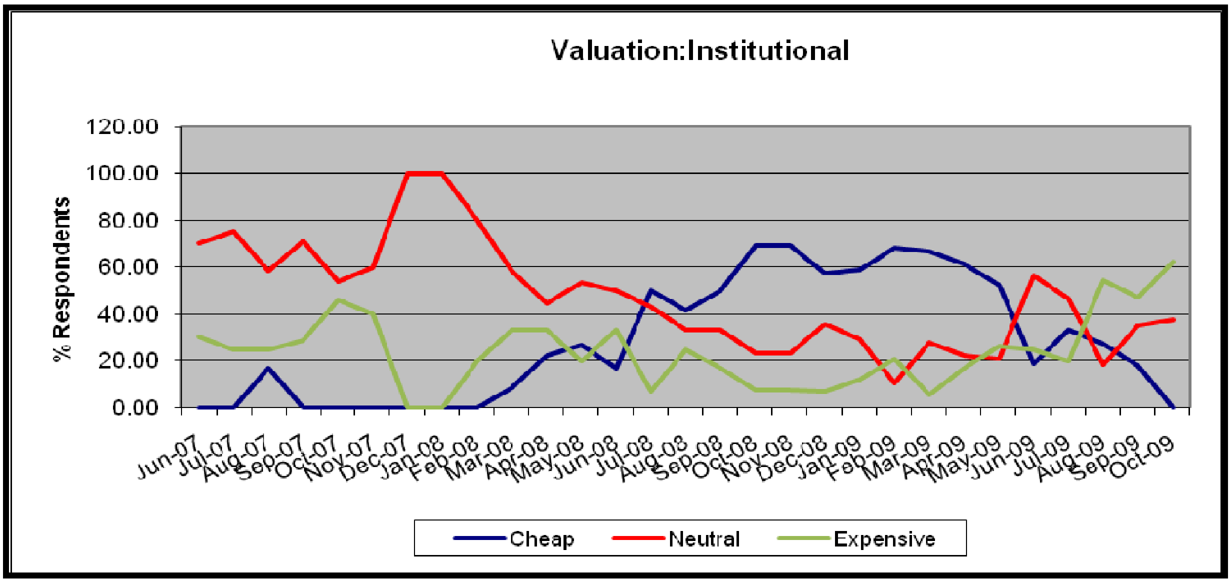
INVESTOR CONFIDENCE INDEX REVEALS BROAD DECLINE

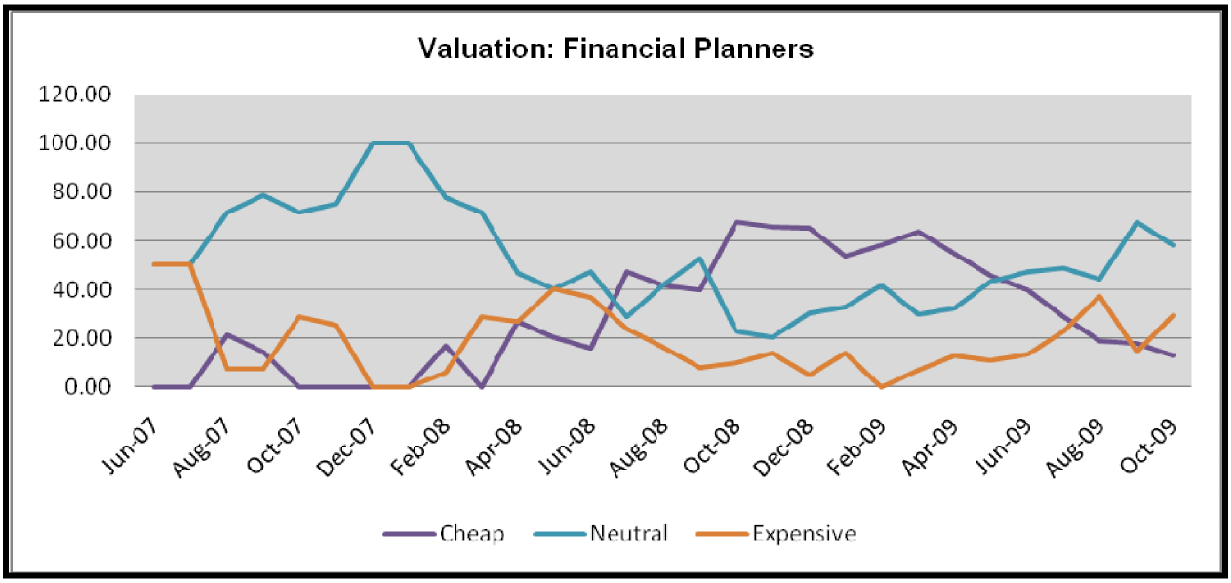
Results from the Sanlam Investment Management (SIM) Investor Confidence Index

