

THE BRANTAM "UPDATE"

25th January 2012

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QUOTE OF THE WEEK

"Politicians are like diapers. They both need changing regularly and for the same reason."

- anon

THE WORLD TODAY

"New Word: **Ineptocracy** (in-ep-toc'-ra-cy) - a system of government where the least capable to lead are elected by the least capable of achieving, and where the members of society least likely to succeed or even to sustain themselves, are abundantly rewarded with goods and services paid for by the confiscated wealth of a diminishing number of producers."

Who remembers May 1998?

Quite possibly you don't remember the events of May 1968, and, apart from the grey beards in the Brantam office, we would suspect that a large part of our readership would perhaps not even have been born then.

So what is it about May 1968 that should make us pause and think? Today, in France that period has now famously become known simply as **mai 68**. Simply put, it was a transition in values and principles from the conservative moral ideology that prevailed to a more open and liberal ideal. The massive May 1968 protests, commencing with a series of student protests before broadening to a general strike by about 11,000,000 workers, represented over 20% of France's TOTAL population at the time. It is instructive that a shift in moral ideology was driven not by the intellectuals of the time, but by the working (and studying) class.

Having experienced the "Arab Spring" protests during the course of 2011, and with more likely to come during 2012, we want to paint a picture of a 2012 that is almost certainly likely to contain a continued global shift in values, ideologies and policy. This has been and will be evident in countries as diverse as the USA, as they face their upcoming elections; in China, where there is a generational shift in power that will take place in October 2012; in France, where both presidential and legislative elections will be held before mid-2012; in Germany elections will take place only in 2013, but election mode will be a key dynamic in 2012 already; in Zimbabwe, where the less we say about those elections the better; in Mexico, a General election will be held in July; to Mongolia, where yes, they do have a parliament and they do have elections.

Suffice to say that given the enormous economic challenges faced by governments around the world in dealing with the debt problems that we are all already familiar with, this time will be marked as a period in which a shift in values, similar to that seen in France in May 1968 will likely see rapid changes in political ideologies and allegiances. It will be a dangerous period marked by quantum leaps (forwards and backwards) in economic policies. A world characterised by such shifts only ever means one thing – markets will respond in a like manner.

As has become customary at the start of any year, strategists the world over lose all sense of mortality as they embark on the journey that is 'forecasting the year ahead'.

It is safe to say that after a year such as 2011, this becomes an almost insurmountable task. With 2011 humbling some of the most experienced investors around the world, and leaving very few markets, or asset classes unscathed in the process, one should be excused for being slightly loath to predict what is likely to be expected of the first quarter of 2012, let alone the entire year that lies ahead!

A year that will include a potential revision to ANC policies, in excess of 20 countries holding general elections, including the United States, and a likely crescendo of the ongoing Euro debt crisis... Here forth we venture into the unknown.

Thanks for taking the journey with us!

GLOBAL NEWS:

Mild profit-taking left selected risk asset benchmarks struggling to consolidate near multi-month highs at the end of a week characterised by rising hopes over the eurozone crisis, generally positive corporate news and mostly supportive economic data. The FTSE All-World equity index closed up 0.3% after Asia moved higher but commodities were slightly softer.

In the US, the S&P 500 rebounded from earlier losses to close nearly flat. The benchmark has gained 4.5% in January, boosted by the news from Europe and recent data that supports the view an economic recovery is under way.

The Vix index, known as Wall Street's "fear gauge", is sub-20, its lowest point since July, a signal investors are becoming more sanguine about the market's prospects as they feel less need to pay up to protect their portfolios. Investors have been pleased, on balance, by the fourth-quarter earnings season. The euro started the day just below the \$1.30 level, having gained about 3 cents this week after a number of national bond auctions saw decent demand and falling yields, encouraging some in the market to hope that the intensity of the sovereign debt crisis had peaked. Speculation that Athens and its creditors will reach a deal to avoid a Greek default, possibly over the weekend, has also buoyed sentiment of late, helping European banks to lead the FTSE Eurofirst 300 to five-month highs.

