INSTITUTE OF BEHAVIORAL FINANCE

Monthly Investor Confidence Index

March 2011

For further information please call Gerda van der Linde, Executive Director on 082 881 6159 or Cobus du Plessis on 083 303 5127.

Key Insights

It is important to note that the survey closed before the news of the Japan tsunami and the UN resolution for intervention in Libya.

The March 2011 results show a dramatic decline amongst financial planners expecting positive returns on the JSE over the next one to six months. The numbers of financial planners expecting a positive return over one month decreased by 44 percentage points to only 37 percent. It dropped by 34 and 16 percentage points over the three and six months respectively, with only the twelve months showing a slight decline. This again illustrates the amount of volatility expected over the very short term. This negativity for the one and three month's periods is the most severe drop in sentiment since the inception of the survey in June 2007. It is also the first time that more financial planners expect a negative return compared to the institutional investors. In the past the financial planners were always the group with the highest percentage of participants showing a positive sentiment for investment returns on the JSE.

Institutional investors showed the same sentiment for the one month period. The only other times in the past where institutional investors reflected such dramatic negative sentiment change from a previous month were in June 2008 and May 2009.

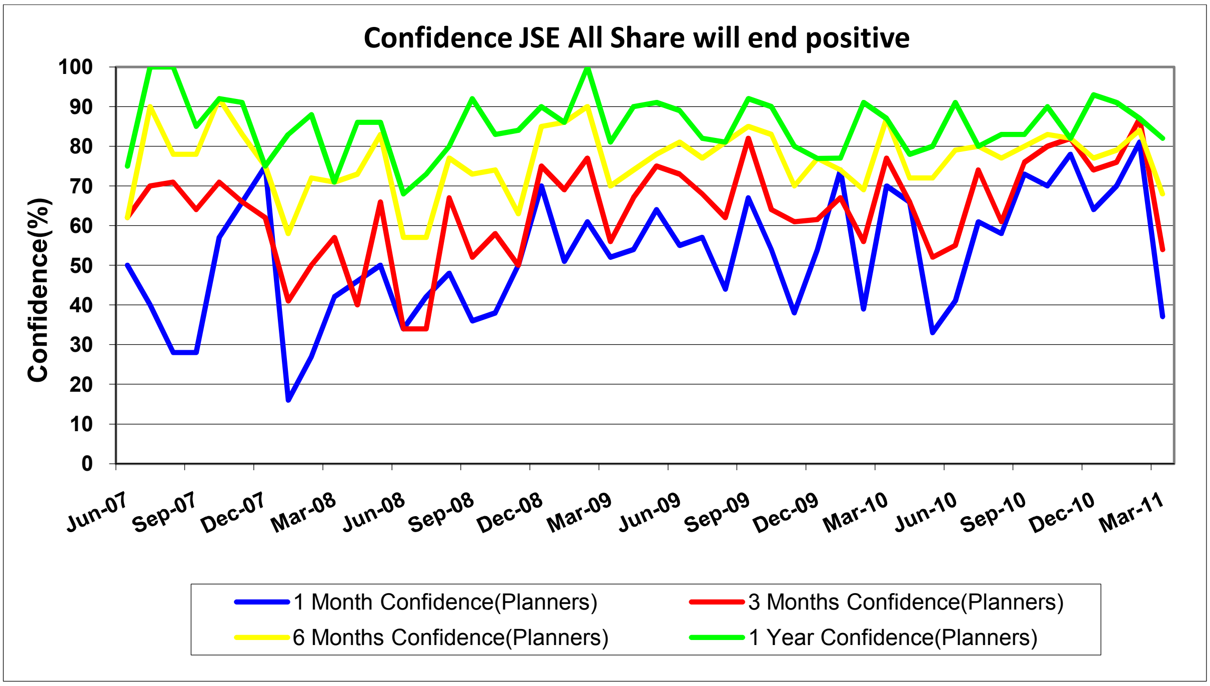
Financial planners and institutional investors currently have very similar views on the expected returns over the one, three and six month's periods, whilst there were substantial differences in the past few months between the views of the two groups of participants. Both groups of participants still expect positive returns over the twelve months period, albeit a subdued 5.8%.

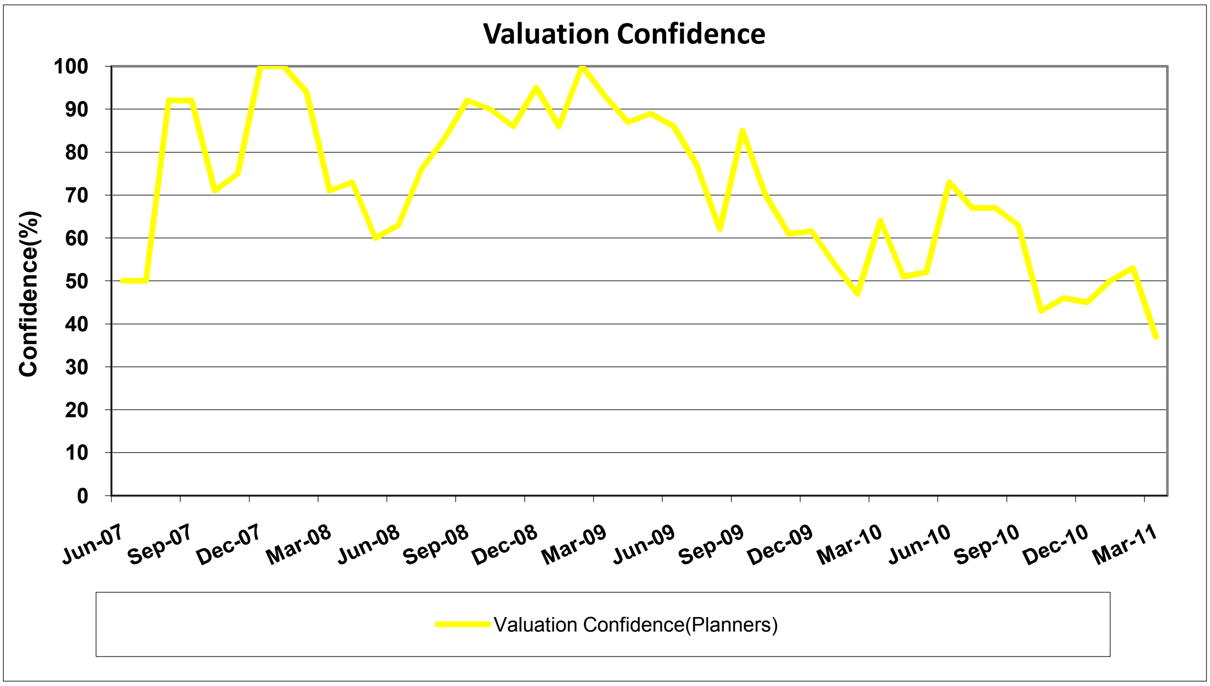
The negative sentiment shown by financial planners are also reflected in the results of the crash confidence index where only 52% of the participants believe there is a less than 10% chance of a catastrophic market crash. The institutional investors are slightly more upbeat with 64% of the participants in this group believing that there is less than a 10% chance of a catastrophic market crash.

