Sanlam Investment Management

Investor Confidence Index: November 2008

Introduction

During the past month South African investors became less worried about the risk of a market crash. They continue to belief that the market is too cheap, but they have also become less optimistic on the returns expected from the market.

After the previous survey, between 20 and 27 October, global markets had their worst week of an already volatile year, losing 16 percent. In the subsequent six trading days they made it all back, just to lose most of it again over the next six trading days. By the end of October the four week sum of daily market movements of the MSCI World Index has grown to an astonishing total of 79 percent (83 percent for the S&P500) – i.e. over a period of four weeks the average daily movement was four percent!

This volatility is driven in large by the escalating struggle between deteriorating economic conditions (and with it a deteriorating corporate earnings outlook) and the coordinated rescue efforts by global central banks and governments. During this time the US rescue package and supporting rescue packages elsewhere in the world was approved and interest rates were cut aggressively in many countries. But at the same time economic data has continued to surprise on the downside almost everywhere in the world and the outlook painted by companies reporting results have in general deteriorated.

It seems as if central banks and governments have convinced some local institutional investors (for the moment) that an economic crash has been avoided and that the risk of a meltdown in financial markets has reduced. The average deemed probability among this group of a 1929 like crash reduced drastically from a very high 33 percent to 16 percent.

However, despite less crash fears, investor confidence in forecasts, be it economic forecasts or company earnings forecasts, are very low and forecast risk is high. This has probably contributed to institutional investors pulling back their expected returns from equity markets to

