / Dollar Exchange Rate**

