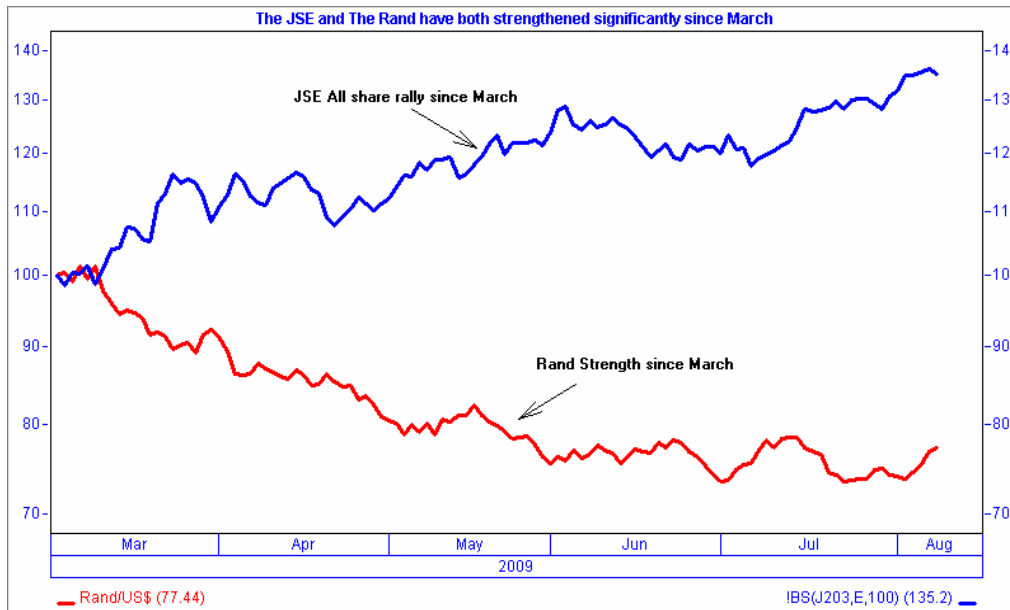




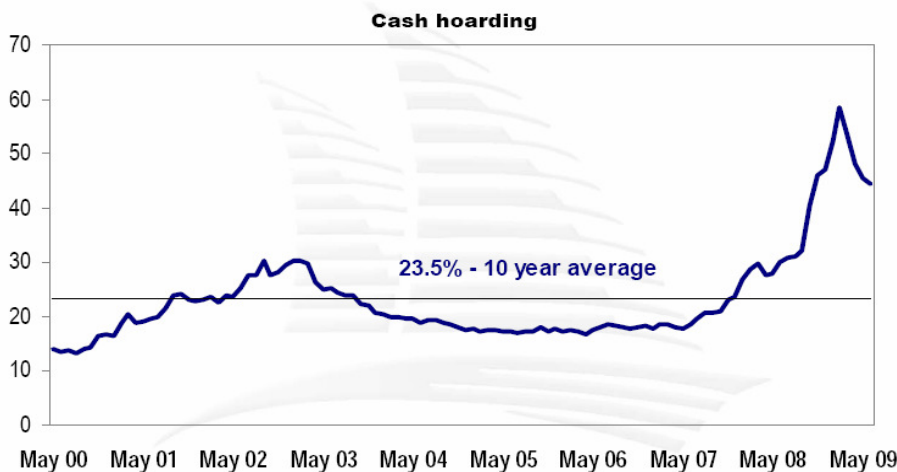
### Flying in the face of fundamentals

There have been two key features to our market since March of this year, which can clearly be seen in the chart below. The market has had a significant rally and the Rand has shown extraordinary strength over this period.



There is no doubt that the strength of this rally continues to surprise us. We spend a lot of our time looking at companies and speaking to management about what is happening at the coal face and it was clear that earnings were under considerable pressure. That has started to pan out in recent results but we expect much more is still to come. Thus far we have seen the likes of ABSA, Anglo Platinum, ArcelorMittal and AECI all disappointing and we haven't even got to the companies starting with "B"! In spite of these poor numbers these shares and most others are powering higher with no apparent pause for breath. Why?

