Media release, Investor Confidence Index June 2009

CHRONIC UNCERTAINTY HAS NOT YET RUN ITS COURSE

June results Sanlam Investment Management (SIM) Investor Confidence Index, conducted by the Institute of Behavioural Finance.Commentators are divided on outlook for equities and the mood of the decision makers is still characterised by chronic uncertainty.

Cape Town, 22 June 2009: Despite widespread talk of 'shoots of green' in the world's economies, the June results of the Sanlam Investment Management (SIM) Investor Confidence Index show that the recent pull back in equity markets and renewed uncertainty regarding the pace of economic recovery has started to adversely impact local investor confidence.

Frederick White, head of SIM asset allocation and macro research said, "There is a clear difference in opinion between institutional investors and private advisors about the outlook. The latter group believes the worst is over and that recovery in financial markets is underway. However, for institutional investors, the chronic uncertainty was prevalent earlier this year seems to have taken hold again."

According to White, "Institutional investors are most concerned about whether the markets still offer value after their recent rally and are similarly concerned about what returns to expect. For the first time since June last year there are more institutional respondents who think the market is too expensive than those who think it is too cheap. The view on whether the market is offering value is also changing among the advisor group, albeit more slowly.

For the combined set of investors, the percentage of respondents who view the market as too cheap has dropped to 33 percent from 66 percent three months ago. This is still higher than the percentage of respondents deeming the market to be too expensive (17 percent). Thus the market is still seen as offering value, but the perception of value on offer has declined drastically from last quarter.

"There remains a difference in views with respect to short-term returns. Institutional investors still expect local equities to fall to lower levels over one- and three months and to be only marginally higher (1.6 percent) in six months time, whereas advisors foresee steadily rising levels for equities. Their respective expectations differ more widely on a 12-month horizon. Advisors have increased their expected 12-month rise in equity markets to almost 11 percent, whereas institutional investors reduced theirs to just above five percent.

"Where respondents most agreed was on the probability of a crash in equity markets. This deemed risk decreased for both groups to around 11 percent, a level not seen since November 2007, before the crisis really set in.

“As mentioned last month, these changes are mirrored by the debate taking place globally, where commentators are divided on the outlook for equities. Some view the current rally as merely a bear market rally, fueled by the illusion of improving economic conditions, whereas others believe the bottom turning point has been reached and a sustained recovery is in place, underpinned by attractive valuations. The difference in opinion can be explained by two divergent underlying economic views, where institutional investors see recent improving economic news as ‘bad news being less bad’, whereas advisors see the momentum in improvement as key and are confident of a quick recovery.

“In line with this, earnings have come under the spotlight again. In certain areas earnings have declined (some even dramatically), but there are questions about whether the contraction has indeed been enough and whether profit margins have declined sufficiently. Fuelling this debate is the realisation that we find ourselves in the worst economic recession in decades and that the credit transmission mechanism, usually the trigger that kick starts consumption and spending, remains log-jammed despite significant financial stimulus. Clearly the chronic uncertainty has not yet run its course,” believes White.

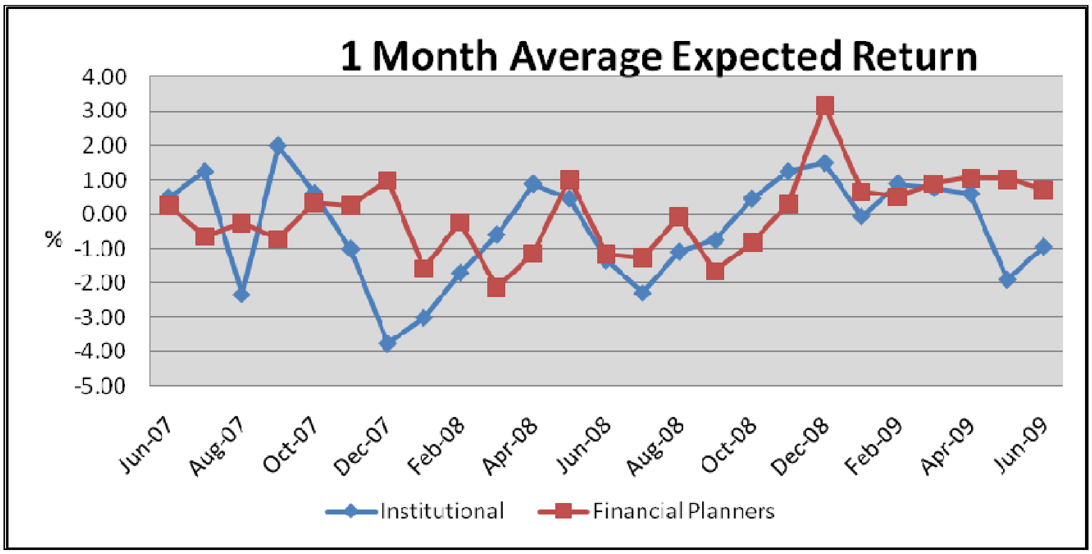
Gerda van der Linde and Professor Zak Nel, Institute of Behavioral Finance, write:

