



While we dislike the idea of giving Julius Malema anymore coverage than he already receives, there is no doubt he has rattled many with his statements regarding the nationalisation of the mines and land grabs with no compensation. The plight of Zimbabwe immediately springs to mind and un-nerves even the most optimistic of us. To add fuel to the fire the wage negotiation season has started and strike action is already impacting on our day to day lives.

Needless to say these issues have caused a serious amount of debate at ClucasGray and the opinions of the team differ quite significantly. That said, we all agree that it is a good time to be moving money offshore – not through panic but through taking advantage of the strong rand and decent valuations offshore. How much should be invested offshore? In our opinion, outside of liquidity requirements locally, 20% of a portfolio should be invested offshore.

Aside from the political risk that goes with living in Africa why are we recommending this offshore diversification when the first world is in such a mess? It is simply a case of attractive valuations and yields, in our view. The graph below shows the performance of The JSE All Share index in US\$ terms, The S&P index and the Dow Jones Global Titans index. This last index (the orange line) is the one that particularly interests us at the moment. Since early 2008, the JSE All Share index has outperformed the Titans index by a massive 80% and the historical rating of this index sits at 12.5x earnings – cheap considering the quality of companies in the Titans index.

Leading Indicators:

	1mth % ch	3mths % ch	12 mths % ch
JSE	+4	-2	+12
S&P	+4	-1	+20
Nik-kei	+5	+6	+6
Oil	+12	-6	+53
Gold	+8	+8	+36
R:\$	-2	+1	-8
R:£	0	0	-4



This index consists of companies that are well known, even to us in South Africa, including names such as Exxon Mobil, Apple, Microsoft, HSBC, General Electric, Johnson & Johnson etc. On balance these companies' balance sheets are in good shape and the dividends look secure. Also, in many cases these companies are global and thus have significant exposure to the faster growing emerging markets.

The other area that we have been investing in for quite some time now is offshore corporate bonds, especially those of South African companies such as Investec, Old Mutual, Standard Bank, Consol and Peermont Casinos. We view these investments as a sensible way to earn around 8% in dollars, euros or pounds (13% in the case of Peermont) without taking on too much risk.

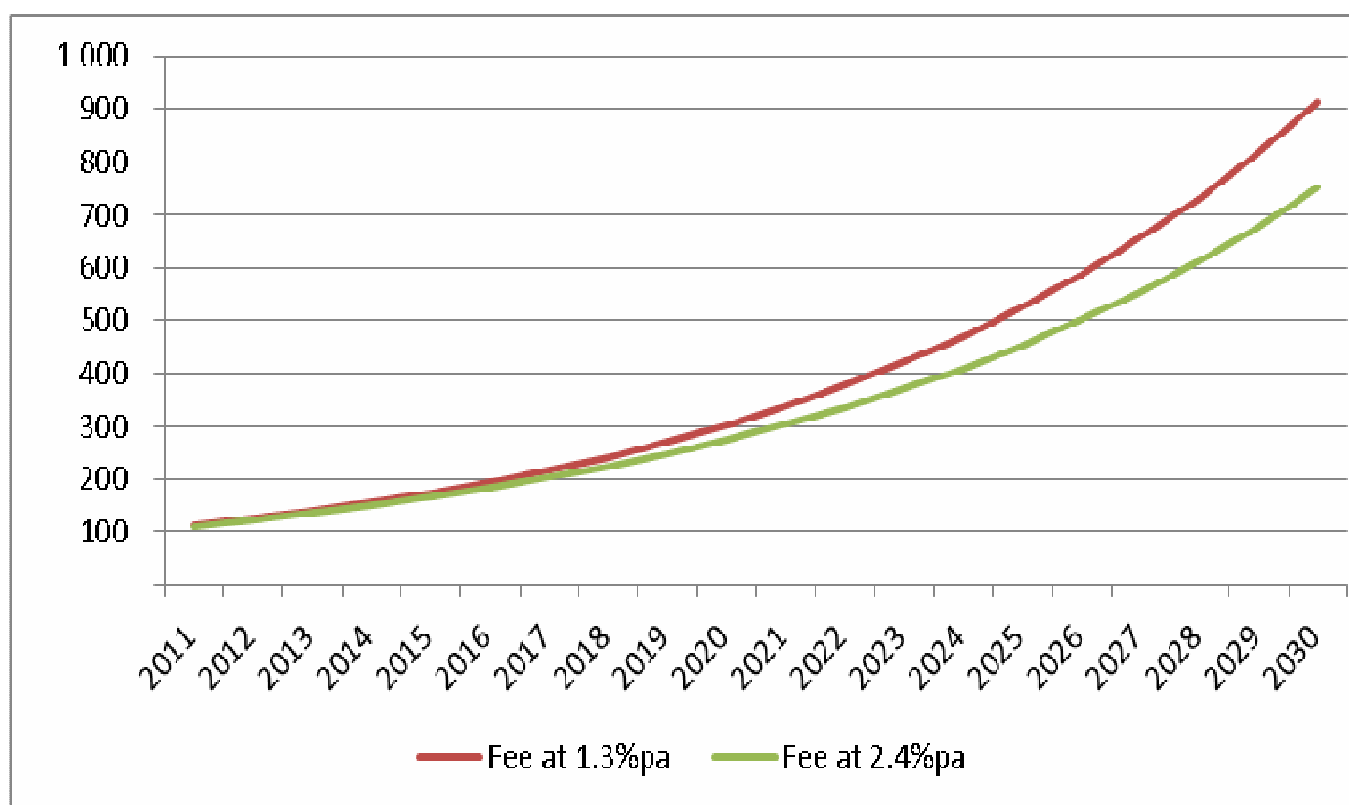
Outside of buying individual companies/corporate bonds, the simplest way of taking advantage of this offshore opportunity is to invest in the Xenon fund. ClucasGray has an equity interest in this fund and is involved in overall asset allocation. The primary management of this fund now rests with Brett Lankester of ACP Tri Alpha, a person well known to us at ClucasGray. Brett is a regular visitor to South Africa and will meet investors as and when it is required.

