

INVESTMENT REPORT



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AUGUST 2011 • ISSUE 105

KEEPING A COOL HEAD & TAKING A LONGER TERM VIEW



Investment Seminar

BLOEMFONTEIN
INVESTMENT SEMINAR

DATE: SAT 20 AUG 2011
TIME: 09H30 FOR 10H00
VENUE: ILANGA ESTATE
 LUCAS STEYN STREET,
 BLOEMFONTEIN

LOUIS NIEMAND: INVESTEC

➤ IS THE BULL MARKET STILL ALIVE?

MAGNUS HEYSTEK: BRENTHURST

➤ BUILDING GLOBAL WEALTH

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

Global
 Markets
 AND SA ECONOMY

The Brenthurst Team

IT was Napoleon who once said that we are all doomed to make decisions. He was referring to making decisions on the battlefield. Get it right and you end up as the victor; get it wrong and the chances are that you could get killed.

In his case he was captured after the battle of Waterloo and was exiled to a remote island for the rest of his life.

Investors must be feeling like they have been in a bruising battle themselves this week after chaos erupted on world financial markets after international ratings agency S&P downgraded the US from its triple AAA rating to one notch lower, namely AA+. Fortunately, investors do not get killed, they just lose some of their wealth, hopefully only for a short period of time.

The other two international ratings agency giants (there are many more, but these three are the largest and the most influential) namely Moody's and Fitch, both confirmed that while they are not down-rating the US, they might do so in future.

According to S&P they are worried, not only about the US government not being able to repay its debt, but rather more the political wrangling and delays that accompanied the agreement on raising the US government debt two weeks ago.

US treasuries have been the bedrock of risk-free investments ever since the Second World War. It was (and still is) considered the safest investment in the world. It is also the largest and most liquid investment marketplace in the world, with trillions of dollars invested in these instruments. There is no other investment instrument or asset class that comes remotely close to this market in terms of its size, efficiency and liquidity. No wonder the Chinese government has most of its \$,15 trillion dollars in foreign exchange reserves locked up in US treasuries.

There is no other alternative, as all other asset classes are either too small or too illiquid. So for the foreseeable future the rest of the world will have to live with this downgrade.

It was also noticeable that US treasuries strengthened sharply after the downgrade. Does this make sense? With the exception of precious metals, almost all other asset classes were sold down heavily over the last week or so.

S&P's downgrade was almost immediately lambasted by legendary investment guru Warren Buffett who said the US should actually be rated as AAAA, saying he is still confident that the US economy will continue its gradual and steady economic upturn.

Bill Gross, who heads up Pimco, the largest bond company in the world, differed from Buffett and said that S&P was right to downgrade US debt. They both cannot be right and only time will tell....

WHAT WE DO KNOW IS THAT THE CREDIT ISSUES OF 2008/2009 HAVE NOT GONE AWAY.

These painful memories are still fresh in investors' minds and any possible default or lack of liquidity or perception thereof causes panic and fear irrespective of sound fundamentals. It's a case of if you panic, panic first.

This in turn causes the volatility index to rise substantially as investors seek risk averse assets and hence equities take the fall. The US and other countries are, however, more prepared than previously and have the tools at their disposal to stabilize the markets to an extent, should this be necessary.

Examples of this is the recent move by the European Central Bank (ECB) to propose the buying of toxic Italian and Spanish bonds, as well as the Fed's recent plan to inject additional capital into the market.

However, the fact remains that the market will remain volatile, but there are opportunities amidst the negativity.

We are in a very different market today than three years ago, the fundamentals and valuations, especially offshore are still attractive, however we will need to accept some levels of volatility within this new environment.

The recent announcement by the Fed that interest rates in the US will remain at current low levels until at least 2013 shows their commitment in trying to restore good health to the market, but that's not to say that the problems are over.

It is often in these turbulent times (and there have been a number in recent years) that we at Brenthurst Wealth need to assure investors about the processes and investment strategies we follow on behalf of our clients.

As can be expected the phone was ringing off the hook since last Friday with concerned clients enquiring about our investment strategies going forward.

It is for these reasons that we have implemented our current strategies which includes actively managed portfolios which reduces volatility and should beat cash. Most importantly however is that expectations of double digit returns needs to be tempered and re-evaluated in the current environment.

MONTH-END PERFORMANCE DATA (VALUES FOR PERIODS GREATER THAN ONE YEAR ARE ANNUALISED) AS AT 05 AUG 2011

| | 1 Month | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years |
|---------------------------------|---------|----------|--------|---------|---------|----------|
| Allan Gray Equity Fund A | -6.90% | -5.21% | 5.34% | 9.19% | 11.26% | 19.96% |
| Coronation Balanced Plus Fund A | -4.55% | -3.09% | 7.48% | 10.45% | 11.63% | 16.16% |
| Coronation Top 20 Fund A | -9.06% | -5.89% | 7.09% | 13.80% | 14.91% | 21.15% |
| Investec Opportunity Fund R | -2.82% | -1.00% | 7.92% | 9.46% | 11.27% | 16.39% |
| Investec Value Fund R | -6.91% | -8.87% | 5.42% | 13.32% | 12.03% | 24.75% |
| Satrix 40 Portfolio A | -9.82% | -8.39% | 2.40% | 2.05% | 6.22% | 11.97% |
| STANLIB Balanced Fund A | -4.86% | -2.06% | 9.48% | 4.35% | 8.70% | 13.78% |
| FTSE/JSE All Share index | -9.29% | -7.36% | 2.55% | 3.47% | 6.85% | 12.71% |

All performances shown in the table are percentages calculated using NAV to NAV prices net of fees, including dividends reinvested on payment date.

