The Investor

In our 26th year of free service to the South African investing public!

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Understanding compound interest and why time is vital

To understand why a rate of compounding is so vital to the exercise of growing your personal wealth, you need to get your mind around what actually happens when money is subject to compound interest.

I will start by offering you below a graph of what has happened to the value of the average Blue Chip share on the JSE over the past 26 years:

Notice the upward curvature that occurs! It is typical of every long-term compound interest graph and it explains why so many investors become deterred in the early stages. Notice that for the first 16 years the graph appears nearly horizontal while the last few years it is nearly vertical.

So let us for a moment consider the numbers. In the panel overleaf I have calculated what happens when 100 is compounded at ten percent. Note in the column on the right how the actual return increases exponentially year after year.

So, the increase between year 2 and 3 is a mere 0.1 whereas between years 18 and 19 it is 0.46

WHAT'S INSIDE

or 4.6 times greater. If you extended the calculation to 50 years the increase would be 88.2 times and after 100 years it would be 9412 times greater.

Furthermore, as I have explained previously both the time period and the rate of compounding are critical, so instead of compounding at just 10 percent, let us in my second table run the calculation using the 28 percent rate of growth of South African Blue Chip shares with dividend re-investment:

Year	Sum Invested	Interest @ 10%	Actual increase
1	100.00	10.00	
2	110.00	11.00	1.00
3	121.00	12.10	1.10
4	133.10	13.31	1.21
5	146.41	14.64	1.33
6	161.05	16.11	1.46
7	177.16	17.72	1.61
8	194.87	19.49	1.77
9	214.36	21.44	1.95
10	235.79	23.58	2.14
11	259.37	25.94	2.36
12	285.31	28.53	2.59
13	313.84	31.38	2.85
14	345.23	34.52	3.14
15	379.75	37.97	3.45
16	417.72	41.77	3.80
17	459.50	45.95	4.18
18	505.45	50.54	4.59
19	555.99	55.60	5.05

Year	Sum Invested	Interest @ 28%	Actual increase
1	100.00	28.00	0.00
2	128.00	35.84	7.84
3	163.84	45.88	10.04
4	209.72	58.72	12.85
5	268.44	75.16	16.44
6	343.60	96.21	21.05
7	439.80	123.15	26.94
8	562.95	157.63	34.48
9	720.58	201.76	44.14
10	922.34	258.25	56.49
11	1180.59	330.57	72.31
12	1511.16	423.12	92.56
13	1934.28	541.60	118.47
14	2475.88	693.25	151.65
15	3169.13	887.36	194.11
16	4056.48	1135.81	248.46
17	5192.30	1453.84	318.03
18	6646.14	1860.92	407.08
19	8507.06	2381.98	521.06
20	10889.04	3048.93	666.95

Now we see that the actual increase between years 2 and 3 is 2.2 or 22 times greater than in our first example. Furthermore the increase between years 18 and 19 is 113.98 which is 51.8 times greater than between years 2 and 3. And, if you continued the exercise for 100 years, the difference between years 2 and 3 and years 99 to 100 is a massive 1 995-million.

The curvature that is evident in my first graph can be eliminated by plotting our number series on a logarithmic scale. That is a scale of measurement that uses the logarithm of a physical quantity instead of the quantity itself. Thus in the example below I have so plotted the ShareFinder Blue Chip Index over the past decade during which, up until the time of writing, it increased by 25.62 percent annually and paid an average dividend of 3.4 percent giving investors an amazing 29.02 percent Total Return. Here the red trend line traces out that compounding rate and offers investors a really useful buying guide. Simply stated, if the index is above the red line the market is expensive and below it cheap.

More about this next issue!.

ShareFinder Mobile for R1 400

Its very affordable, quick to use and outstandingly reliable so it is no surprise that the new ShareFinder mobile has become one of the hottest sellers in South Africa because it takes all the guesswork and decision-making out of share market investment.

Designed as an ultra-easy-to-use share market investment system for people on the move, the ShareFinder Mobile combines many of the portfolio-building and monitoring features of the ShareFinder Professional at an extremely affordable price tag. There are:

☻ No daily data downloads to worry about
☻ No bills to pay for expensive data services
☻ No complicated charts to try and understand
☻ A portfolio-builder that tailors 10-share portfolios to your personal needs
☻ An alert system that tells you when to buy and sell

Conceived with the busy executive in mind; for the kind of person whose only spare time is waiting in airport lounges, the ShareFinder Mobile was designed to operate on a pocket computer. It will, however, function equally well on a standard desk-top computer. With just two or three clicks of a mouse it will tailor a blue chip share portfolio to your personal risk profile, generating portfolios which under practical testing throughout the 2003-2007 bull market have dramatically outstripped the performance of the top-performing unit trusts.

Unlike competing computer programmes which carry extremely costly price tags—sometimes as much as R25 000 — and which are linked to internet data services costing over R2 000 a year, the ShareFinder Mobile is offered as a subscription service costing just **R1 400 a year** and there are no additional costs whatsoever.