From our standpoint, we think the key reason for the equity and currency rally lies with the flood of money that has come in from foreign investors from March this year. Initially as economic conditions worsened last year there was a flight to safety and (emerging) markets globally were sold off and capital repatriated at a frenetic pace into first world markets. Preserving capital was paramount and is clearly highlighted in the chart below.



### Introducing our new investment products:

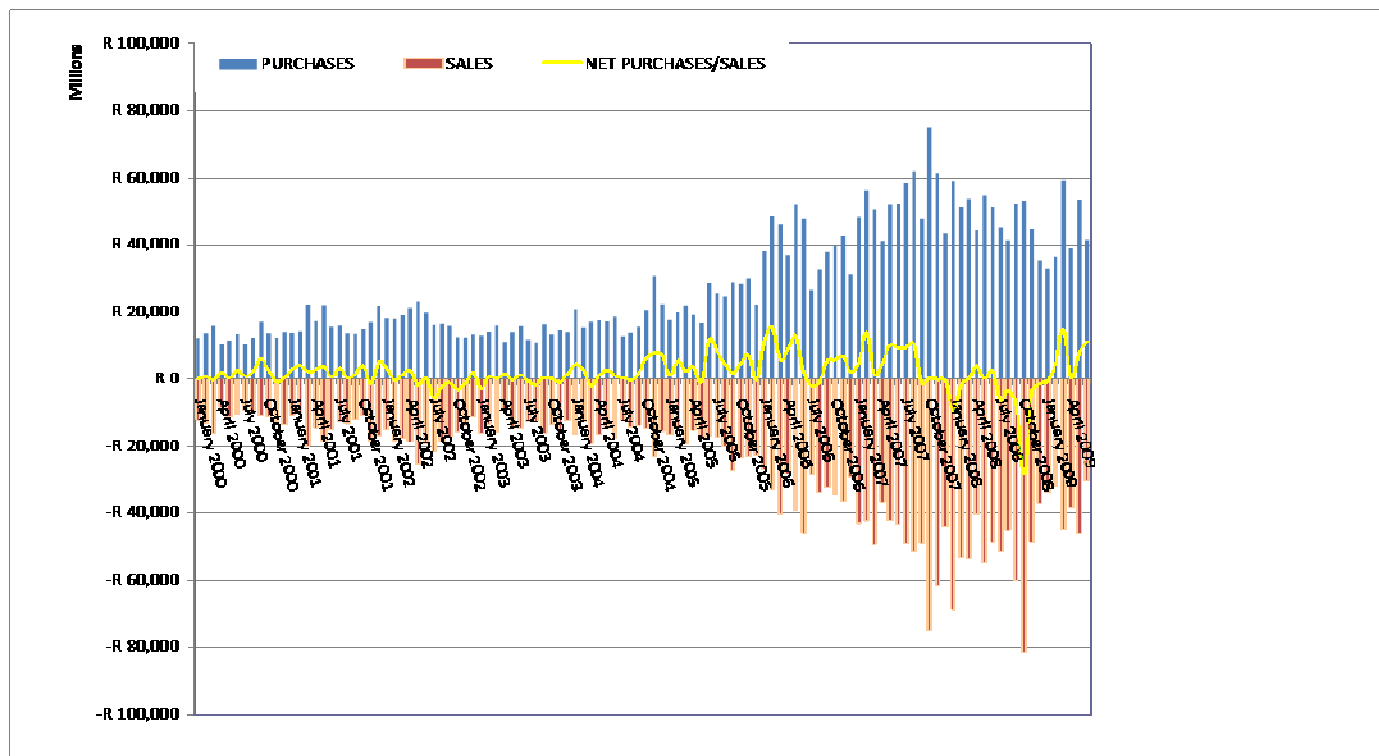
- The Corporate Cash Manager - earn more interest.* 3
- The Hollard Wrapper - a tax effective wrapper* 3
- The Future Titans Fund - Our flexible unit trust fund* 4
- International Investments* 4