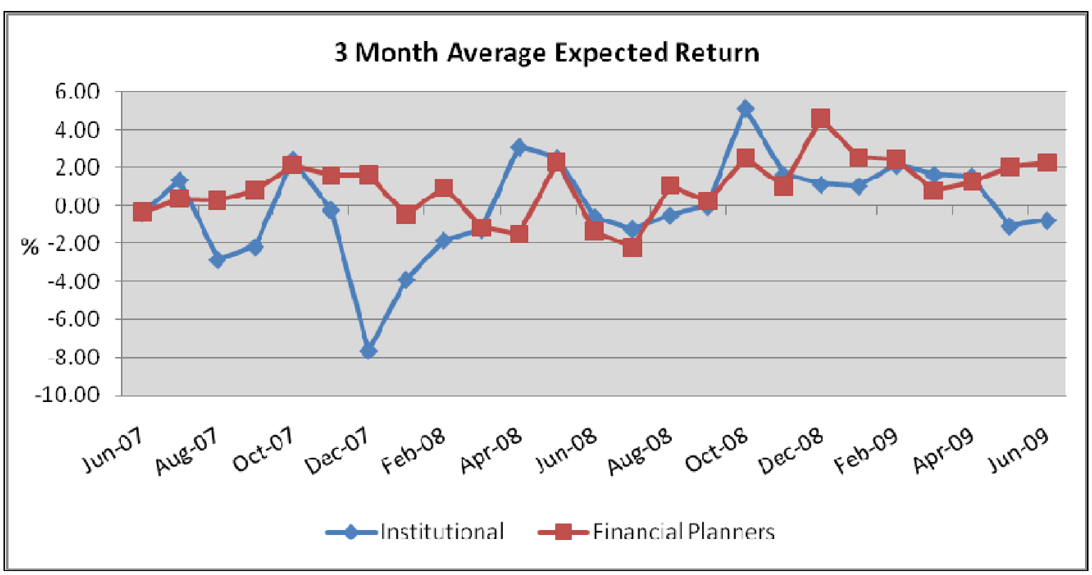
Analysing the results of the one and three month average return expected by the Institutional Investors and Financial Planners in the Sanlam Investor Confidence Index since March this year it is clear that none were able to predict the rally in the ALSI from just above 18000 in March to the current 22300. As for the results of this month looking forward over one and three months the mood remain negative for Institutional Investors, and going nowhere for financial advisors. The only explanation is that a social mood of fear and uncertainty prevail in the sentiment shown by all market participants. With so much uncertainty and a continuous flow of negative news and economic data the sentiment is not steered by the rational decisions of individuals, but by a survival mode of thinking. The survival mode of thinking is characterized by instinctive and irrational emotional forces causing individuals to attach more value to group decisions than individual rational thinking. Another way of describing this phenomenon is to explain it in terms of the herding instinct – under huge pressure people will find safer in their decision making to stick to the general direction that the group or “herd’ are moving.

