



EUROPE IN THE EYE OF THE STORM

By Magnus Heystek—Investment Strategist

WE end the year where we started it: in Europe and the crisis in the Eurozone. And as much as we were uncertain at the beginning of the year as to how this would all play out, do we remain uncertain almost a year later.

Hundreds of billions of euros and dollars have already been thrown at the problem, but the problem remains largely unsolved, namely the massive sovereign debt of several countries in the Eurozone.

As much as we tried to make sense out of all that was happening we are nowhere closer to gaining insight into where all of this might end up, financially speaking.

Will the Eurozone break up? Will the weaker and financially-strapped southern counties in the region be pushed out; the likes of Greece, Portugal, Spain and even Italy? Will Germany be able to impose its austerity straight-jacket on those fiscally irresponsible countries?

No one can tell. It seems, however, that a speedy resolution is not within sight, which means more uncertainty and volatility for long suffering and nervous investors.

How will these events impact on financial markets and more specifically, South Africa and its economy? One thing that is certain, is that it is already having an impact on SA investment markets, it's imports and exports. It is worrying, for instance, that the rand has dropped almost 26% against the euro at a time when the euro itself was busy imploding.

The rand tracks the euro more closely than for instance the US dollar and the pound sterling. Is this the harbinger of more rand weakness to come? It certainly seems to indicate that. Watch the euro versus the dollar for more clues to what could happen with the rand.

Several "deadlines" during the year to resolve the euro crisis have come and gone, the latest one being the evening of the 8th December when European leaders, or so it was claimed, had to come up with a final rescue plan to save the euro and the Eurozone.

Again it was not to be as David Cameron, the British prime minister, refused to go along with the so-called Merkozy Plan. In essence, this plan under the driving force of the German chancellor Angela Merkel meant that countries that did not stick to very strict budget deficit guidelines would face penalties and a lack of financial support from the European Central Bank.

The important decisions? The first was that Germany finally got France to go along with its view of what the future of Europe should look like. There will be no more bail-outs of any type without serious reforms. Sarkozy, it is said by John Mauldin in his weekly commentary, is in a bind.



Europe Crisis Concern

All of us at Brenthurst Wealth Management would like to wish you a wonderful holiday season and all the best for the New Year.

JHB: +27 11 799 8100
CPT: +27 21 914 9646
PTA: +27 12 460 0340

Global
Markets
AND SA ECONOMY

French banks are so broke that they are too big for France to backstop all alone and maintain its AAA rating. Plus, its deficits are huge while its ability to raise taxes with any real effect is dwindling rapidly. France needs help and Merkel simply held her ground.

Germany also wanted all 27 EU members to agree to a major treaty change, essentially giving up some of their sovereignty to a new European entity that could enforce budgetary controls on individual members. Britain could not and would not agree, much to the chagrin of the French, Germans and on the sidelines, the Americans.

The euro crisis is set to continue in the New Year. How will it all pan out and, more importantly, will the Eurozone survive in its current format? Probably not but a full-blown collapse of the Eurozone is also not on the cards. As they said in the movies-of-old: *“to be continued.....”*.

SOUTH AFRICAN ECONOMIC PROSPECTS:

Any parent will know the feeling when they receive a below-average report card from school on their beloved blue-eyed boy/girl. It brings out all kinds of negative reactions and comments.

In October this year international ratings agency Moody's warned that a downgrade to SA's international rating was on the cards, from AA- to BBB+.

Amongst other factors, Moody's warned that populist pressure was building on the Treasury to spend more money, which implied a rising budget deficit, exactly the issue several European countries are battling with. The outcry from certain quarters in SA was a swift as it was emotional and misinformed. "Moody's does not understand the SA situation," lamented the SA government, while Siphon Ncgobo, columnist on Moneyweb accused Moody's of intellectual laziness.

The irony is that Moody's was the first ratings agency that upgraded SA's international rating in 1995 after the watershed general election the year before. Then the ratings agency was hailed as being farsighted and perceptive.

