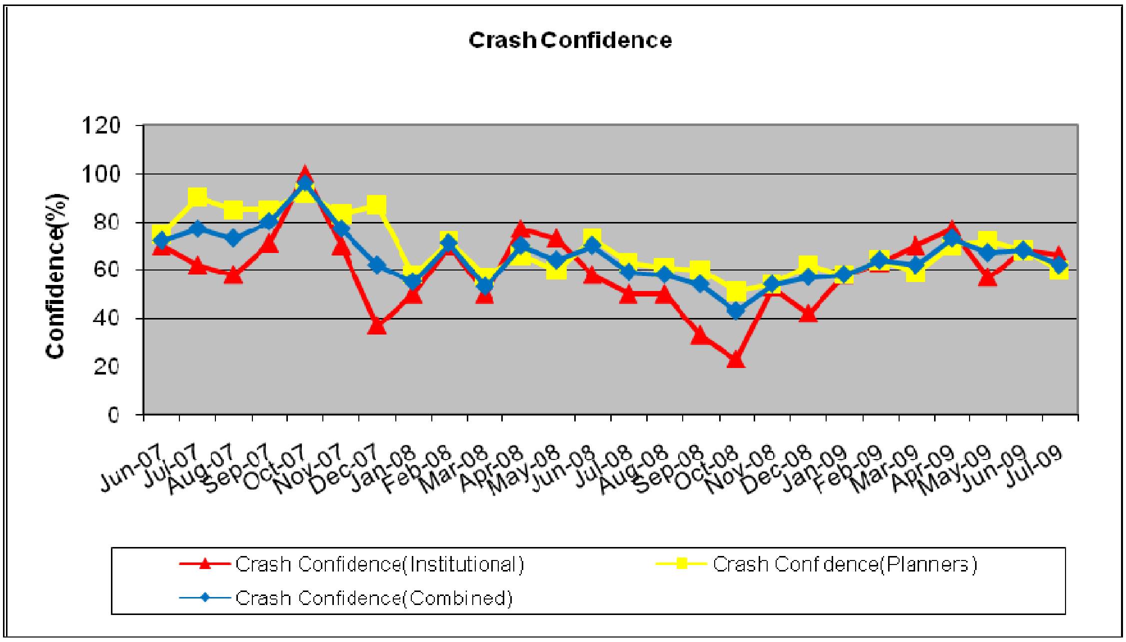
BROAD DECLINE IN INVESTOR CONFIDENCE

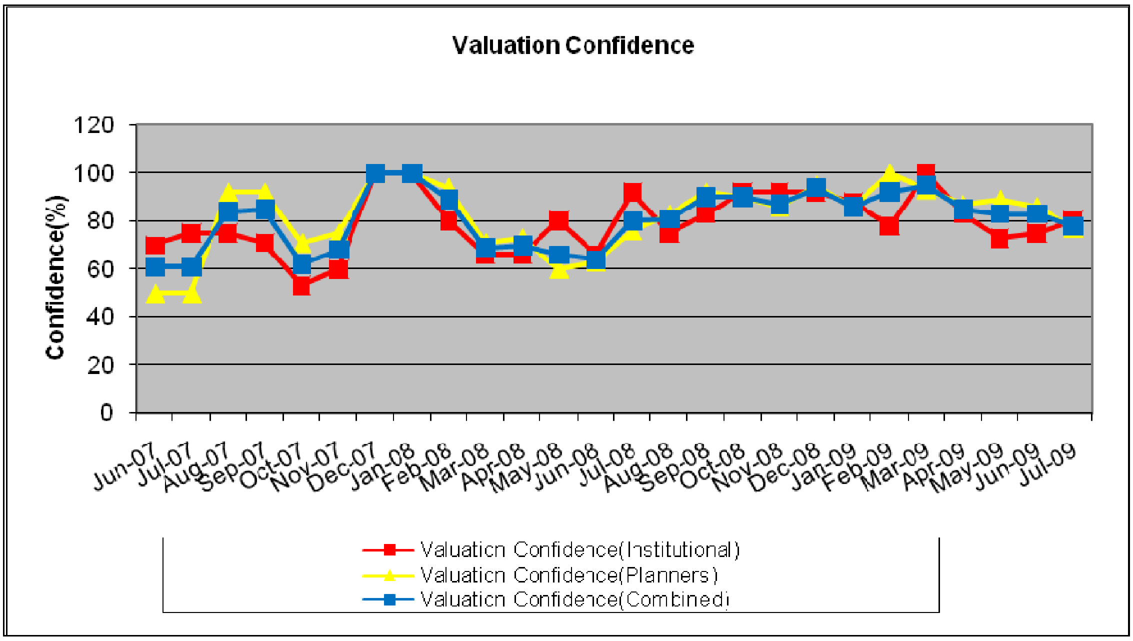
July results: Sanlam Investment Management (SIM) Investor Confidence Index, conducted by the Institute of Behavioral Finance, indicates a broad decline in investor confidence particularly among financial advisors

Cape Town, 24 July 2009: The latest Sanlam Investment Management (SIM) Investor Confidence Index survey has shown that despite an exceptionally strong performance from equity markets in the third week of July – the week when the research was conducted – confidence among local investors, and in particular financial advisors, was down from June.