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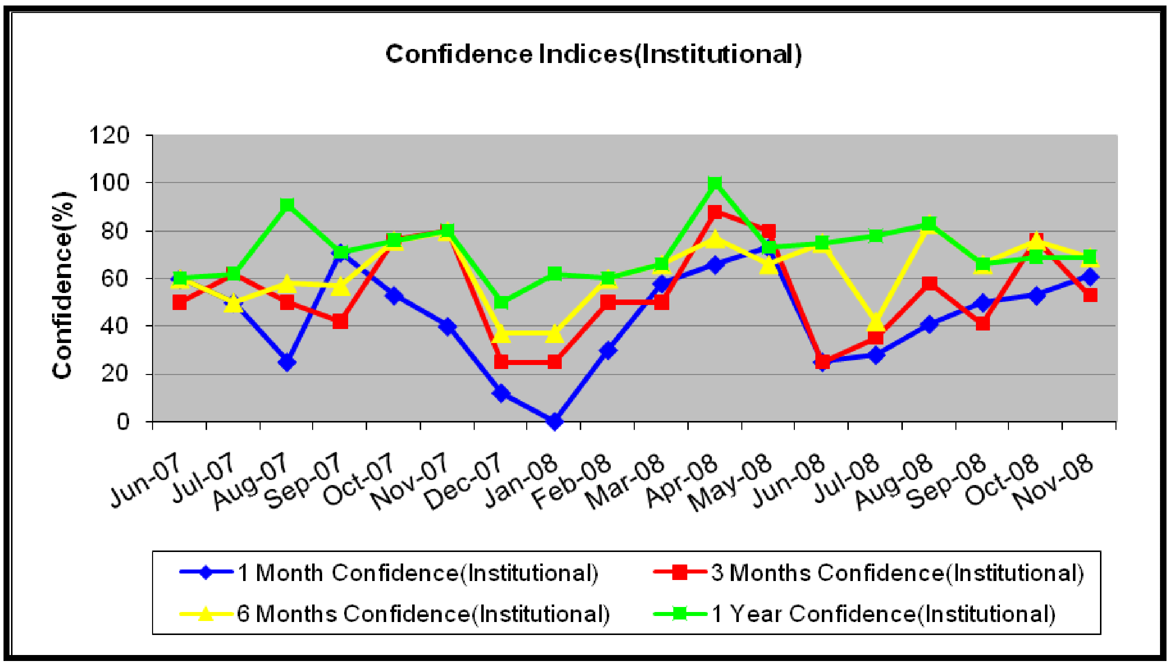
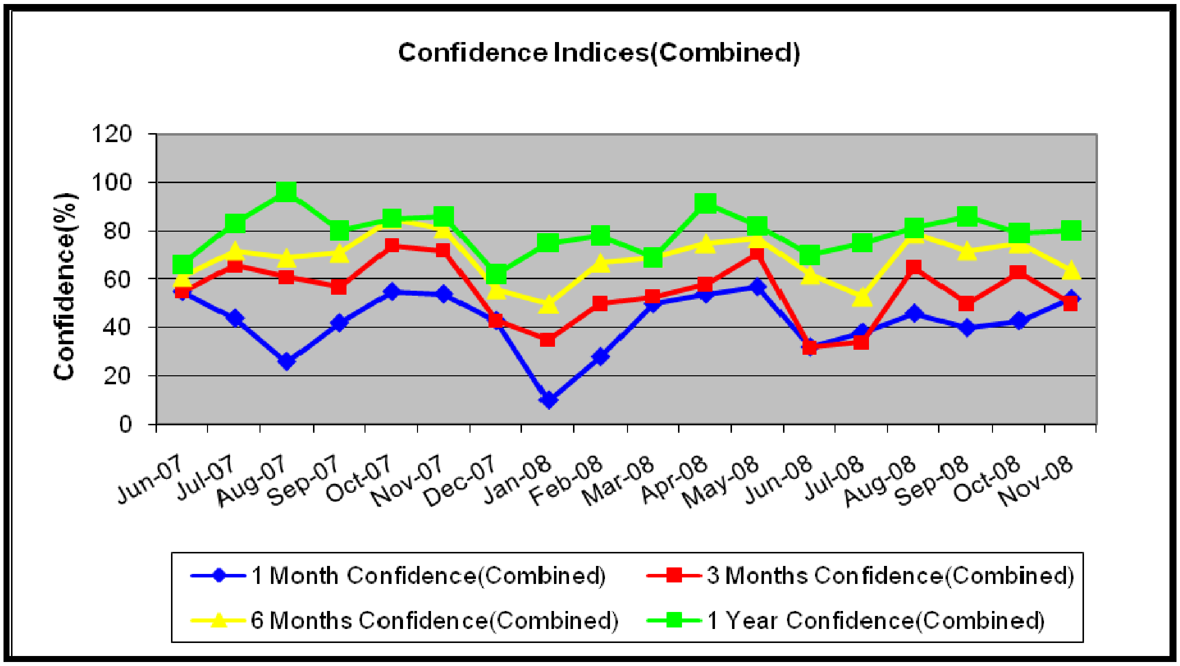
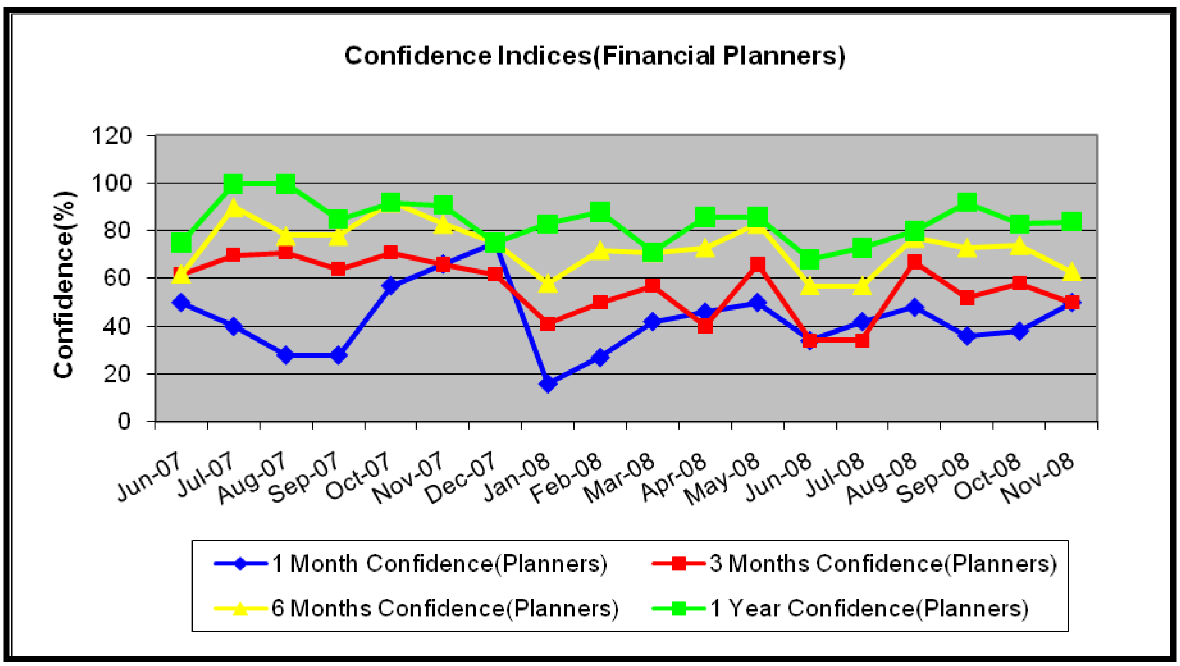
levels that could be considered conservative by historical standards. Institutional investors expect the market to be 1.7 percent higher in 3 months time, 3.5 percent in 6 months time and 7 percent in 12 months time. These represent virtually zero real increases and do not reflect any views of short term under or over performance relative to the 1 year outlook.