### Leading Indicators:

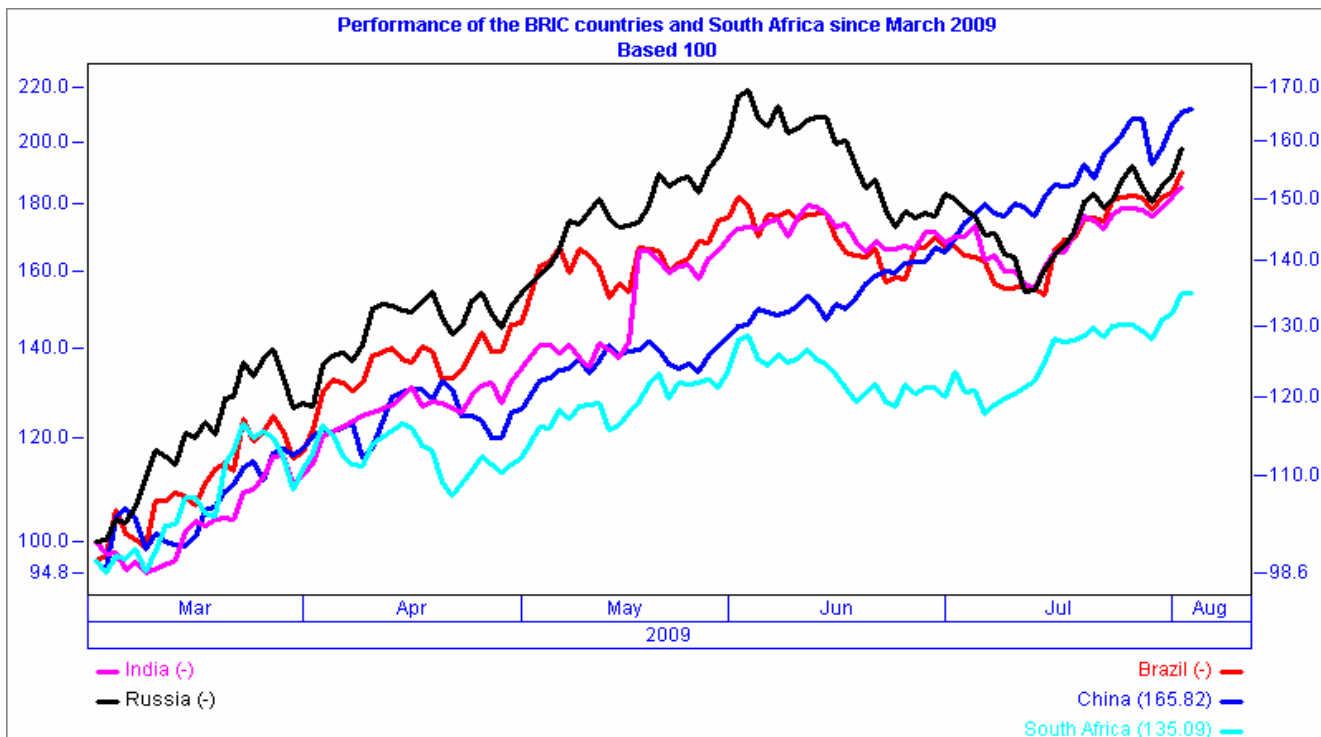
	1mth % ch	3mths % ch	12 mths % ch
JSE	+11	+13	-8
S&P	+15	+11	-23
Nikkei	+14	+12	-21
Oil	+24	+29	-36
Gold	+4	+4	+9
R:\$	-1	-4	+4
R:£	+1	+5	-10