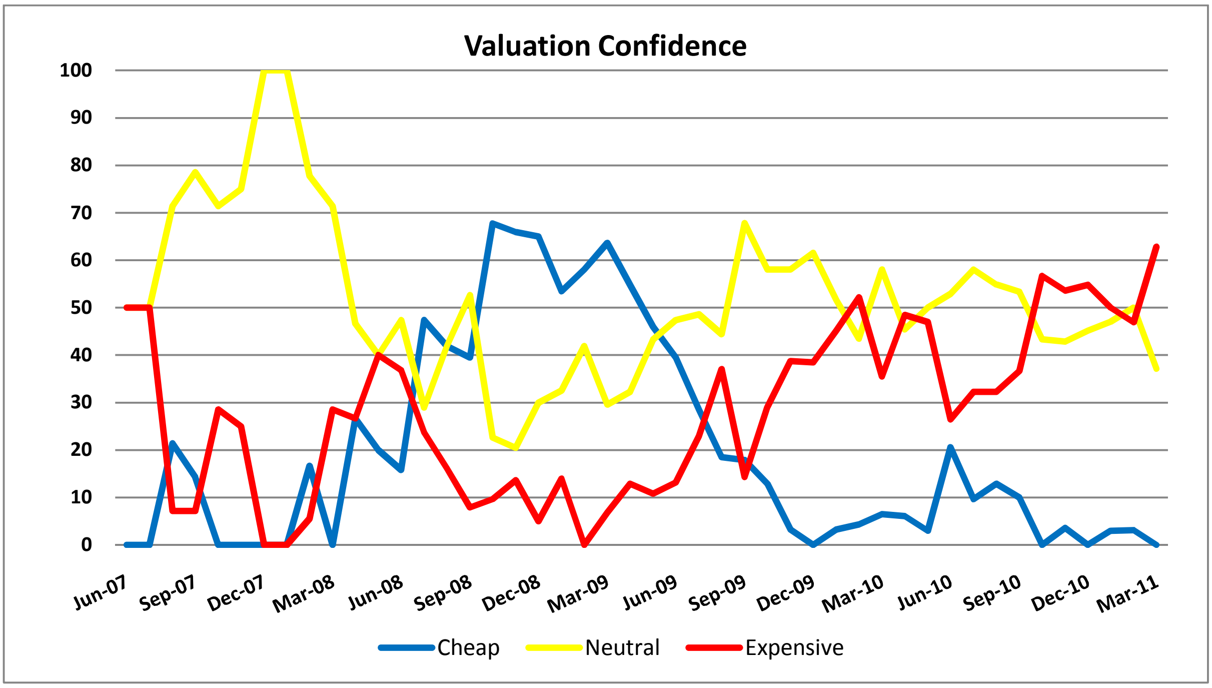
The combined valuation confidence also reflects the highest percentage of both groups of participants, since the inception of the survey, believing the JSE to be expensive.

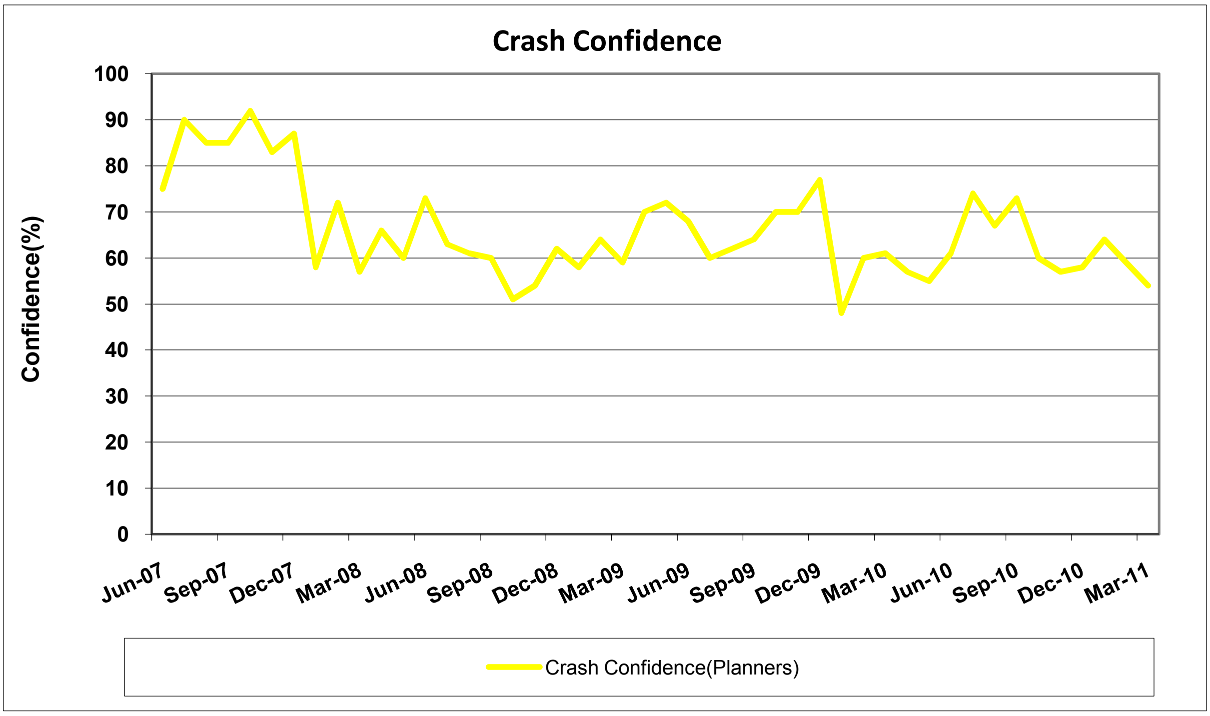
We would like to highlight the phenomena that individuals tend to make judgements compatible to their current mood, their current perception of the environment and risks, even when the subject matter "investment returns" are unrelated to what prompted their mood. Distant threats can swamp moods and influence financial judgements, as in an interconnected world the speed of relentless, disturbing news and images can prey on our psyche. Fear and worry unconsciously influence our decisions. The investor must try to avoid amygdala hijacking. This happens when our primitive brain overreact to news and allow fear and anxiety to influence our decisions, when making long term financial judgements. It remains wise to stick to proven investment planning processes taking all relevant information into account and ignoring short term noise in the market.