On the valuation side, two thirds of investors continue to hold the view that the local equity markets are too cheap, with only 13 percent deeming it to be too expensive. So in short investors are saying: "We've got a cheap market and we're less worried than before that it will crash like in 1929, but we have so little confidence in forecasts and so little visibility w.r.t. a recovery, that we'd rather be very conservative on the returns expected from the market."

Confidence Indices

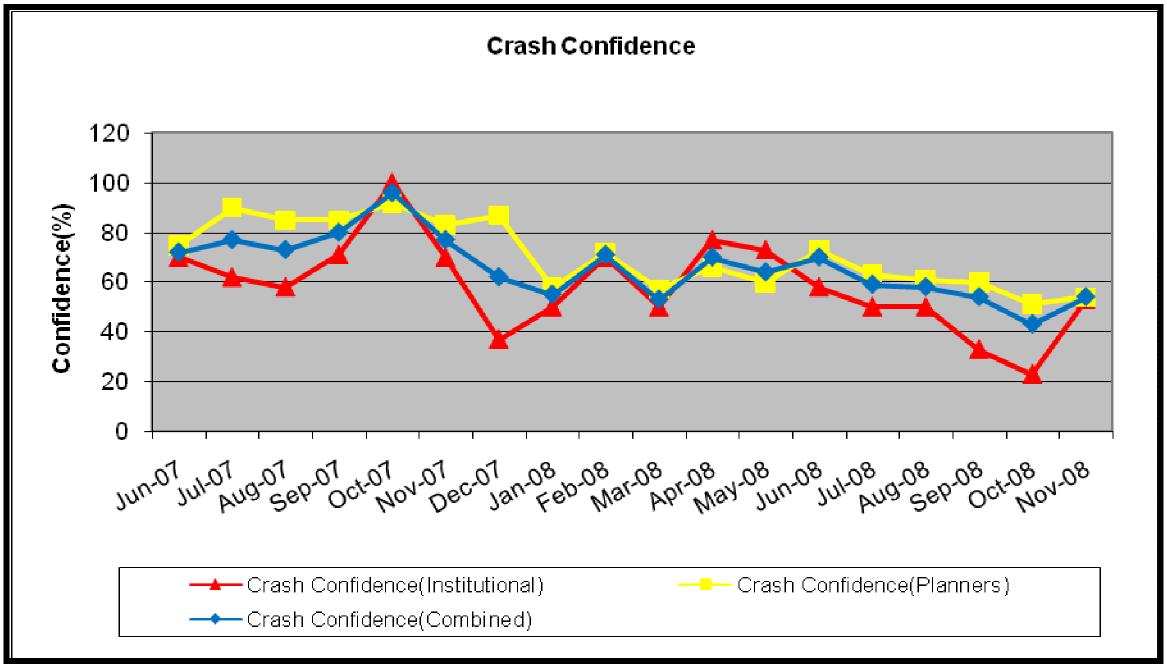






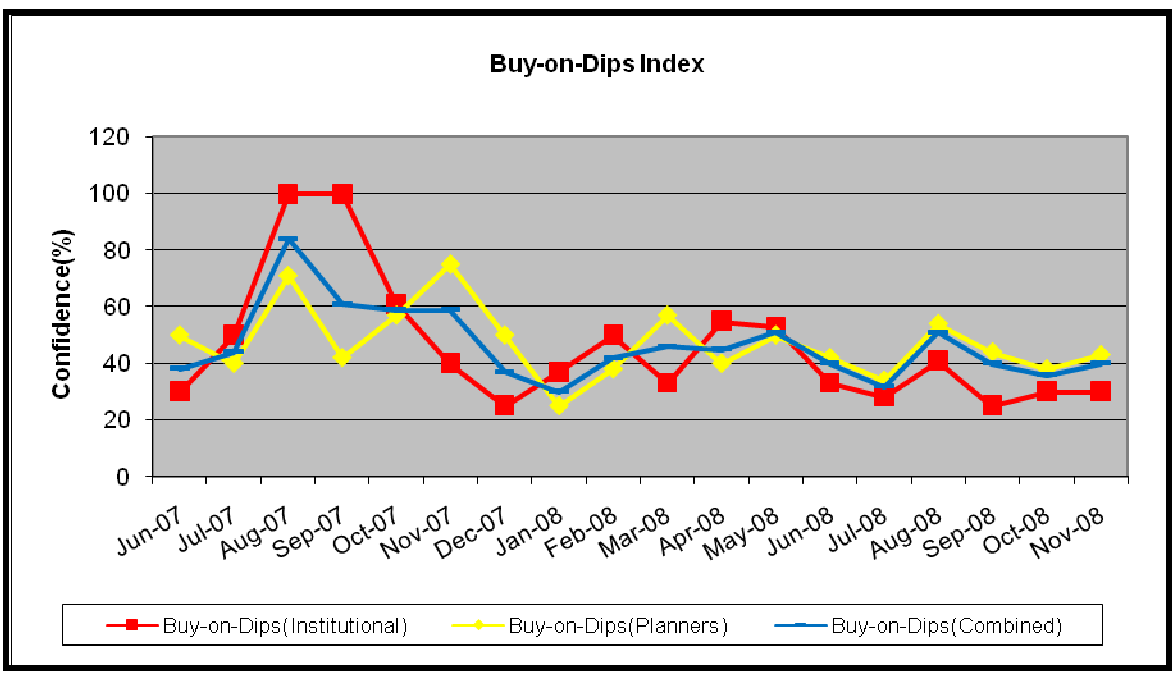
The confidence index shows the percentage of respondents that expects the JSE All-Share Index to end positive over the next 1, 3, 6 and 12 months.