WE THEREFORE NEED TO REAFFIRM THE FOLLOWING INVESTMENT PRINCIPLES:

- ⇒ Risk is the permanent loss of capital. Volatility is merely the price for seeking inflation-beating returns in asset classes other than the default asset class, namely cash.
- ⇒ We have consistently followed a balanced approach, using asset allocation funds as the building blocks for our investment portfolios.
- ⇒ We do not believe in index-tracking funds as these funds might offer better returns over the longer term but it comes at the price of incredible volatility that very few of our investors can stomach. We also disagree with the oft-touted refrain that index funds outperform other asset classes. Our selection of asset allocation funds have beaten the popular Satrix 40 over all periods over one, three, five and ten years!
- ⇒ Our research shows clearly (see table page 3) most of the asset allocation funds we have been using has delivered similar or even better returns than index-linked funds, at a much lower level of volatility.
- ⇒ We feel that the advocates of equity-index funds, often the media using selective information from the purveyors of these instruments, are guilty of lazy journalism and sloppy reporting.
- ⇒ Asset-allocation funds have built-in shock absorbers, which come into play when equity markets are volatile. It needs to be reinforced that asset allocation funds have the freedom to use many asset classes in the construction of portfolios. Some of these asset classes, like bonds, actually rose up in value during the last couple of days, especially in our foreign portfolios.
- ⇒ Financial markets will experience volatile periods from time to time. These bouts of indiscriminate selling usually become a media event with reports of “trillions of dollars wiped out” etc. This week was no different. The media loves a good stock market crash, but then they move on to the next catastrophe. Ignoring the headlines is often a very good investment approach to follow.
- ⇒ Last year May and June markets also dropped by about 15%. From August to December (on the local market) the index rose by 25%. Those who panicked and sold at the bottom, missed out on the upturn in markets.
- ⇒ We do not profess to know what markets will do in the short term. There is bound to be more volatility ahead. The alternative is money in cash which guarantees lower than inflation returns.
- ⇒ We are sticking to our conservative investment approach, further seeking out active investment managers who have shown an ability over time to beat markets, and more important, the after tax returns on money markets.
- ⇒ We are still recommending an increase in offshore exposure, despite the turmoil in markets.

It's at time like these that we have to remind our clients of the saying by Sir John Templeton, the legendary founder of the Templeton Investment Group that *“the best time to invest money is when there is blood on the streets.”*

PLEASE DISCUSS ANY ISSUE RELATING TO YOUR PORTFOLIO WITH YOUR INVESTMENT ADVISOR.

INVESTMENT STRATEGIST:

MAGNUS HEYSTEK
magnus@heystek.co.za
+27 11 799 8100

INVESTMENT ADVISORS:

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

JHB & PTA INVESTMENT ADVISORS:

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

CPT INVESTMENT ADVISORS:

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

JANA GOUSSARD RFP™
jana@brenthurstwealth.co.za
+27 21 914 9646

BUILDING GLOBAL WEALTH: INVESTMENT SEMINAR, 20 AUG 2011

MAKING AN INVESTMENT DECISION IS NOT EASY, ESPECIALLY TODAY! A WORLD OF EXTREMES!
 Developed market interest rates at lowest levels since 1940 and Government Bond yields at lowest since 1958. Debt at all-time highs. China growing at 10% into perpetuity? Gold and other commodities at all time highs. Peripheral Europe in crisis with unemployment in Spain more than 20%. Japan's share of global equity markets down from 44% in 1988 to currently only 8%. South African inflation and interest rates at multi-decade lows and still demand is weak.

...These are just some of the conundrums we as investors are facing today.



SEMINAR BLOEMFONTEIN

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VENUE: ILANGA ESTATE, LUCAS STEYN STREET, HUIWELSIG, BLOEMFONTEIN

RSVP: JHB: +27 11 799 8100 email reception@brenthurstwealth.co.za

INVESTMENT PRESENTATION

09:30 - 10:00 Registration

10:00 - 11:45 Presentations

11:45 - 13:00 Refreshments

KEY NOTE SPEAKERS INCLUDE:

LOUIS NIEMAND: Equity Product Specialist, INVESTEC ASSET MANAGEMENT

➤ UPDATE INVESTMENT & FINANCIAL MARKETS

MAGNUS HEYSTEK: Director & Investment Strategist, BRENTHURST WEALTH MANAGEMENT

➤ OFFSHORE INVESTING? WHY OFFSHORE? HOW MUCH OFFSHORE? PORTFOLIO CONSTRUCTION?

INVESTMENT STRATEGIST:

MAGNUS HEYSTEK
magnus@heystek.co.za
 +27 11 799 8100

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
 +27 21 914 9646

TAX & ACCOUNTING:

GAVIN BUTCHART
gavinb@brenthurstwealth.co.za

MARKETING:

SUE HEYSTEK
sue@brenthurstwealth.co.za

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

LEO HEYSTEK
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: Landmark East | 4th Floor | 17 Umgazi Straat | Menlo Park | 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

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