Conditions have stabilised in the secondary sovereign credit complex. Yields on Italian 10-year notes are near 6.3%, their lowest since mid-December, while traders move away from perceived havens, pushing yields on German Bunds up 10 basis points to 1.93% and US Treasuries up 3bp to 2.01%.

GLOBAL INDICES (week ending 20th January):

News early in the week that Chinese growth had slowed to 8.9% should have had a dampening effect on commodity values but this was offset by the view that it would allow the Chinese authorities to ease some of their credit restrictions. The announcement thus had the opposite effect, allowing metals prices to continue their recovery from the depressed levels in the last quarter.

| | New York SP 500 | London FT 100 | Euro Stoxx 50 | Tokyo Nikkei | Hong Kong Hang Seng | MSCI Emerging Markets |
|---------------|----------------------------|--------------------------|--------------------------|-------------------------|--------------------------------|--------------------------------------|
| | % | % | % | % | % | % |
| 1 week | 2.0 | 1.6 | 3.8 | 3.1 | 4.7 | 5.4 |
| 1 month | 6.0 | 5.7 | 7.3 | 5.2 | 11.2 | 9.8 |
| 3 months | 8.2 | 6.4 | 6.9 | 1.0 | 11.8 | 9.6 |
| 6 months | -0.8 | -2.1 | -10.3 | -12.4 | -8.6 | -11.8 |
| 1 year | 2.7 | -2.4 | -17.1 | -16.0 | -16.2 | -11.8 |
| Y-t-d | 2.0 | 1.6 | 3.8 | 3.1 | 4.7 | 5.4 |

LOCAL NEWS:

Rising risk appetite is again tempting investors back into emerging markets and, in particular, higher yielding currencies.

The rand and the bond market both appear to have been clear beneficiaries of the Rand, while the mood persists both can be expected move higher.

LOCAL INDICES:

It has been a remarkable start to the year for emerging markets, with the MSCI index rising by 9.1%. The JSE has also benefited with a gain of 5.4% but has been relatively restrained when compared with Brazil (9.8%) and Hong Kong (9.1%). It did however move steadily forward to set a series of record highs.

Resource and Financial have led the way, with Banks again finding friends, while many Industrial shares (in particular Retailers) apparently becoming subject to profit-taking. This may be a change in trend, which could require vigilance in coming weeks?

| | ALSI | Min. | Fin | Indi25 |
|----------|-------------|-------------|------------|---------------|
| | % | % | % | % |
| 1 week | 2.4 | 2.3 | 3.1 | 2.1 |
| 1 month | 6.0 | 6.8 | 8.1 | 4.0 |
| 3 months | 9.3 | 10.2 | 11.8 | 5.8 |
| 6 months | 5.1 | 1.0 | 9.7 | 4.9 |
| 1 year | 5.9 | -4.2 | 9.8 | 13.2 |
| Ytd | 2.4 | 2.3 | 3.1 | 2.1 |

BRANTAM MONTH END VALUES AS AT 25th January 2012

| | 10 YEARS | 7 YEARS | 5 YEARS | 3 YEARS | 1 YEAR | 6 Months | 3 months | Y.T.D. |
|---------------------|-----------------|----------------|----------------|----------------|---------------|-----------------|-----------------|---------------|
| Classic Port | 12.17% | 10.90% | 8.36% | 7.59% | 6.35% | 4.55% | 2.09% | 0.71% |
| Cabernet | 12.38% | 11.28% | 7.22% | 8.60% | 6.71% | 4.91% | 2.73% | 1.39% |
| Chardonnay | 13.76% | 11.95% | 7.16% | 11.35% | 6.60% | 4.58% | 3.84% | 3.00% |
| Shiraz | 14.17% | 12.89% | 6.21% | 14.05% | 6.94% | 5.30% | 5.12% | 3.72% |
| Champagne | 15.59% | 11.83% | 4.59% | 14.28% | 5.22% | 5.39% | 6.53% | 4.90% |
| Claret | 2.79% | 8.92% | 5.12% | 6.74% | 13.67% | 13.21% | 10.60% | 10.19% |
| Merlot | N/A | 3.82% | 0.85% | 11.74% | -9.96% | -12.13% | -1.14% | 3.55% |
| | | | | | | | | |
| JSE ALSI40 | 11.59% | 14.96% | 5.58% | 18.04% | 5.13% | 5.60% | 6.18% | 6.91% |
| JSE-MIDCAP | 18.45% | 15.90% | 7.35% | 20.82% | 7.09% | 6.26% | 7.42% | 4.28% |

