INVESTORS REDUCE EXPECTED RETURNS FROM EQUITIES

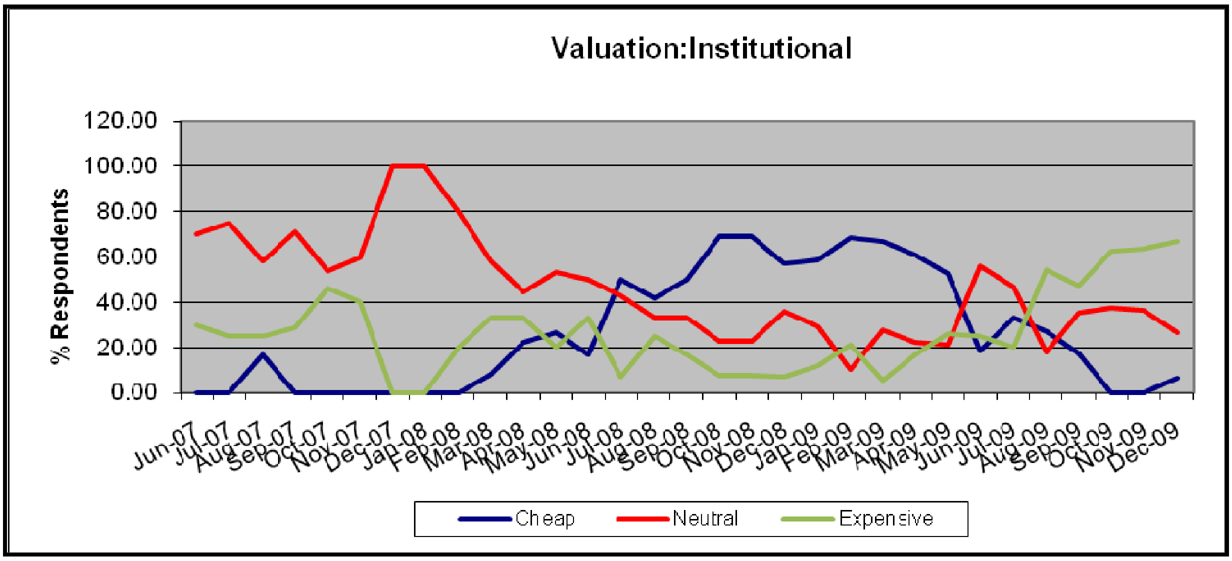
Results from Sanlam Investment Management (SIM) Investor Confidence Index

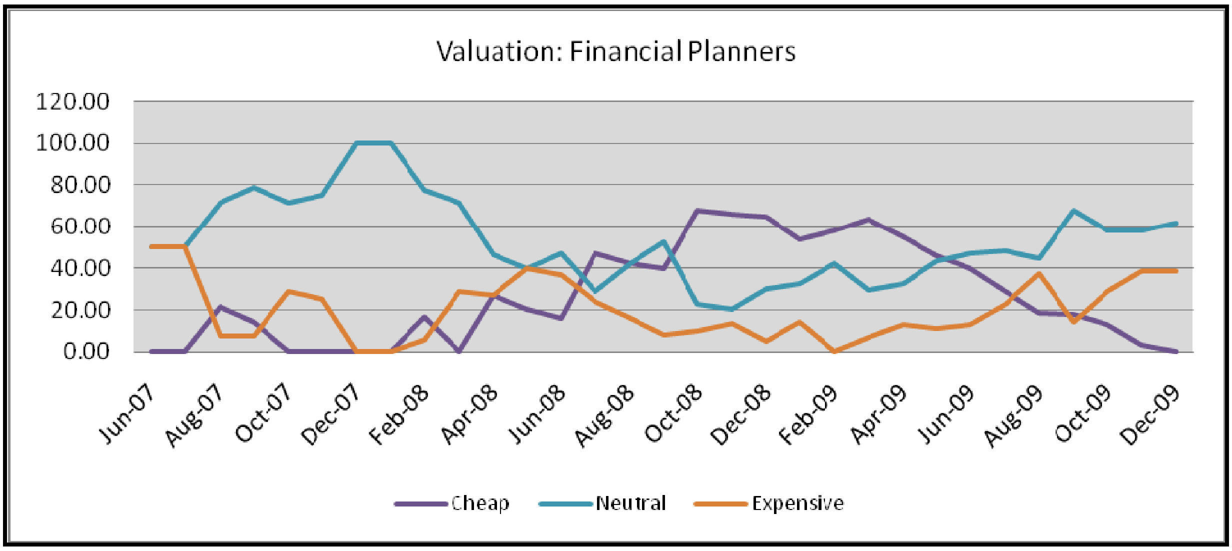
- a monthly survey conducted by the Institute of Behavioral Finance (IBF) among institutional investors and financial advisors

