



Choppy waters make for interesting times.... and opportunities.

The first quarter of this year has been, as predicted, fairly tricky to say the least. The volatility in the market has continued which naturally has the global experts thumbing the history books to try and get some indication of where we might be heading. Truth be told the outlook is mirky and no one really knows where we are heading. As you will see in the charts below this meltdown has a number of similarities to the crash of 1929, but there are also some stark differences this time around resulting in many divergent views and much food for thought.

We found the recent note from Goldman Sachs Investment Strategy Group very interesting (“Hope and Fear are Inseparable”). It refers to four different major concerns that are putting fear into the minds of investors:

1. Concern that the recently improved US economic data is not sustainable;
2. Uncertainty over the long term implications of the Government rescue packages;
3. Credit markets have not moved higher in this recent equity rally. Up until now they have led the way in this crisis;
4. Will equities be the strong asset class they are touted to be after this melt down? One must bear in mind that the US market went back to levels it was at 10 years ago.

Goldman Sachs and Credit Suisse both seem cautiously optimistic and are recommending that investors should start to nibble away at equities and corporate bonds as their two favoured asset classes.

The Goldman note refers to some interesting research done by Jeremy Siegal, a noted Finance Professor at Wharton, which can be summarized as follows:

- if you bought at the *peak* of the market in 1929 it would have taken some 25 years just to break even;
- if you had bought from the point where the market was *already* down 50% from its peak during the Depression, as it roughly is today, it took only 2.5 years to break even;
- assuming purchases were made after the 50% decline in the market, after 5 years, an investor’s real return averaged nearly 7% per year.

It also points out that:

- the US stock market ended 2008 some 40% below trend, the 5th largest decline since 1865;
- On average, after the 7th largest declines over the past 145 years, the market has rallied 24% in the following year
- 21.4% *per year* over the next 3 years
- 18.4% *per year* over the next 5 years

The recent rally that has been enjoyed in global markets, including our own, has not got us over-excited and we are of the opinion that the volatility is likely to continue for another quarter or two. With this in mind we were very interested to read a note from Credit Suisse titled “Market Focus: The first 100 days”. The note is not referring to the first 100 days of the new US president, but rather looking at the behaviour of the market in the first 100 days after a major sell off.

Jonathan Wilmot, of Credit Suisse, pointed out in the note that we are at a cross roads in terms of the equity outlook. The two charts on page 2 fuel the debate.

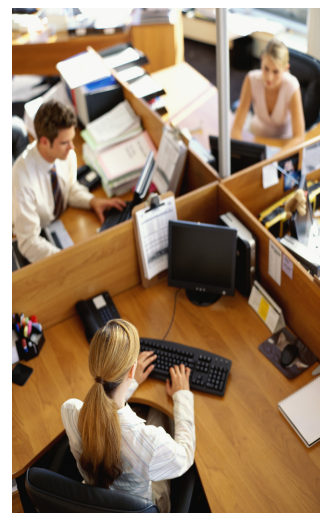
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Tim Fearnhead: Typical 3 issues that affect Wills