The US government had much the same reaction when another ratings agency Standard & Poor's downgraded the debt of the USA in June this year. Members of congress wanted to "investigate" how S & P did their research, for instance. Ratings agencies have in the last week downgraded several top European banks and further downgrades of both European government debt and specific banking debt is in the offing.

At the time of writing it was widely forecast that German banking giant Commerzbank was on the verge of going bankrupt.

The SA economic outlook has also deteriorated over the last two quarters and economic growth for 2011 is set to come in below 3% for the year.

Growth has slowed in many parts of the world and several countries have either cut interest rates (Australia) or income taxes (Brazil) in order to protect their domestic economies from the downturn in Europe.

At the beginning of the year there was consensus that SA interest rates were heading higher. This did not happen and the interest rate risks have since then moved to the downside. Interest rates are likely to remain at current levels for the foreseeable future and could even be reduced in an effort to boost economic activity. Our first newsletter of 2012 will look at the economic prospects in greater detail.

FOUR INVESTING MISTAKES TO AVOID IN 2012 (AND EVERY OTHER YEAR...)

The volatility in global financial markets for most of 2011 was extraordinary. Veteran investment commentator Richard Russell (88) who has been editing his popular newsletter The Russell Review for over 50 years has described it as the most difficult year he has ever had to endure. We feel the same way.

The year started almost where it is ending: uncertainty about the future of the euro and whether the euro will survive as an economic and fiscal union.

Once again, as investment advisors, we were forced to spend a lot of time explaining the flexible nature of our investment approach: we use asset allocation funds as the cornerstone of our risk-adjusted investment portfolios. In the end the investment returns earned by our clients were surprisingly good, mainly due to a concerted effort to increase the offshore exposure of our clients. A year ago we took the view that the rand was way too strong and that it was a good time to take money offshore (November 2010 newsletter and subsequent series of investment seminars).

It is hard to believe that in December last year the rand was trading at R6,70 to the US dollar, for example. Last week it dropped to as low as R8,25—a decline of almost 25% in a year. So much for a stable currency! The weakening exchange rate acted as a shock absorber for the investment performances.

1. STAYING OUT OF THE MARKET.

Investors waiting for good news to light up the front pages of newspapers or lead the economic indicators on TV at night will probably wait a very long time. The news flow is overwhelmingly negative and bearish and is likely to remain that way for a long time.

Many investors also over-estimate their ability to interpret the news flow accurately and time their re-entry into the market.

A prime example is the weakening of the rand this year. Very few popular commentators or analysts foresaw the decline of the rand against all major currencies this year. Even well-known Clem Sunter, a key speaker at several Brenthurst Wealth seminars this year, was still forecasting a stronger currency at the beginning of the year.

2. IGNORING INFLATION.

Inflation, despite all the market turmoil and volatility, has shown very little signs of abating. The cost of living is still increasing inexorably, especially administered prices such as electricity, medical aid, land taxes as well as food.

Any investment strategy should still be focused on at least matching the cost of living in spite of short-term volatility.

Money not invested does not offer protection against inflation and the appearance of safety and security is a very short phenomenon. With the exception of money needed for short-term objectives money should be invested for the long term in capital growth investments.

RSA Retail Bonds have been heavily marketed by government in recent years as a viable and attractive investment, especially for elderly investors. There is no question that it is a safe investment (backed by government) with a high interest rate, but it does not offer savers a growing income stream. Only equities and property, preferably listed on a recognized exchange, does that.

Imagine investing all your capital in an investment product at the age of 60 only to find your living standards reduce year after year. In fact, investing all your money in a product such as RSA Retail bonds, fixed deposit or other savings investment guarantees that your income (and hence living standard) will be reduced annually.

3. NOT HAVING AN INVESTMENT STRATEGY.

It's the oldest investment advice in the world and yet it is surprising how well it still works.