Cape Town, 15 December 2009: The December results of the Sanlam Investment Management (SIM) Investor Confidence Indices have revealed that investors continue to be sceptical about value in the equity market. As a result, investors have reduced their expected returns from equities.

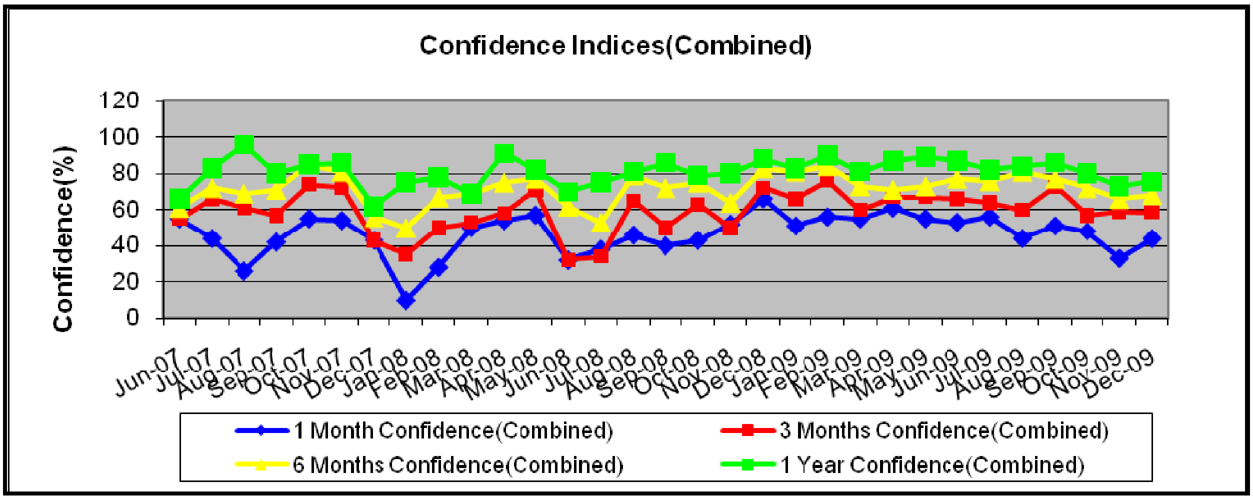
Frederick White, head of SIM asset allocation research said the research also revealed that investors believed that the likelihood of a crash in the equity market has increased and that they had reduced daily return expectations following a 3% dip in the market. "All-in-all it would be fair to say that investor confidence has declined during the past month," said White.

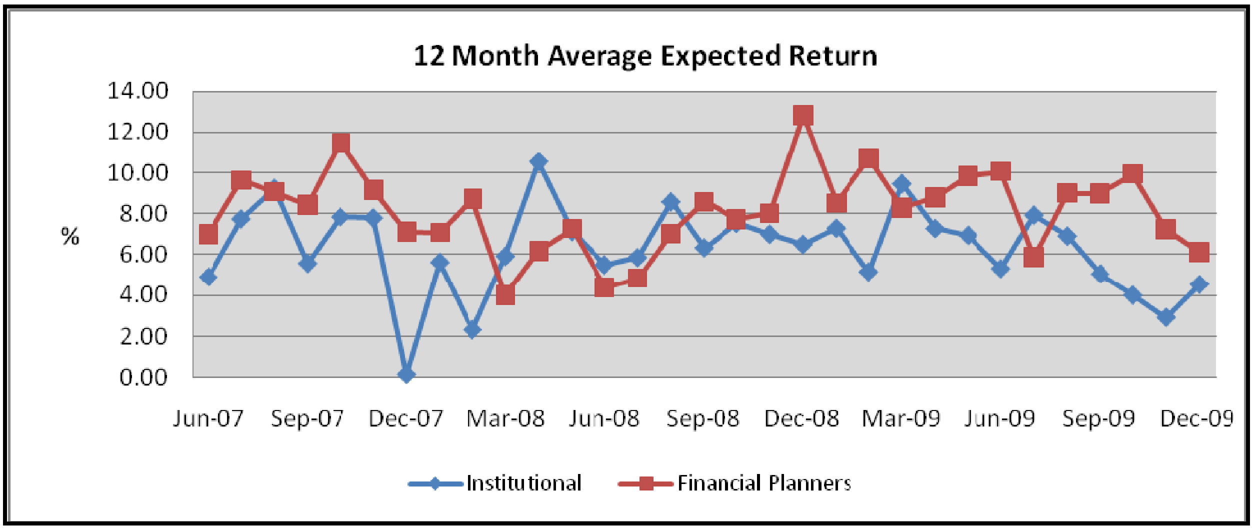
"On the valuation front, the percentage of respondents who deem the market to be too expensive, increased to 49% (from 45% in November). Among the institutional investor subgroup it increased to 67% (from 64% in November), so two out of three institutional investors believe that the market is overvalued," he said.

