

THE BRANTAM "UPDATE"

69

26th October 2011

QUOTE OF THE WEEK

One evening an old Cherokee told his grandson about a battle that goes on inside people.

He said, "My son, the battle is between two wolves inside us all. One is Evil - It is **anger, envy, jealousy, sorrow, regret, greed, arrogance, self-pity, guilt, resentment, inferiority, lies, false pride, superiority, and ego**"

"The other is Good - It is joy, peace, love, hope, serenity, humility, kindness, benevolence, empathy, generosity, truth, compassion and faith."

The grandson thought about it for a minute and then asked his grandfather: "Which wolf wins?"

The old Cherokee replied, "The one you feed."

Unknown (but pertinent!!)

THE WORLD TODAY

The danger that comes from sitting on fences (and feeding greed, envy, jealousy etc, not so Julius?) is not so much that you can fall off, it's that once you are off, it's very hard to get back on again. This is so aptly illustrated by Humpty Dumpty, who, once he had fallen off the wall, couldn't be put back together again, never mind getting back on!

Potential US Presidential candidates tend to find the same thing – they sit on the fence on as many issues as possible, but eventually they are forced to take a stand on issues such as gay marriage, abortion, gun rights and other equally important national issues, like foreign policy or job creation programs. Once they take a stand, the media and public scrutiny is such that they never can get back on the fence, and there is no going back.

Of course, if there are any skeletons in the closet, once they come out, they can't be put back in. Ask John Edwards or Elliot Spitzer about that.

Why do we lead you up this garden path today? Well, it's because we are getting awfully close to the time where policymakers around the world are going to have to commit to being either fence-sitter for a while longer or come up with a view – one way or another to finally resolve the issues bedeviling the world economy. If they fail, then we believe that, like Humpty Dumpty, they will fall off the wall, and badly. It will not be pretty!

GLOBAL OUTLOOK:

Skittish investors withdrew **\$9.9bn** from commodities last month, the largest outflow in years, amid growing concerns about the European debt crisis and China's growth path. The estimate of outflows, released by Barclays Capital on Friday, revealed that even institutions with long-term allocation targets were unnerved. The bulk of the net outflow in September, \$9.5bn, was from index swaps purchased by pension funds and insurance companies.

Trading was upbeat but twitchy ahead of the European summit this weekend to discuss a support plan for the region. Better than expected US economic data of late and a generally well-received US earnings season is encouraging bullish strategies, with the brave also prepared to bet on a positive outcome when details of any Euro-package are mooted to be unveiled later today.

Investors reckon a support mechanism to stave off Eurozone sovereign debt contagion will be

delivered within the next several days.

Despite the broadly bullish mood, investors will be aware that any negative news, chatter or speculation over the progress being made by the eurozone to contain the region's sovereign debt crisis could see sentiment turn on a dime. This has been a stark feature of recent sessions, with assets vacillating in response to reports that point to progress or disagreement.

	New York SP500	London FT100	Eurostoxx 50	Tokyo Nikkei	Hong Kong Hangseng
1 week	1.10%	0.40%	-0.70%	-0.80%	-2.60%
1 month	6.10%	3.80%	11.40%	-0.70%	-4.20%
3 months	-7.90%	-7.00%	-15.40%	-13.30%	-18.00%
6 months	-7.40%	-8.80%	-20.40%	-10.40%	-24.60%
I year	4.30%	-5.10%	-18.30%	-6.70%	-21.80%
Ytd	-1.60%	-7.00%	-17.70%	-15.20%	-21.70%

LOCAL OUTLOOK:

The Rand is once again testing support around the 8.00/dollar level, but went stronger again yesterday. While South Africa is not even in the same league as Turkey when it comes to strange central bank actions, intervention by the SARB in the local unit should come as a surprise, given the economic backdrop.

Range on the Rand appears to be in the 7.75 - 8.50 on the wide with the 8.10 - 8.20 zone key. In the short term risks seem more pronounced to the topside, and only good news out of Europe opens a re-test of 7.50 once more.

The JSE continues to track higher in tandem with global markets but, despite the rand maintaining its weaker stance, mining shares are still battling to make up ground lost earlier this year. Heavyweight industrial shares continue to progress well, despite warning signs on the local economy. Results from retailers, while issued with cautions for the future, still indicate strength of consumer buying, which does not seem to fit well with press comments.

With regards to the MPC, it is more than likely that despite the media's tendency to take certain comments from MPC members slightly out of context, authorities will remain hamstrung by ongoing softness in the Rand but will also likely be dictated to in terms of what happens in Europe. With Brazil lowering rates further an interest rate cut in Europe could be seen as a sign for lower rates on the local front also in acknowledgement that the global growth outlook remains dire.

Selected JSE Indices

	ALSI	Min.	Fin	Indi25
1 week	1.00%	0.00%	0.90%	2.20%
1 month	0.40%	-2.00%	0.80%	2.30%
3 months	-2.10%	-6.00%	-1.30%	1.00%
6 months	-3.70%	-13.20%	-0.40%	4.30%
I year	2.30%	-3.00%	-1.50%	9.10%
Ytd	-2.10%	-10.70%	-0.80%	6.20%

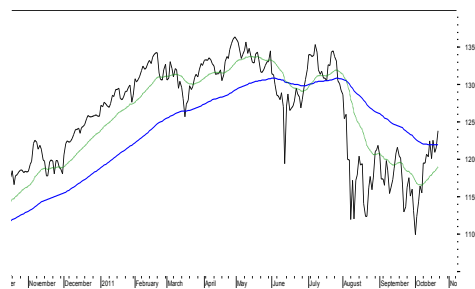
BRANTAM MONTH END VALUES AS AT 26th October 2011

