**SA EQUITY MARKET IS FAIRLY VALUED, SAY SOUTH AFRICAN INVESTORS**

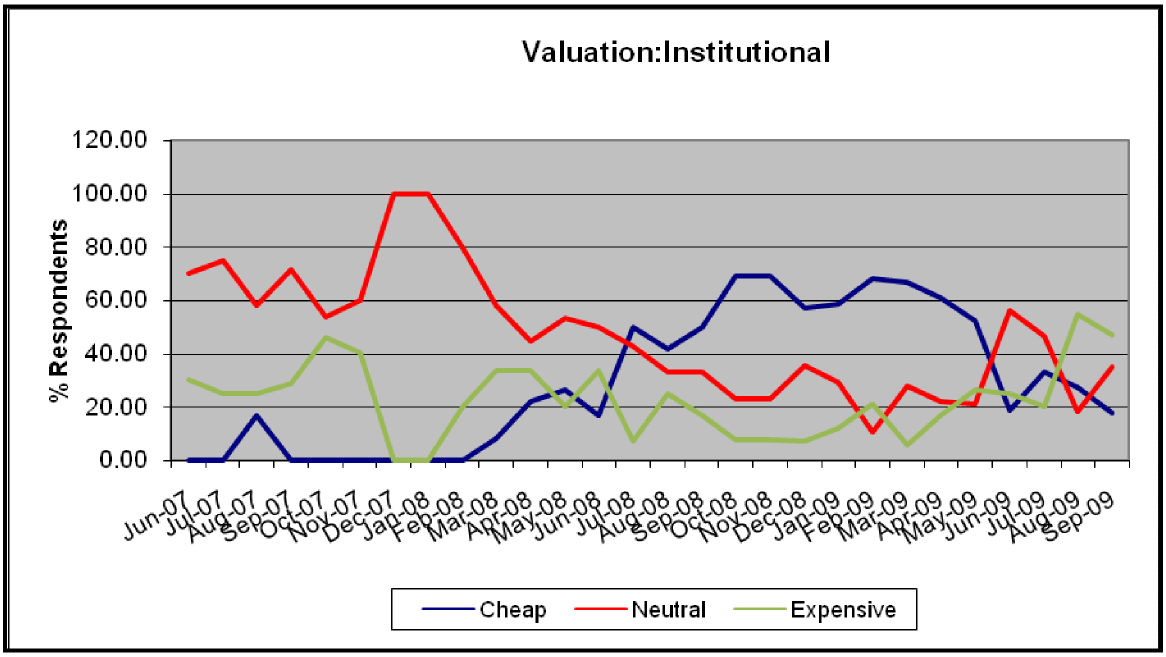
*Sanlam Investment Management (SIM) Investor Confidence Index*