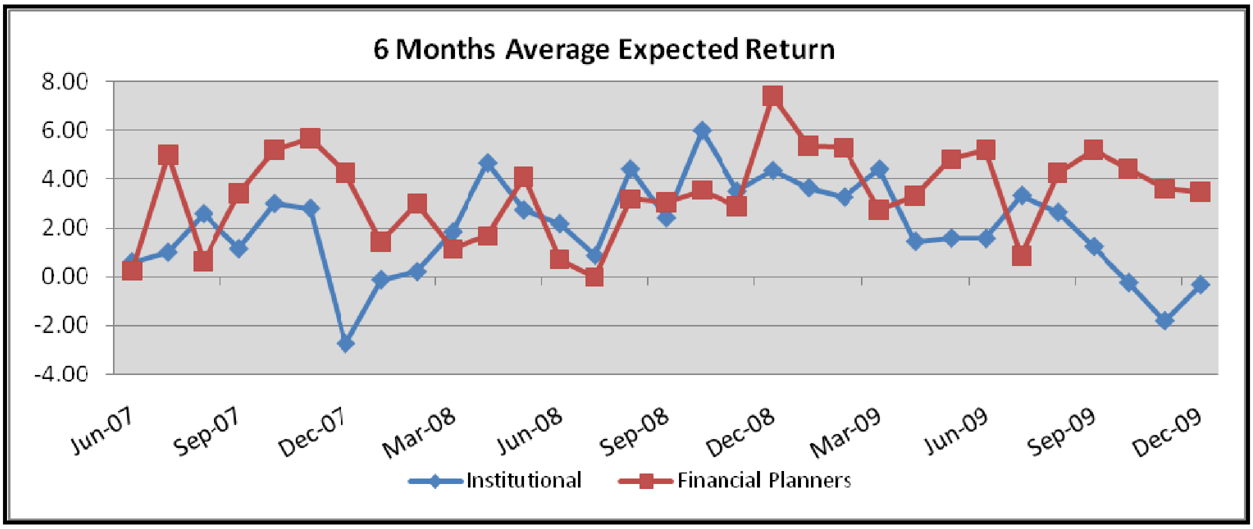


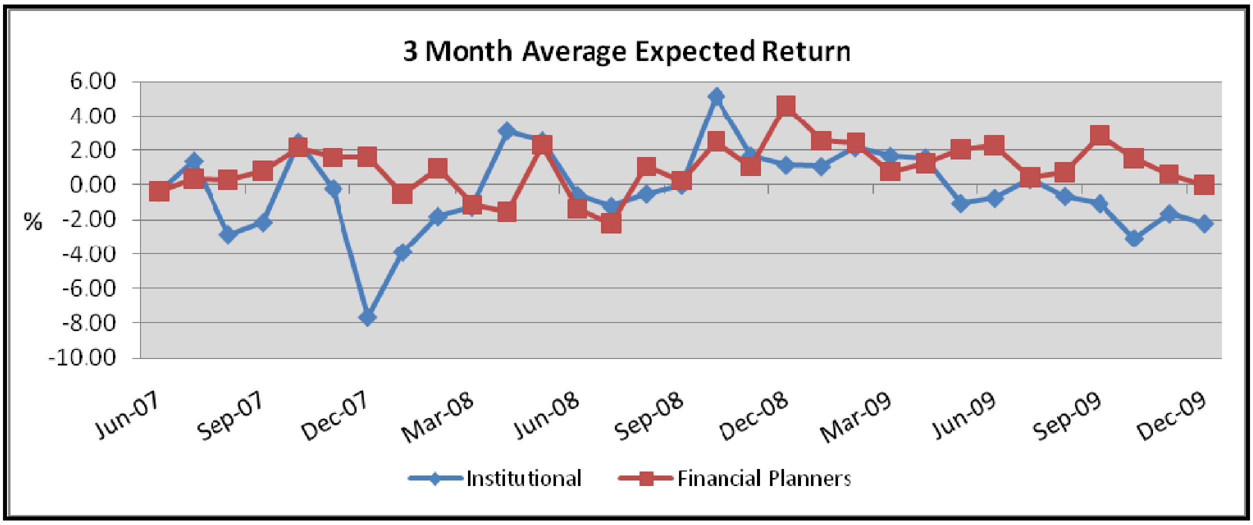


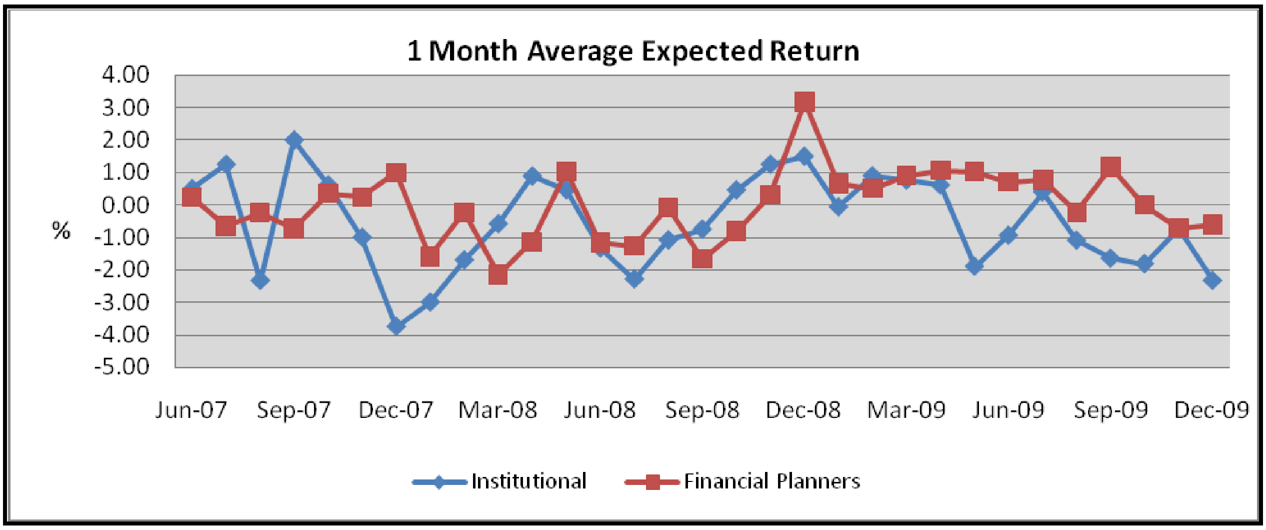
White added that on the returns front, the one-year confidence index actually increased in December, from 73% in November 2009 to 76%. “This implies that 76% of all respondents expect the market to be higher in one year’s time, but this masks the fact that the magnitude of the average expected rise declined from 6.1% in November to 5.5% in December,” he said. So while there are more investors expecting a positive return, the size of the returns they expect continues to decline.