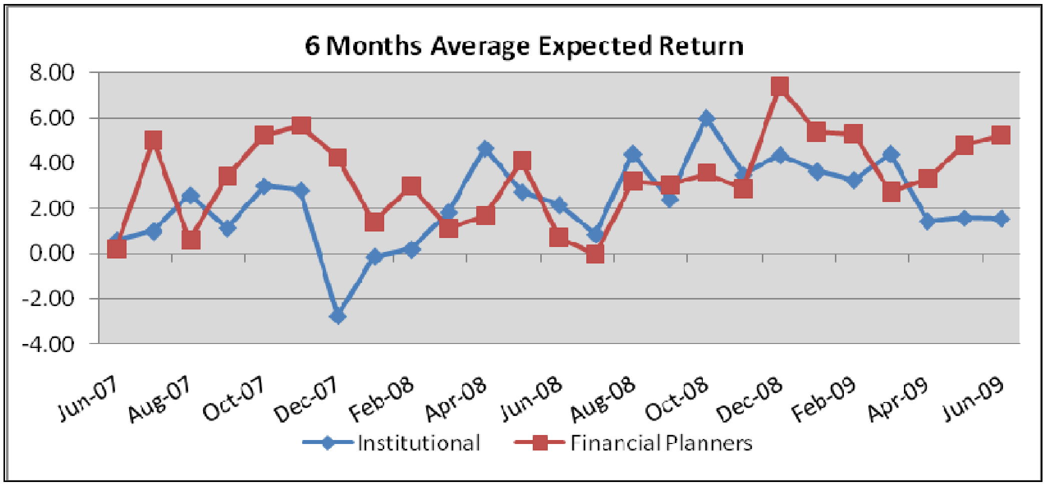
In financial terms the herding mode of thinking was recently well-described by two behavioural financial gurus, namely Robert J.Shiller and George A. Akerlof. They have published an influential new book with the title *Animal Spirits*. Under huge pressure people who make financial decisions are overcome by an “animal spirit” – a mode of thinking that is engrained in our primitive survival way of thinking.

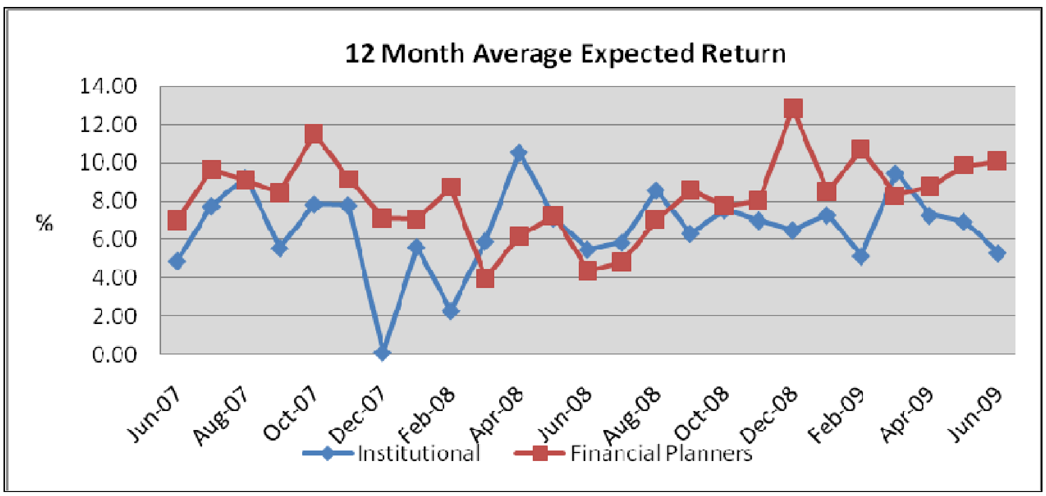
That is why it is nearly impossible due to human (animal) nature for most Institutional and Individual Investors to adhere to Warren Buffet’s investment rule - be greedy when others are fearful and fearful when others are greedy. Both groups participating in the survey predicted an average expected return of close to 5% for the twelve months period in July last year when the ALSI was at 27500. The current expected return by Institutional Investors for the twelve month period ahead are 5,31% and for Financial Planners 10.05%.