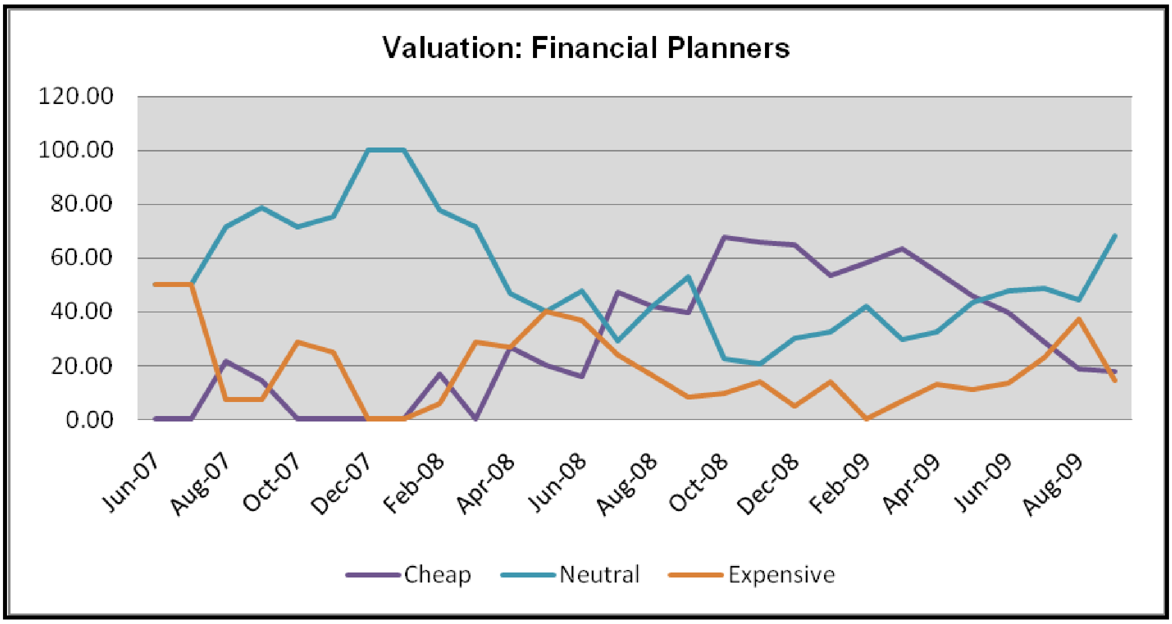
*- a monthly survey conducted by the Institute of Behavioral Finance among institutional investors and financial intermediaries -* ***indicates investors are in search of certainty***

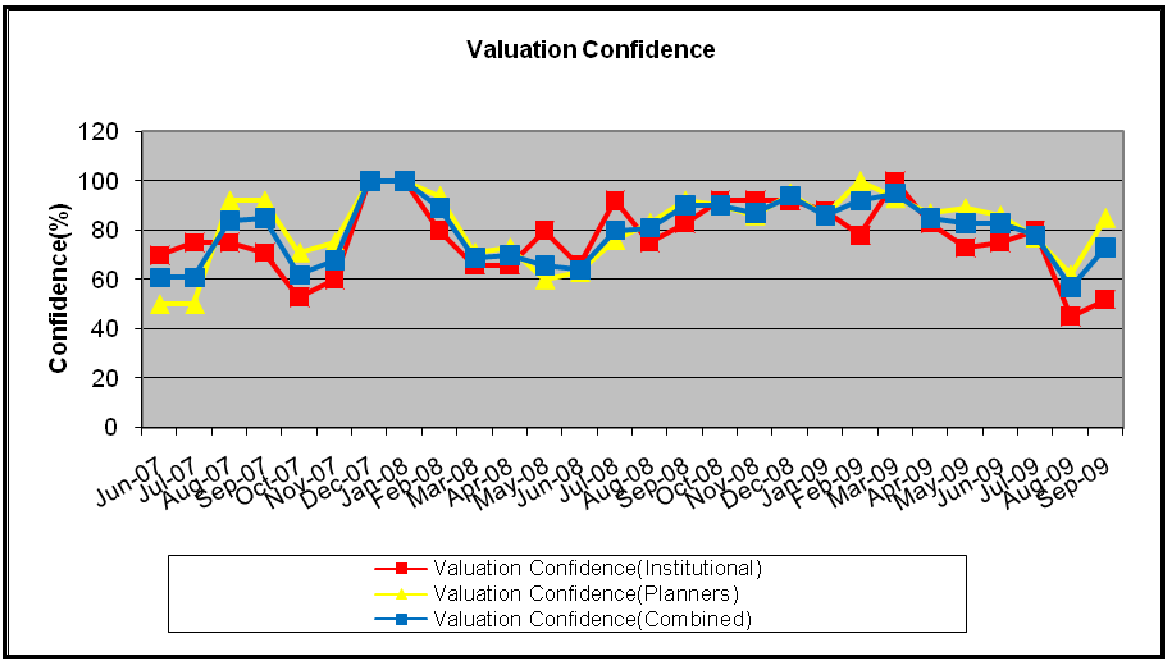
73 percent of respondents in the September Sanlam Investment Management (SIM) Investor Confidence Indices believed the local equity market was either too cheap or fairly valued - or conversely only 27 percent believed the market was too expensive (down from 43 percent a month earlier). This upward surge in the valuation confidence index was unexpected and it effectively reversed the drop that this index experienced in August.