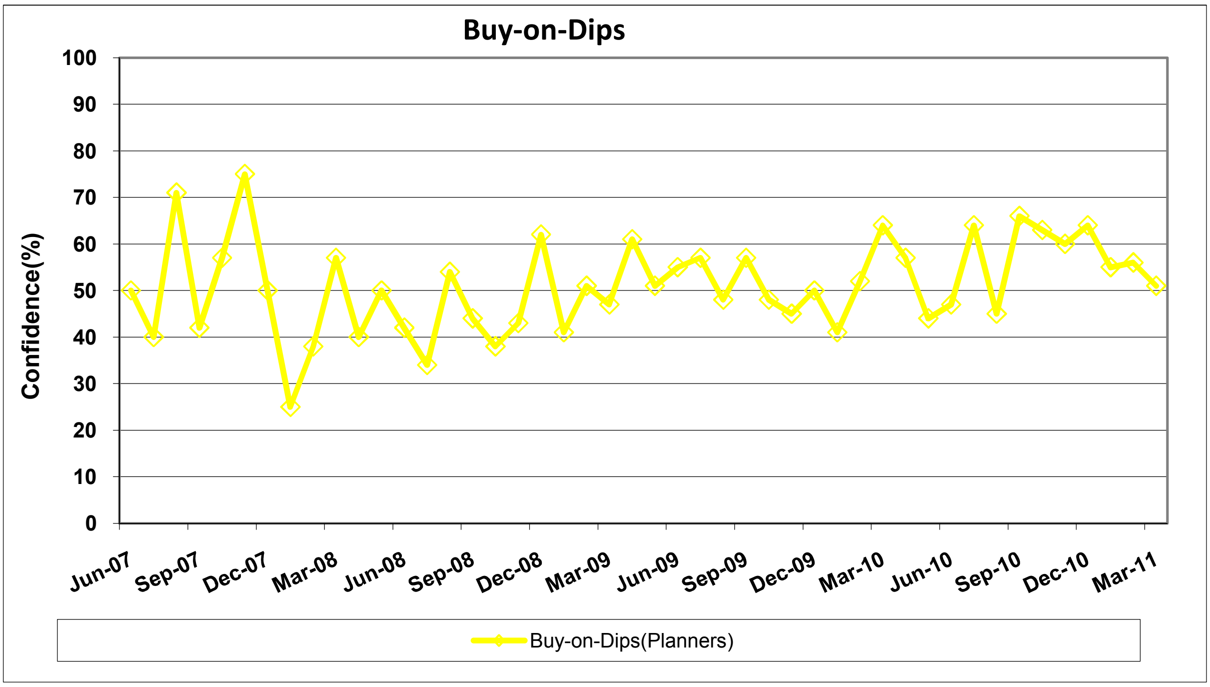
Financial Planners



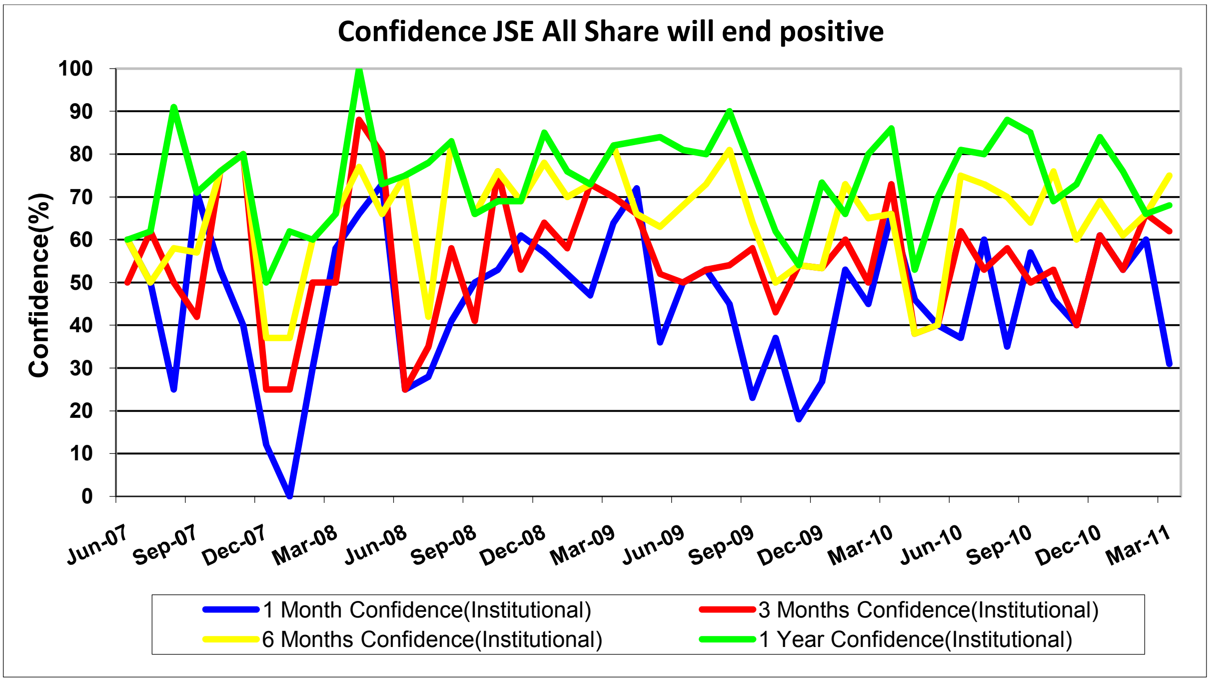


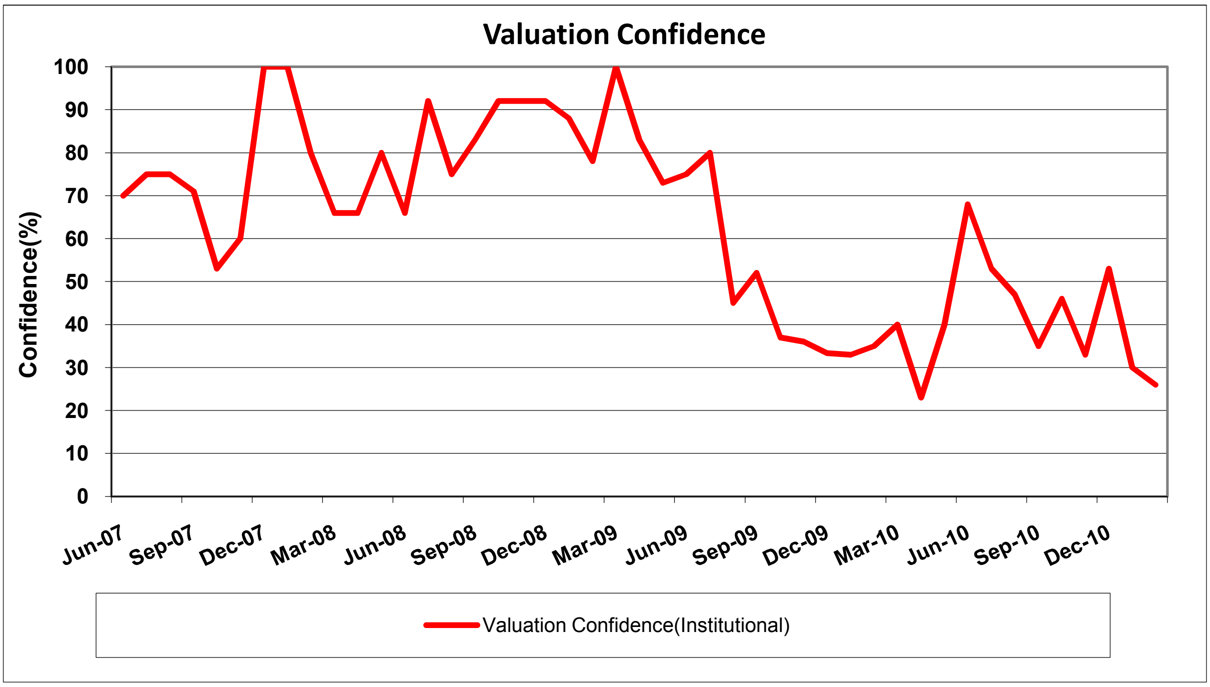

Valuation Confidence
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Cheap
Neutral
Expensive