It offers you:

1) The tools to help you draw up an investment plan tailored to your personal needs.
2) A systematic portfolio builder that enables you to scientifically minimise risk and maximise capital and income growth rates.
3) A weekly overview of leading world markets accompanied by a graphic commentary of changing trends.
4) A personal portfolio analyser which will keep watch over your investments and suggest periodic changes.
5) An alert system which will signal you by e-mail if emergency action is called for. Shortly we hope to add a facility that will also send you a cell phone SMS so you will be alerted to the need for action wherever you are during the day.

The ShareFinder Mobile system operates from the RCIS servers where your portfolio is subjected to a daily automated analysis. At the end of each week Mobile subscribers receive an e-mailed update that will automatically update the programme.

Having been rigorously beta tested for many months during its final development stages, the ShareFinder Mobile is now ready for you. During the latest 2003-2007 bull market, its top-performing portfolio achieved a compound annual average growth rate of 87.4% . Simultaneously its income-growth portfolio, where dividend growth is more important than share price growth, also significantly outperformed both the Satrix 40 and the unit trust leading Sage Resources fund.

To order it, log onto www.rcis.co.za and go to the order form on the left-hand menu. Next scroll down through our list of products and services and click on the Mobile.

** If you want to use this software to its maximum advantage, it is highly recommended that you read Richard Cluver's books "The Philosophy of Wealth" ISBN No: 0958 3067 61 and "The Simple Secrets of Stock Exchange Success" ISBN No 9780 95830 6775 which can also be ordered from Richard Cluver Investment Services at a cost of R130 including postage.*

Readers questions

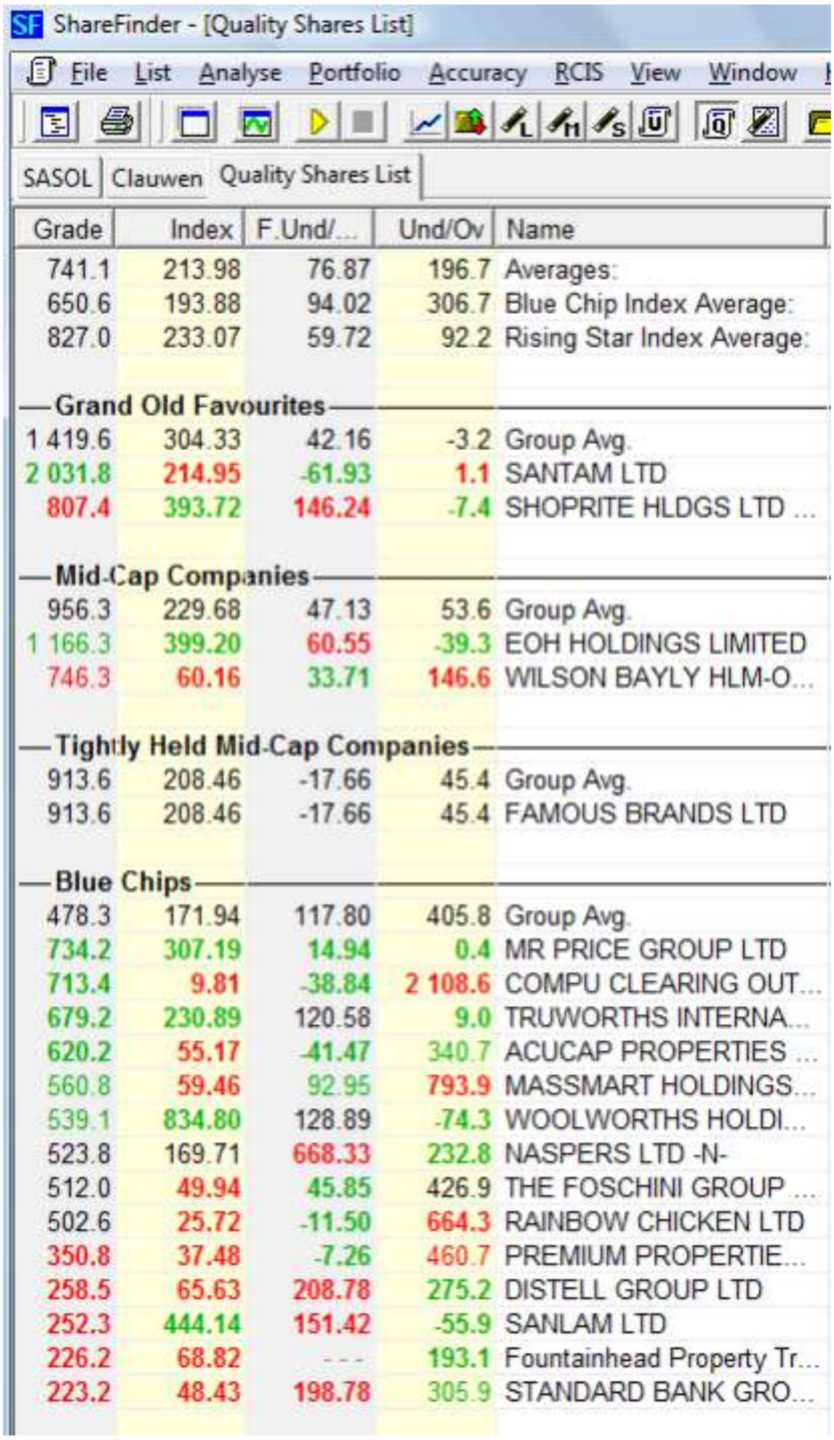
Taking a look at the Quality List

By Richard Cluver

We began developing the ShareFinder computer programme in 1987 and in the past 25 years have completely re-written it three times.

