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RICHTON
EMPLOYEE BENEFIT CONSULTANTS

Market Commentary – early March 2009

Circulated to Antler investment clients

"Veni, Vidi, volo in domum redire."

I came, I saw, I want to go home.

The carnage continues unabated in 2009, with every investor not only questioning their conviction in remaining invested, but also questioning their sanity in doing so. The 'recovery' we saw in December and January has now faded to a distant memory – replaced by outright fear and the sense of gazing into a bottomless pit while standing on the crumbling edge.

Economics 101

What is the outlook for the various asset classes at present?

Investing consists of two separate but intertwined goals – capital growth and income yield. Capital growth is what we seek when we do not need an income stream from our investment, and income yield is what we seek when we do. It is sensible that yield, if not drawn, can be reinvested to add to capital growth. Certain assets classes are strong on one side, and weak on the other, while some provide a good trade-off between the two.

So what?

Cash – SA Cash is expected to provide an inflation-beating return in 2009. The main reason for this is that contractionary pressures on our economy will cause inflation to fall faster than Tito lowers interest rates. Cash is one that at present provides a good income yield, but will never experience capital growth (R1 invested will remain R1 if the interest is not reinvested).

So why don't I move 100% into cash?

Cash will not achieve a real growth rate of more than inflation +2% over any sustained period of time. Inflation will climb again, and interest rates will take time to follow – resulting in negative real growth (In 2008 cash provided approx. 10.5% in untaxed portfolios, while inflation exceeded 13% at times). That said, if you have been in cash over the previous 12-18 months, be grateful as you have outperformed all other SA asset classes. It may very well be the time to diversify out of cash though.

	1 Jan 09	09 Mar	Year to date (%)	Change since last letter (%)
SA MARKETS				
All Share	21509	18152	-15.61	-17.23
Financials	15779	12091	-23.37	-24.95
Industrials	21496	17001	-20.91	-18.88
Resources	21199	19423	-8.38	-12.30
Listed Property	310	281	-9.35	-7.87
Gold Mining Index	2250	2805	24.67	19.87
Platinum Index	53	47	-11.32	0.00
EXCHANGE RATES				
R/$	9.53	10.62	11.44	4.63
R/€	13.16	13.39	1.75	1.36
R/£	13.73	14.64	6.63	-2.47
GLOBAL MARKETS				
Dow Jones Industrial	8776	6547	-25.40	-25.27
US S&P 500 Index	903	677	-25.03	-23.85
UK FTSE 100 Index	4434	3542	-20.12	-18.89
French CAC 40 Index	3218	2519	-21.72	-24.13
Hang Seng Index	14387	11345	-21.14	-23.10
German DAX Index	4810	3692	-23.24	-23.16
Japanese Nikkei 225	8860	7086	-20.02	-15.60
US Nasdaq Index	1577	1269	-19.53	-18.91
MSCI ($)	920	689	-25.11	-23.36

Bonds – Bonds are priced based on 2 factors: Creditworthiness of the issuer and prevailing interest rates. A simple example would be a Bond with a fixed coupon rate of R10 per annum (10%) issued for 10 years with a R100 maturity value. If interest rates are at 10%, an investor would see no difference in the return between holding cash and buying the above bond for R100, as both will give a nominal return of R200 over 10 years.

If you believed interest rates were going to fall, you would rather hold the bond to secure the 10% return – this increases demand for bonds pushing their price up. Simplistically, if interest rates halve, the capital value of your bond doubles and vice versa. That said, bonds should be in for an excellent year in 2009 as interest rates fall.

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So why don't I move 100% into bonds?
Two reasons –Creditworthiness & Demand. Government Bonds have been 'bid up' dramatically in price as investors have looked for the most credit worthy place to put their money while hiding from the equity market. This has forced the yield down dramatically. As per the previous example, if you spend R200 to buy the above bond, your yield will be 0% over 10 years. As a result of extreme high bond prices, yields are very low at present. As such they are expected to slightly under perform inflation. Corporate bonds are available at excellent yields as an alternative for the company to raise cash, but if the bond's coupon is not honoured and/or the maturity value is not paid, the bond is worthless.