Retirement Funds...a reminder to all our clients

ClucasGray carries a license from the FSB to manage Pension and Provident money. We have a highly competitive pricing platform as well as a bespoke offering, ensuring investments are tailored specific to your needs. Do you want more say in how your pension or provident fund is managed? Do you want to meet the person running your fund?

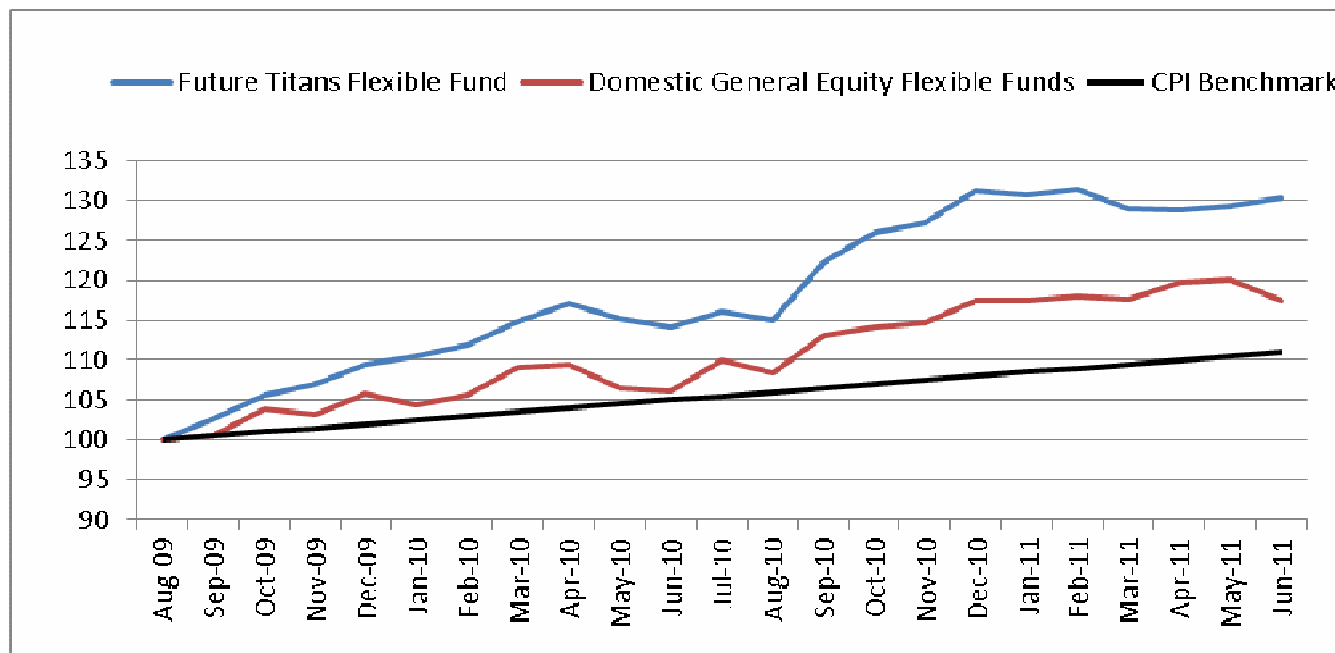
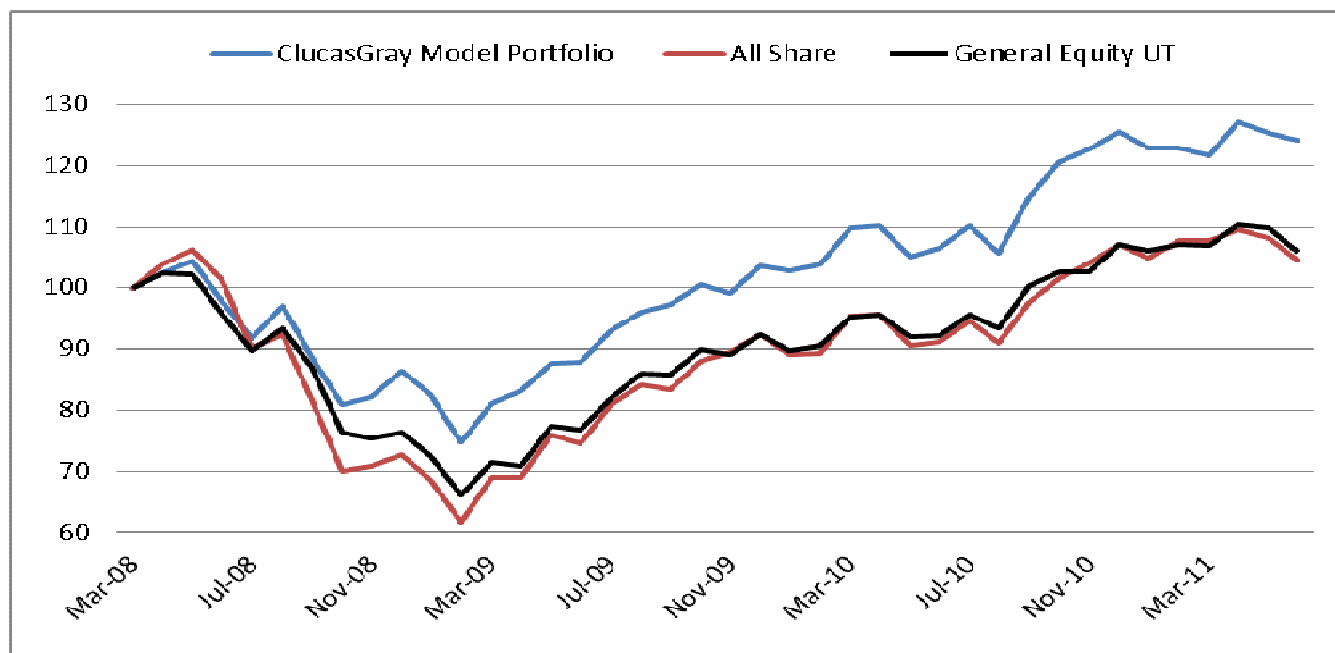
If you have moved jobs or are retired and your pension/provident money is locked up in a fund that you do not have any particular affinity to then you should seriously consider this option. Please call us for more details.

As an exercise to show you that costs do matter, we have constructed a chart below that takes the average annual performance of the JSE over the past 50 years (13%pa excl dividends) less OUR costs (red line) and less COMPETITOR costs (green line). The implication is that over a 20 year period, lower costs result in a 22% increase in value.



And finally...we are adding a second unit trust

We are now just a few weeks away from launching a second unit trust to complement our Future Titans product. The new unit trust will be based in the general equity category and will be managed by Peter and Paul. The fund will be substantially investing in Top40 companies (unlike Future Titans) and will be based on ClucasGray's model portfolio. Like Titans, this new fund can take monthly investments or lump sums and is therefore ideally suited to a savings plan from an early age. The charts below highlight the performance of our model and Future Titans over the past few years.





Peter's corner

Last months recommendation of Cipla has swung from 640c to 690c and failed to penetrate resistance at 700cents. We still like it so hang on.

We like shares that have consistent annuity income and so Metrofile has great appeal.

Metrofile has been around for 25 years and specialises in records management, image processing, scanning and document storage. Today with companies having to retain records for at least 5 years the demand for services Metrofile offer is enormous.

Currently trading at 200 cents the company has started paying dividends with an initial interim payment of 2 cents and a forecast annual earnings of 18 cents. We envisage nothing but continued growth.