COMMENT: What a difference a few days can make on returns, and once again, I stress that one must be very careful when looking at the returns. We are now starting read the 3 year numbers from the bottom of the 2008/2009 crash, and they are looking very attractive. Thus YOUR returns are all dependent on just when you got into the markets. Last week was a bit of a bonanza, but looking a bit weaker again now (profit taking).

WHAT ARE BRANTAM DOING?

The process is still ongoing, so no changes have been made as yet.

TECHINICAL FACTS (EDUCATION?)

WHAT IS INFLATION AND HOW WILL IT AFFECT US?

Inflation is a word all adults are familiar with. Everyone has a vivid recollection of things being cheaper in the days of yore. Children on the other hand seem to lack this knowledge - not only are they too young, they don't pay for their own stuff... they think Granddad's stories about prices in his youth are somewhat fanciful.

What people tend to forget is that while prices were lower, so were incomes so in a way it wasn't really cheaper - that is precisely what inflation is, the rate of change in the prices of goods and services in the economy.

In South Africa, we measure inflation by looking at the changes in prices in a basket of goods and by creating a weighted average we measure inflation. The main categories and weights are as follows:

| | |
|----------------------------------|-------|
| Housing and utilities | 22.6% |
| Transport | 18.8% |
| Food and non-alcoholic beverages | 15.7% |
| Miscellaneous goods and services | 13.6% |
| Household contents and services | 5.9% |
| Alcoholic beverages and tobacco | 5.6% |
| Recreation and culture | 4.2% |
| Clothing and footwear | 4.1% |
| Communication | 3.2% |
| Restaurants and hotels | 2.8% |
| Education | 2.2% |
| Health | 1.3% |

Now there are two very obvious problems with this.

1. People do not all spend the same, in fact spending patterns vary wildly by age, income, sex and a range of other factors.
2. Spending patterns change over time. This means we have to reassess the basket every couple of years - a process that often accused of being used to manage or obscure high inflation numbers.

But inflation is not all bad - it helps countries, corporations and individuals to pay off debt along with some other positive effects, so long as it remains within reasonable levels. So a point to ponder here is that when one is heavily indebted, inflation can come to the rescue! Perhaps in the debt-ridden world that may well end up a partial solution to some countries?

Where are we in all of this? The next MPC meeting will tell that story. The problem that you and I face (other than the rising price of your super market trolley) is that if inflation starts to rise, the powers that be could well start to hike interest rates to combat that. This assists our pensioners as they do get higher returns, but the folk that are sitting with debt (and there is a fair amount of that around after Christmas) will feel the pinch. So a bit of a catch 22. The forecast is that we could well see this happening, as inflation is edging higher as we speak.

THE LIGHTER SIDE OF LIFE - The Washington Post has published the winning submissions to its yearly contest, in which readers are asked to supply alternate meanings for common words.

1. **Coffee**, n. The person upon whom one coughs.
2. **Flabbergasted**, adj. Appalled by discovering how much weight one has gained.
3. **Abdicate**, v. To give up all hope of ever having a flat stomach.
4. **esplanade**, v. To attempt an explanation while drunk.
5. **Willy-nilly**, adj. Impotent.
6. **Negligent**, adj. Absentmindedly answering the door when wearing only a nightgown.
7. **Lymph**, v. To walk with a lisp.
8. **Gargoyle**, n. Olive-flavored mouthwash.
9. **Flatulence**, n. Emergency vehicle that picks up someone who has been run over by a steamroller.
10. **Balderdash**, n. A rapidly receding hairline.

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