Three of the survey's four indices - one-year return-, crash- and valuation confidence - declined by five to six percent, with only the buy-on-dips index registering an improvement. Survey responses predominately came through at the beginning of the week of the survey, rather than during the week of the survey, which may explain these movements in relation to the good equity performance.

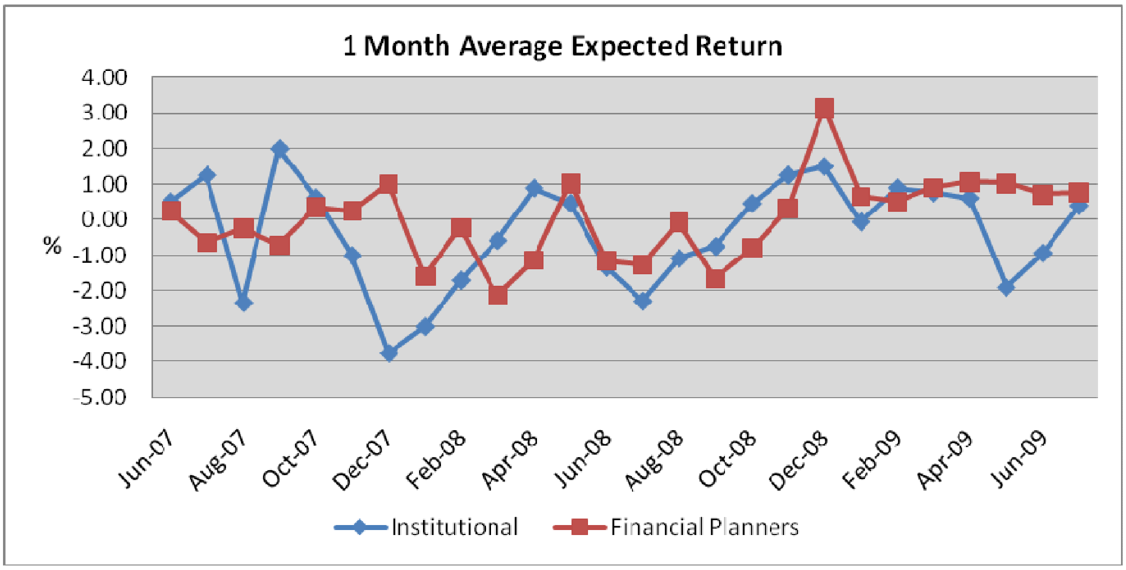
During the weeks prior to the survey, the prevailing theme in equity markets was a discussion about whether the recovery in equity markets since March had been too steep and whether the unfolding economic and earnings reality would result in there being very little (if any) upside for equity markets in the short term.