DIVERSIFICATION (A) REDUCES RISK AND (B) OFFER RETURNS FROM SURPRISING, SOMETIMES TOTALLY UNFORESEEN, AREAS, ALL AT THE SAME TIME.

Investors who stray from their chosen diversification are often surprised when markets go against them. No single asset class can consistently beat all other asset classes over time.

There is a lot of hype in the investment industry and with clever advertising and marketing large investment companies try and influence investor behavior.

On the highway from Johannesburg to Pretoria there is a massive billboard by Sanlam with the following message "HOW WOULD YOU LIKE THE BEST FUND MANAGER IN THE WORLD (TWICE) TO MANAGE YOUR MONEY? HE COULD.

The fund manager referred to is likeable Kokkie Kooyman, who manages the Sanlam Global Best Ideas Fund as well as the Sanlam Global Financial Services Fund.

Kooyman won the award for being the top fund manager in his sector. The only problem is that his fund has lost a great deal of money over many years. However, because, he lost less than the others he was rated as the best fund manager. That's why you need an independent investment advisor.

4. TRYING TO TIME THE MARKET.

Timing the markets is very difficult if not impossible at best of times. Why then do investors still try and time markets in horrible conditions such as now?

We do not try and pretend to know when markets will peak or bottom out. We far rather prefer to make adjustment to portfolios on changing market conditions or in response to changing risk profiles. But to try and increase returns by opting in and out of markets or asset classes is very risky indeed. The risk comes in many shapes, but the most obvious ones are the risks of being wrong, missing subsequent upturns known as opportunity costs as well as the direct costs of selling, buying back again with the added costs of capital gains taxes thrown into the mix.

You can count on further market hiccups. Volatility is now the rule rather than the exception. Yet any strategy that's predicated on actively dodging the bullets is doomed to fail because you are competing with light-speed robo-traders. It's more important to have a working knowledge of your asset allocation and the potential for volatility of your personal exposure than trying to avoid risk altogether.

We are often approached by clients with the request to "Sell all and wait for markets to recover in order to buy back later, hopefully at a lower level." This approach to investing is very dangerous and potentially costly over the long term.

BRENTHURST WEALTH ANNUAL AWARDS

Over the last number of years Brenthurst Wealth has grown into a national advisory company with offices in Pretoria, Johannesburg and Cape Town. Further expansion is being planned in the New Year.

It's been a very exciting year with a substantial increase in clients and assets under management. It was also a case of "back to school" for all the advisors who had to write and pass (required pass rate 66%) the obligatory national examinations imposed by the Financial Services Board.

So far less than 20% of all the 139 000 or so financial advisors have written and passed this tough exam. Unless there is a further extension to 30 June 2012 deadline, a sharp decline in qualified financial planners can be expected.

These first round of exams mainly deals with regulatory and compliance issues, focusing on the protection of clients interest. The next round of examinations will deal more with product knowledge and knowledge of investment markets.

We now have a staff compliment of seven fully accredited financial planners, who all passed these exams, a tax and fiduciary division with a staff compliment of 19 people in total. On the evening of the 8th December the company had its' first ever awards evening with all staff members present.

Two awards were handed at the function, which took place under a magnificent buffalo thorn tree in the bush on the wonderful Thandeka Game Lodge in the Waterberg region, northwest of Bella Bella.

A long service award was handed to Mrs. CELESTE PHAKATHI who has been involved with Magnus Heystek and his companies in various guises for more than 17 years. Mrs. Phakathi, who now heads administration and is responsible for the regular updates clients receive, has shown tremendous loyalty and dedication and fulfills an important function in the day to day running of the company.

The second award, the BRENTHURST AWARD FOR EXCELLENCE, was given to GAVIN BUTCHART, for his overall contribution in, amongst many other functions, in heading up the tax and financial division of the company, as well as the newly created fiduciary services (trusts, wills and estate administration).

It is the intention to give this award every year and it has been created in such a way that any staff can qualify.