- a monthly survey conducted by the Institute of Behavioral Finance among institutional investors and financial intermediaries

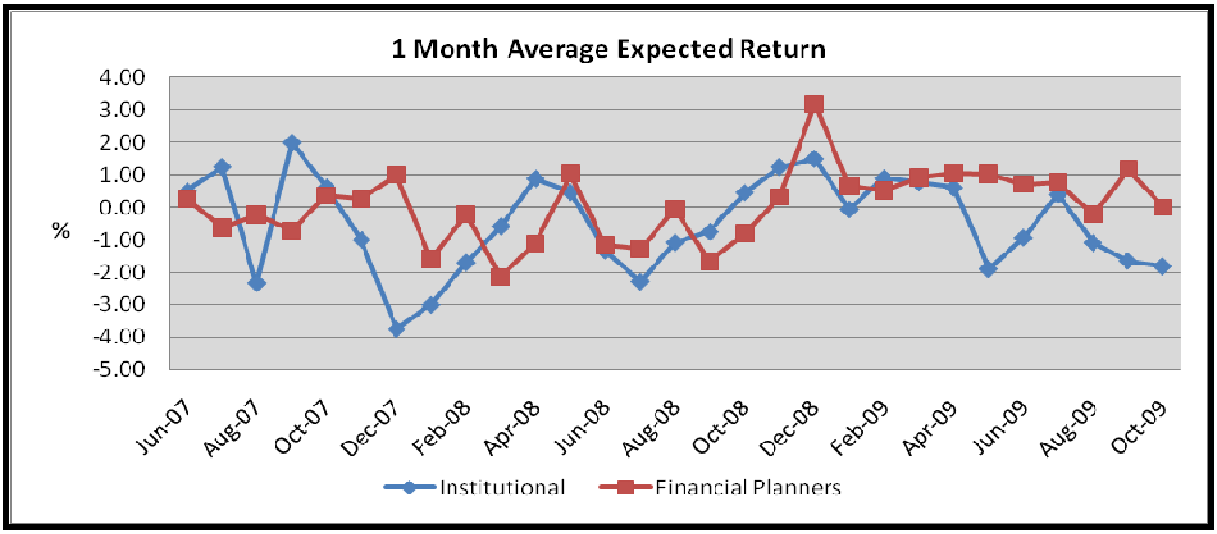
Cape Town, 14 October 2009: The October results of the Sanlam Investment Management (SIM) Investor Confidence Indices surveys showed declines in all surveyed subsets except the crash confidence index. Most noticeably it showed almost a complete reversal of the unexpected jump in the valuation index that happened in the previous month.

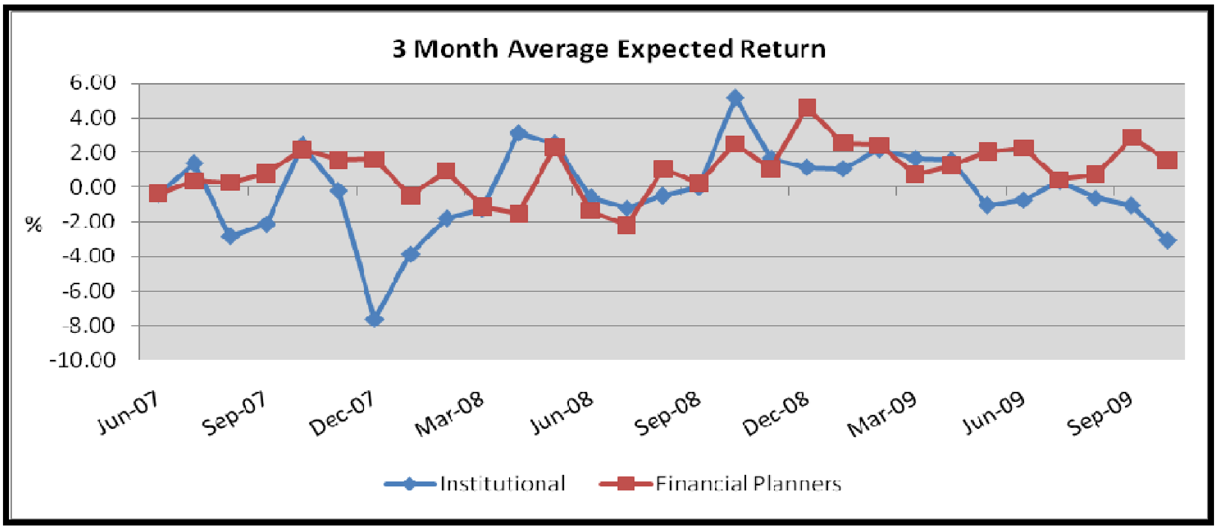
Frederick White, head of SIM asset allocation research said, "Institutional investors especially seemed to be increasingly concerned about valuation and prospective returns. Not only do 63 percent of respondents from this group now consider the market to be too expensive (the highest level since inception), but not a single institutional investor believed the market to be too cheap anymore.