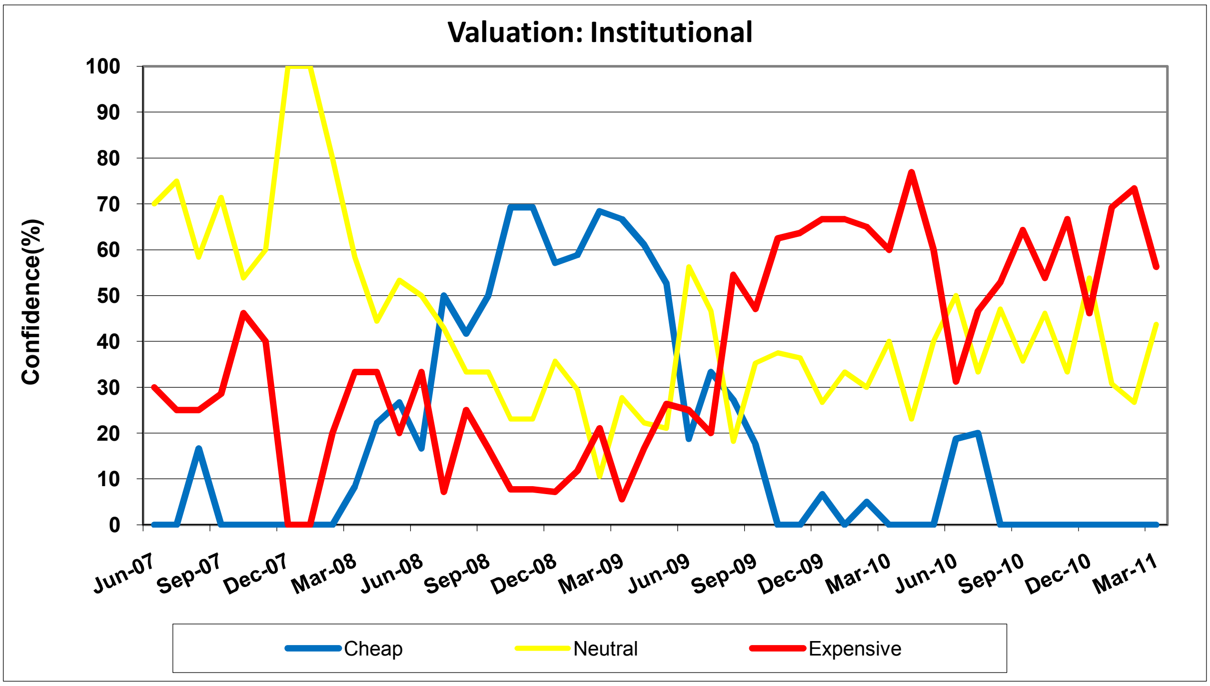

Crash Confidence
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Crash Confidence(Planners)

