Sanlam Investment Management

Investor Confidence Index: June 2008

Confidence Indices

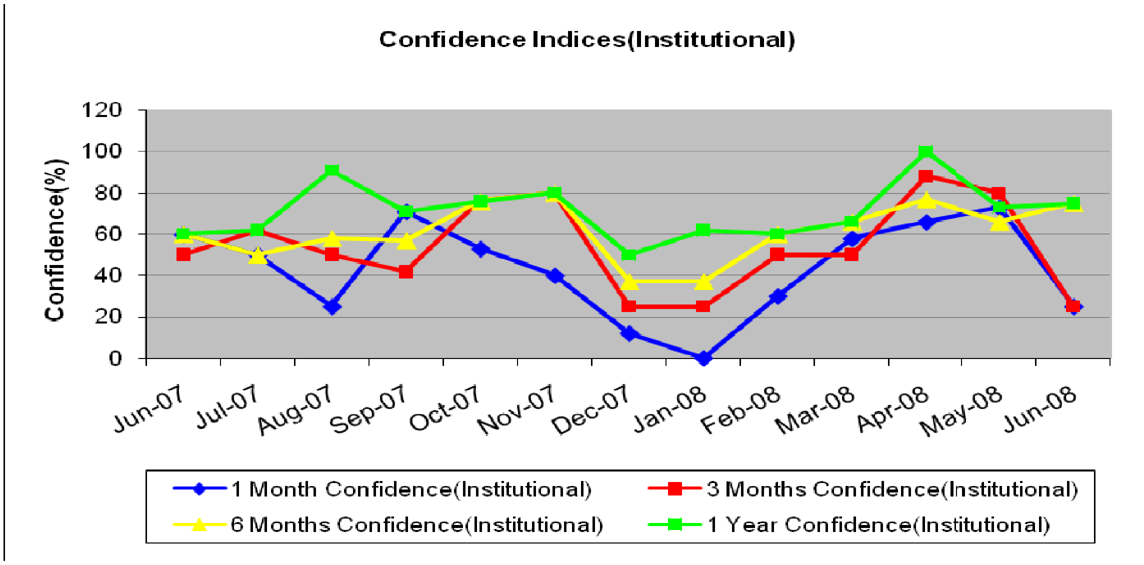
The world finds itself in a precarious position. Downside risks to growth remain in the aftermath of the credit crisis due to tightening credit standards and extremely low consumer confidence combined with (and as a consequence of) rising unemployment and falling asset prices. These growth concerns are putting pressure on central banks to **lower** interest rates. On the other hand, unusual movements in important external factors such as oil and food are not only putting upward pressure on inflation, but also raises concerns that such pressure is now starting to become more broad based. These inflation concerns are putting pressure on central banks to **increase** interest rates. The fact that the external drivers are near impossible to forecast and are themselves influenced by factors such as the weather and disease, all add to the uncertainty for interest rates and growth.

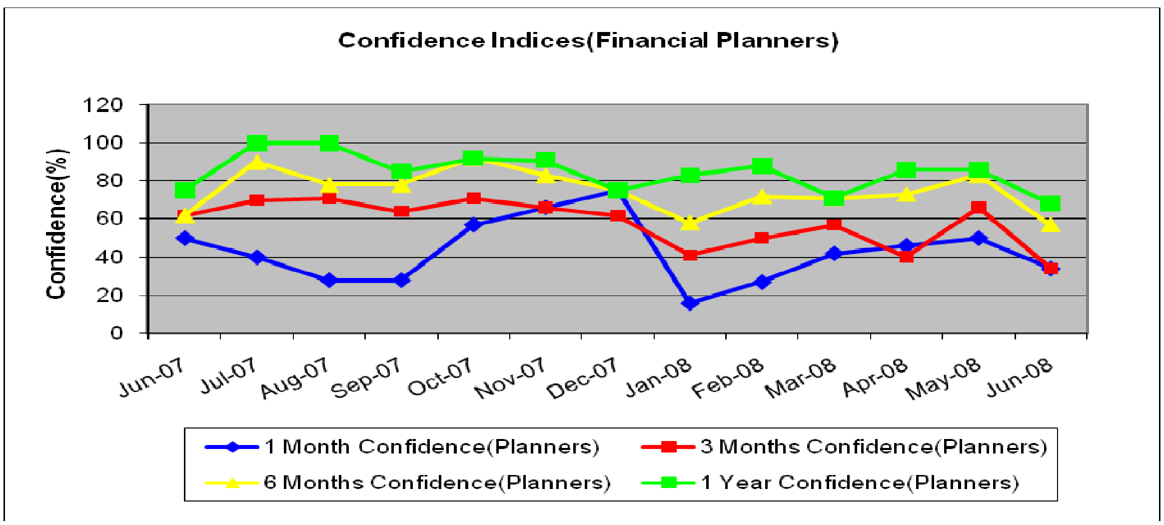
This uncertainty is manifesting itself in the volatility we're seeing in financial markets and in the swings in confidence among financial market participants. It is therefore no surprise to see that the volatility that has characterized Investor Confidence over the last year continued in the latest (June) measurement. Despite the fact that at the time of the survey period the market was down by roughly 5% relative to the previous month's survey period, there are fewer people that think the SA equity market is offering value. There has also been a marked decline in investor's return expectations, especially with respect to short term returns – the average of which has actually turned negative again.