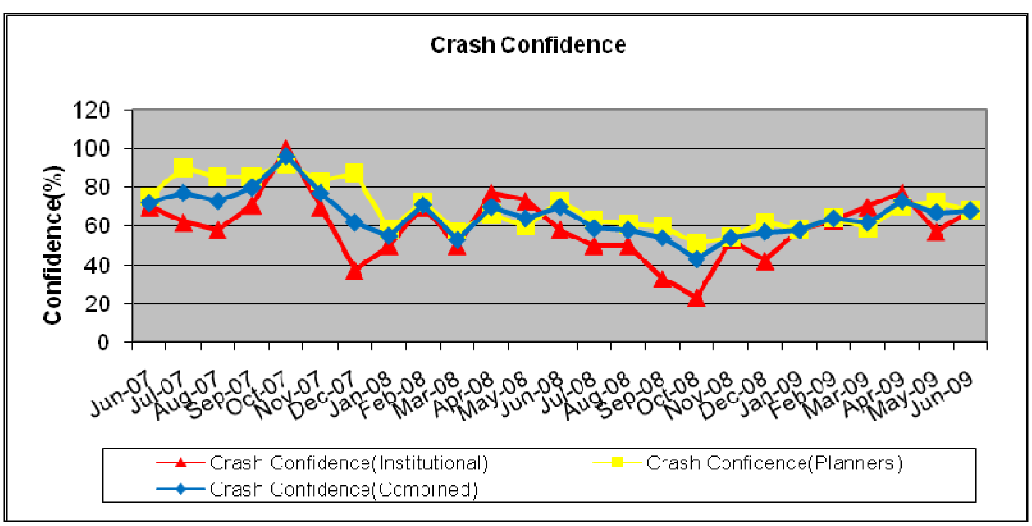
The interpretation of the results indicates that most financial decision makers are currently under huge pressure and that the mood of the decision makers is still characterized by a chronic uncertainty. The question is how to break out of our primitive survival way of thinking? Whilst being greedy instead of fearful a year ago, the answer is most probably now to be greedy and not fearful. Only time can tell.

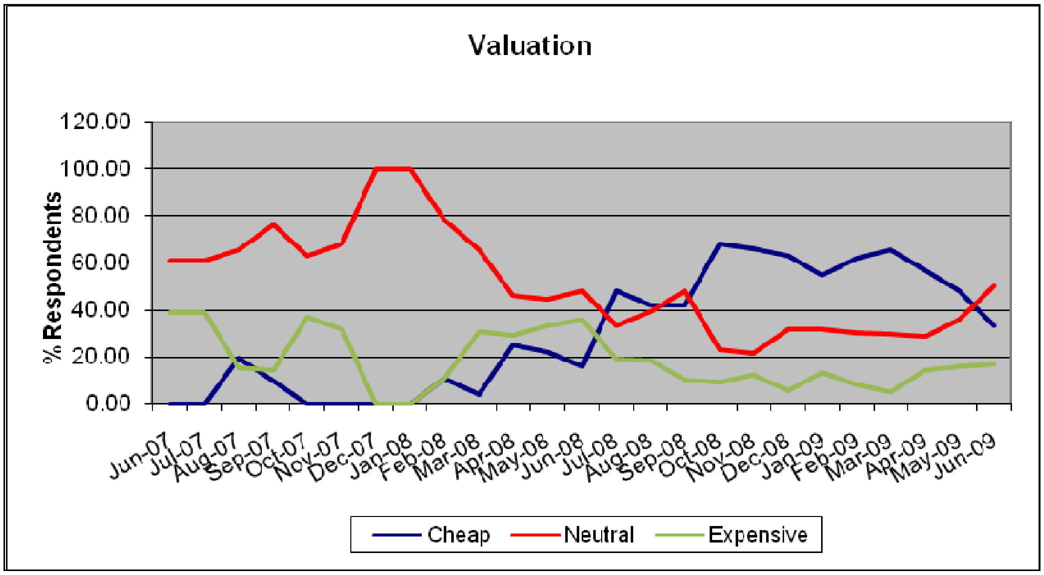





6 Months Average Expected Return
8.00
6.00
4.00
2.00
0.00
-2.00
-4.00
Jun-07 Aug-07 Oct-07 Dec-07 Feb-08 Apr-08 Jun-08 Aug-08 Oct-08 Dec-08 Feb-09 Apr-09 Jun-09
Institutional
Financial Planners


12 Month Average Expected Return
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
%
Jun-07 Aug-07 Oct-07 Dec-07 Feb-08 Apr-08 Jun-08 Aug-08 Oct-08 Dec-08 Feb-09 Apr-09 Jun-09
Institutional
Financial Planners


Crash Confidence
120
100
80
60
40
20
0
Confidence(%)
Crash Confidence(Institutional)
Crash Conficence(Planners)



For more information contact:

Gerda van der Linde
Executive Director
Institute of Behavioural Finance
Tel: 011 888 5088
Cell: 082 881 6159
Email: Gerdavdl@ibfsa.co.za