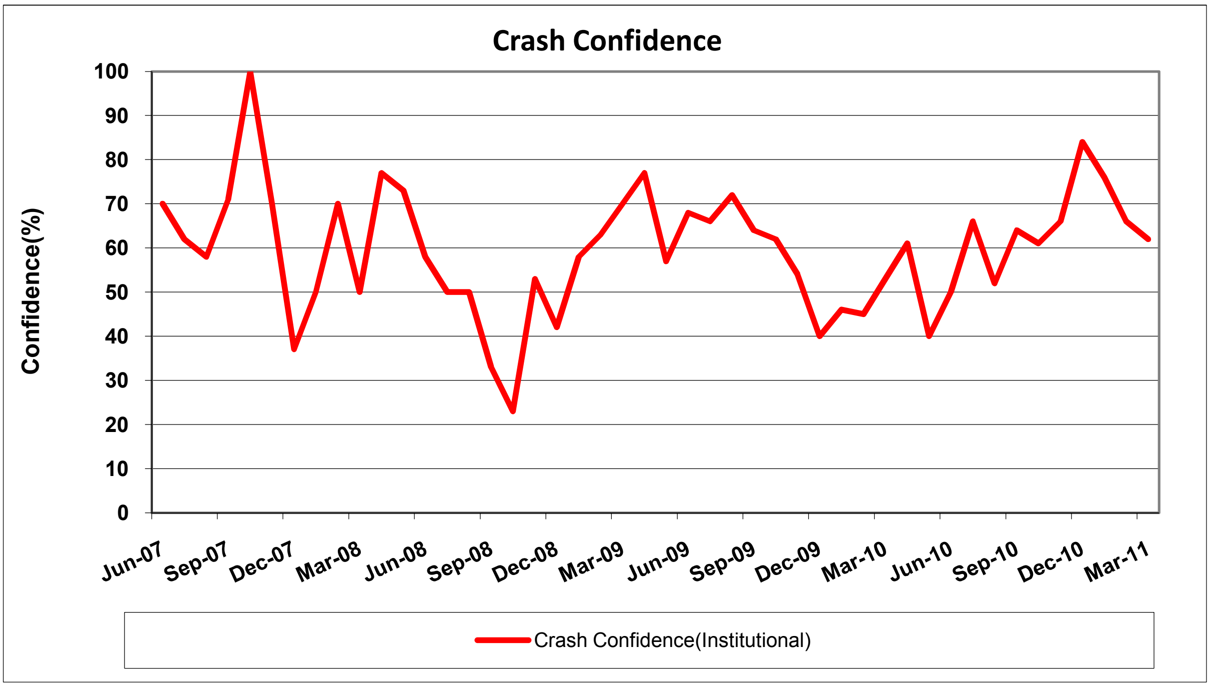


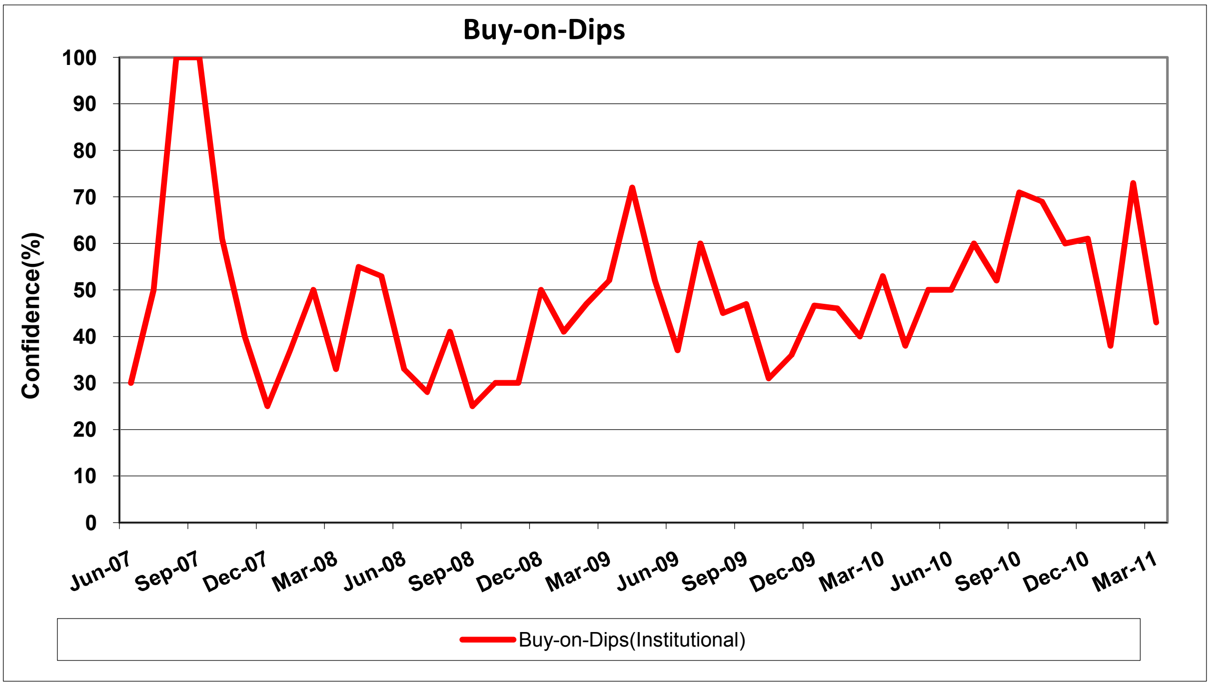
Institutional Investors



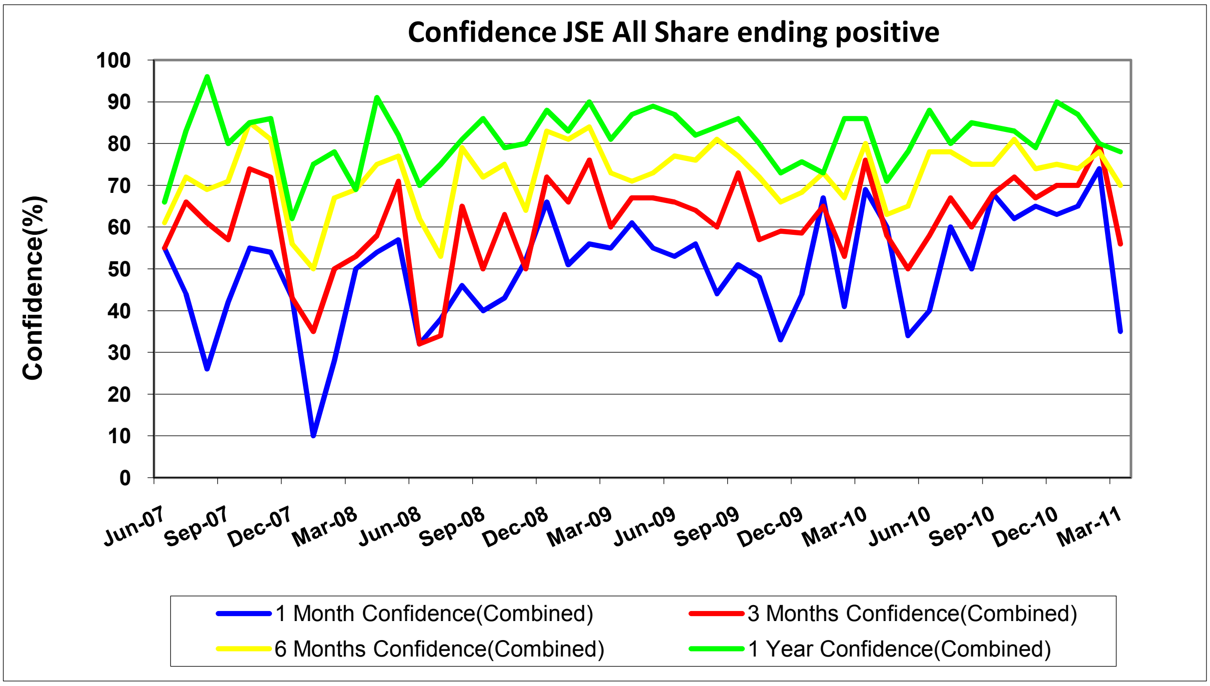

Valuation Confidence
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Valuation Confidence(Institutional)

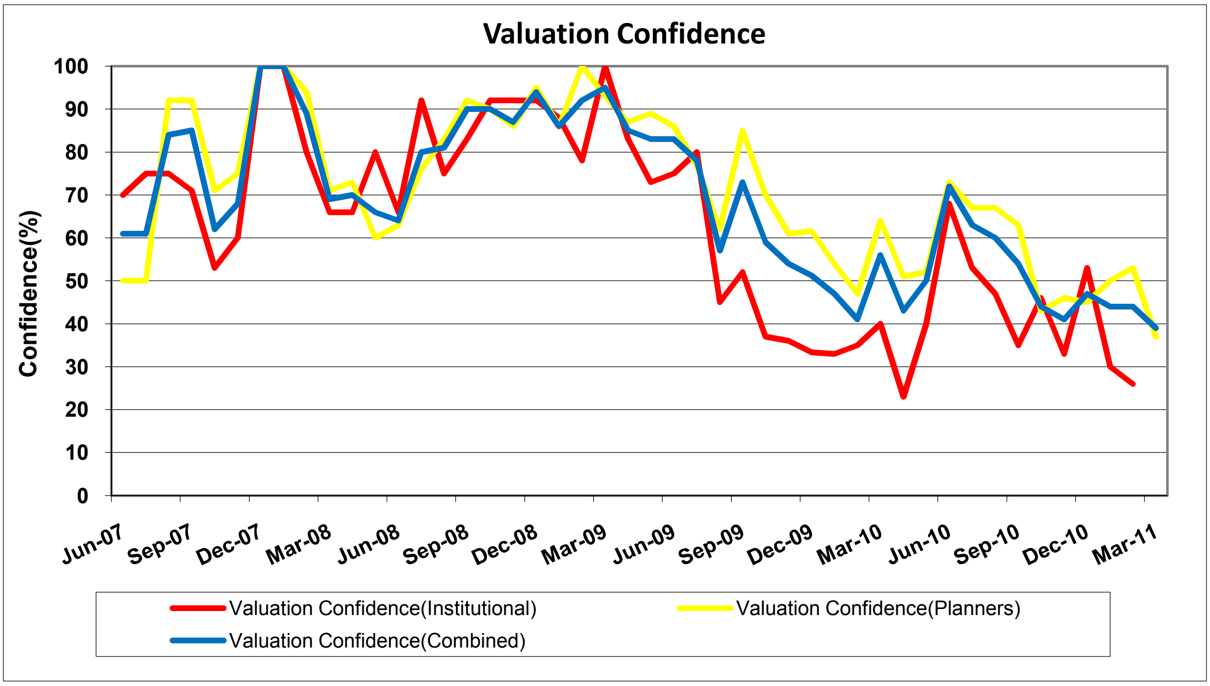

Valuation: Institutional
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Cheap
Neutral
Expensive

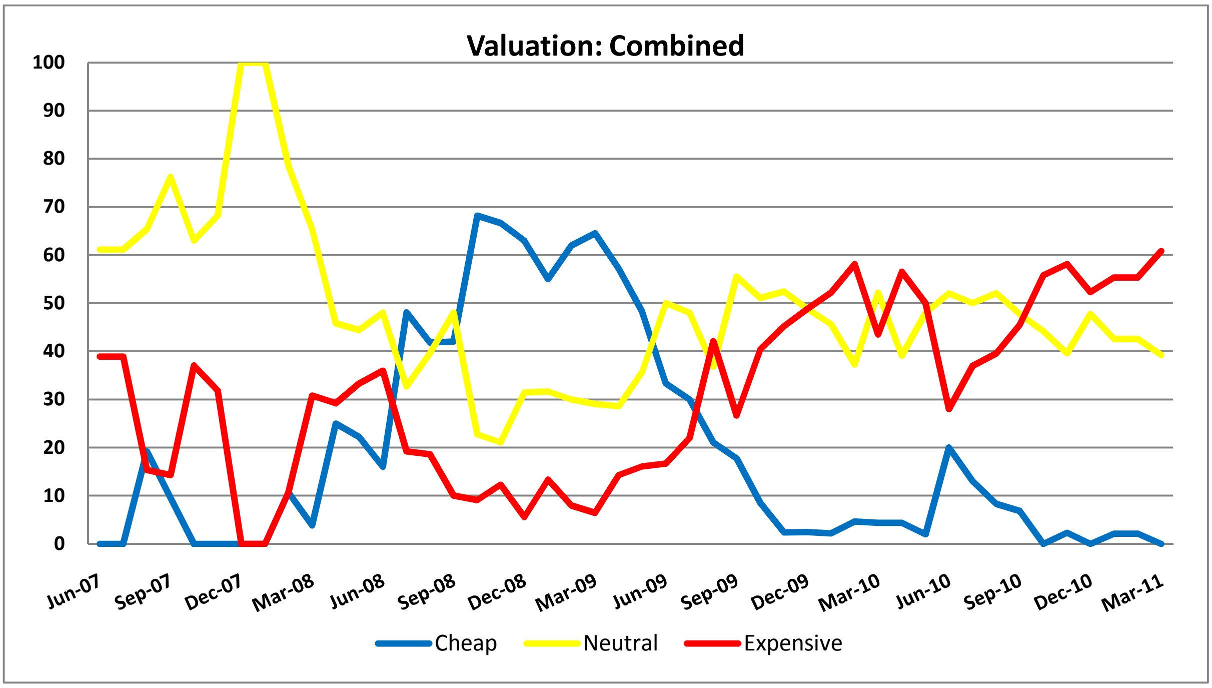

Crash Confidence
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Crash Confidence(Institutional)