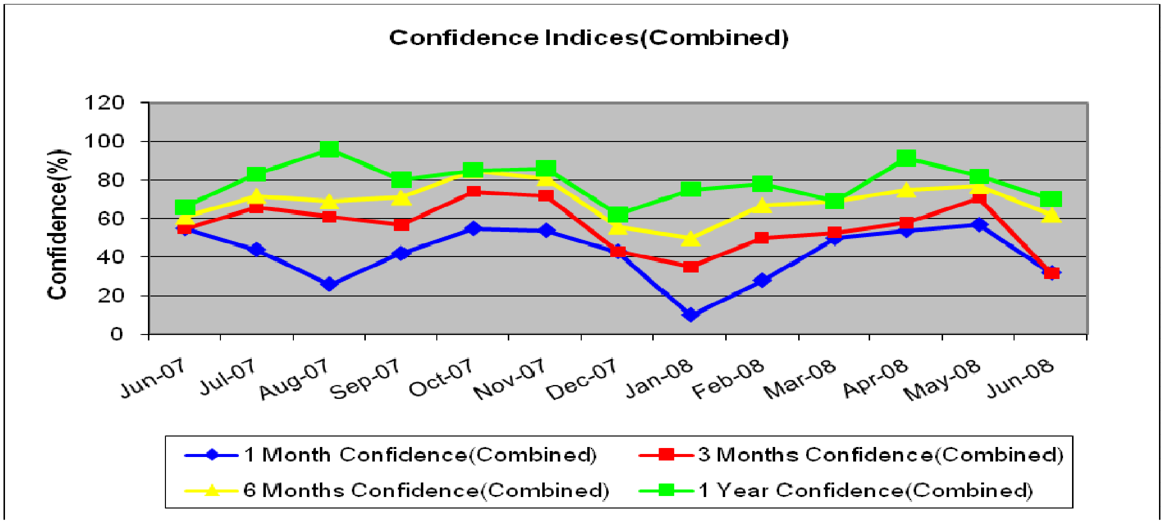
In this tussle between inflation and growth, the dominant theme over the last month has been rising interest rate expectations. On the local front the SARB expressed concern over broadening inflation pressure and a determination to act decisively to fight this pressure. The result was that investors started pricing in higher interest rates and with it started reducing their outlook for local growth. On the international front the broadening of inflation pressure was also pretty much in the limelight as confirmed by central bank speeches, resulting in financial market participants becoming more concerned about potential increases to interest rates and consequent downside risk to growth. In both cases the accompanying risks are for lower earnings growth and lower valuation levels.