More importantly, as my research led the programme to ever-greater rates of predictive accuracy, we began running into problems because some users had become wedded to our earlier, less-effective, analytical tools. A classic example of this was my very early creation of the Index of Value within the ShareFinder Quality List which was created from the measurement of compound annual average dividend and earnings growth rates. By comparing this index with the index average of all Blue Chip shares and correlating the result with a comparison between the dividend yield of each share and the overall average yield, early ShareFinder users were able to see which shares were underpriced.

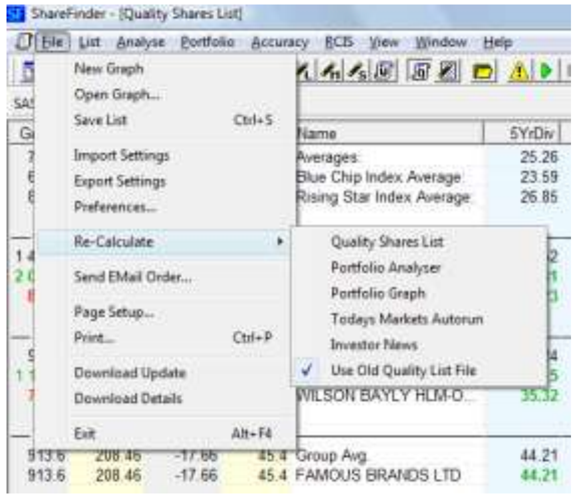
In recent years, however, we found that by incorporating a whole slew of additional balance sheet statistics we could create a far more accurate measure which, in order to distinguish it, we named the Share Grade. But when we sought to drop the old Index and its derived Under/Overprice measure, we ran into complaints from programme-users. Reluctantly then, we agreed to retain both with the inevitable result that more recent programme-users have been confused about which measure to employ.



Grade	Index	F.Und/...	Und/Ov	Name
741.1	213.98	76.87	196.7	Averages:
650.6	193.88	94.02	306.7	Blue Chip Index Average:
827.0	233.07	59.72	92.2	Rising Star Index Average:
Grand Old Favourites				
1 419.6	304.33	42.16	-3.2	Group Avg.
2 031.8	214.95	-61.93	1.1	SANTAM LTD
807.4	393.72	146.24	-7.4	SHOPRITE HLDGS LTD ...
Mid-Cap Companies				
956.3	229.68	47.13	53.6	Group Avg.
1 166.3	399.20	60.55	-39.3	EOH HOLDINGS LIMITED
746.3	60.16	33.71	146.6	WILSON BAYLY HLM-O...
Tightly Held Mid-Cap Companies				
913.6	208.46	-17.66	45.4	Group Avg.
913.6	208.46	-17.66	45.4	FAMOUS BRANDS LTD
Blue Chips				
478.3	171.94	117.80	405.8	Group Avg.
734.2	307.19	14.94	0.4	MR PRICE GROUP LTD
713.4	9.81	-38.84	2 108.6	COMPU CLEARING OUT...
679.2	230.89	120.58	9.0	TRUWORTHS INTERNA...
620.2	55.17	-41.47	340.7	ACUCAP PROPERTIES ...
560.8	59.46	92.95	793.9	MASSMART HOLDINGS...
539.1	834.80	128.89	-74.3	WOOLWORTHS HOLDI...
523.8	169.71	668.33	232.8	NASPERS LTD -N-
512.0	49.94	45.85	426.9	THE FOSCHINI GROUP ...
502.6	25.72	-11.50	664.3	RAINBOW CHICKEN LTD
350.8	37.48	-7.26	460.7	PREMIUM PROPERTIE...
258.5	65.63	208.78	275.2	DISTELL GROUP LTD
252.3	444.14	151.42	-55.9	SANLAM LTD
226.2	68.82	- - -	193.1	Fountainhead Property Tr...
223.2	48.43	198.78	305.9	STANDARD BANK GRO...

More to the point as is illustrated by the display on the right in which shares have been sorted in descending order of Grade, it is clear that quite different valuation results were achieved. Thus, Fundamentally Underpriced shares were sometimes recorded as Underpriced by the old measure and Overpriced by the new as illustrated by the example of Shoprit at the top of the display which in terms of the old measure is underpriced by 7.4 while the new measure overprices it by 146.24.

It is, in other words, time to excise the old Index and the old Underpriced/Overpriced calculation, but before we do I would like to hear from readers and programme-users to find out whether there are still people out there who cannot live without the old Index of Value?



We encountered a similar situation when, recently, we decided to modify our previously firm rule that all companies which declared a dividend lower than that of the previous year would automatically be relegated to the “Fallen From Grace” list. We had observed for some time that the market was no longer so unforgiving, particularly in cases where only the dividend had been punished while earnings remained at least equal to those of the previous year.

The problem in this case was that our first release of this new calculation towards the end of last year included a calculation anomaly to do with the fact that no change meant a zero percent change and computers have difficulty deciding whether a nought has a negative or a positive value. Thus the first revised Quality List saw some companies of dubious investment merit being bumped up into the rankings of Investment Grade shares. We corrected the problem, but several programme-users asked whether they could retain the old calculation. Thus the programme now includes the facility to switch between the two methods of generating the quality list.