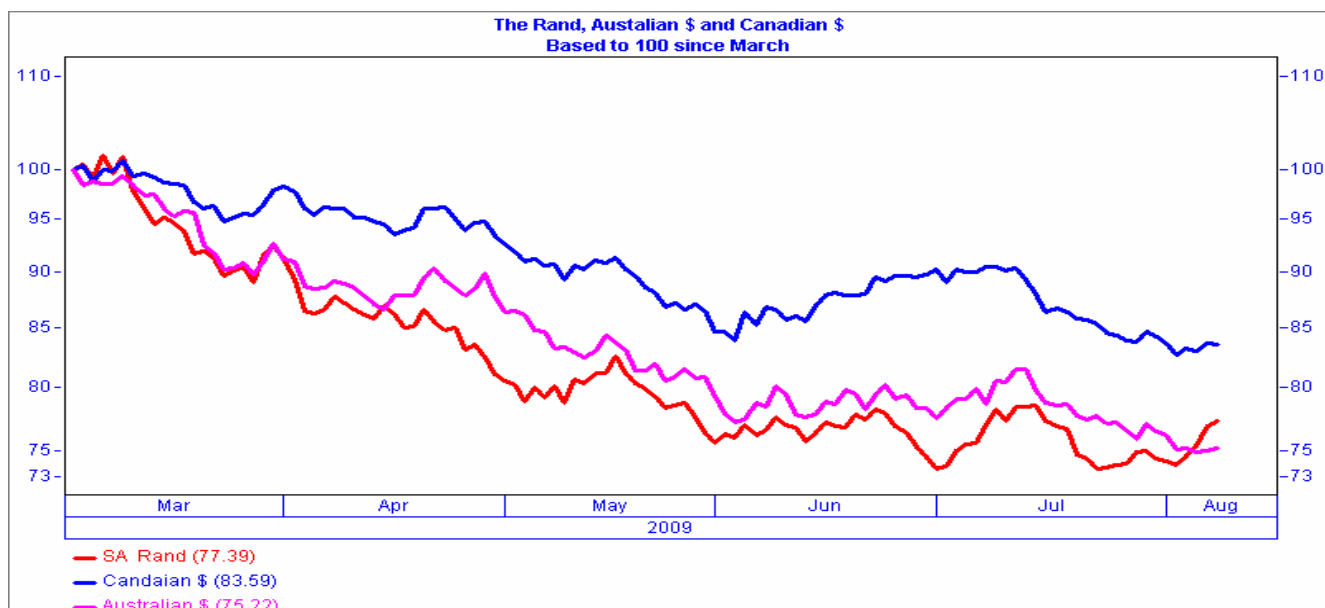
But with interest rates collapsing to nearly zero, fund managers began to look for more attractive returns and so money started to flow back into emerging markets. The chart below show the level of purchases and sales by foreigners on the JSE, the line on the graph shows the net result. Clearly there was significant disinvestment during the crisis, while there has been reinvestment more recently. Just last week foreigners invested more than R2bn into our market, continuing the trend.



The “emerging market” theme is clearly highlighted in the chart below and while South Africa’s performance off the lows has been good, the more classic “emerging” BRIC (Brazil, Russia, China and India) plays have done that much better. Note the chart below.



As highlighted above, foreign inflows have aided in rand strength but more recently, rising commodity prices have also helped significantly. The accompanying chart shows the rand, together with the Australian and Canadian dollars, also seen as commodity based currencies.



Where does this leave those clients sitting on cash? Our view remains that this recovery from what has been the worst meltdown since the Great Depression is unlikely to take place in a straight line. We support the view of the Morgan Stanley strategy team, who believe that this recovery will take place in an upward sloping "W" formation and that we are currently experiencing the first upward slope of the "W". How far these markets will go up is very uncertain. On the one hand, cash holdings remains at high—but reducing—levels and on the other, South Africa is lagging in any "green shoots" recovery (other than some commodity prices). Sadly we cannot boast the growth rates that China is reporting through the crisis.

Corporate South Africa remains fairly muted about the timing of the recovery. What is encouraging is that the environment seems to have at least leveled off from an economic perspective. However, we clearly have other factors that are making life extremely tricky. For example, we believe that we are unlikely to see a significant economic recovery until such time as banks start lending again. This does not appear to be imminent and is going to continue to throttle the impact of the 450 basis point cut that the Reserve Bank has granted us. In addition, the 31% increase in electricity tariffs, the continued strikes and subsequent wage settlements significantly above the inflation rate and the strong Rand are all factors that are likely to keep the lid on a sustained recovery in the near term.

In our opinion, our bourse has enjoyed a rally beyond fundamentals. Foreigners of course can take a different view of where SA stacks up relative to other markets and in the short term foreign buying will drive the market higher. It is however extremely important to note that this impact can be short lived as the international investor is notoriously fickle. Right now, currency vulnerability, a large current account deficit and increasing shortfall on tax revenues are having little bearing on foreign sentiment. How long will this last? Anyone have the crystal ball? We will continue to patiently wait for a broader market pull back while seeking out interesting and innovative opportunities in the market in the short term.

