Sanlam Investment Management
INVESTOR CONFIDENCE INDEX

FOURTEENTH PUBLISHED REPORT

CONTENTS

PAGE

The results of the most recent Sanlam Investment Management (SIM) Investor Confidence Index indicate that South African investors have become more negative on the outlook for the local equity market during January, a reversal of the positive movements in the previous survey. This trend emerged in most of the topics surveyed in January.

The December data showed some sharp improvements in confidence, especially among the Advisor subgroup and particularly with respect to expected returns. Among this group the 12 month expected increase in the All Share index jumped from 8 percent in the November survey, to almost 13 percent in December. In the most recent survey it dropped back to 8.5 percent.

On closer inspection of the last three months' results, it becomes apparent that the recent movements have, to a large extent, simply been reversals of surprisingly large, positive movements in the December data.

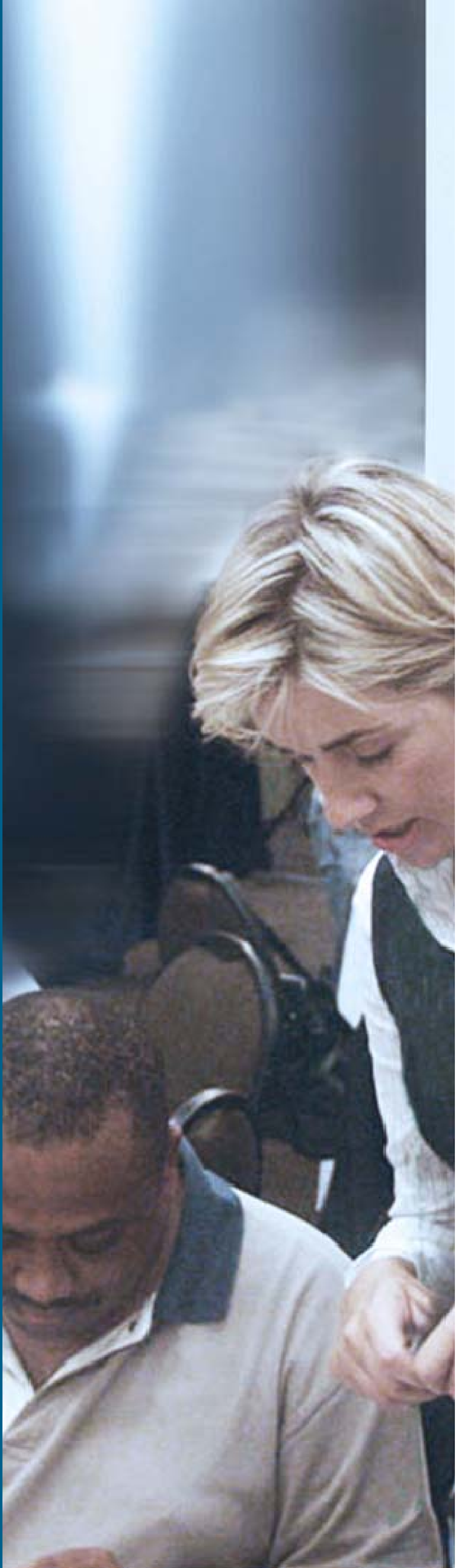
Between the November market lows and mid-December, global equity markets rallied by 15 to 20 percent and the local market rallied by nearly 25 percent. In addition, petrol prices declined significantly, the rand strengthened and then stabilized after its rapid earlier slide and interest rates were cut aggressively (0.75 percent in US and Europe, one percent in UK and 0.5 percent locally).

This wave of positive news, following a period of relentless negative news in the months before, may have lead to the improved outlook expressed by the advisor group in the December survey.

Between the December and January survey periods, global markets resumed their negative trend, declining by about 10 percent in early January. There were renewed negative surprises in both the global economic news flow as well as on the corporate earnings fronts, and the rand depreciated again. We believe these factors contributed largely to the deterioration in sentiment improvements in January.

The average for all participants of the 12 month increase in the index is back down to 8.2 percent. If one adds the average dividend yield at the time of the survey of about 4.3 percent, the implied 12 month expected return from equities is 12.5 percent.