In the example on the right, I illustrate how it is possible to switch between the two different list calculations: left-click on the “File” heading, go down to “Re-Calculate” and place a tick in the “Use Old Quality List File.”

Offshore Investment Option

My announcement in the last issue of **The Investor** that I was considering offering an offshore portfolio management service if enough readers were interested, has produced a very positive response from a large number of readers….enough to take investigation of the idea to the next level.

In saying this I am acutely aware that there have been numerous scams operated down the years set up for the purpose of fleecing unwary investors. I have accordingly had a dialogue with stockbrokers operating in the Channel Islands and have concluded that the safest vehicle for everyone would be to create a Guernsey-based company which would issue shares each with a par value of one English pound which would be issued to investors in proportion to the sums each invests. Other that the normal set-up costs of such a company; some R25 000, the annual costs of an audit and fees for a resident director (a Channel Islands requirement seemingly) all money invested in the company would be used to open an account with a Guernsey stockbroker wherein it would be protected by the normal brokerage fidelity rules. The portfolio would be regularly distributed to shareholders for their scrutiny and be audited at least twice a year.

The majority of investors who have made contact about this idea are at one, in that they would want the investment portfolio to concentrate on capital growth rather than income production for the foreseeable future.

A few expressed concern that I proposed charging a one percent management fee on the invested capital seeing that this approach offers no incentive to achieve portfolio performance. The obvious answer is that I would be a significant investor myself and so would have a vested interest in achieving such performance

By Invitation

Dr Cees Bruggemans
Chief Economist First National Bank

The SARB recently suggested a broadening inflationary pressure, possibly increasingly demand-led. This comes as a bit of a surprise.

CPI inflation bottomed 18 months ago near 3%, and has ever since been rising, headline faster than core, led by aggressive increases in food, electricity and petrol. Headline CPI inflation reached 6.3% in January 2012 even as core CPI (excluding food and energy) reached 4.3%. Peaking is probably yet to occur for both, headline near 6.5% and core possibly near 5.5% before both subside.

February brought good news, with headline unexpectedly falling back to 6.1% as food inflation decelerated (from 10.7% to 10.1% y/y) while core stayed unchanged at 4.3%, making the imminent peaks possibly lower and earlier.

There is nothing new or surprising about reaching these levels. For the past twelve months nothing else has been projected (except in the event of global shock scenarios), though minimally differing about precise timing and exact peak levels. Now that core inflation has reached 4.3%, very much at the sedate pace foreseen for months, to start talking about "broadening" of inflation pressures is surprising. There are no new forces in evidence. Wage settlements have been glacially drifting lower towards 8%. The Rand is no longer so glaringly overvalued (at 6.60:$) but much more comfortably valued at 7.60:$, with little reason to decry this as a new source of generalised inflation.

BER business opinion surveys do show evidence of price pressure in the trades and manufacturing, but this is reflected in core CPI and is not out of the ordinary in an economy nearly three years into recovery, yet with substantial resource slack remaining. BER inflation expectation surveys among business, unions and financial analysts remain in predicable ranges, with analysts target-bound and the others slightly to the upside thereof, but all fairly stable for the past year. If anything, it is remarkable how easily the economy has absorbed 30% petrol price, 25% electricity tariff, 11% food price and 8% average wage increases while keeping core inflation near mid-target and expressed expectations fairly stable near target as these major structural price shifts are absorbed.

Interest rates are not at the right level when looking at inflation trends. Present and projected inflation at 5.5% to 6.5% warrant a prime rate closer to 12% if the economy were at full potential (with zero output gap). This compares to a current prime rate of 9%, indicative by how much interest rates are bound to rise AT A MINIMUM once the economy reaches full potential if inflation were remain over 5% medium term. But there is a reason why the prime interest rate sits at 9% and not at 12%. It is our modestly performing economy and a still risky global environment.

Economic performance these past three years has been driven by household income growth as much as important investment and supply side constraints. Household income growth has been supported by booming global commodity prices, government wages and borrowing largesse, aggressive union demands and professional scarcity premiums. But public infrastructure spending stagnated due to manpower constraints, while private fixed investment was subdued due to lingering slack, inadequate demand and global uncertainties.

Meanwhile electricity, credit, regulatory interference and the Rand have all constrained output (in heavy industry, building trades, mining and manufacturing). Recently released 2011 data has shown strength of spending in consumption and fixed investment, with domestic real demand gaining just over 4%.But will these locomotives keep rolling?

Fixed investment growth may continue at over 4%, with the private sector seeking more new technology and labour-saving, and public infrastructure investment may maintain its pace, between them contributing to nearly 2% job growth (see Quarterly Employment Statistics from employers), but overall real household income growth in 2012 may be less boisterous.

Income from “property” may keep growing lively, but booming commodity prices seem to be tapering off, going by precious metals and Aussie experiences. Government is imposing some austerity (only 7% public wage increases and 8.8% nominal spending growth), unions aren’t visibly winning bigger wage gains (these are drifting lower) while scarcity premiums may shrink.