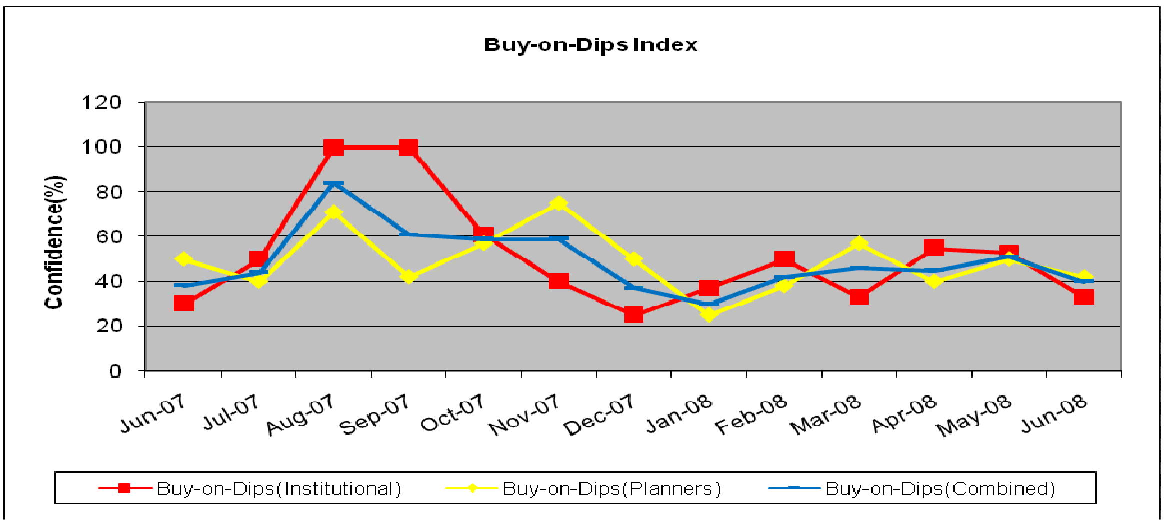
These developments correlate well with the results from the investor confidence survey. Respondents have reduced quite considerably their expected return outlook for local equity markets and have (again) become especially negative on the outlook for the near term. Over three and six months the average expected returns have both dropped to negative 1.2%. The outlook for 6 months is only just more than 1%, while the six month number has fallen to less than 4.7% – the weakest it has been since the slump experienced in December last year. The number of respondents that expect positive returns over the short term have dropped to less than 1 in 3.

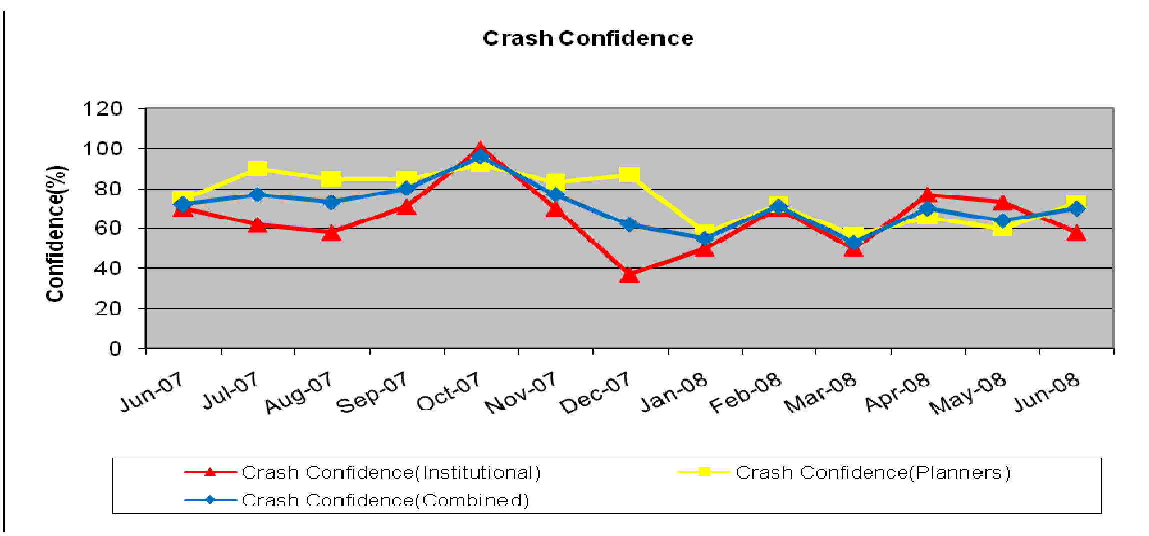
Among the other aspects of confidence measured in the survey, there seems to be little expectation with respect to recovery on days following big market dips, but the fear of a market crash has risen markedly again and is rivaling its previous peaks.