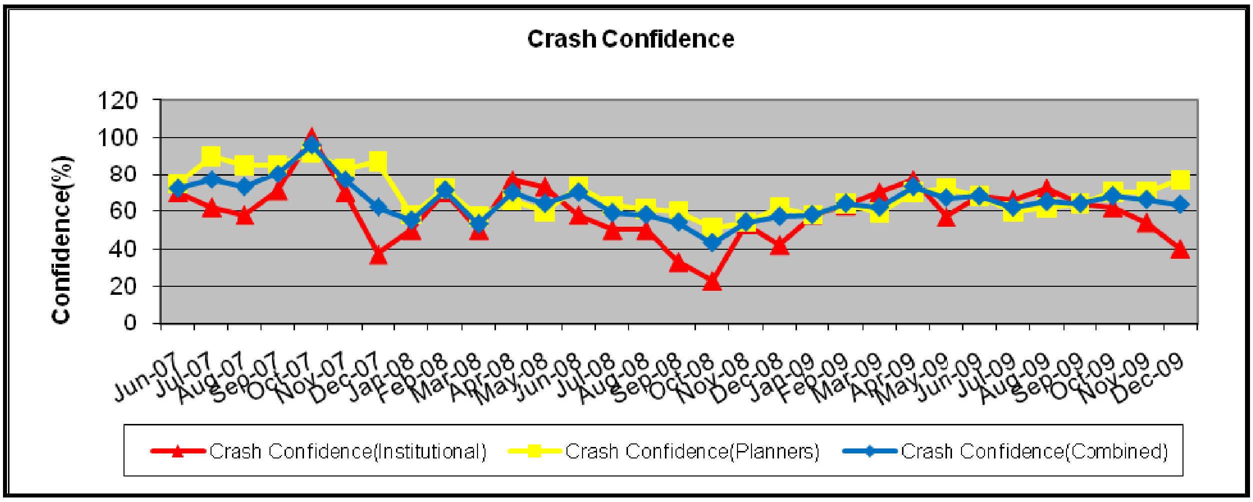




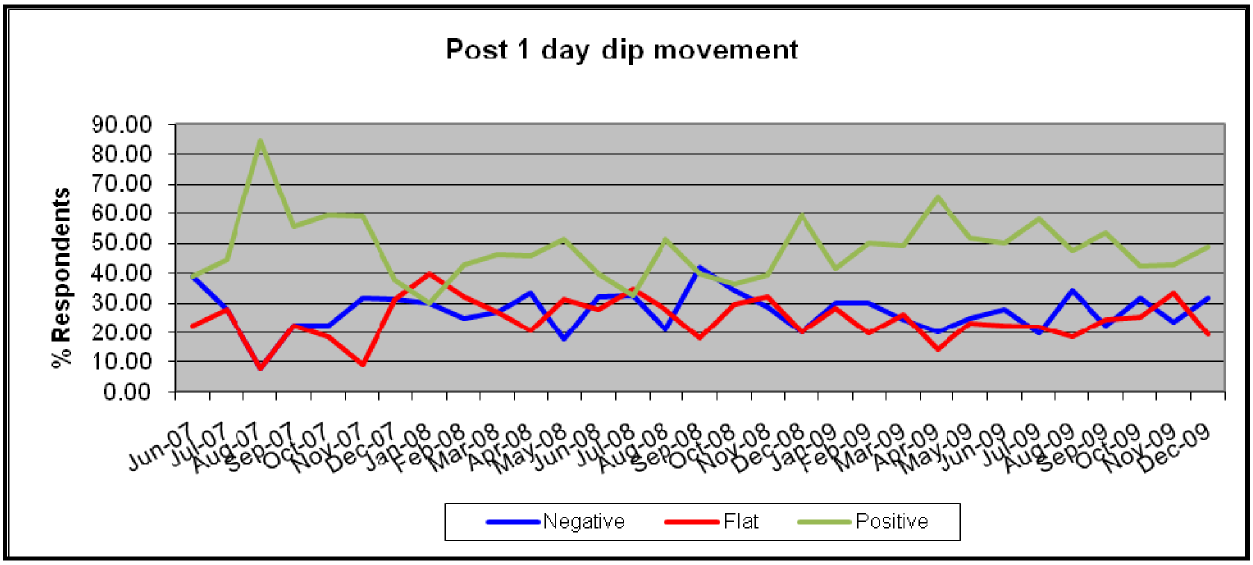




White said, "As far as the probability of a market crash is concerned, investors have again raised the probability placed on a crash, to 15.6% (from 12.5% in November), while the number of respondents putting a less than 10% chance on a crash declined to 63% (from 66% in November). Here too the institutional investor subgroup is more concerned than the advisors, with only 40% of them (from 54% in November) putting the probability of a crash at less than 10%.