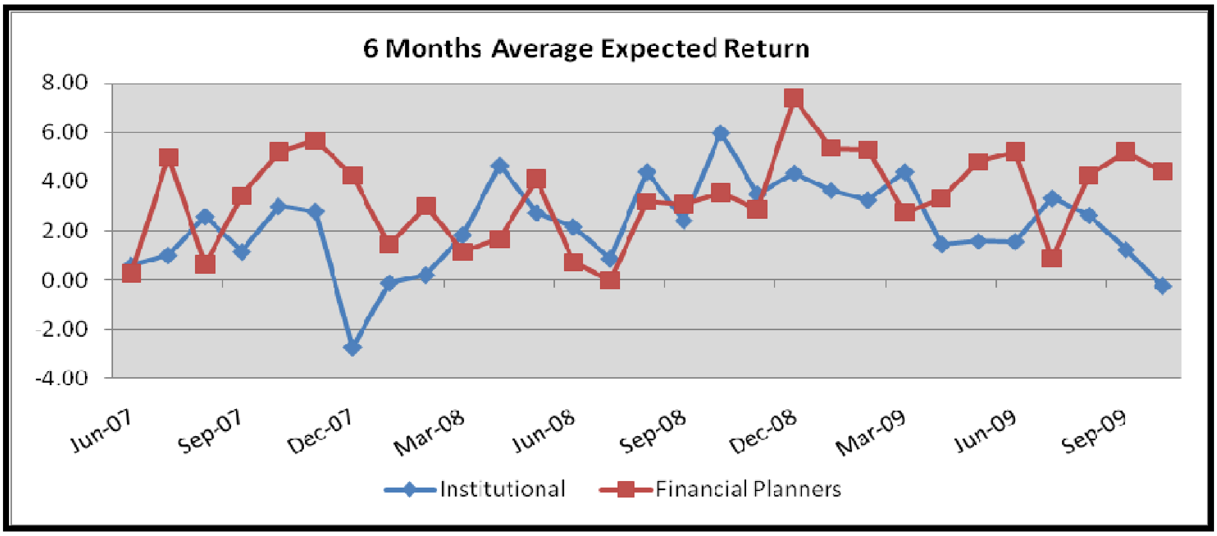


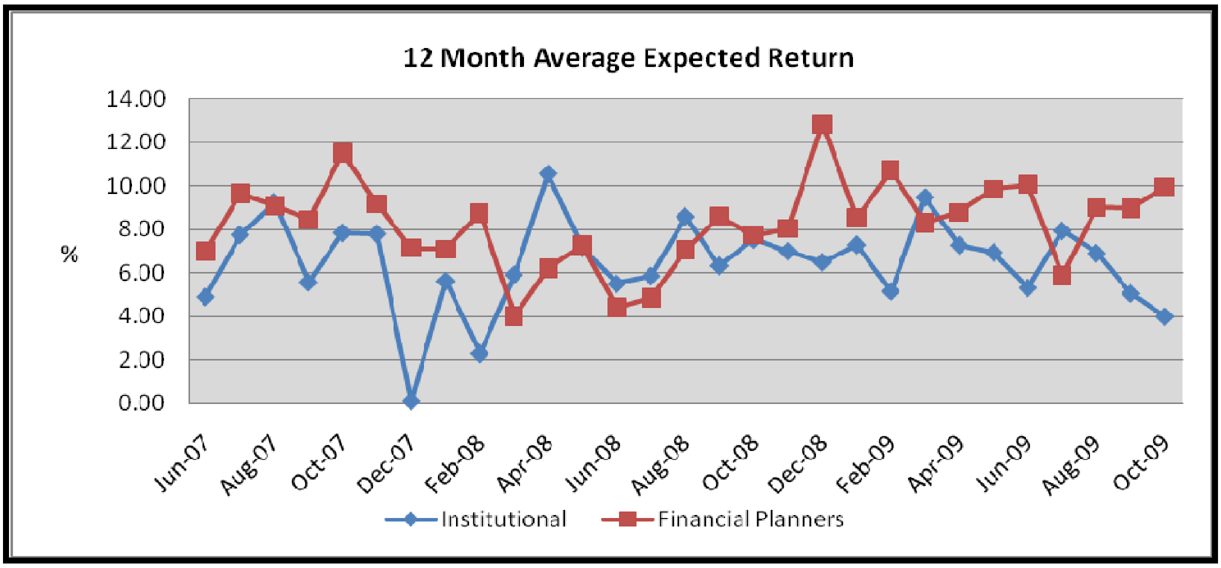


“Consistent with this, institutional investors have also turned more pessimistic on the outlook for returns. On all investment horizons less than a year they expect the market to close lower than the current level; -1.8 percent for one month, -3.1 percent for three months and -0.3 percent for six months. Even on a one-year basis almost 40 percent of respondents still expect negative returns, while on average the group expects the market to rise by a mere four percent.