With the positive outlook for inflation, which is expected to be well within the South African Reserve Bank's target range by the end of this year, this implies a real return of somewhere between 7 and 8 percent. This compares



well with the average long-term historical returns that were achieved in the SA equity market.

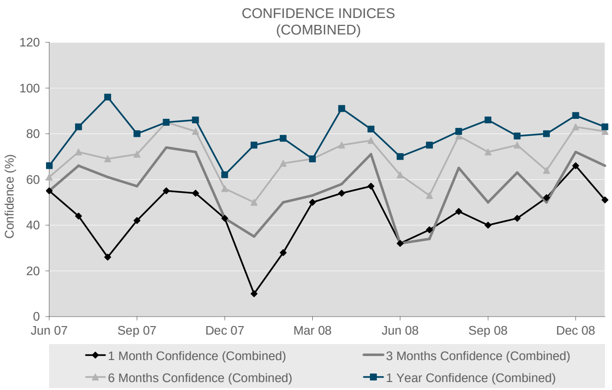
Local investors currently expect trend returns from equities, despite the fact that the majority of them still view the market as too cheap (55 percent - compared to only 13 percent who believe it is too expensive). There also is very little short-term bias in investors' expectations, with the implied returns for the shorter-term periods being close to the pro rata performance of the 12 month return.

Frederick White
Head of Research and Process
Sanlam Investment Management

1. One-Year Confidence Index

Question: How much of a change in percentage terms do you expect in the JSE All-share Index during the following periods: one month, the next three months, the next six months and the next year?

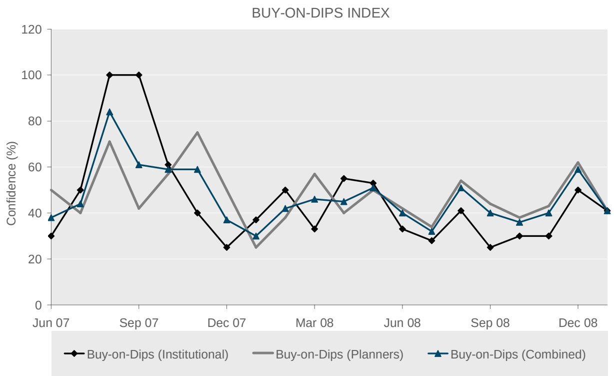
The index is calculated as the number of respondents giving a number strictly greater than zero for the "In one Year". The index therefore reflects the percentage of the sample that expects the JSE All-Share Index to end positive over the next X months.



2. Buy-on-Dips Confidence Index

Question: If the All-Share were to drop by 3% tomorrow, what would you think the All-Share would do the day after tomorrow?

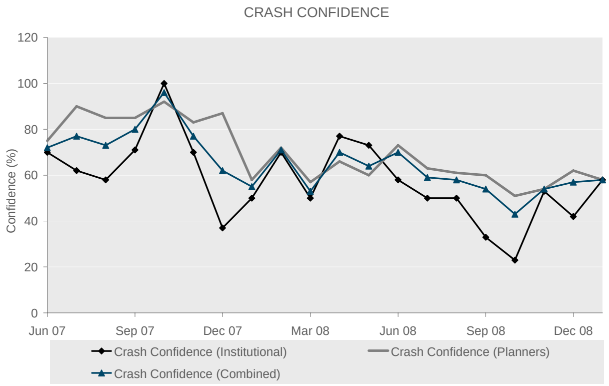
Three options are available namely Increase (%), Decrease (%) or stay the same. The Buy-on Dips Index is the number of respondents that choose an Increase as a percentage of the total number of respondents. The index therefore shows the percentage of the respondents expecting a rebound the next day should the market drop by 3% in one day.



3. Crash Confidence Index

Question: What do you think is the possibility of a catastrophic market crash (like 28 October 1928) occurring during the next six months?