With inflation about 1.5% higher in 2012 than in 2011, but nominal income growth about 0.5% slower, and the Finance Minister taking bigger tax bites, real income gains this year may be slower than last year even if “property” income outperforms. After allowing for an uninspiring net export performance on the back of modest global growth (and relative lack of trade competitiveness), the economy seems unable to outperform 3% GDP growth, with a sizeable output gap remaining.

This supports real interest rates at the level where they are, and likely to remain through 2013 if the government’s newly bold infrastructure ambitions take (much) time to get going. So by all means worry about where interest rates should be, given a 5%-6% inflation rate medium-term, but do not stop worrying about an underperforming economy and lingering output gap warranting support. Also, don’t lose track of threatening global risks potentially requiring ‘appropriate’ policy action.

Oiling the Way for Obama!

Recent times have identified oil as a major risk to global growth if Middle East events were to get out of hand, pushing oil prices substantially higher and eroding real consumer incomes, a replay of 2011 (when prices rose $30 during the Arab Spring and Libyan Interlude) but only much bigger (fears of $30 to $100 spikes).

Seeing that the global oil demand/supply balance is in any case very tight today, the slightest disturbances can intensify the upside drift in oil prices. It is not, however, as if risk only favours higher oil prices. For counteractions are underway aimed at easing the global demand/supply balance, hopefully allowing oil prices to drift lower and taking pressure off global consumers everywhere.The focus is on Iran and the US, with politics apparently central to what is underway. Europe and the US are steadily intensifying their isolation of Iran, aiming her to change the nature of her nuclear ambitions. To this end pressure is being exerted through trade sanctions, using the global banking system to gain leverage over Iranian oil trading.

As Iranian oil exports fall off and rumours of war intensify, however, it tends to worsen the global demand/supply balance, putting upward pressure on oil prices. Not only does this compensate Iran for lost export volumes, but it puts up petrol prices around the world, which especially in the US is inconveniencing President Obama in his re-election attempt.

The idea of trade sanctions is that Iran changes tack, reducing the risk of unilateral actions in the region while President Obama would like an improving US economy to improve his chances of re-election. To this end a number of machinations appear to have been set in motion to ensure exactly those outcomes. It isn't publicly known what exactly transpired between the US and Israel during recent high level talks, but the gist appears to be to give sanctions and diplomacy a chance, with absolutely nothing allowed to jeopardise the Obama re-election effort during the critical months leading up to November.

Having presumably neutralised the critical warlike angle, it was time to neutralise the economic fallout from Iranian sanctions. To this end both the UK and Persian Gulf oil producers appear to have been pressed into service, with the aim of influencing oil market realities and perceptions during the critical months leading up to November.

The UK turned out to be game to perhaps in conjunction with the US release some strategic oil reserves during the coming summer. Though the IEA doesn't now see the need for such action, and prefers to keep these global strategic stocks for genuine emergencies, one can see without trying too hard that petrol topping $4 per gallon in the run up to the November US Presidential election does constitute an emergency of some sort, at least to Mr Obama.

What's in it for Mr Cameron isn't quite clear, aside of the limitless gratitude of a two-term Mr Obama, which presumably could come in handy as a strategic reserve in its own right some time, at least to the UK. Anyway, the two gents appeared in agreement last week about perhaps releasing strategic oil reserves over the summer and already telling the world now, so that the oil market can presumably incorporate this in its calculations of demand and supply ("down, boys, down!!").

But it hasn't stopped there. All of a sudden Saudi has become proactive on the grand scale, working overtime to get old oilfields back on stream to boost its potential production (and global reserve buffer) while overnight chartering 11 supper tankers capable of moving some 22 million barrels of crude out of harms way and nearer global customers in the West and East by about midyear and all this exciting information also already now being offered to watching markets. But apparently it doesn't stop even there. For there is a Gulf Co-operating Council where all the great and good in the Persian Gulf Game are represented. Most of them are apparently also considering upping their game, further boosting the apparent oil supply flows this year and increasing the global oil buffer.

Is this the Arab contribution to ensure Iranian sanctions will be successful without penalising Mr Obama? In other words, it is in the region's long term interest to get Iran to change its way short of a possibly disastrous war going wrong, and to this end oil prices need not be so high as where they are today ($125), with $100 a much more attractive proposition, fine for the major producers in terms of their fiscal needs, productive viz-a-viz Iran and assisting in getting US petrol prices closer to $3 rather $4 per gallon (and taking the heat off the US economy and Mr Obama)?

It all looks a very concerted effort to get oil prices to behave in a prescribed manner these next seven months, which just happens to coincide with a slight dip in Chinese growth, and this also making it easier to shape oil price expectations? It just might all be coincidence, but there seems to be a Great Game underway which, even if it doesn't quite succeed in convincing Iran to change direction, at least these next seven months keeps war at bay, the nose tightening around Iran and US petrol prices subsiding rather than ratcheting up, thereby also giving US growth and Mr Obama a chance in 2012.

And if all this doesn't work to do the magic on Iran in pre-November 2012, one shudders to think what wink-wink transpired about Xmas or 2013. Anyway, instead of being on our way to $130-$180 shortly, is oil actually going to ease off for a couple of months nearer $100-$110, a copycat slide of what transpired in 2011 once the 1Q2011 heat went out of the Arab Spring?

