

Special Interest Articles:

- Where are the markets heading?
- Are "safer havens" the answer?

Individual Highlights:

Inside Story
PLEXUS

Investments

Every one of us no doubt watch the daily indicators on Television or in the paper with abated breath, where will the Dollar be? What is Oil doing, are we going to get another interest rate cut? What is happening in the UK, Euroland, the East, the USA?

How is it going to affect us.....will Obama be able to do what everyone seem to be hoping he will?...and then...what is the effect of all of this on our investments?

What to do?

Investment managers are not prepared to make a call on when the market is due to recover. And, whilst within the funds the exposure to equities have been reduced and where the mandates allowed the cash holdings have been increased, managers strongly believe that exposure to the market must be maintained in the long term. No one knows when it will turn and to be in cash, hoping to time it right, has never worked and should not be the strategy now.

funds for your income on an annual basis.

So....if you are drawing income we will continue to disinvest capital into money market..

.If you are invested for Capital preservation and growth, we

For our local investments Plexus Asset Management has done a sterling job. During the many meetings Paul Stewart and I have had in 2007 and 2008 he warned me of a down turn and commented that they have taken a defensive position.

Unfortunately sometimes when you take a defensive position when the markets are still rallying you may be sacrificing some return!! But today I am pleased.

AT FIG we have been spending time communicating with clients, re assuring them. It is a

relief, when we meet with clients, attending to their annual revisions, that we can assure them that the 40% loss experienced on the JSE is not representative of the performance on their funds.

Yes we have had some losses, and more so in the funds where risk profiles are more moderate, but relatively speaking, we have been OK.

This experience has confirmed once again that our philosophy of diversification and asset allocation has been the right strategy.

recommend a "hold" position. You will be receiving your quarterly statement shortly and will hopefully be pleased to note that the position from November to now has largely held.

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Understandably investors are reluctant to put new money in the market now. Of course the "Warren Buffet strategy" is to invest when there is "blood on the streets" but that is easier said than done. Yes there is huge investment opportunity now, but you MUST have a long term horizon....so what to do if you have a 3-5 year view?

"To save tax or to protect?.."

The following options bear consideration

1. **Guaranteed Investment Plan.** This is typically a 5 year plan, guaranteed maturity value (you can have a guaranteed income as well) with a TAX FREE payout. Excellent variations are offered on this theme and bears discussion.

2. **A Guaranteed Bonus Fund:** this Plan declares a guaranteed yield monthly, fully vesting on your plan. The investment is

secure and you have access to it, knowing monthly what the returns are;

similar to a Money Market with this great TAX benefit. It is possible to earn an income.

3. **A Dividend Income Fund.** This investment provides a TAX FREE yield, declared monthly, at a level of around 80% of Money Market Rates. If you are a tax payer (☺) then this is a fantastic place to park money. This fund is secure, rated

All of the above options can be used in your Personal, Business as well as your Trusts.



Our Annual fundraiser

As you know our annual fundraiser takes place in October with our major beneficiary the Groote Schuur Breast cancer Clinic.

Last year we had incredible sponsors and a very willing and caring group of guests.

We were able to raise a whopping R62000 that was

made up by various sponsorships and auction items.

Our function was ably handled by Yvonne Finch that made sure all our activities followed the time slots.

The star of our function was no doubt Mrs Helen Zille who shared with the group

her wit and humour as well as valuable insight into the current political scenario.

We are currently researching the venue for our lunch, so please keep the month of October in mind!

Asset Management

The fact that the global economy has entered a recession can no longer be disputed. And although the credit crisis in mainly the First World is the root cause of this recession, the fact that countries without exposure to the credit crisis, such as South Africa, will not be left unscathed is also no longer disputed.

“The fact of the matter is that across the globe, businesses are experiencing a serious decline in earnings,” says Dr Prieur du Plessis, Plexus Group chairman. But by how much will company earnings in South Africa decline, and how much of this bad news is already reflected in share prices?

In order to try to answer this question, there are two market theories that should be taken into account. Firstly, the theory of mean reversion, which is the commonly accepted theory that stock market valuations (or price levels) will always return to their long-term averages, despite [fluctuations](#) above and below the average value.

The second is the fact that stock markets are forward-looking, which means that share prices discount what investors expect the economy and subsequently company earnings to do in future. Du Plessis explains: If investors expect company earnings to change in future, share prices will move before the actual earnings numbers are reported. This price movement is reflected in the price earnings ratio (PE) of a share. For example, if investors accept that an average price earnings (PE) ratio of 10 for a particular company is fair (i.e. headline earnings of R10 over the last year and a current share price of R100), but they expect the company's earnings to go down to R9 over the next year, then the price should go down to R90 to ensure a forward PE of 10 (i.e. R90/R9). However, as the price decline occurs before the lower earnings numbers are reported, the current PE (based on the last year's headline earnings, which

remain at R10) declines to 9 (i.e. R90/R10).

To determine by how much current stock market index levels are discounting future earnings prospects, one can compare the current price earnings (PE) ratio of the JSE to the long-term average (which reflects fair value). A study by Plexus Asset Management puts the long-term average PE for the FTSE/JSE All Share Index at 11,7 and the FTSE/JSE Financial and Industrial Index at 11,6. “The current PEs for these indices stand at 8,4 and 8,3 respectively,” says du Plessis.

The fact that the current PE ratios are lower than their long-term averages means that investors are expecting earnings to decline going forward. “The earnings in respect of these two indices have only declined by 3,9% and 5,6% respectively from their recent peaks to the current levels, but the PE ratios have come down much more than this due to the fact that the index levels have fallen by significantly more,” says du Plessis. For the PE ratios to revert to their long-term averages or fair value, earnings will have to decline by a further 28,2% in respect of the All Share Index and a further 28,7% in respect of the Financial and Industrial Index. If the expected further decline in earnings materialises, the total decline in earnings from peak to trough will come in at -31,1% for the All Share and -32,7% for the Financial and Industrial Index.

Just how bad is this expected decline in earnings? To put it in perspective, the accompanying table shows all actual historical declining earnings cycles (from peak to trough) since 1960. “Local share prices are already discounting a significant decline in company earnings going forward,” says du Plessis “And if this does materialise, it will be the worst decline since 1960.”

Only time will tell whether or not this scenario will materialise. “Although caution is still the

operative word, the market is in bargain territory and investors should consider making use of this opportunity by phasing money into equities,” says du Plessis.



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