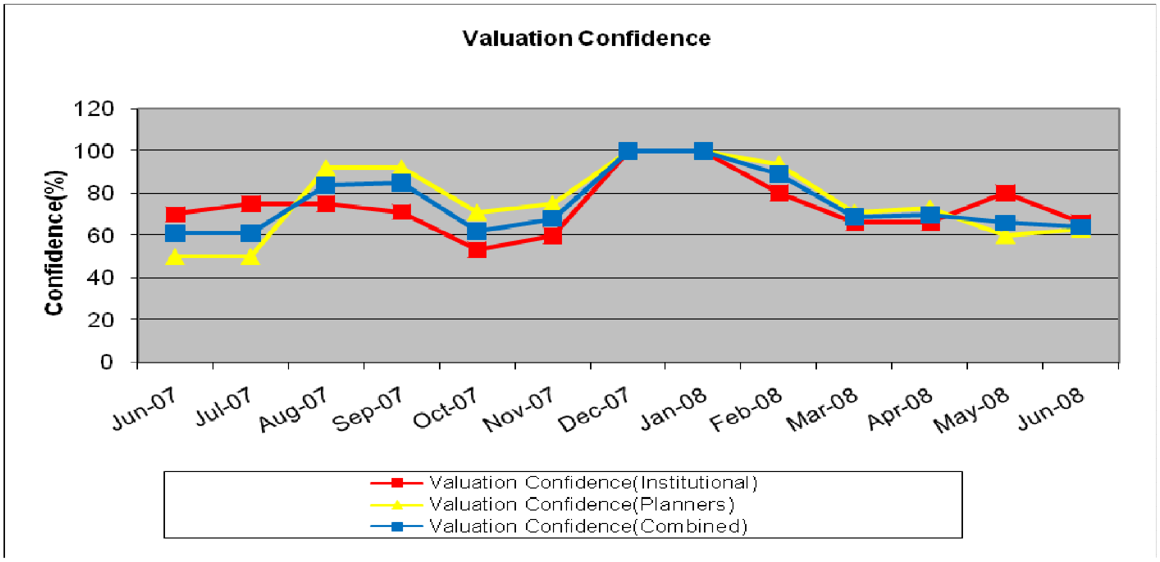


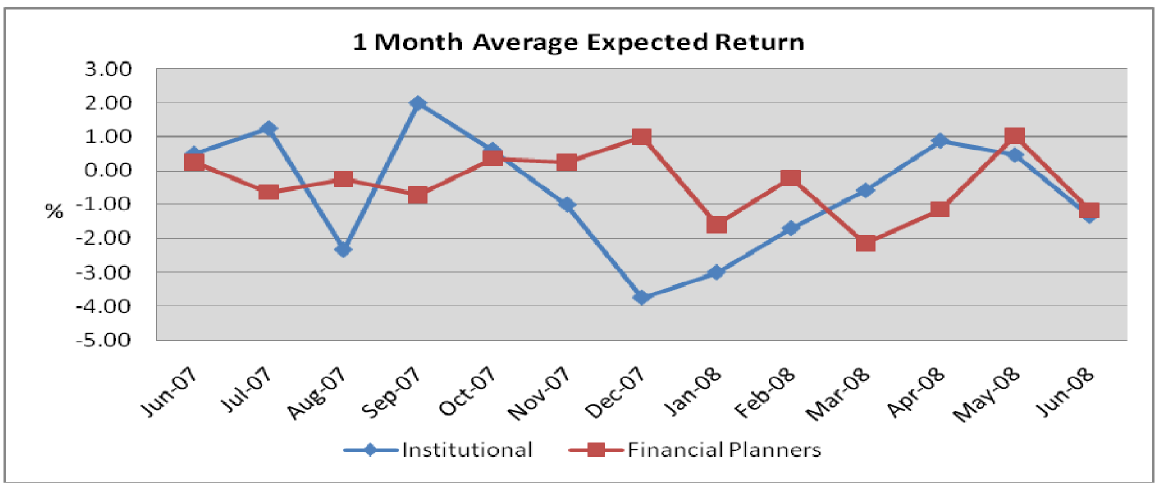


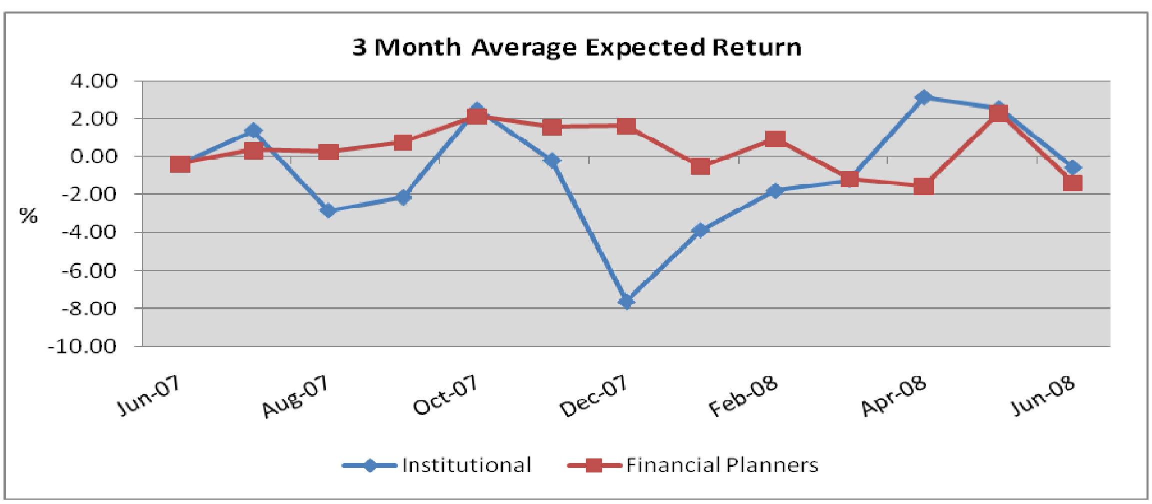

Confidence Indices(Combined)
Confidence(%)
0
20
40
60
80
100
120
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
1 Month Confidence(Combined)
3 Months Confidence(Combined)