If oil drops 10%-20% these next few months, do allow that global inflation will be even less threatening and growth turning out to have upside potential, certainly in the West, but also the East. It might boost global financial markets yet more as risk on continues to intensify.

That would presumably be friendly for the Rand in terms of incoming capital flows.

Falling oil price and firmer Rand would reverse some of the terrible petrol price increases of recent months. Not only Mr Obama would benefit, but Mr Zuma could also, come December, though all this has hardly been engineered for his benefit, or ours, of course, for we don't figure on anyone's agenda.

But it would have been fun if we had. That, though, is reserved for superpowers with a sense of chess and carrying a genuine big stick.

One wonders how Iran sees all of this?

Stockbroker's views

by **Brian Kantor**
Investec Securities

The CPI for February came in a little lower than expected with the headline inflation rate heading back to 6.1%, trending closer to (rather than beyond) the top end of the inflation target of 3%-6%. The prices of food actually declined in February by 0.6%, trimming year on year food inflation to a still very high 10.1%. A mixture of a stronger rand and lower global prices must finally have helped food consumers in February 2012.

Hopefully these trends will persist to take some of the pressure off household budgets. Food accounts for 14.27% of the consumption basket while actual and owners? occupied rents are given a bigger 15.7% weight. Owners? occupied rent, with a large 12.1% weight, had increased year on year by 4.1% in February. Had mortgage interest rates, rather than the implied rents home owners are presumed to pay themselves, been measured, this drain on household spending would have shown no increase at all over the year. With household debt servicing now running at about 7% of disposable incomes (down from the 12% of a few years ago), this interest cost of living has clearly declined to the advantage of other forms of household spending ? which is growing at a helpful real 5% per annum.

The other major cost of living increases have come from the price of electricity (up 17.3% on a year before) and the price of water (up 9.1%). Electricity tariffs are likely to rise at a slower rate in the year to come, provided the municipalities can restrain themselves. Petrol and diesel, with a weight of 3.93% in the basket, is bound to increase further in the months to come though hopefully, with the help of a firm rand and lower oil prices, will register a lower than the extraordinary 21.7% increase recorded in 2011-12, despite still higher taxes on petrol and diesel.

What have continued to help consumers are those items with high import content. The prices of vehicles and household appliances and furnishings are largely unchanged compared to a year before. Vehicle purchases are given a large weight of 11.25% in the consumer basket. It is anomalous that the cost of owning a home is not its price or the mortgage interest paid by the home owner, but an implicit non cash attribution of what the owner occupier is paying him or herself to live at home. The cost of a vehicle should similarly be calculated as an all in leasing cost equivalent that combines interest and depreciation as well as motor plans that are paid for up front. As with homes, it is the opportunity cost that matters though households are probably much more sensitive to their cash costs when determining their spending plans. In the fourth quarter of 2011 households directly accounted for nearly 60% of GDP. And much of what firms spend on their capacity is derived from these demands.

The upshot of all these price trends is that the trend in inflation has turned lower rather than higher. If it persists this will bring the inflation rate well under its upper target in 12 months. Hopefully the Reserve Bank will recognise a similar direction and restrain itself from any increase in interest rates until it can be quite sure that the economy is operating at much closer to its potential. A key consideration for the Monetary Policy Committee of the Reserve Bank is whether or not the faster pace of spending revealed in the fourth quarter is being maintained in this year. The Bank will be well advised to wait to see how the economy has responded to the negative impact of an essentially austere budget (with tax revenues planned to rise significantly faster than government spending).

USA Comment

By John Maldin

On March 25, 1957 in Rome, two representatives each from West Germany, Italy, the Netherlands, Belgium and Luxembourg sat around a large, fancy table, took out their large, fancy fountain pens and signed a rather large and fancy document that was rather grandly known as The Treaty of Rome. At a stroke the European Economic Community (or 'Common Market') was established (along with the European Atomic Energy Commission those Europeans do LOVE a commission), the purpose of which was to gradually eliminate trade barriers between member nations and introduce common policies for agriculture, transportation and economic relations between both the member states and those outside the Treaty.

In 2007, on the 50th anniversary of the signing of the treaty, one of the lawyers responsible for its drafting, Pierre Pescatore, told the BBC that all was not as it seemed that day: *"They signed a bundle of blank pages... The first title existed in four languages and also the protocol at the end; nobody looked at what was in between."*

A fitting start for what would eventually morph into the European Union as we know it today. The reason for the hastiness in getting an 8-inch high stack of papers signed by the dignitaries present? Fears that General de Gaulle could soon return to the French presidency and block the treaty.

And so it began. But the origins of the Treaty of Rome were founded in the Treaty of Paris which created the European Coal and Steel Community (ECSC) 6 years earlier, in April 1951, in an attempt to bind together a continent rent asunder by the horror of WWII. The architects of this political construct were a pair of Frenchmen, Robert Schuman (the French Foreign Minister) and Jean Monnet (a civil Servant), and their idea was to tie together the coal and steel industries of France and Germany under a High Authority that would allow other European countries to join should they wish to do so, thus reuniting the war-torn countries of Europe and forever banishing the chances of another conflict between them. Italy and the Benelux countries joined the negotiations and, on April 18 1951, the Treaty was signed.

