# Investor confidence a tad better

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Johannesburg - Despite news of a still-deteriorating global economy, doubts as to whether rescue plans would have the necessary impact, worldwide retrenchments and continued uncertainty about corporate earnings, South African investor confidence improved slightly in early February.

Frederick White, head of research and process at Sanlam Investment Management (SIM), explains that this was only the second time since the SIM investor confidence index was launched in October 2007 that all four indices surveyed improved slightly during the same month.

Local investors were more upbeat on the outlook for market returns, the value of the market, on the expected return on a day after a big decline in the market, as well as on the deemed probability of a severe market crash.

"However, it was clear that investors remained hesitant to be overly optimistic on market returns and among the institutional investors surveyed there was even a small deterioration with respect to the outlook for 12 month returns."

White adds: "On a 12 month basis, institutional investors now expect the index level to rise by only 5.1%, whereas financial advisors expect the index to rise by 10.7 percent. Should advisors be correct in their average expectation, the 12 month total return from equities, including dividends, would be in excess of fifteen percent nominal or nine percent real, assuming inflation returns to within the South African Reserve Bank's target range."

White believes that investors' hesitance to be overly optimistic on market returns, despite their optimism with respect to valuation, is likely to be a symptom of continued uncertainty about corporate earnings. The deteriorating global economic conditions and uncertainty about whether rescue plans will turn the tide, may have resulted in an inability to forecast write downs and caused a chronic uncertainty to develop around the outlook for earnings.

"Without an anchor for earnings, confidence in valuations cannot be high and investors are likely to be loath to act on the value they think the market might be offering," says White.

Gerda van der Linde, executive director of the Institute of Behavioural Finance believes the survey results demonstrate a social mood of chronic uncertainty. She says: "A social mood is investors' collective state of mind shared through the herding impulse which results from how investors feel and think about the market and the sensations they pick up from other individuals."

Despite continuous reminders from the minister of finance and the governor of the Reserve Bank that the South African financial markets will largely be unaffected by the global financial meltdown, uncertainty persists in the local markets.

"Uncertainty about the relative value of investment options causes individuals to default to the herding option. The current social mood is fluctuating between flashes of optimism and pessimism, feeding the chronic uncertainty of the past months, causing the expectations for the one and three month periods to be less than two percent. In uncertain times, it is an emotionally satisfying impulse to herd, an unconscious behaviour to reduce risk," she explains.

"Against this background it is not hard to understand why the herding effect led investors and their financial planners to invest mainly in money market instruments through the various platforms offering investment opportunities in collective investment schemes or unit trusts, and ignore investments into funds offering equities," says Van der Linde.

She believes South African investors need strong ethical leadership from their role models to lead the way in restoring confidence in our institutions and our markets, to break free from the mood of chronic uncertainty demonstrated in the results of the Sanlam Investment Management Investor Confidence Index survey the past few months.

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