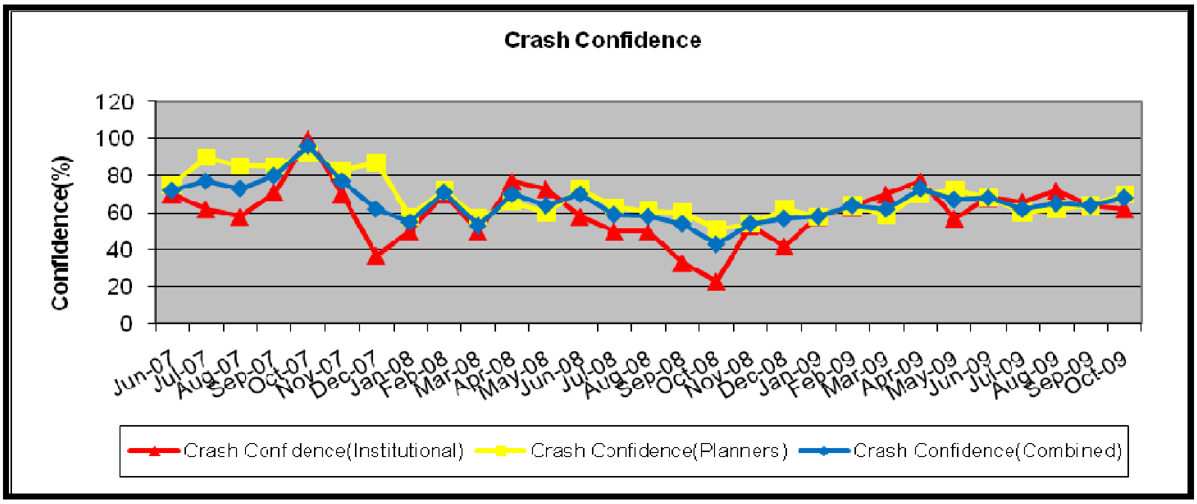


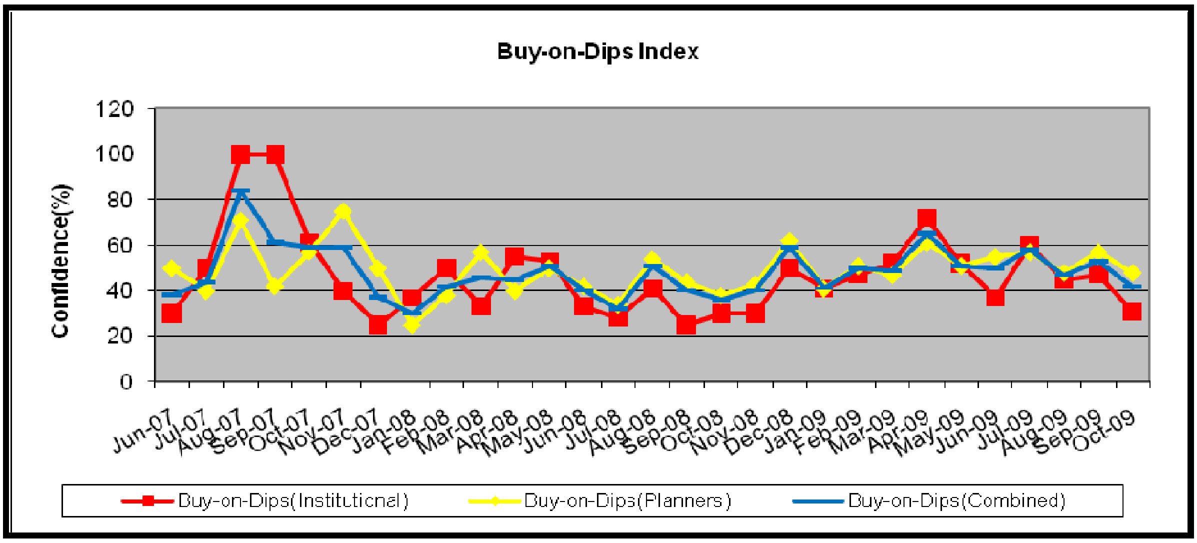






"Even on the two remaining indices, crash confidence and post-dip recovery, institutional investors have turned more negative. On a day following a three percent dip in the market 69 percent of them expected the market to decline even more or be at best flat, while the deemed probability of a 1929 type crash has increased slightly to almost 15 percent, from a low near 10 percent in March this year."





According to White, it would be fair to summarise the results from institutional investors as the worst confidence with regards to local equity markets for at least a year.

White said, “Among the advisor group there was also more deterioration in the measured indices and subsets than there were improvements, but this group remained decidedly more confident about the equity markets than the institutional investors. This is most noticeable in the one-year outlook, where the advisors group actually expressed an increase in the one-year rise expected from the market (from nine percent to ten percent), albeit they did reduce the expectation for all shorter horizons relative to last month’s survey.

“The other aspect where the difference in opinion remains large, is valuation. Although the advisor group did turn a bit more bearish on valuation, the majority of respondents still deemed the market to be fairly valued or cheap (58 percent and 13 percent respectively), with 29 percent deeming it expensive (albeit up from 14 percent last month).

“These results imply that institutional investors probably remained focussed on valuation and hence continue to see less and less value in the market as the level of the market rises. Consistent with this they continue to reduce their collective outlook for equity market returns. Financial advisors on the other hand seemed more comfortable riding an equity wave fuelled by continued stimulus; the promise of rapidly rising earnings; and a mountain of money (globally) sitting in cash earning very low returns and potentially being considered for redeployment in higher yielding assets,” said White.

