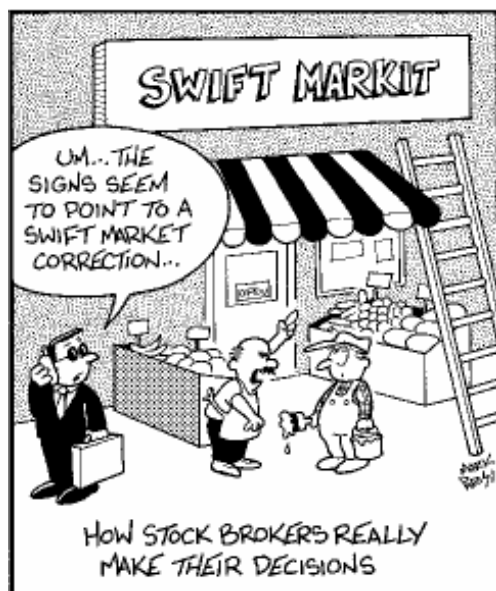


Market Commentary – late August 2009

Circulated to Antler investment clients



"Green Shoots" ~ And other useless buzzwords...

A great metaphor... Wilbur Smith would describe our hopes as follows: - A lonely traveler stood upon the escarpment, overlooking an arid landscape scoured by fire. The misty rains of the past few days had moistened the ground, leaving only a few smoldering stumps. The smoke from each of these rose lazily into the still air to combine with the dark and pregnant clouds gathering above. The first *green shoots* of the hardiest grasses were already showing on the plains, stretching towards the promise of further rains imminent in their arrival.

I believe this 'green shoots' business is another example of politicians and economists trying to distract us all from the reality of what is going on right now. Retrenchments and liquidations continue, with our latest solace being that the world economy is not getting better - it is just getting worse at a slower pace than before. This is hardly encouraging.

Keeping this in mind, the markets operate on expectations. This means that the stock exchanges generally recover well ahead of the underlying economy. The recent market moves should therefore herald great economic recovery over the coming months. We will have to wait and see.

	1 Jan 09	21 Aug	Year to date (%)	Change since last letter (%)
SA MARKETS				
All Share	21509	24879	15.67 %	37.06 %
Financials	15779	17733	12.38 %	46.66 %
Industrials	21496	22898	6.52 %	34.69 %
Resources	21199	25048	18.16 %	28.96 %
Listed Property	310	309	-0.32 %	9.96 %
Gold Mining Index	2250	2337	3.87 %	-16.68 %
Platinum Index	53	78	47.17 %	65.96 %
EXCHANGE RATES				
R/\$	9.53	7.81	-18.05 %	-26.46 %
R/€	13.16	11.18	-15.05 %	-16.50 %
R/£	13.73	12.85	-6.41 %	-12.23 %
GLOBAL MARKETS				
Dow Jones Industrial	8776	9506	8.32 %	45.20 %
US S&P 500 Index	903	1026	13.62 %	51.55 %
UK FTSE 100 Index	4434	4851	9.40 %	36.96 %
French CAC 40 Index	3218	3616	12.37 %	43.55 %
Hang Seng Index	14387	20199	40.40 %	78.04 %
German DAX Index	4810	5463	13.58 %	47.97 %
Japanese Nikkei 225	8860	10238	15.55 %	44.48 %
US Nasdaq Index	1577	2021	28.15 %	59.26 %
MSCI (\$)	920	1081	17.50 %	56.89 %

Economics 101

Is this a recovery?

The short answer is than nobody has a clue. For every economist believing the recession is behind us, another believes the worst is ahead. An encouraging consensus seems to be that the markets are very unlikely to fall below their worst levels of November 2008 and March 2009. That said, consensus is often no more reliable an indicator of the future than throwing a dice.

So what?

The SA All-Share Index has recovered since 9 March 2009 by 37.06% in Rand terms, and by 63.52% in US Dollar terms. The relative out-performance of commodity based economies over recent months leads one to the belief that relatively more money is being invested in companies and economies that are based on real and tangible assets (Mines, Farms, Infrastructure) rather than those based on services and consumption.

Why?

It seems sensible that a value can be placed on a mining house more easily and reliably than it can be placed on a consulting firm.

The value of a mine is simplistically based on what it can produce, and at what cost. Any excess production or defaulting orders can be stored. A consulting firm, in contrast, holds limited physical assets, can't 'store' production, and there is no way their 'product' can be reclaimed on liquidation of a client.

Take Lehman Brothers and General Motors as examples – both went bankrupt. Lehman brothers owned some properties, but had massive debt. On the day they closed their doors, their major asset, in the form of experienced staff, packed up and walked out. General Motors, on the other hand, while also saddled with massive debt, has a vast inventory of land, machinery and parts that can be sold off to, or restructured by, those who will make better use of these assets. In summary, I believe the shareholders of General Motors will be better off in the end than those of Lehman Brothers.

South African companies traditionally carry very conservative debt levels by international standards, and this is a contributing factor in their remaining relatively secure through tough times. Despite tough trading conditions, I do not believe we will see any major SA companies trading at 5% of their 2007 levels, as has happened with dozens of companies in the USA.

Where is the risk?

Where SA has one of the best performing currencies (And therefore markets) in the world this year (From a US Dollar perspective), the opposite was true last year. I would therefore suggest that we are simply returning to more normal levels rather than excelling due to some or other competitive edge that we have all missed. This could easily reverse itself again as speculation remains rife. The latest speculation is over whether the recovery will be a "V" shape, a "W" shape, an "L" shape, a "U" shape, or any other letter shape the economists can dream up to describe what the graphs below will look like in the future. For now, the 1 year is looking somewhat "W" shaped, but it all looks very much like a mountain range to me. The best I have heard so far is that we are heading for a "Bathtub Shape" recovery.

So what are you telling me?

I would suggest that you have not 'missed the boat' on either buying or selling opportunities, and where we may be past the worst, this does not mean that we can sit back and watch our investment values soar. My opinion is that caution remains the correct approach as there will be more negative news and more fear and associated reflex trading activity pushing markets down. The Americans are for all intents and purposes creating a massive inflationary problem for the future, and we will see muted economic growth in the developed markets as they 'earn back' all of the money they have thrown at the economy.

Any changes to my portfolio?

As mentioned in March, we have completed the fund review process, and have selected funds managed with wider discretion than those used in the past. Considering the volatility currently pervading the markets in all asset classes, I would like to delay radical changes. As the portfolios currently stand, you will see that we have weathered the downturn exceptionally well, and the recent recovery has been similarly muted in comparison to the equity market, thereby reducing the escalation of risk within the portfolios.

Please excuse the delay between this newsletter and my last – I have really battled to find intelligent comment during this period where every day on the markets has been an adventure.

Please remember us when speaking with family members or friends about financial issues. We appreciate all references, and will do our best to assist where possible.

Kind Regards,



All Share Index



Anton C Muller CFP™

Antler Financial Services (Pty) Ltd

FSP License No: 27476

Tel: 011 886 7171

Fax: 086 515 7554

Cell: 082 880 8080

Email: anton@antlerfin.co.za

Website: www.antlerfin.co.za

Rand / Dollar Exchange Rate



PS: Thank you to all of you who sent their wishes on the birth of our twins. Daniel & April are now 4 ½ months old, and growing beautifully despite causing massive sleep deprivation in their doting parents. Their big sister Pia (Now 3) is very proud, but still insists she can't change nappies "cos she's too short!"