Crash Confidence Index



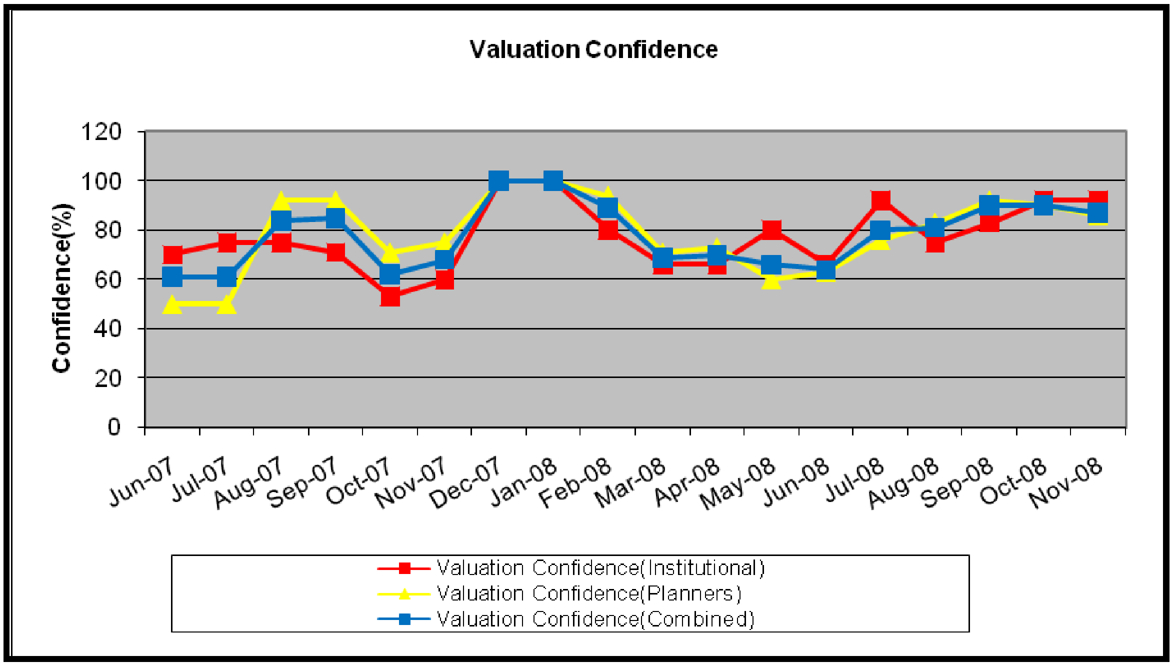
The crash confidence index is the percentage of respondents who think that the **probability of a stock market crash is less than 10%.** Therefore shows the percentage of respondents who attach little probability to a stock market crash in the next 6 months.

Buy-on-Dips Confidence Index



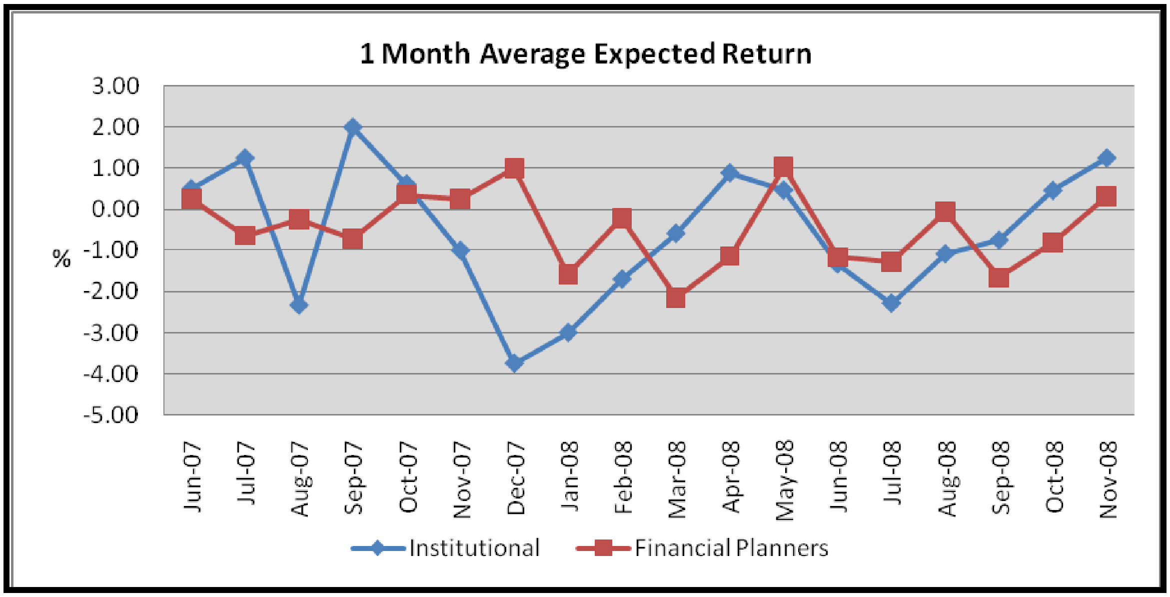
The Buy-on Dips Index is the number of respondents that **choose an increase** as a percentage of the total number of respondents. The index therefore shows the percentage of the respondents expecting a rebound the following day should the market drop by 3% in one day.