6 Months Confidence(Combined)
1 Year Confidence(Combined)

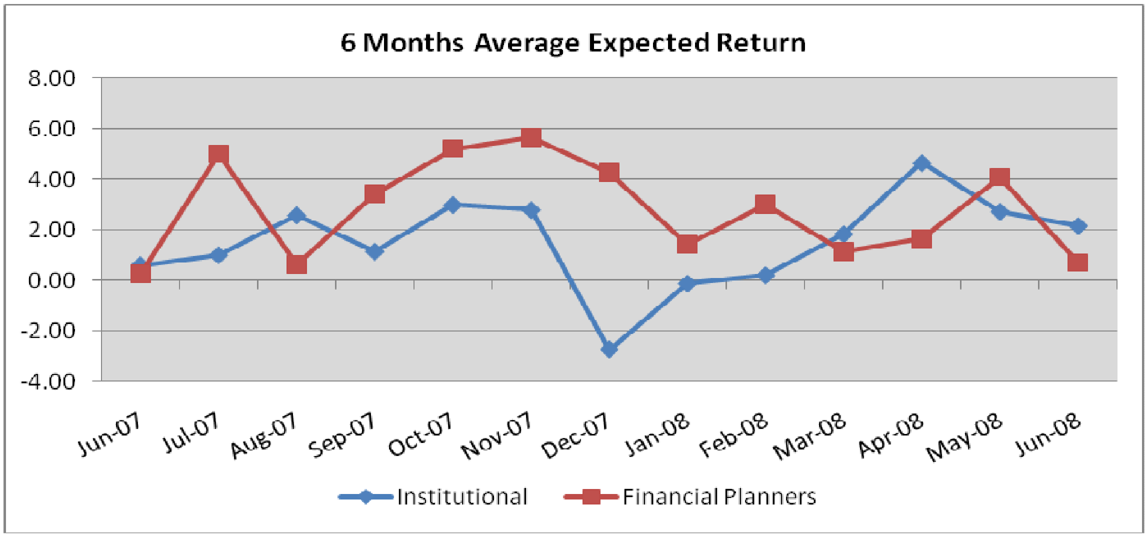

Buy-on-Dips Index
Confidence(%)
0
20
40
60
80
100
120
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Buy-on-Dips(Institutional)
Buy-on-Dips(Planners)
Buy-on-Dips(Combined)

