Media release
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Investors see value returning to local equity market

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

Institutional investors and financial advisors believe value is returning to the South African equity market and their confidence has risen to levels last measured in 2009, according to the latest South African Investor Confidence Index.

Some 28% of the institutional investors who participated in the Institute of Behavioral Finance (IBFSA) survey in June, on which the index is based, view the market as expensive. This is a significant decline from the 73% who viewed the market as expensive in February this year, says Theo Vorster, chairman of the Institute of Behavioral Finance (IBFSA).

Half of the financial advisors who participated in the survey believe current market prices offer fair value, while the balance think the equity market is expensive. “This group of respondents clearly needs more confirmation that the uncertainty of the past months is giving way to a solid basis for growth in JSE values,” says Vorster.

Although the institutional investors expressed positive sentiment in market valuations, they maintain their views held for the past months on expected market returns over the shorter periods. A mere 21% of this group expect a positive return over a one month period with slightly more so over three months into the future.

According to Gerda van der Linde, IBFSA executive director, “this indicates their uncertainty in the short term whilst economic and political forces play out abroad and locally.”

Institutional investors’ sentiment for 12 months into the future expresses far more certainty, with 85% of institutional respondents agreeing that growth in local equity markets will be positive for this period. The financial advisor respondents reflect the same positive sentiment with their results for the 12-month period.

“The message by both groups of respondents is that volatility and uncertainty will remain over the next one to three months but thereafter will give way to more certainty and positive expectations,” says Van der Linde.

She notes that a somewhat conflicting message comes from the index measuring the probability of a market crash.

“Only 42% of institutional investors believe there is a less than 10% chance of a market crash whilst 51% of financial advisors support this view. This sentiment affirms the perceived uncertainty in the near future,” explains Van Der Linde.

“The South African Investor Confidence Index “measures” respondents’ *sentiment* on future market movements and volatility. Although most investors believe investments should be made with long-term goals in mind, research results over time show that all investors' asset allocation and investment timing decisions are still strongly influenced by short-term market sentiment," says Van der Linde.

The volatility and uncertainty experienced during the past months are thus negative for risk averse investors, many of whom waited for stronger positive signals before entering the equity market.

"Risk aversion can prevent investors from making investment mistakes, but it can also prevent investors from entering equity markets and gaining better long-term growth. While risk averse investors remain invested in fixed interest investments as they wait for more certainty, inflation and lost opportunities erode their savings," says Van Der Linde.

Peter Lynch, one of the world's all time great investors has an important message for risk averse investors: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

She says investors should make the leap to enter the equity markets with the assistance of a certified financial advisor, who has developed an investment strategy suitable for their risk tolerance profile. "Investors need a fixed asset allocation strategy that will prevent them from switching between asset classes based on their own and an expert's opinions of possible market movements."

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.

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