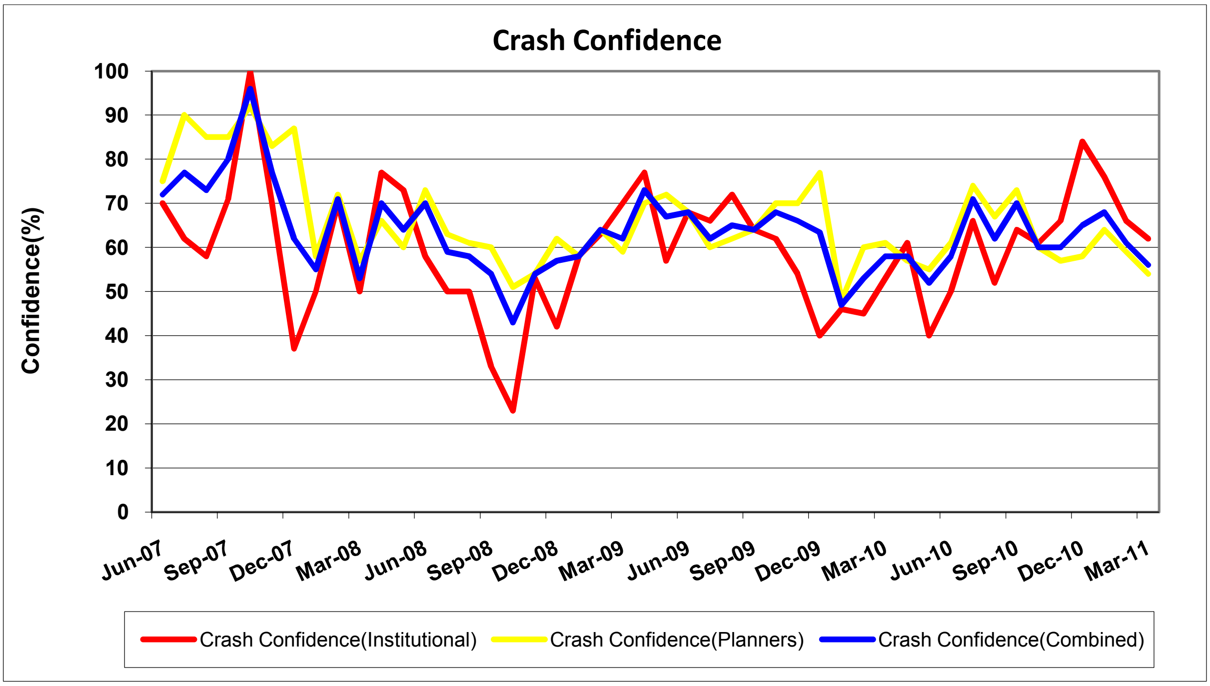

Buy-on-Dips
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Buy-on-Dips(Institutional)