Frederick White, head of SIM asset allocation research says, “The move in the valuation index is surprising given that the equity market continued to move higher during the month. Since the market bottomed in March and the valuation confidence index peaked, the market has continued to rally month-on-month and, consistent with this, the valuation confidence index declined every month. Until now.”

According to White, a deeper look at the breakdown of the valuation responses yielded some interesting results. “Among the institutional investors, the percentage of respondents who thought the market was too cheap, continued to decline to a low 18 percent - consistent with the previous view and a continued increase in the market. It should be mentioned that there was also a small decline in the number of respondents who considered the market to be too expensive, yet among the institutional investors nearly half the respondents still viewed the market as too expensive.



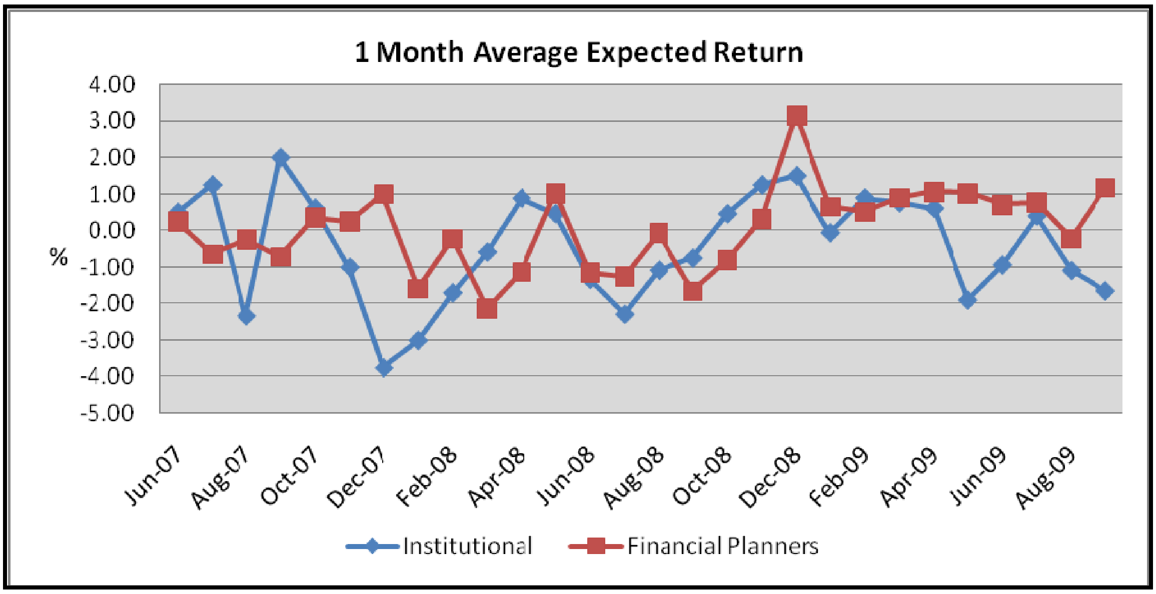


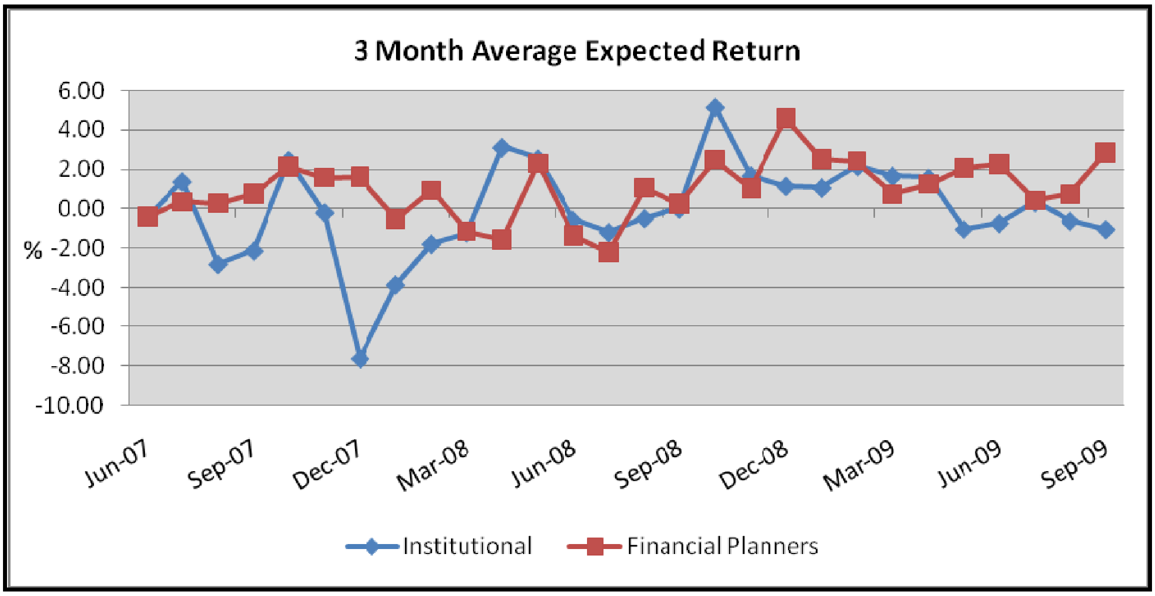



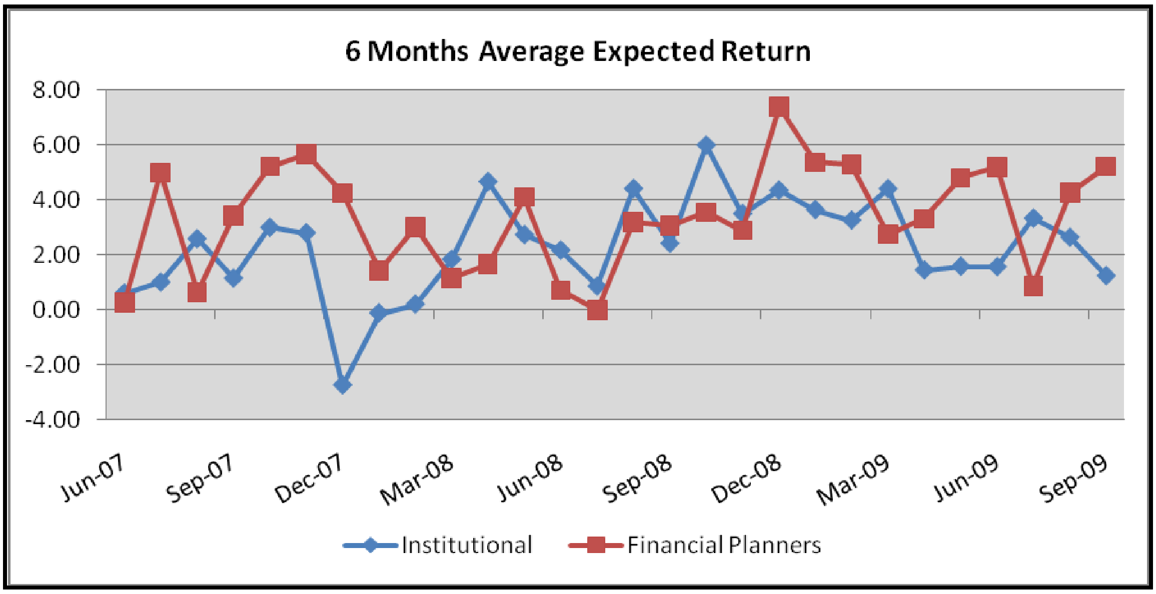

"However, the big movement came from the financial advisors. In this group the percentage of respondents who considered the market to be too expensive declined from 37 percent to 14 percent. So among this group a full 86 percent viewed the market as being either too cheap or fairly priced. By implication the financial advisors still view the equity market as offering a good investment opportunity.