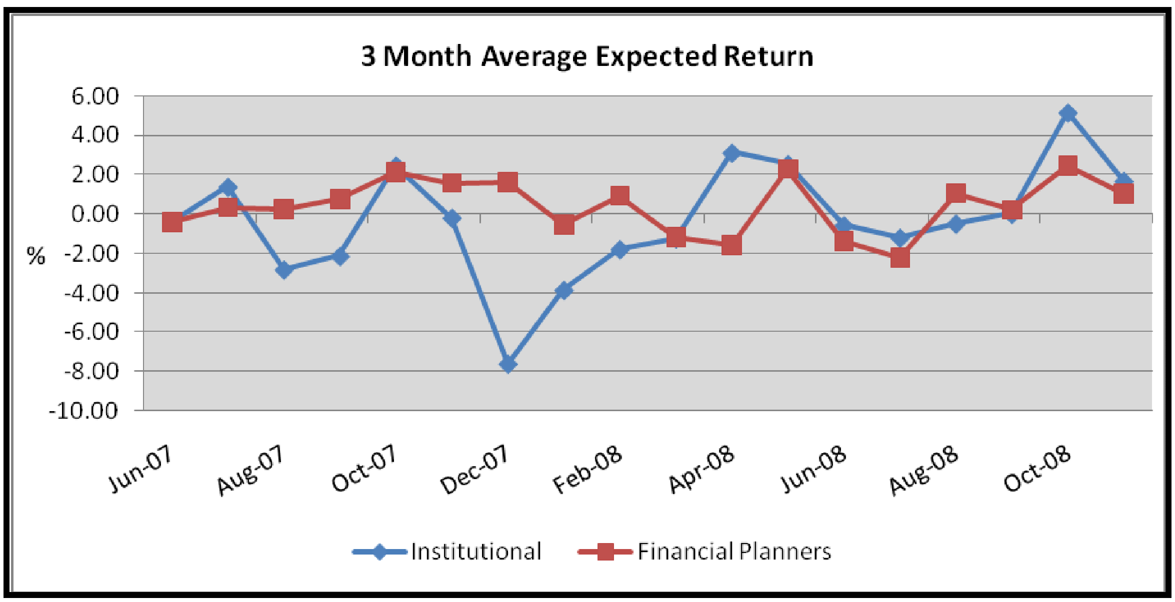
Valuation Confidence Index

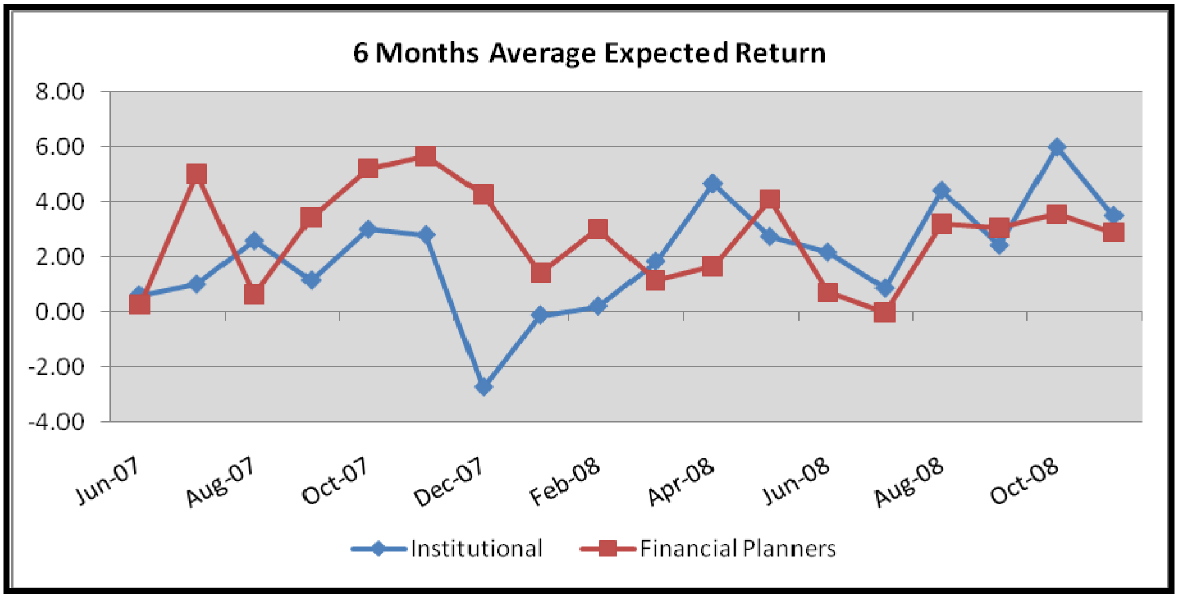


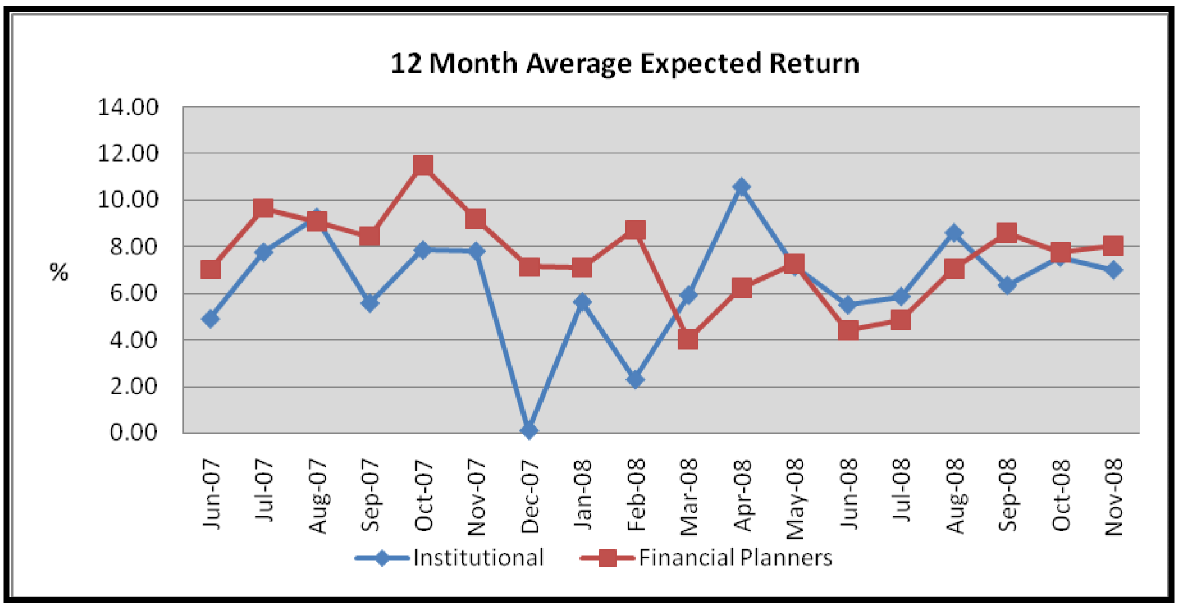
The valuation index is the number of respondents who **choose too low or just right** as a percentage of the total number of respondents. It therefore reflects the number of respondents who think that the market is not too high.

Expected Returns









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.