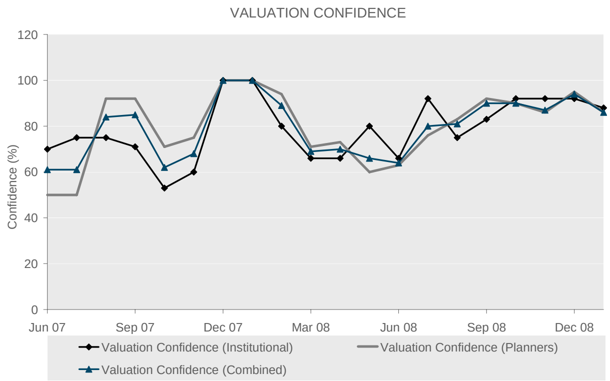
An answer of between 0% and 100% may be given, with 0% meaning it will not happen and 100% it is sure to happen. The index is the percentage of respondents who think that the probability is less than 10%. Therefore shows the percentage of respondents who attach little probability to a stock market crash in the next 6 months.



4. Valuation Confidence Index

Question: Stock prices in South Africa, when compared with measures of true fundamental value, are too low, too high, or just right?

The valuation index is the number of respondents who choose too low or just right as a percentage of the total number of respondents. It therefore reflects the number of respondents who think that the market is not too high.



Report methodology

Confidence in the equity market is more complicated to ascertain than consumer confidence, since thejudgments people make about the share market are multi-dimensional and influenced by a number of complex motivations. One of the complications is that people who are interested in the stock market often view themselves as “playing a game” against other share market investors, trying to guess when shares will do well before others do, so that they can profit from this knowledge. Many people who follow the financial markets will watch the numbers every day, and their observations and conclusions may be coloured by the many divergent business reports that appear in the media. Thus, there is likely to be more complexity to people’s views about the share market than there is about their decisions about, for example, whether to save more or to buy a new car, which consumer confidence indices emphasise. It should also be recognised that investor confidence is only one of many forces on the market. Share prices are of course determined by supply and demand, and there are numerous factors that affect these: fundamental factors, legal, tax-related, demographic, technological, international, as well as other psychological factors related to attention, regret, anchoring, and availability.

If investor confidence is such a complex construct, is it at all possible to measure it? Research conducted by the Yale International Centre for Finance at Yale University in the USA has certainly shown that it can be measured, but the measurement must reflect the multi-dimensional nature of the construct. For this reason the confidence index is not expressed in just one figure, but the “index” actually consists of a collection of indices.

It must further be noted that the indices of investor confidence that we have derived do not all move in the same direction through time, or even approximately so. Forming a simple average of the different indices to produce one overall share market confidence index would thus be arbitrary. Instead, we report here different investor confidence indices. Each is measured in %, as a % of respondents who report holding a certain view.

Sample

The Sanlam Investment Management Investor Confidence Index is conducted monthly among abroad group of investment professionals, these include economists and portfolio managers from institutions as well as financial planners whose main focus is investments. The number of respondents is between 80 and 120 each month. Responses are submitted by a consistent set of investors to a consistent set of questions which makes comparisons between different time periods possible and accurate.

Data

A questionnaire is send the second Monday of every month to a sample of investment professionals. These include economists and portfolio managers form institutions as well as financial planners whose main focus is investments. Respondents need to answer 4 questions only by indicating in what direction and by what percentage they think the market will change. The questions are shown below as well as an indication of how the index is calculated.

1. One-Year Confidence Index

Question: How much of a change in percentage terms do you expect in the JSE All-share Index during the following periods: one month, the next three months, the next six months and the next year?

The index is calculated as the number of respondents giving a number strictly greater than zero. The index therefore reflects the percentage of the sample that expects the JSE All-Share Index to end positive over the next 1, 3, 6 and 12 months.

2. Buy-on-Dips Confidence Index

Question: If the All-Share were to drop by 3% tomorrow, what would you think the All-Share would do the day after tomorrow?

Three options are available namely Increase (%), Decrease (%) or stay the same. The Buy-on Dips Index is the number of respondents that choose an Increase as a percentage of the total number of respondents. The index therefore shows the percentage of the respondents expecting a rebound the next day should the market drop by 3% in one day.

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