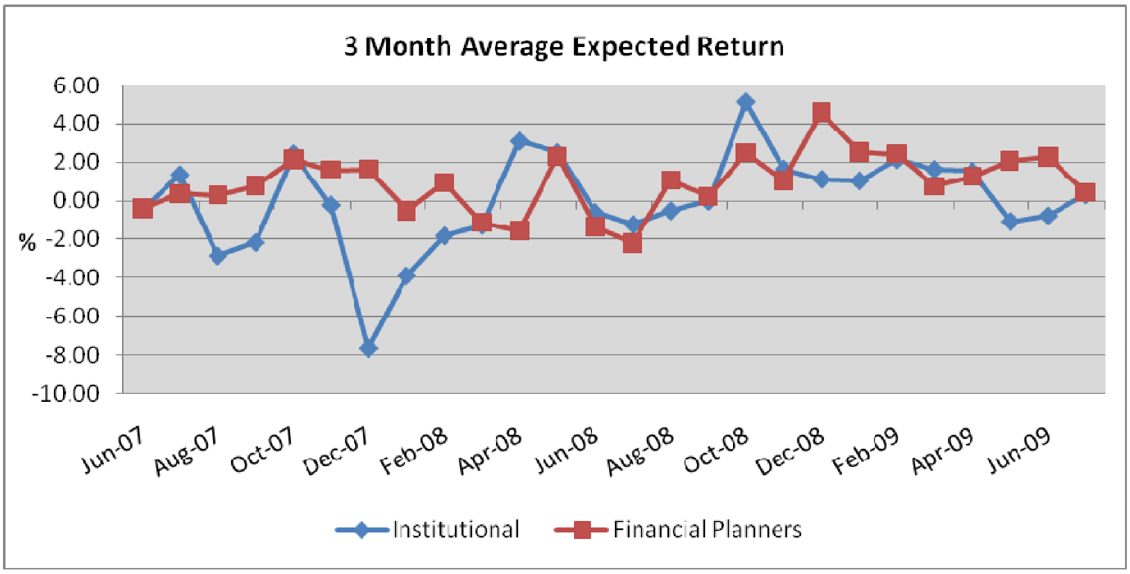




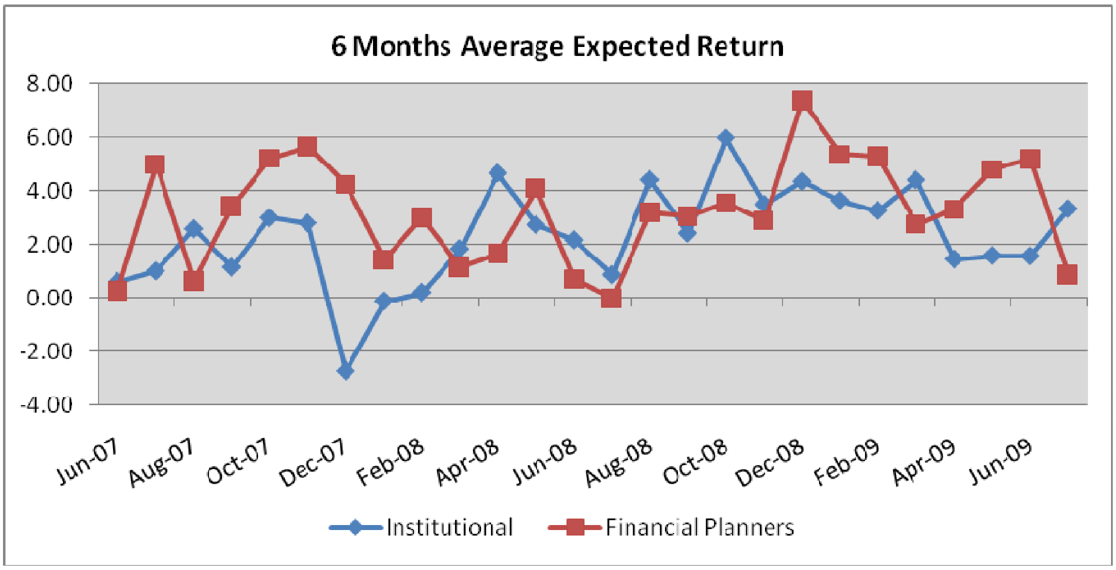
Frederick White, head of SIM asset allocation and macro research says, “The survey results from the financial advisors group tends to be consistent with this perception of events. Despite the market being slightly down since the release of the June survey results, this group quite considerably reduced their expectations that the equity market would rise over the next year”. Gerda van der Linde, Executive Director at the Institute of Behavioral Finance adds that the social mood of no confidence and no trust is prevailing and deepening as reflected in the Sanlam Investor Confidence Index results for July 2009. The results for the one month period remains in a band between an expected return of .65percent and 1.06percent since January this year, with .77 percent measured for July 2009.