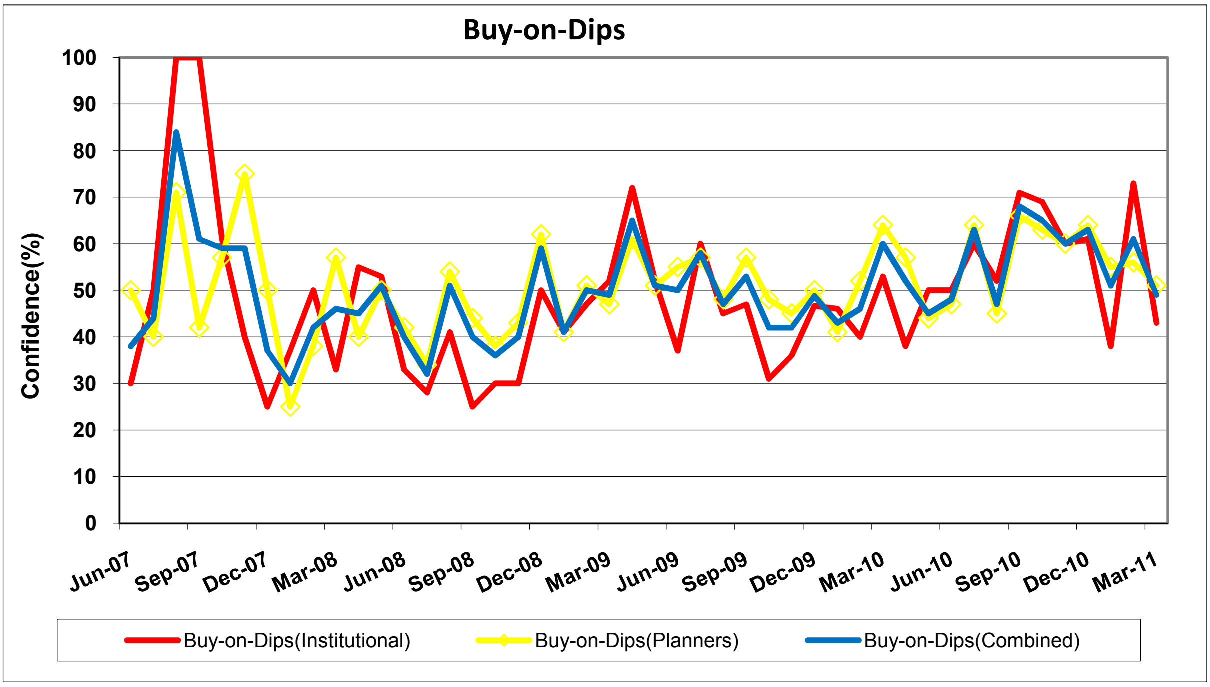
Combined Index



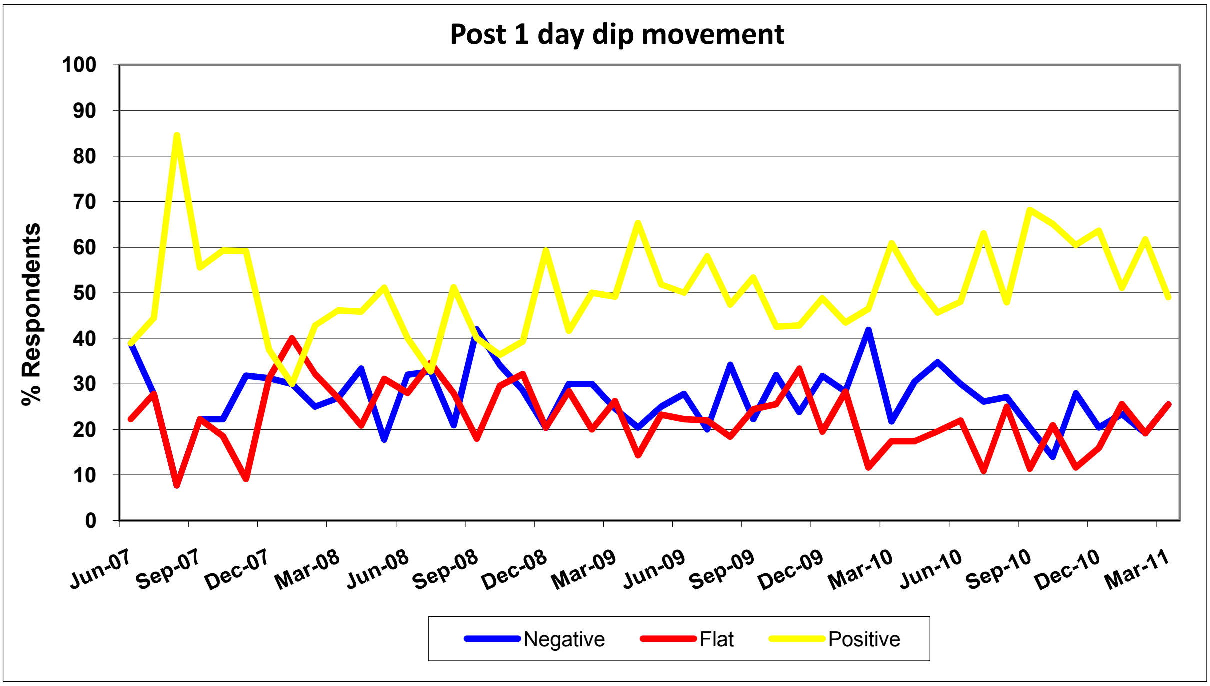



Valuation: Combined
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Cheap
Neutral
Expensive


Crash Confidence
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Crash Confidence(Institutional)
Crash Confidence(Planners)
Crash Confidence(Combined)

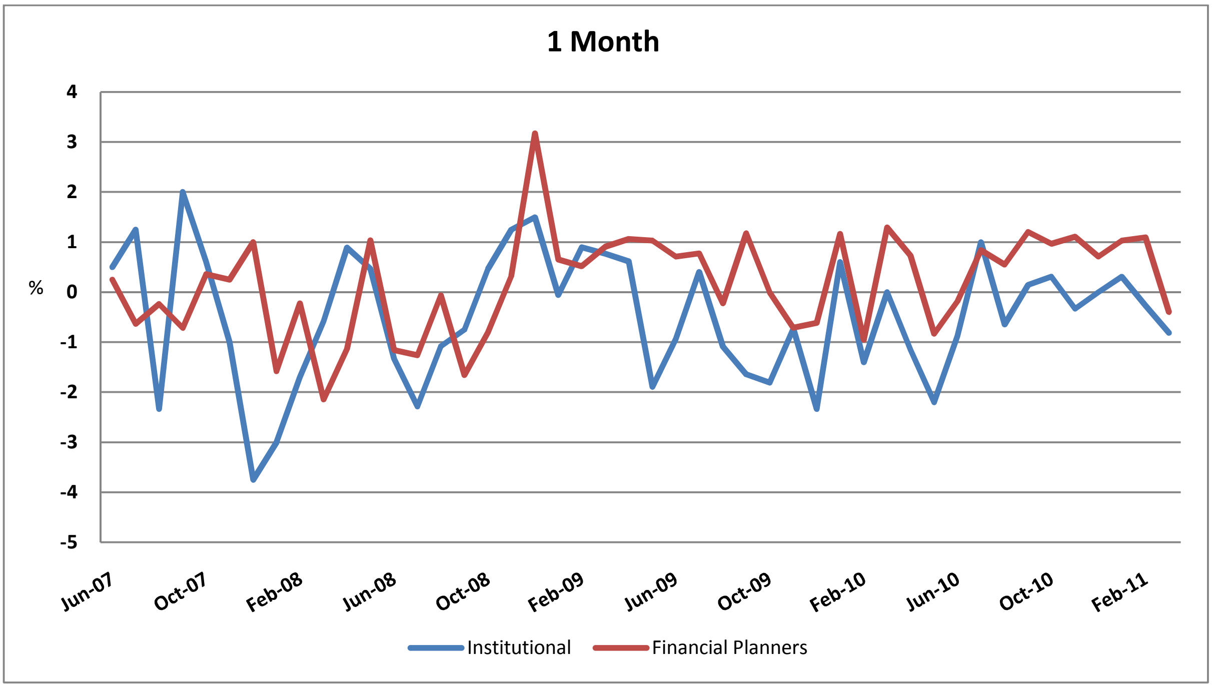


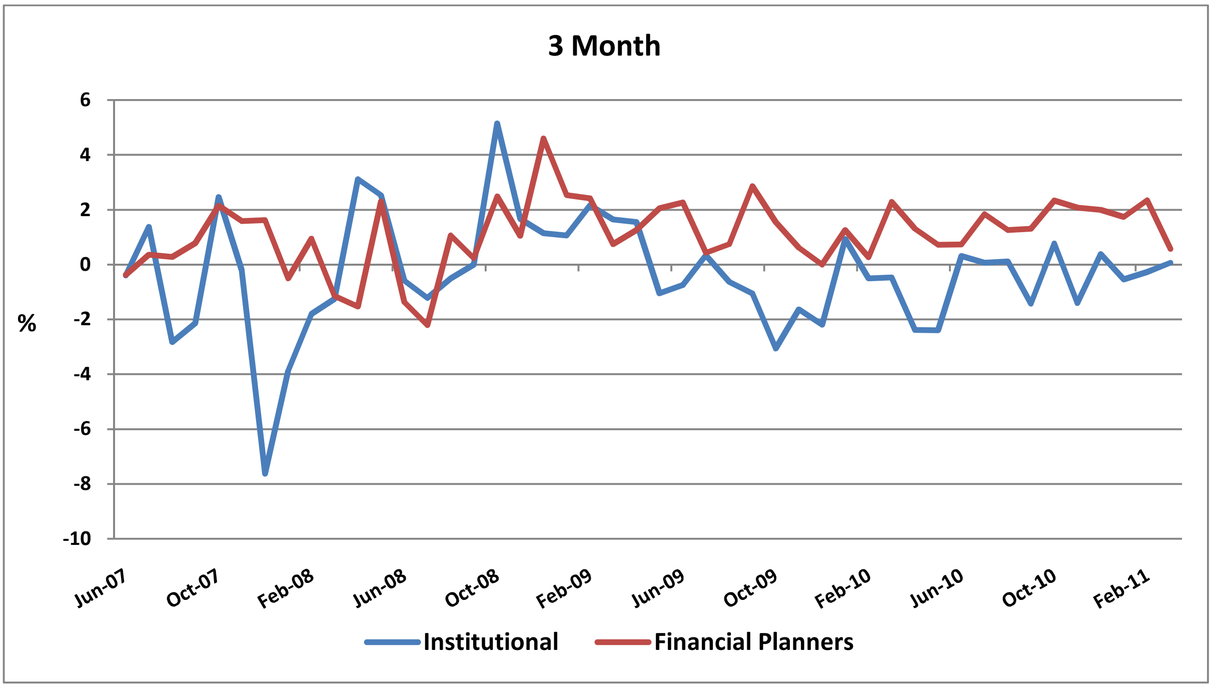
Buy-on-Dips
Confidence(%)
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Buy-on-Dips(Institutional)
Buy-on-Dips(Planners)
Buy-on-Dips(Combined)