The intervening 6 years between the signing of the Treaty of Paris and that of Rome, were a sign of what was to come in Europe as Commission after Commission, several Assemblies, a couple of Communities and a bunch of Committees were formed and countless Reports written to be presented at numerous Conferences in an attempt to further the idea of a united and peaceful Europe. This passage does a very nice job in outlining just how bureaucratic Europe was, even in its nascence:

(Wikipedia): The Spaak Report drawn up by the Spaak Committee provided the basis for further progress and was accepted at the Venice Conference where the decision was taken to organise

an Intergovernmental Conference. The report formed the cornerstone of the Intergovernmental Conference on the Common Market and Euratom at Val Duchesse in 1956.The outcome of the conference was that new communities would share the Common Assembly (now Parliamentary Assembly) with the ECSC, as it would with the Court of Justice. However they would not share the ECSC's Council of High Authority. The two new High Authorities would be called Commissions, this was due to a reduction in their powers. France was reluctant to agree to more supranational powers, and so the new Commissions would have only basic powers and important decisions would have to be approved by the Council

Colour me cynical if you must, but surely anybody reading this paragraph in 1955, would have had a fairly good idea which direction this project was headed? But I digress. The Treaty of Rome would form the foundation for what would later become the EU that we know and love 50+ years on in all its bureaucratic glory and amongst those original signatories as well as those that abstained are the clues as to just how important a part the idea of 'Europe' was and is to various countries.

Case in point: the Netherlands and the United Kingdom. The Dutch were signatories to the Treaties of Paris and Rome and to every major European Treaty since and are staunch supporters of a unified Europe as well as having a reputation for being amongst the more fiscally disciplined members of the EU. When Greece and, latterly, Spain prove to be a little recalcitrant when it comes to balancing the cheque book, Europeans shrug and express dissatisfaction but little surprise. When the Dutch announce they will be a little short in meeting their fiscal targets, you can bet your bottom euro that eyebrows will be raised.

A mere six months ago, in September of 2011, Dutch Prime Minister Mark Rutte and his Finance Minister, the delightfully-named Jan Kees de Jager, penned an opinion piece in the Financial Times that was entitled 'Expulsion From The Eurozone Has To Be The Final Penalty' in which they laid out their views on fiscal profligacy amongst the more prodigal (Southern) states in the union. Right from the outset, Rutte and de Jager were in no mood to take prisoners:

(FT): The Eurozone is in stormy waters. The turmoil on the financial markets shows no sign of abating. Tackling the debt crisis is complex and calls for several immediate measures. But amid our hectic day-to-day efforts to fight the crisis, we need to ask how we can guarantee a stable euro and prosperous Europe in the long term. What is to be done? Our answer is that we must anchor the agreements we have made more firmly and take tougher action to enforce them.

Tough talk indeed from two hitherto bit-part actor in the Merkozy/Shaueble/

Juncker Show. Clearly warming to the sudden glare of the spotlight, Rutte and de Jager took off their jackets, loosened their ties and rolled up their sleeves:*...but the main cause of the current problems is that some countries played fast and loose with the very rules designed to guarantee budgetary discipline. Other countries allowed that to happen, and this took place at a time when the financial markets were being rapidly integrated. The result is that acute financial problems can spread from one country to another at lightning speed.*

So what is to be done now? We must return to the anchors of the Eurozone. The rules are still valid, but all participants must abide by them. If the Eurozone is to survive in its present form as a stable currency union that supports the internal market and our prosperity, there needs to be radical break with the past.

Ah yes, but it's all very well proposing a 'return to the anchors of the Eurozone', but practicallyspeaking, what does that entail, we wondered?

Well, we weren't left wondering for long: *What we propose is twofold, and builds on the ideas already put forward by the French and German leaders. First, we call for independent supervision of compliance with the budgetary rules. Second, we believe that countries that systematically infringe the rules must gradually face tougher sanctions and be allowed less freedom in their budgetary policy.*

Independent supervision requires a commissioner for budgetary discipline. His or her powers should be at least comparable to those of the competition commissioner. The new commissioner should be given clear powers to set requirements for the budgetary policy of countries that run excessive deficits. The first step is to require the country concerned to make adjustments to its public finances.

If the results are insufficient, the commissioner can force a country to take measures to put its finances in order, for example by raising additional tax revenue. At this stage sanctions can also be imposed, such as reduced payments from the European Union Cohesion and Structural Funds, or higher contributions to the EU budget. The final stage will involve preventive supervision, and the budget will have to be approved by the commissioner before it can be presented to parliament. At this stage, the member state's voting rights can also be suspended.

Countries that do not want to submit to this regime can choose to leave the Eurozone. Whoever wants to be part of the eurozone must adhere to the agreements and cannot systematically ignore the rules. In the future, the ultimate sanction can be to force countries to leave the euro.

Bravo! Finally, amidst the back and forth and contradictory statements of the main players on the EU stage, some clear, concise and sensible steps proposed by one of Europe's mainstays.