Gerda van der Linde, executive director at the Institute for Behavioral Finance (IBF), an independent research organisation that conducts the survey, explains these results, “It is now obvious that there is a prevailing and deep-rooted negativity with regards to investment sentiments. From a behavioral perspective, it appears as if both the financial planners and institutional investors are trapped in negativity. Good news is ignored and there appears to be a focus on negative signals.

“Institutional investors and financial planners are generally exposed to noise from different sources and this explains the increased difference in sentiment regarding the direction of the markets as reflected in the different return estimates for the coming months. Institutional investors are exposed to rational analysis of companies, markets and trends. Most financial planners get their information via the printed popular press, business television and conversations with colleagues - presented within frames created by reporters wanting to sell their news, sometimes removed from objective reporting. Financial planners may have recently experienced gains in their clients’ portfolios and want to believe that this will continue. Their cognitive processes will select information confirming this sentiment. Institutional investors are exposed to information confirming their sentiment of uncertainty regarding continued growth and fear of a looming correction in the markets. Both groups may be showing signs of confirmation bias.

“Emotions evoked by situations inducing uncertainty, or situations inducing overconfidence, can influence risk judgements and financial decision making. These can be incidental emotions resulting from incidents unrelated to investment and finance. Positive emotions evoked by the excitement surrounding the coming soccer world cup and the successes of sporting teams can unconsciously trigger positive judgements of investment returns and negative emotions evoked by continuous strike actions and the undermining of the constitution can unconsciously trigger negative judgements regarding investment returns. The sources of the emotion often have no relation to the actual judgement, being market sentiment in this instance,” says Van der Linde.

Only time will tell which of the more positive or cautious sentiment were the correct one, or will both be wrong? Currently both groups express their sentiment in a narrow frame which shows signs of herding. None are brave enough to break from the herd and express a strong move in a positive of negative direction.