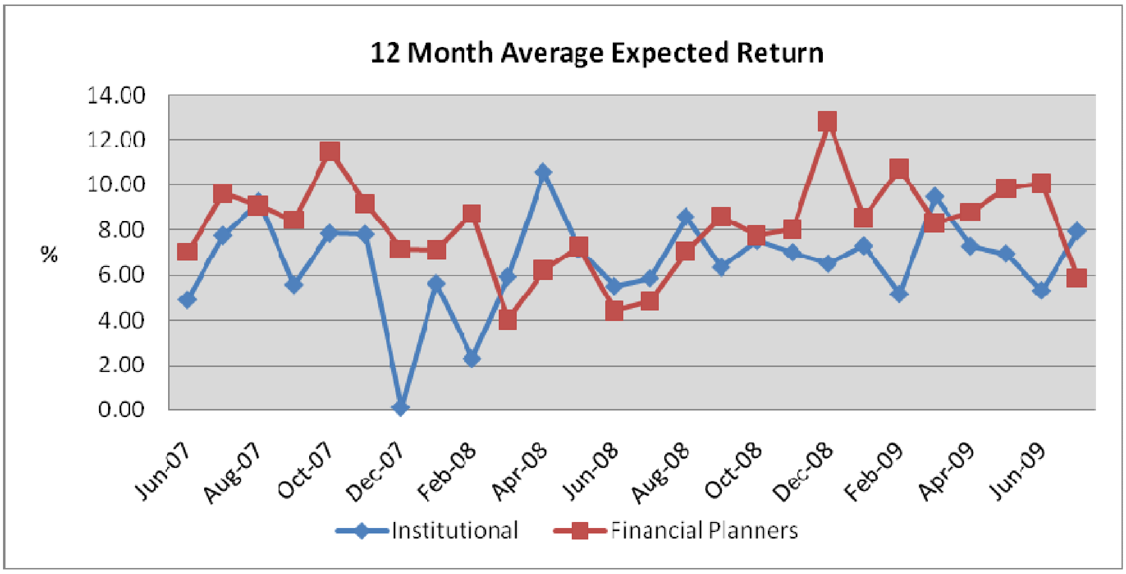
The three-month expectation of positive returns outlook declined from 2.3 percent to 0.4 percent, the six-month outlook from 5.2 percent to 0.9 percent and the 12-month outlook from 10 percent to 5.9 percent. This is a fall of more than 4percent over the six and twelve month’s periods. At the same time, financial advisors also became more worried about the risk of a market crash and have increased the probability of a 1929 style crash from 11 percent to 17 percent. Gerda van der Linde says this is a confirmation that the sentiment shown by financial advisors is in a negative spiral, as the persistent low levels of confidence for the shorter forecasting periods now seem to contaminate expectations for longer periods as well, adding also to fear of a possibility of crash.





Frederick White continue with his analysis of the results by saying that, "On the other hand, the survey results from the institutional investors suggest that they have been more focused on valuations recently. In line with the market decline since the previous survey, they slightly increased their view on the value being offered by the equity market and increased their expectation of rising market levels. In the very short term (one and three months), respondents raised their expectations of what indices would do from slightly negative levels to slightly positive levels, while they expect markedly better increases over six months (3.3 percent vs 1.6 percent previously) and 12 months (7.9 percent vs 5.3 percent)".





According to White, “The two groups now hold very similar views on valuation, with a combined 30 percent of respondents deeming the market to be too cheap, while 22 percent think it is too expensive (this compares with 66 percent and five percent respectively in March before the market bottomed).

As mentioned earlier, equity markets were strongly positive during the week of the survey. This was sparked by positive second-quarter earnings reports by Goldman Sachs and JP Morgan and further supported by other company reports and outlooks, with General Electric exceeding expectations, Intel reporting a significant pick-up in business and Nokia and Sony indicating a turning point in demand. There were also some positive economic developments, with US housing statistics and Chinese growth numbers improving. The remaining results for the second-quarter reporting period will continue to impact on global equity market sentiment – and with it local investor confidence.”

Gerda van der Linde pointed out that for only the third time since the inception of the survey, the institutional investors on average predicted a 2.47 percent higher return than the financial advisors for the six month period and 2.07 percent higher for the 12 month period.

Gerda believes sentiment among financial advisors was lower than institutional investors because many of them work closely with clients and their reality. “Negative news about the global economic state is reported daily and low investor confidence levels are often exacerbated by this negative information. The local press continue this negative news flow with front page reading on increasing demand for debt counseling; increasing debt related suicide; increasing mortgage payment forfeiture in spite of lower interest rates; increasing national strikes by various unions demanding higher wages enabling members to cope with rising living expenses driven by higher food and transport cost. The negative sentiment and low confidence levels are driven by this immediate available information. People are biased in the direction of information that is immediately and repeatedly available. The more often the information is repeated, the more intuition creates the illusion in the minds of people that the situation will last forever. Even with positive statistical evidence coming through, people trust their intuition based on what they perceive around them. People often don’t react to financial news immediately, typically it takes a few months before they react to the news and change their predictions accordingly. Generally after a few months, dramatic adjustments in investor sentiment can be seen. These are reflected in the six and 12 month expectations by financial advisors.”

Taking from lessons in the book “Animal Spirits” by Shiller and Akerloff release in March 2009, Gerda believes that the current reality can only be explained by a complete disappearance of confidence driven by “*a restless and an inconsistent element in the markets, the animal spirits”,* manifesting in increased volatility. Shiller writes in this book that: *“Animal spirits cause the social fabric to change – from trusting to untrusting; from happy society to a depressed society; from confidence in the economy to no confidence; it causes illusions; it causes resentment; it causes temptations and envy – all as a result of changes in thinking that is not always rational.”*

Franklin D Roosevelt said in his inaugural speech, which was given at a time where similar market conditions prevailed:” ***The only*** *thing to* ***fear is fear itself*’**. This might be good advice for our current situation.

**The Sanlam Investment Management (SIM) Investor Confidence Index is conducted by the Institute of Behavioral Finance*

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