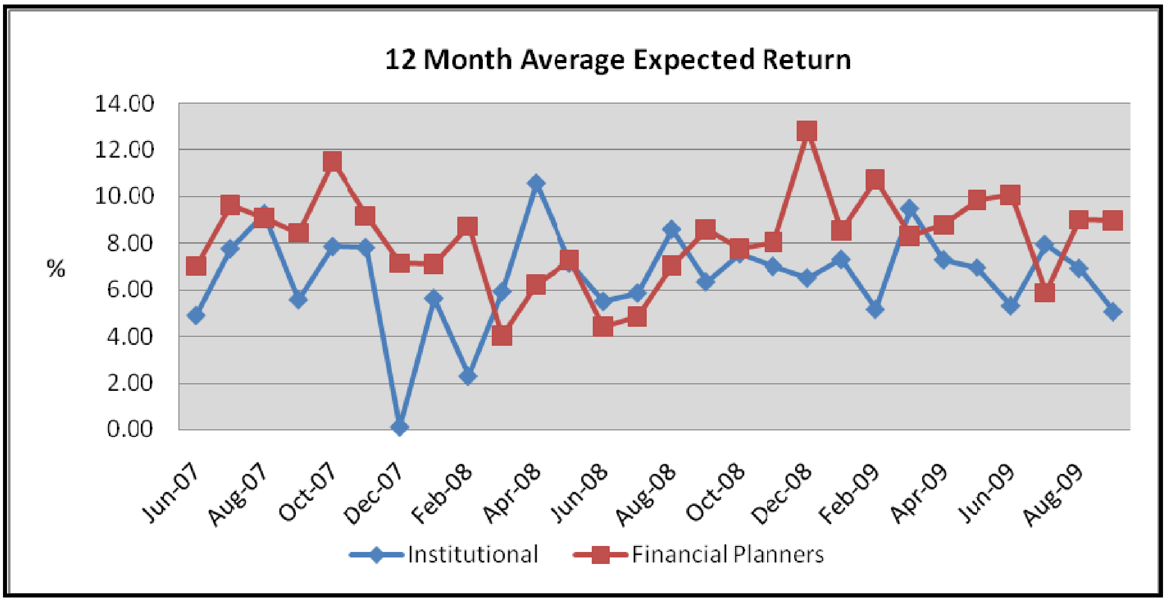
White said, "These results imply that institutional investors probably remained focused on valuation and therefore continue to see less and less value in the market as the level of the market rises. Consistent with this valuation concern, they have also reduced their collective outlook for equity market returns. They continue to foresee negative one-month and three-month returns and worse so than before, while they have also pulled back their expectations for six-month and 12-month returns to just one percent and five percent respectively.

“However, the financial advisors seem to have bought into the view that the outlook for the world has improved materially. On the one hand, one is inclined to interpret their reaction as “momentum oriented” and the movements in their return expectations would support such interpretation. Their expectation for one month returns improved from -0.2 percent to +1.2 percent, for three-month returns from 0.7 percent to 2.9 percent and for six-month returns from 4.3 percent to 5.2 percent.