“The average expected return on a day following a 3% decline in the market, declined to 0.2% (from 0.8% in November). However, similar to the one-year return index, the actual Buy-On-Dips Index showed an increase, as the percentage of respondents who expected a positive return on a day following a dip increased slightly.”



In summary, White said the movements in the investor confidence indices have been largely consistent with increased investor concerns following the continuation of the market rally that started in March, with the biggest concern being that the market is not offering value anymore. The two indices that bucked the trend and indicated increased confidence only did so on account of the percentage of respondents submitting positive outlooks, while the averages of the replies are also consistent with a slight decline in confidence.

Gerda van der Linde, executive director at the Institute for Behavioral Finance (IBF), an independent research organisation that conducts the survey, said that the continued uncertainty as expressed by sentiment among participants in the SIM Investor Confidence Index, indicated that certainty regarding a recovery in the economy was still on a tipping point. “Investors are not fully convinced that the South African economy is on its way to a recovery and that we have passed the part of the economic cycle called a recession,” said van der Linde.

“Consumer behaviour during this holiday season, which is usually a ‘feel good period’, might just boost confidence sparked by increased spending. In turn this behaviour can result in some sign of a recovery and the beginning of a self-fulfilling prophecy that the economy is on its way to a recovery. This is surely what governments globally hope to achieve with government bail-outs, lowering interest rates, job creation programmes and the like. A recovery must start in the head of the investor. We need a continued vigilance to drag us out of a spiral of negative sentiment by not allowing adverse events to be over emphasised and positive events to be ignored,” she said.

Gerda van der Linde concluded with “It is important from a behavioural finance perspective, that investors recognize each market event for what it really is; reflect on it as part of a bigger, long term picture; reframe the event taking into account possible biases that might influence rational thinking and respond by avoiding quick, reflexive responses and rather make decisions that is consistent with your risk profile and long term goals and values”.

Professor Zak Nel, Academic Head of The Institute of Behavioral Finance says that The South African Investor Confidence Index is of great value to the South African public with a keen interest in their investments. It is released monthly and is a vital tool in understanding the strength of faith that professional investors have in the ultimate growth potential of the overall South African economy. Essentially it expresses an informed opinion of knowledgeable experts about a real issue that is of crucial importance for every person in the street, namely “Can I invest my money in the South African economy?” It is nothing else than a barometer of a mood of trust in the economy.

The strength of the Investor Confidence Index has real implications for the man-in-in-the street, but it is not based on the amateur opinion of a lay-person in the street. The Confidence Index is namely based on a survey of the experienced and circumspect opinion of institutional investors, such as chartered financial analysts(CFA) as well as certified financial planners(CFP). Institutional investors and certified financial planners have years of high-level training and experience of understanding and interpreting the intrigued and complicated dynamics of the South African economy and especially the JCE. The Investor Confidence Index is therefore the authoritative opinion of professional investors that not only advices clients, but also make daily investment decisions where enormous amounts of money, such as pension fund money should be invested.

There are many implications imbedded in the Confidence Index, one of the most important being that a high level of confidence will signal to potential investors and institutions that the South African economy can be trusted to grow and yield a reasonable interest in the money that is invested. This is obviously also an important barometer for overseas investors. In the end, the Confidence Index gives an indication to what extent money will be drawn to institutions such as the JCE.

There are a number of dimensions that is reflected in the Confidence Index, one being a time dimension. Ultimately the Confidence Index indicates short term views (one month to 12 months) about the confidence in the markets. The Index also reflects the ultimate risk factor, namely what are the chances that the market will totally crash?

Another dimension incorporated in the Index is to what extent the market reflects “value for money”. Is the market to cheap or is the market to expensive?

One of the advantages of the Investor Confidence Index is that it is surveyed on a monthly basis but always using the same expert panel. This means that longitude trends over time can be detected and interpreted. The strength of the opinion gauged during a specific month can therefore be compared to previous scores.

The index is reported in four main categories: One-Year Confidence Index, Buy-On-Dips Confidence Index, Crash Confidence Index, and Valuation Confidence Index. The One-Year Confidence Index relates to the expected percentage change in the JSE All-share Index for the periods of one month, the next three months, the next six months and the next year. The Buy-On-Dips Confidence Index gives participants a chance to estimate how the JSE All-Share Index will do the day after tomorrow if it were to drop by three percent tomorrow.