	10 YEARS	7 YEARS	5 YEARS	3 YEARS	1 YEAR	6 Months	3 months	1 month	Y.T.D.
Classic Port	12.60%	11.87%	8.83%	8.03%	5.25%	3.30%	2.41%	1.47%	5.08%
Cabernet	13.39%	12.13%	7.84%	8.73%	5.12%	3.09%	2.12%	2.22%	5.61%
Chardonnay	14.56%	12.71%	7.66%	10.88%	5.82%	1.79%	0.71%	3.10%	4.13%
Shiraz	15.37%	13.71%	7.16%	12.70%	5.64%	1.10%	0.18%	3.37%	3.07%
Champagne	16.21%	12.87%	4.68%	10.32%	3.03%	-0.41%	-1.07%	4.89%	-0.03%
Claret	3.43%	7.51%	2.69%	3.54%	4.23%	1.37%	2.36%	5.38%	10.27%
Merlot	N/A	4.56%	1.97%	11.81%	-8.95%	-11.11%	-11.11%	0.00%	-7.97%
JSE ALSI40	13.20%	14.89%	6.14%	16.36%	6.63%	-0.43%	-0.55%	3.16%	-1.06%
JSE-MIDCAP	19.24%	16.86%	8.94%	21.78%	0.62%	1.33%	-1.08%	2.03%	-3.25%

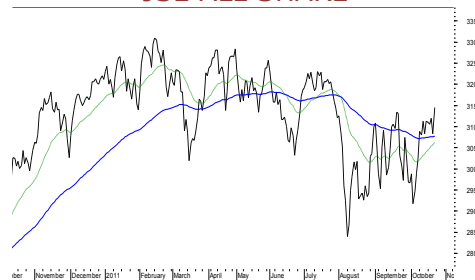
COMMENT: Firstly, just a wee word of caution: In times of trouble, there are always those that will prey on your insecurity, making wild promises of future returns. As many investors are vulnerable at present, and eager for some positive news, this appears to be attractive.

I cannot stress enough just how cautious one needs to be under present conditions. Now I am not saying that there are not managers out there that can squeeze out returns that look good, but on the balance of probability, please do not be too surprised if we see more volatility until the whole European debt crisis is sorted out. You only need to look at the following graph of the USA's Dow Jones VS our own AllShare Index to see what I mean regarding volatility – one could get sea sick on a roller coaster such as this!

DOW JONES INDUSTRIAL INDEX



JSE ALL SHARE



Regarding the funds, a nice little recovery in the lower risk funds, i.e. Classic Port through to Chardonnay, however, the higher risk equity funds are still taking pain.

WHAT ARE BRANTAM DOING?

Minor changes made to Champagne again to keep it in line with market thinking.

EDUCATION

TRUSTS: HOW THEY CAN FAIL YOU

A word of caution – trusts have been used over the years to achieve many things, mainly the pegging of estate duty, and being a “voice from the grave”. However, it must be noted that when the assets form part of the planners personal assets, things can go wrong. Typically, the estate of the planner will only realise that things are not that kosher when it is attacked by:

- A creditor
- A disgruntled spouse (and there are many of them around!!)
- SARS in the case of income tax or estate duty

In *Badenhorst VS Badenhorst*, a case dealing with divorce, it was clearly stated that: “the mere fact that assets were vested in the trustees and did not form part of the respondent’s estate does not per se exclude the assets from consideration when determining what must be taken into account when making a redistribution order”

Even though the trust is a valid trust, and not a sham as often described, the assets can still be regarded as part of the planner’s personal estate where there is evidence that:

- The planner controlled all the assets;
- That if it wasn’t for the trust, the assets would have been acquired in the planner’s own name.

HOW TO DETERMINE CONTROL:

The main consideration in determining control are the provisions of the trust deed and how the affairs are conducted. When looking at how the trust is conducted, all the points below should point to a clear distinction between the investor’s assets and those of the trust:

- All trustee meetings are to be formal meetings with the required number of trustees present (a husband and wife meeting in bed at night does not qualify!);
- Consideration is to be given to how the trustee/s decisions are taken;
- Consideration to be given to how resolutions are passed;
- A record of decisions and resolutions must be kept;
- Decisions are to be made by the required number of trustees, as per the trust deed;
- The trust deed must authorize the type of decisions being taken – empowering trustees to invest in certain types of assets or to take interest free loans;

Trustees are required to do more than keep a record of disbursements. They are required to keep a record of to whom disbursements were made and receipts of moneys paid out.

If a planner transfers assets to a trust but continues to deal with these assets “as before”, there can be no separation of ownership! The trust will then offer little protection.

Experience has shown that some so-called “independent” trustees have never bothered to read the trust deed. They merely sign anything placed before them, but are still happy to bill the client for acting in that capacity.

On the lighter side of life: Diplomacy – we can learn from this!

A man in London walked into the produce section of his local Tesco's supermarket and asked to buy half a head of lettuce. The boy working in that department told him that they only sold whole heads of lettuce.

The man was insistent that the boy ask the manager about the matter.

Walking into the back room, the boy said to the manager, "Some old fool wants to buy a half a head of lettuce." As he finished his sentence, he turned around to find that the man was standing right behind him, so he quickly added, "and this gentleman kindly offered to buy the other half."

The manager approved the deal and the man went on his way.

Later, the manager said to the boy, "I was impressed with the way you got yourself out of that situation earlier, we like people who can think on their feet here - where are you from son?"

"New Zealand, sir," the boy replied.

"Why did you leave New Zealand?" the manager asked.

The boy said, "Sir, there's nothing but prostitutes and rugby players there."

"Is that right?" replied the manager, "My wife is from New Zealand!!"

"Really?" replied the boy, "what position did she play in?"

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