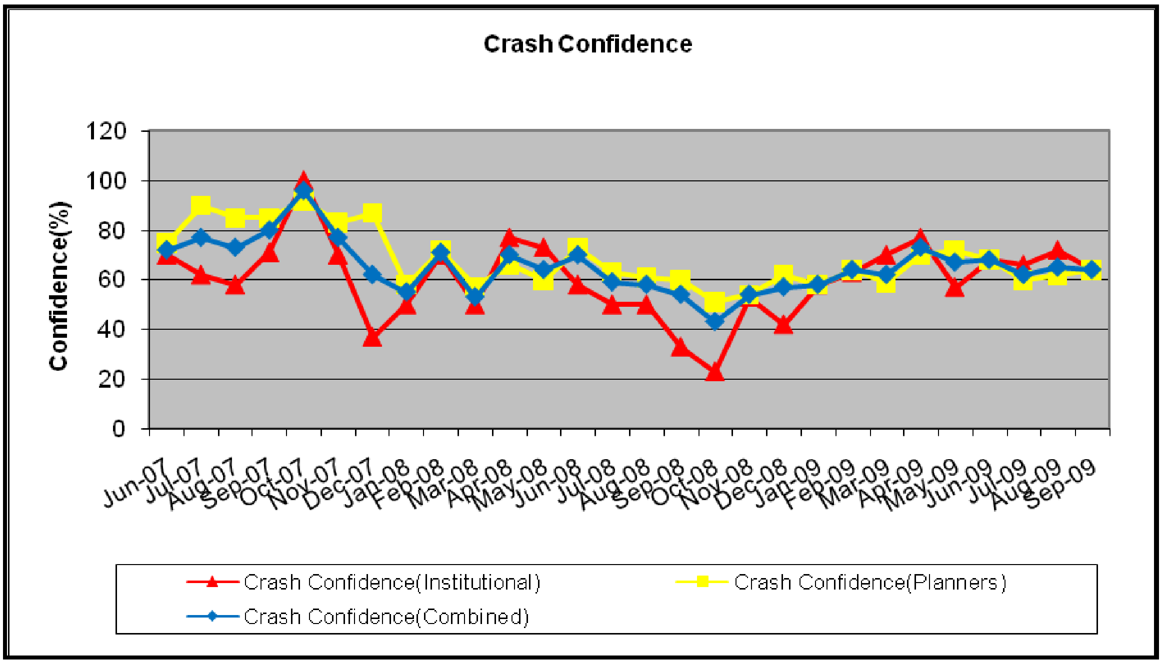

However, given the big decrease in the number of respondents who think the market is overvalued, the implied interpretation is that the risk premium required by this group for equity investments has reduced. Hence in light of the momentum in positive economic news flow, investments in equities have become less risky and hence are not as expensive as previously thought.

"The views of the two groups of respondents are now quite divergent. It makes it tough for the private investor who has investment products through both these sets of professional investors, as he is probably hearing mixed messages with regard to the outlook for his investments. Investors should remember that the key to good investment returns is buying assets when they are fundamentally cheap and that you have to be comfortable with the way in which you assess whether that is the case," says 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, "All market participants - institutional investors, financial planners and their clients – are always in search of the direction that the market is moving. The latest results clearly indicate that currently this is a futile search for certainty. The futility is evident from the difference in the perception of market valuation between the financial planners and institutional investors as measured by the SIM Investor Confidence Index. Never before did these two groups hold such different views about the value the financial market offers.

"While institutional investors became wearier, financial planners may be seen as not willing to jump ship without taking full advantage for their clients to make up what they have lost. This is reflected in their sentiment that the markets still offer fair value which is in contrast with the sentiment expressed by the institutional investors. A possible explanation is that institutional investors are removed from the emotions of clients whom lost up to half of their accumulated savings in months prior to the current rally. Institutional investors, in contrast to financial advisors, are driven by rationality and "quantitative" decision-making.

"Sentiment is more a reflection of the day-to-day experience of the immediate environment of the investor, rather than a reflection of the current status of financial markets. The best a financial planner can do is to create an individual tailored strategy for each client taking the unique circumstances into account – risk tolerance, goals, needs, timeframe. Then to coach the client to stay focused on the well devised strategy and to avoid chattering of experts and market commentators causing the herd to stampede resulting in market crashes," says Van der Linde.

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