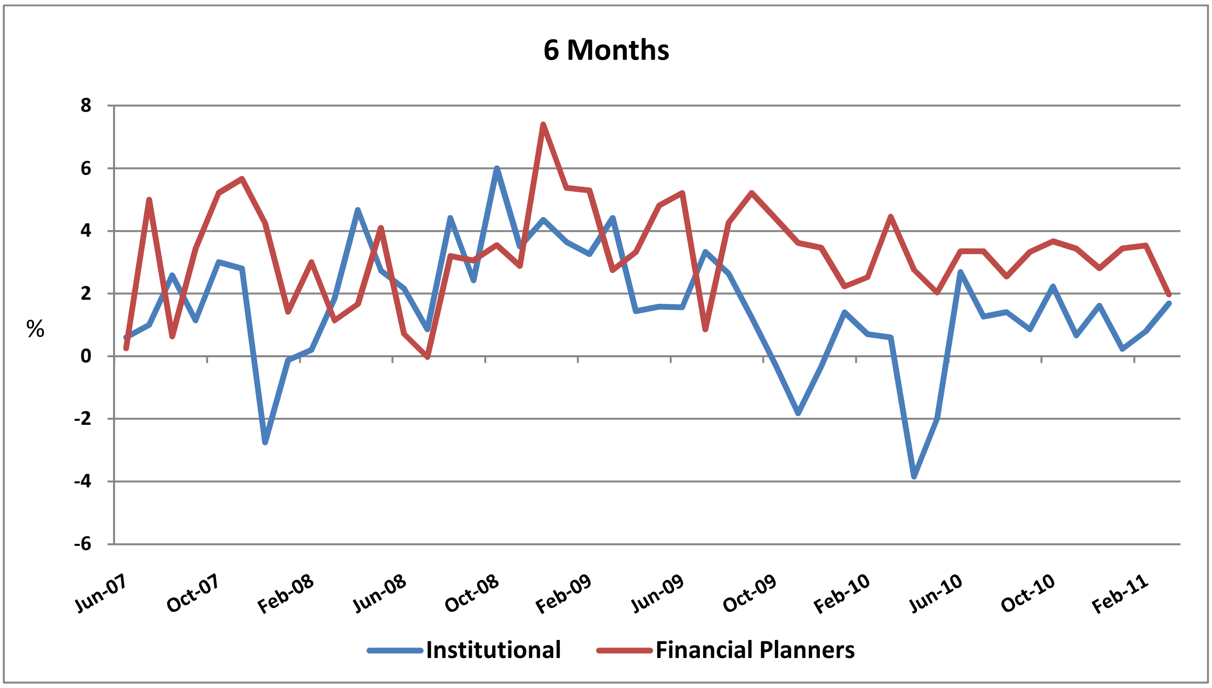


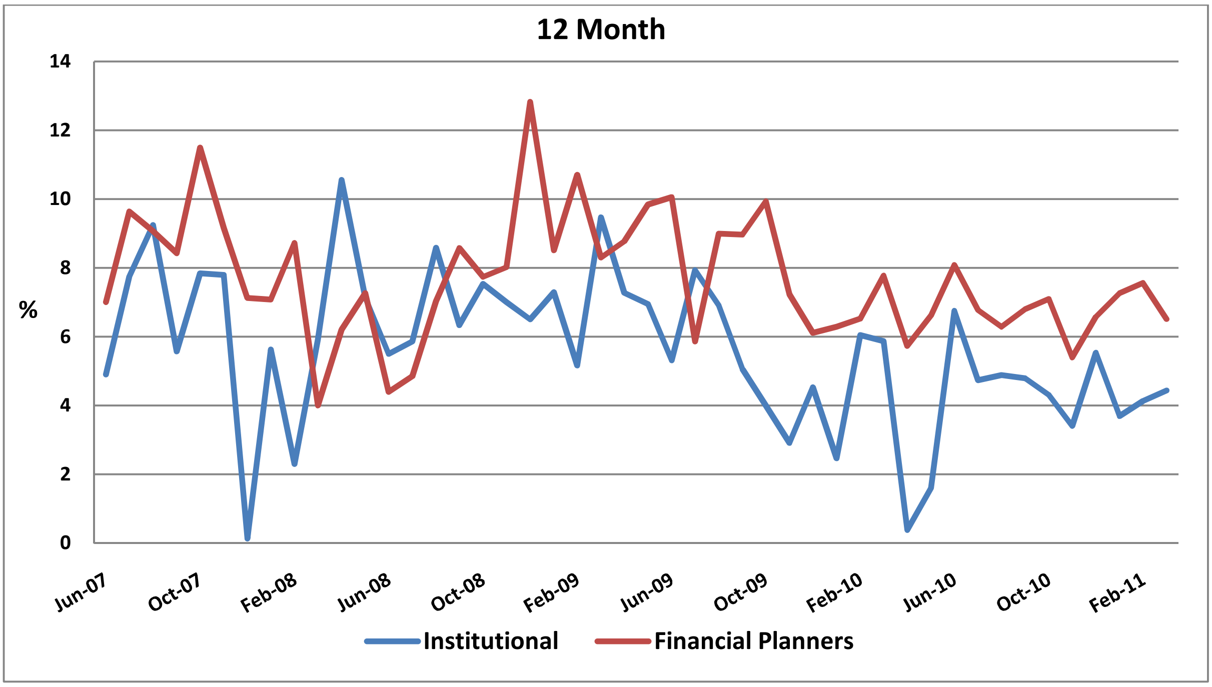
Post 1 day dip movement
% Respondents
100
90
80
70
60
50
40
30
20
10
0
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Sep-10
Dec-10
Mar-11
Negative
Flat
Positive

Average expected return






6 Months
8
6
4
2
0
-2
-4
-6
%
Jun-07
Oct-07
Feb-08
Jun-08
Oct-08
Feb-09
Jun-09
Oct-09
Feb-10
Jun-10
Oct-10
Feb-11
Institutional
Financial Planners


12 Month
14
12
10
8
6
4
2
0
%
Jun-07
Oct-07
Feb-08
Jun-08
Oct-08
Feb-09
Jun-09
Oct-09
Feb-10
Jun-10
Oct-10
Feb-11
Institutional
Financial Planners

Survey Method

Confidence in the share market is much harder to pin down than consumer confidence, since the judgments people make about the share market are among the most involved of any that they must make. People interested in the stock market often tend to view themselves as playing a game against other share market investors, trying to guess when shares will do well before others do, so that they can profit from this knowledge. Many people who follow the share market watch the numbers every day, and many popular magazines, television, and radio shows follow the share market closely. Thus, there is likely to be more complexity to people's views about the share market than there is about their decisions whether to save more now or whether to buy a new sofa, which consumer confidence indexes emphasize.

It should also be recognized that investor confidence is only one of many forces on the market. Share prices are of course determined by supply and demand, and there are numerous factors that affect these, fundamental factors, legal, tax-related, demographic, technological, international, as well as other psychological factors related to attention, regret, anchoring, and availability. Indices of share market confidence can therefore only play a supportive role in trying to understand market events.

The indices of investor confidence that we have derived do not all move in the same direction through time, or even approximately so. Forming a simple average of the different indices to produce one overall share market confidence index would thus be arbitrary. Instead, we report here different investor confidence indices. Each is measured in percent, as a percent of respondents who report holding a certain view.

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. **One-Year 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 for the "In 1 Year"**. The index therefore reflects the percentage of the sample that expects the JSE All-Share Index to end positive over the next X 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.