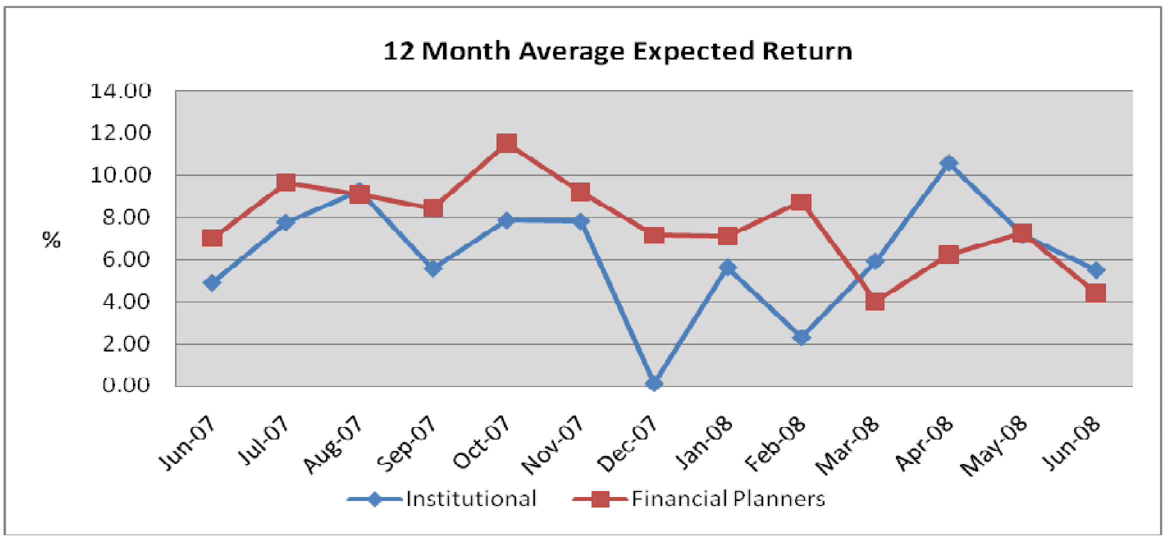

Crash Confidence
Confidence(%)
0
20
40
60
80
100
120
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Crash Confidence(Institutional)
Crash Confidence(Planners)
Crash Confidence(Combined)


Valuation Confidence
Confidence(%)
120
100
80
60
40
20
0
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Valuation Confidence(Institutional)
Valuation Confidence(Planners)
Valuation Confidence(Combined)


1 Month Average Expected Return
%
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Institutional
Financial Planners


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





Thank you:

Frederick White, Head of Research at Sanlam Investment Management. Frederick's insight makes this report possible each month.

To all our respondents who complete the questionnaire each month.

Data

A questionnaire is send the second Monday of every month to a sample of investment professionals. These include economists and portfolio managers form institutions as well as financial planners whose main focus is investments. Respondents need to answer 4 questions only by indicating in what direction and by what percentage they think the market will change. The questions are shown below as well as an indication of how the index is calculated.

1. Confidence Index

Question: How much of a change in percentage terms do you expect in the JSE All-share Index during the following periods: one month, the next three months, the next six months and the next year?

The index is calculated as the number of respondents giving a number **strictly greater than zero.** The index therefore reflects the percentage of the sample that expects the JSE All-Share Index to end positive over the next 1, 3, 6 and 12 months.

2. Buy-on-Dips Confidence Index

Question: If the All-Share were to drop by 3% tomorrow, what would you think the All-Share would do the day after tomorrow?

Three options are available namely Increase (%), Decrease (%) or stay the same. The Buy-on Dips Index is the number of respondents that **choose an Increase** as a percentage of the total number of respondents. The index therefore shows the percentage of the respondents expecting a rebound the next day should the market drop by 3% in one day.

3. Crash Confidence Index

Question: What do you think is the possibility of a catastrophic market crash (like 28 October 1928) occurring during the next six months?

An answer of between 0% and 100% may be given, with 0% meaning it will not happen and 100% it is sure to happen. The index is the percentage of respondents who think that the **probability is less than 10%.** Therefore shows the percentage of respondents who attach little probability to a stock market crash in the next 6 months

4. Valuation Confidence Index

Question: Stock prices in South Africa, when compared with measures of true fundamental value, are too low, too high, or just right?

The valuation index is the number of respondents who **choose too low or just right** as a percentage of the total number of respondents. It therefore reflects the number of respondents who think that the market is not too high.