Media release
3 August 2011

Investors express ongoing optimism about equity market

Results from the South African Investor Confidence Index – a monthly survey conducted by the Institute of Behavioural Finance among institutional investors and financial advisors.

Investors continue to feel optimistic about the valuation of the local equity market, according to the July 2011 results of the South African Investor Confidence Index.

The panel of institutional investors and financial planners who participated in the Institute of Behavioral Finance (IBFSA) survey, on which the index is based, believe overvaluation of the local equity market has diminished. This is in sharp contrast to their views expressed in February this year, says Theo Vorster, chairman of the Institute of Behavioral Finance (IBFSA).

"The latest survey results reveal that 19% of institutional participants still deem the market to be too expensive," explains Vorster. "Almost three quarters of this group of respondents felt that way in February."

Although valuation sentiment among the surveyed financial planners shows the same trend, this group lags in optimism for the first time in many months, with 37% regarding the market as expensive. "It is notable that two out of every three participants believe the market offers good value," says Vorster.

Yet, expectations for returns over the next 12 months remain subdued. "This poses the question whether participants believe the stronger company earnings of the past six months can be maintained," he says. "It may also indicate that the survey respondents believe equities may become cheaper as the year progresses."

According to Vorster, an explanation for this scenario may be that the one-year confidence index remains above 80% for both groups of participants. This implies that more than 80% of respondents expect the market to be higher in a year's time.

"While the expected return predicted by institutional investors for 12 months from now is only 4.63%, they might feel company earnings and dividends can still improve towards the end of the year, resulting in better buying opportunities," he says.

Financial planners hope for a slightly higher return on local equity markets of 6.67% for the period 12 months from now. "We can deduce from these results that participants seek confirmation that what they see is an emerging trend. Until more certainty is attained, predicted returns pose a threat to real growth," he says.(Belinda , if the nominal return predicted by institutional investors for 12 months from now is 4,63% on the JSE and the CPI is 5% then it means there will be zero real return, therefore no real return on investments for the 12 month period. Perhaps you can assist us to put it more understandable.)

Comment [u1]: How can this be?

Gerda van der Linde, IBFSA executive director, says a review of the other indices reveals that participants expect the average gain on the local equity market to be 1% on a day following a 3% decline. A month ago participants only expected a 0.31% gain.

"This level of optimism was last measured in October 2010 and may indicate that participants are becoming accustomed to the extreme volatility experienced over the past few months," she says. "This further indicates that participants believe equities will move up and down in a narrow band for the near future."

On the aspect of the probability of a market crash, Van der Linde says investors have again raised the likelihood of this from 15.56% last month to the current 17.12%. "This may be due to growing uncertainty in global markets and how it will influence the local market."

Overall, survey participants remain divided on the probability of a market crash. This is confirmed by the 50% of institutional participants and 48% of financial planners believing there is a less than 10% chance on a crash occurring.

"The message for consumers, especially in light of the recent focus on National Savings Month, is to avoid focusing on short-term volatility and returns when the objective is long-term savings and growth," says Van der Linde. "Volatility will always be a concern but should not deter people from starting or continuing to save to accumulate adequate funds for shorter-term goals and retirement."

She continues, "Investors who fall into the trap of over-emphasising short-term volatility cling to less risky investment options such as money market funds, which may not be the best option if their overall goal is long-term growth. Myopic loss aversion exhibited by investors is the reason for the short-term focus on volatility and valuation of investments over short periods."

Behavioral finance explains myopic loss aversion as investors' attention to a very short time horizon and the recent past, says Van der Linde. "Combined with investors being more concerned about small losses than possible gains, loss aversion results in irrational, fear-driven decisions."

Van der Linde advises investors to consult with professional financial planners for assistance in developing long-term strategies. She points out that loss aversion causes investors to overestimate the probability of unlikely events, a fear that can be eliminated by investment products providing downside protection whilst allowing for upside potential.

"Financial advisors can find solutions suitable for individual investors' unique circumstances, goals, risk tolerance and preferences," she says. "They can also assist investors to focus on gains over the longer term, a strategy that offers significant benefits."

End

About the South African Investor Confidence Index

The Institute of Behavioural Finance has calculated the South African Investor Confidence Index since June 2007. The Index is based on a monthly survey conducted among institutional investors and financial advisors to gauge investor confidence in the equity market. The survey takes a short, medium and long term perspective into consideration and is an important indicator of the well-being of the South African economy.

Enquiries:
Theo Vorster, chairman of the IBF
Tel: 011 888 5088
Email: theo@galileocapital.co.za

Ms Gerda van der Linde, executive director at the Institute of Behavioral Finance
Tel.: 011 888 5088
Email: gerdavdl@ibfsa.co.za

Issued by:
Belinda Viret, Cadiz Street Communications
Tel.: 021 975 4052
Cell: 083 316 6923
Email: belinda@cadizstreet.co.za