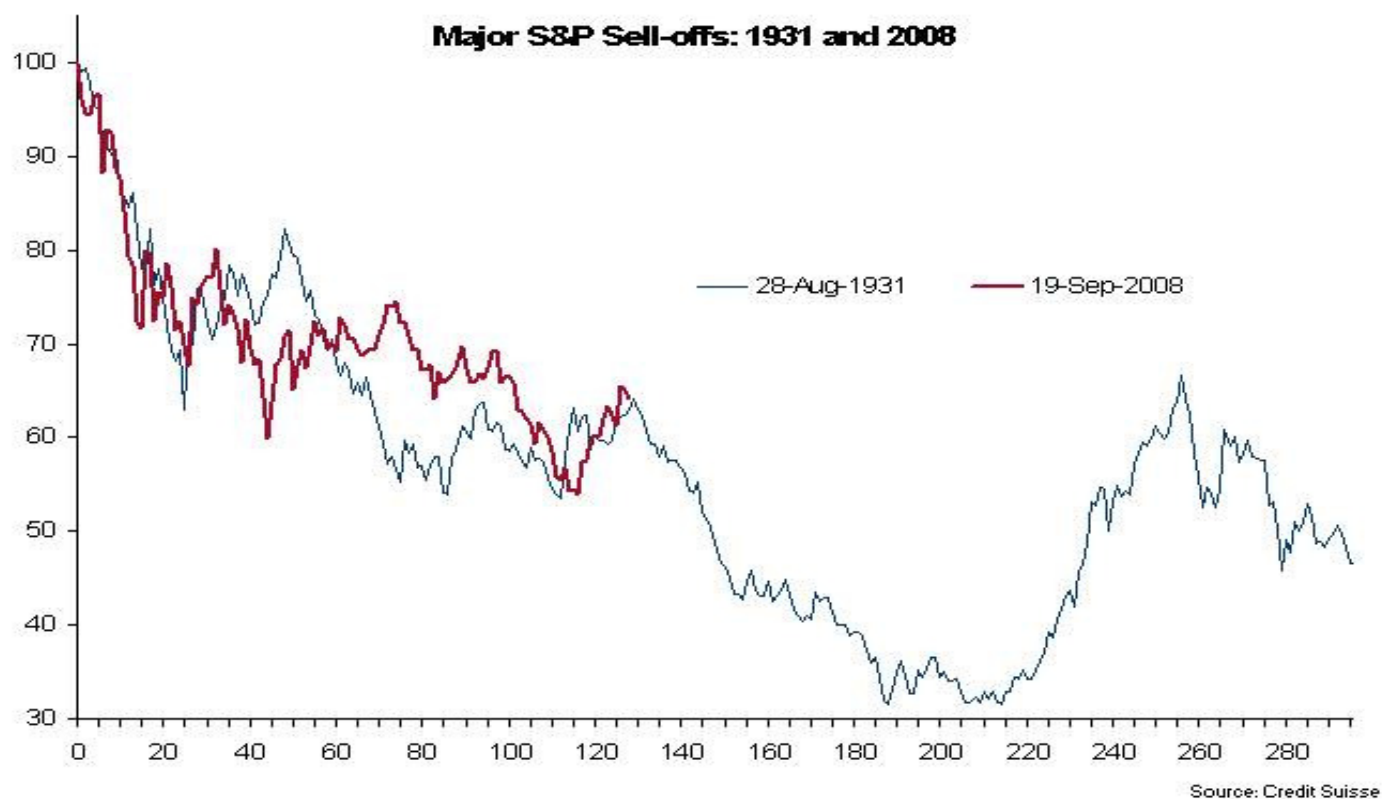
Boost your Retirement Funds 4

Leading Indicators:

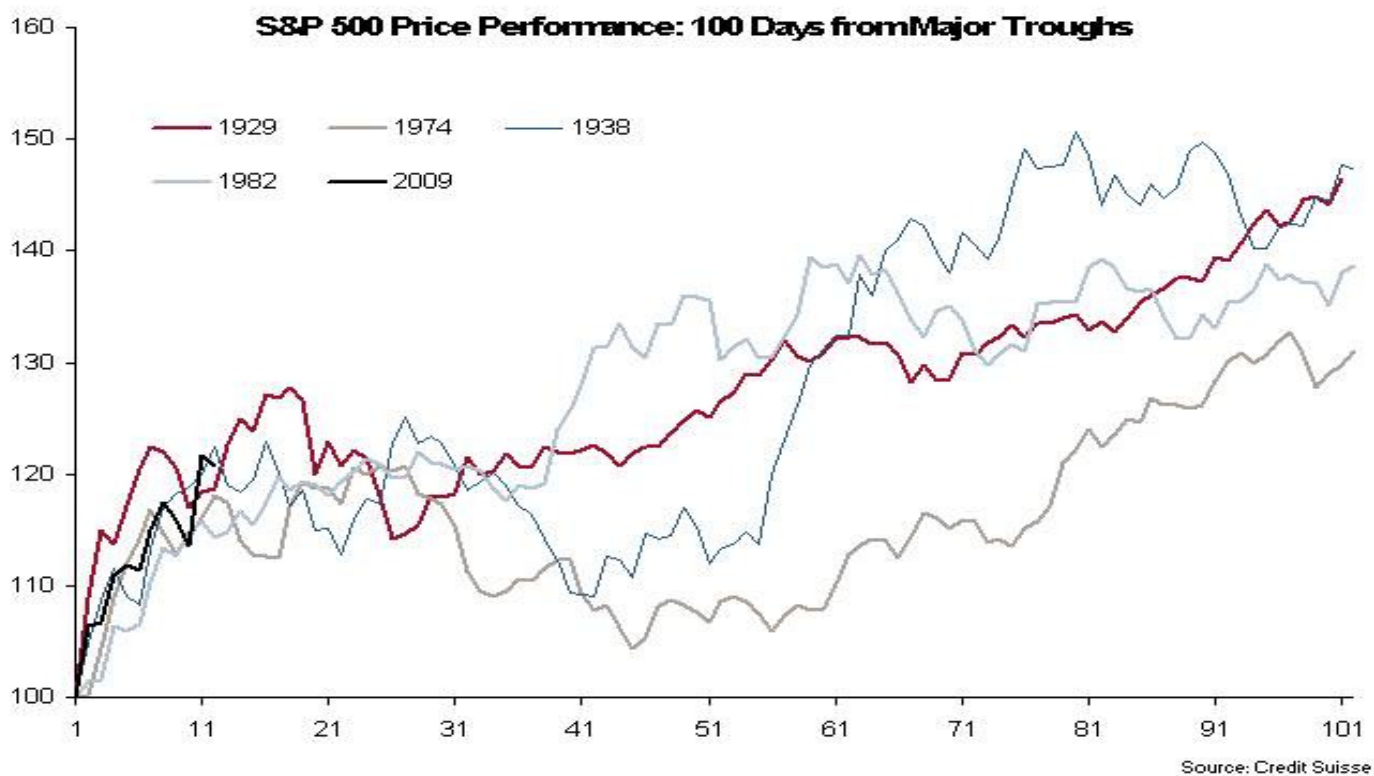
	1mth % ch	3mths % ch	12 mths % ch
JSE	12	-10	-31
S&P	22	-11	-39
Nik-kei	19	-2	-34
Oil	4	24	-55
Gold	-3	6	-2
R:\$	17	3	-14
R:£	12	4	-16