<u>Property</u> – Whether residential or commercial, wholly owned or unitised (shares), property is the one asset class that humans find easiest to hold. You can look at it and paint it, redecorate and walk around in it. The tangible value of property makes it valuable to us as we can get sentimental over it in a way that is impossible with a bank balance or an Anglo-American share certificate. Property has the added bonus in that we can get both a yield in the form of rental income and capital growth in the increased value of the land and/or buildings over time. Commercial space is at a premium at present and tenant vacancies are low.

So why don't I move 100% into property?
Two reasons – Economy & Geopolitical risk. We expect the economy to remain under pressure for a while, and this will result in businesses retrenching staff and downsizing their operations at best - some going into liquidation at worst. This will increase the vacancy rate in commercial buildings which will force rental prices down. Poor business sentiment and worsening rental yields will also erode the capital value of the buildings, resulting in property being attacked on both the capital and yield side. The geographical side is also relevant as property cannot be uprooted and moved to another part of the world as is the case with most other asset classes (especially if wholly owned as liquidity is not a feature).

<u>Equity</u> – Company shares, whether listed or unlisted, provide the opportunity for both capital growth and yield in the form of dividends. The risk vs reward balance is skewed at present, as we are all somewhat unsure as to the risk we face in the search for reward. Equity markets are a study of history in an attempt to predict the future – notoriously unreliable, but unfortunately we have no reference point on the future except for history (We can't learn from our mistakes before we have made them). Anglo American was expected 6 months ago to announce earnings of R75 per share. The share traded as low as R138.21 in the last week. This would imply a PE ratio of less than 2. Looking backwards, buying the share is a no-brainer. Looking forwards, the actual earnings figure is as clear as mud until it is announced and the future unknown finds itself firmly in the past where it is once again useless to all. If I had been offered Anglo at a PE of 2 in 2007, I would have sold my wife and kids to buy it. Today, I am not so sure.

So what are you telling me?
The valuations on equities at present look compelling based on historical standards. Even if earnings halve or drop to 20% of their previous levels, some shares still look attractive. Add to this the fact that most companies will suffer, some will go bust, some will stay level and some may even prosper through this market turmoil, and we have a very difficult time ahead of us trying to work out where we should be investing.

So what exactly is your point?
There is no clear case for being horribly overweight on any single asset class at present. If the need arises to buy or sell, be skeptical and don't believe in any 'quick fixes' – they truly do not exist in this environment.

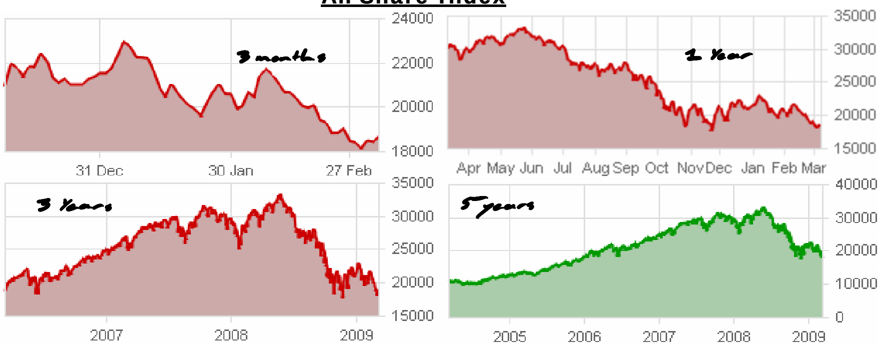
What do you suggest I do?
Remain in a well diversified portfolio until a clear direction emerges in the markets – be aware that this may be years away. When all around you are losing their heads, keep yours.

Any changes to my portfolio?
We have completed the fund review process, and have selected funds managed with wider discretion than those used in the past. Where we have until now made up the majority of our portfolios with asset-specific funds, we feel that the current environment is better suited to funds allowing managers a mandate to move between the asset classes described above with relative freedom. This will increase the potential for medium-term gain in an upside-down world. More information will follow in due course, and all changes will be voluntary recommendations that you will be at liberty to disagree with.

Until next time.

Kind Regards,

<u>All Share Index</u>



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<u>Rand / Dollar Exchange Rate</u>