To Celeste and Gavin we say: well done and many congratulations!

UPDATES... OFFICES CLOSING:

BRENTHURST WEALTH OFFICES WILL BE CLOSING AT 12 NOON, FRIDAY 23RD DECEMBER AND OPENING AGAIN ON MONDAY 9TH JANUARY 2012.



In case of emergency all financial planners will be reachable on their cell phones over this time .

TO ALL OUR CLIENTS, FRIENDS AND BUSINESS ASSOCIATES WE WISH YOU A MAGICAL CHRISTMAS, WONDERFUL HOLIDAY SEASON AND A FANTASTIC NEW YEAR.

Thank you for your support.

INVESTMENT STRATEGIST:

MAGNUS HEYSTEK
magnus@heystek.co.za
+27 83 692 8635

INVESTMENT ADVISORS:

BRIAN BUTCHART CFP ®
brian@brenthurstwealth.co.za
+27 82 335 5117

JOHAN BURGER CFP ®
johan@brenthurstwealth.co.za
+27 82 732 8655

SONIA DU PLESSIS CFP ®
sonia@brenthurstwealth.co.za
+27 83 260 4055

RENEE EAGAR CFP ®
renee@brenthurstwealth.co.za
+27 83 233 9373

INVESTMENT ADVISORS:

LESYL POTGIETER CA(SA) CFP ®
lesyl@brenthurstwealth.co.za
+27 83 646 9818

JANA GOUSSARD RFP™
jana@brenthurstwealth.co.za

TAX & ACCOUNTING:

GAVIN BUTCHART
gavinb@brenthurstwealth.co.za

MARKETING:

SUE HEYSTEK
sue@brenthurstwealth.co.za

RECEPTION:

ANTJE MOUTON
reception@brenthurstwealth.co.za

CLIENT SERVICE (JHB | CPT | PTA):

ESMERIE LOOTS
esmerie@brenthurstwealth.co.za

CELESTE PHAKHATI
celeste@brenthurstwealth.co.za

CHRISTOFF POTGIETER
christoff@brenthurstwealth.co.za

ALLIE SIKHOSANA
allie@brenthurstwealth.co.za

ERNA MARÉ
erna@brenthurstwealth.co.za

MAGNUS LEO HEYSTEK (JNR)
admin@brenthurstwealth.co.za

SUZEAN HAUMANN
suzean@brenthurstwealth.co.za

BRENTHURST WEALTH MANAGEMENT (PTY) LTD

JOHANNESBURG: Building 3 Prism Business Park | Cnr Fourways Boulevard & William Nicol Fourways | Gauteng SA
Tel: +27 (0) 11 799 8100 | Fax: +27 (0) 11 799 8101 PO Box 10150 Fourways East | 2055 Gauteng South Africa

PRETORIA: 157 Banket Rd | Waterkloof | Pretoria | SA
Tel: +27 (0) 12 460 0340 | Fax: +27 (0) 12 346 8453

CAPE TOWN: Tyger Waterfront | Waterfront Terraces Block 2 | Waterfront Road | Carl Cronje Drive | Bellville | W Cape
Tel: +27 (0) 21 914 9646 | Fax: +27 (0) 21 914 6515 Postnet suite 275 P/Bag X22 | Tygervalley | 7536 | Cape Town SA

*Brenthurst Wealth Management (Pty) Ltd. is an authorised FSP in terms of the FAIS Act, 2002(FSP No 7833)
Brenthurst Wealth Management (Pty) Ltd. is an associate of the Stonehouse Capital Group*

DISCLAIMER: Brenthurst Wealth Management is an authorized financial services provider Reg No 2004/012998/07 FSP No. 7833. This newsletter should not be viewed as investment advice as each individual investor is different and has different investment needs. Please consult any one of our highly qualified investment advisors before acting on the advice and recommendations contained in this newsletter. Kindly contact BWM at (011) 799-8100 for an appointment.