Are we heading for this?



Or this?





Continue...

We, at ClucasGray, are continuing with our approach of buying good quality companies at levels which we believe offer attractive valuations. These are companies with strong management, solid balance sheets and attractive cash flows. These are companies that are unlikely to be your best performers when the bull gets rampant, but they will serve investors well through turbulent waters and are likely to keep paying attractive dividends, key, we think, during times like this. We do not believe that we are out of the woods yet and, in fact, believe that from an economic perspective things could become more difficult during the next six to nine months in South Africa, but markets tend to look forward and much of the bad news is discounted in the prices that we are witnessing, especially in the market troughs. With this in mind we are of the view that the next year will give investors an excellent opportunity to strengthen portfolios and position themselves for good equity returns on a three to five year time horizon.

In addition we believe that there are some very interesting opportunities offshore. More specifically the Corporate Bond market is an area which we believe investors can make very attractive returns -

particularly relative to cash! Returns range from reasonable (4%) to irresistible (18%+). We are recommending two corporate bond funds. The first is a very conservative, blue chip fund which is yielding between 4-6% in US\$. It is invested in companies such as Kraft, Diageo and Deutsche Telekom. This yield is likely to head towards 8-10% once the market starts normalising, but is – in our minds – a very good alternate to offshore cash which is earning next to nothing in interest. The second fund is a higher risk fund, currently yielding between 16% and 20% in US\$ terms. It has companies such as Old Mutual, Royal Bank of Scotland and Gazprom in the portfolio.

We also believe that there will be a great opportunity in offshore property given the 75% decline (from peak) in share prices. Key to the share price declines has been the need for many of these companies to roll over debt - no issue in a normalised credit market but a big issue now. Consequently shares are being marked down to a rights issue type price which is typically well below the intrinsic value of the entities. We are currently doing some work in this space to appreciate both the risks and the opportunities.

Tim Fearnhead - Consultant to CGIM & BDO on Retirement, Trusts and Wills

Over the years I have consulted with many people on estate planning and I would say that the vast majority do not review their wills on a regular basis and this neglect can have some significant downsides in the event of an unexpected death-and frankly all deaths are unexpected!

I have set out below some of the typical issues that affect wills as a key part of an Estate Plan:

- **Changes in personal circumstances:**

These could be births, deaths, inheritances, marriages, divorces and emigration in the family unit.

- **Changes in legislation:**

There have been numerous positive changes in legislation affecting tax and estate duty over the past decade and it is vital that your will is drawn to take advantage of these changes.

- **Changes in exchange control regulations:**

So many South Africans are now affected by emigration and this goes hand in hand with exchange control regulations so it is very important to be aware of the rules if you or any member of your family is thinking of, or has emigrated.

The recent Budget 2009 and the 2008 Revenue Laws Amendment Bill have also presented at least two

positive proposals that affect Estate planning and wills.

The first proposal is that the proceeds of a Life Policy linked to a Retirement Fund, typically this would be a company Group Life policy, will be exempt from Estate Duty.

This has long term positive benefits especially if companies allow staff to increase their covers under group policies.

The other proposal that is of interest, is the one proposed in the Budget to make the R3,5m Estate duty rebate portable between spouses. In other words, if the first dying spouse does not utilize the full rebate, any excess can be carried over to the estate of the survivor and added to his /her R3,5m rebate.

This amendment, yet to be enacted, will in many cases, do away with the current need and practice of setting up a testamentary trust in wills to take advantage of the R3,5m rebate.

We urge all clients to take the time now, to review your current will and if any of the above comments applies to you then now is the time to do something about it.

We urge all our clients to take professional advice on their estate planning and if you want further information on the above or any other related issue contact us on 011 2503700.

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and Experienced fund managers/administrators.

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To discuss the structure in more depth and its suitability to you and / or your company, contact Brendon Hubbard on 011 250 3704 or James Clucas on 011 250 3702.

If you think the 0.9% saving is immaterial, think again.

A R10m fund that saves 0.9% pa for 20 years at the JSE average rate of return (13% p.a. compound) would yield an additional R13m of performance.

*We would like to wish all our clients well over the Easter Season.
From all of us at ClucasGray*