## **The Corporate Cash Manager— An attractive opportunity for larger cash holdings**

A number of our clients are sitting on larger than normal cash balances due to the uncertain market conditions. With the reserve bank having cut interest rates by 450 basis points so far in this cycle, the yield being earned is around 6.6% on cash balances after the admin fee charged by Investec or BOE.

The Investec Corporate Cash Management product, offered by Investec Private Bank, enables clients to earn 7.6% per annum, a full 100 basis points better than the current JSE trustees yield, for cash balances in excess of R250,000.

Please call us if you are interested..

## **The Hollard Wrapper — A tax effective wrapper**

Tax on share trading is becoming a bigger issue now—particularly post SARS announcement relating to the three year holding period. To remind you; any share that is traded within a three year period of original purchase could be subject to income tax as opposed to capital gains tax. This is particularly relevant to non-managed accounts given the fact that managed account holders have a strong argument (albeit untested) that trading decisions are not theirs and therefore CGT is always applicable.

The wrapper, offered to ClucasGray clients by Hollard, not only protects the client from the above debate but also reduces an individual's or trust's Capital Gains Tax level to 3.75% and tax on interest receipts to just 15%. The client will need to retain a part of the initial capital in the fund for five years but there is a lot of flexibility offered in terms of deposits/withdrawals from the product. ...cont.

**The Hollard Wrapper — A tax effective wrapper continues from page 3.**

We believe that for certain clients this could be a very appropriate solution, but would obviously have to go through the detail of the product with the clients in a one-on-one meeting. Should you wish to have more detail on this product please give us a call.

**The Future Titans Fund — A flexible unit trust managed by ClucasGray**

We are thankful that lady luck was on our side with the timing (Financial Services Board approval required) of the launch of our Future Titans fund as it would have been an inauspicious start had we been given the green light 12 months ago—the expected initial launch date. But we are now ready to go and are targeting a start date of 1 September 2009.

The fund will be targeting innovative, opportunistic and below the radar ideas so will be reasonably aggressive in its approach. This kind of strategy is just not possible within segregated portfolios from an administrative and a tax perspective. To explain further, stocks outside the top 40 tend to be more volatile and often less liquid than the larger companies. As a result if, for example, a company achieves its fair value price within a six month period we can sell it without having to consider the tax implications.

In addition, it offers simplification in trading in non-top 40 shares and facilitates taking advantage of new listings as and when those resume. Finally, being a flexible mandate we are able to invest up to 20% of the fund offshore or hold high levels of cash should we desire. Brendon will act as the fund manager supported by James, Paul and Peter. We would recommend low risk clients taking a small (5%) exposure to the fund while higher risk clients could go up to 30% exposure to such a fund.

**International Investments — International Corporate Bonds continue to offer interesting yields**

Brendon has been banging the table about international corporate bonds for the last three or four months. Yields in excess of 15% (and sometimes higher) combined with substantial upside to par were just too attractive in the face of near zero interest rates on offshore cash. More recently yields have fallen as bond prices have risen but still offer significantly higher rates than cash.

There are a number of ways to participate in this opportunity:

- For low risk clients we are recommending the Tri-Alpha global credit fund. This fund aims to achieve returns of around 5%pa in dollars investing in very high quality blue-chip paper.
- For clients who are able to stomach a bit more risk, we recommend Tri-Alpha's strategic opportunities fund which invest in lower grade (but still rated) paper typically offering returns around 10%pa.
- Direct investment in select bonds/preference shares. Opportunities such as Lloyds TSB, Old Mutual 8% preference share, Royal Bank of Scotland, Investec tier 1, Barclays etc are giving 10%+ returns.

Please give us a call about enhancing your offshore cash returns.

After one of the colder winters we have experienced on the highveld for quite some time we look forward to smells and sights of the blossoms of spring, the earlier sunrises and later sunsets and, of course, the smiles and laughter that tend to return as the cold season leaves us for another year.

***All the very best***

***From The team at ClucasGray***