But September was a LONG time ago and a matter of days after Spain's unilateral decision to abide by its own budget deficit target of 5.8% as opposed to the mandated 4.4% was announced (and a compromise quickly reached by EU finance ministers who took Senor Rajoy at his word that the 2013 target of 3% would still be met.....<blink>), rumblings began about the likelihood of the Dutch taking on the role of (unlikely) Euro Bad Boys:

(The Economist): It was a far cry from the bright autumn day in 2010 when the smiling leaders of the three right-of-centre Dutch parties came together to announce a deal to run the country. The Liberals, the largest party, would form a minority coalition with the Christian Democrats. Outside support from Geert Wilders's Freedom Party would give the government a slim majority in parliament. This year, on a foggy March morning, the same three leaders looked sombre in the face of a daunting task: how to cut another €9 billion ($12 billion) from the budget for 2013 when the economy is already in recession.

The extra cuts are needed to deal with what forecasters say would otherwise be a 2013 budget deficit of 4.5% of GDP, way over the 3% limit enshrined in the euro zone's new fiscal pact. Yet Mr Wilders is likely to object. Indeed, he is in an objecting mood: this week he presented a report commissioned from British researchers making the case for Dutch withdrawal from the euro. Mr Wilders, who wants a referendum on the matter, claims that the country has not profited and may even have lost from its membership of the single currency.

Ten days after The Economist published that article, the Dutch officially jumped the shark:

(UK Daily Telegraph): Just a few weeks ago officials from Madrid begged in Brussels for their fiscal targets to be relaxed they said the current ones were "suicidal" for Spain. Jan Kees de Jager, the Dutch finance minister, was among them who demanded the answer to be "neit".

So now fiesta, forever, all night long today the Netherlands Bureau for Economic Policy Analysis (CPB) said the country's budget deficit could increase to 4.6pc of GDP during 2013 and 2014. The level drives a coach and horses through the fiscal pact which is less than three weeks old.

Company reports

GRINDROD 2012/03/28

Grindrod has agreed to sell a 50% interest in Cockett Marine Oil (Cockett) to Vitol, the largest independent energy trading business in the world. The consideration amount is undisclosed and the transaction is subject to competition commission approval. Cockett is one of the leading value added resellers and physical marine fuel suppliers in the world with a network of offices across Europe, Americas and Far East providing a global service to shipping clients. Cockett is developing a network of physical supply operations in strategic locations delivering approximately five million tonnes of marine fuels annually at competitive prices whilst guaranteeing quality of service and product. This announcement follows the finalisation of the agreement effective 1 January 2012 in which Vitol will acquire from Grindrod a 35% interest in the company which owns the Maputo coal terminal concession. In addition Vitol and Grindrod announced their intention to combine their respective sub Saharan coal trading businesses (65% Vitol / 35% Grindrod).

ILLIAD 2012/03/28

Business Report highlighted that Illiad Africa planned to rebrand some stores nationwide to boost the company's profile. The name Buco would soon be seen in at least 50 general building material stores across the country, with the first launch being in Mpumalanga. Chief executive Eugene Beneke said everyone was excited about the branding of the stores and hoped that this would gain brand equity for the company in the long run.

JUBILEE 2012/03/27

Jubilee is expecting a decrease in loss per share and headline loss per share of between 55% and 75% for the interim period ended 31 December 2011 compared to that of the previous comparative period. Shareholders are referred to the following extract from the interim results for the six months ended 31 December 2011, which extract has been included to explain the above decrease in loss per share and headline loss per share.

Highlights in the period under review

Company produced its initial platinum containing alloy for export, in March 2012 and will continue to increase the production of this material.

The new 5MVA furnace commissioned at Middelburg became operational in November 2011 with the Middelburg operation reaching a record production of 774 tonnes of ferroalloy in January 2012 and 818 tonnes in March 2012. Ramping up of the operation continues in order to reach targeted full production of 1200 tonnes of alloy per month.

The Middelburg site continues to increase revenues and generating cash flow in line with the ramp-up of the operation since November 2011.

Company focussed on advancing current and several new opportunities for ConRoast including potential rights to chromite tailings, existing joint ventures, securing prospecting and mining rights for its PGM-bearing chromite deposits in the western Bushveld.

Tjate/Jubilee received a cash offer of ZAR75 million for Quartzhill farm portion of the Tjate platinum deposit - Quartzhill is considered not being core to Tjate's long term mining plan.

A Mining Right Application has been submitted for the Tjate Platinum project.

Jubilee concluded a drilling program for new samples on the Leinster nickel sulphide tailings for testwork at Mintek South Africa.

FIRESTONE 2012/03/26

Mon, 26 Mar 2012 Official Announcement [CC]

Firestone joint venture announcement

Firestone announced that its 60:40 joint venture with Sekoko Coal (Pty) Ltd., its South African Black-owned partner, has signed a Memorandum of Understanding for a Coal Supply Agreement with Africa's largest power utility, Eskom Holdings Ltd., to supply thermal coal from its Waterberg Coal Project in the Lephalale area, Limpopo, to two Eskom power stations in the Mpumalanga Province. The key aspects of this Memorandum of Understanding, are that both parties have agreed that consequent upon compliance / achievement of the terms and conditions set out in the MOU, the parties will enter into a Coal Supply Agreement containing enabling provisions for the Firestone Energy/Sekoko Joint Venture to supply a minimum of 10Mt of thermal coal on a Free on Rail (FOR) basis annually to Eskom's two designated power stations in the Mpumalanga area by way of production, acquisition or joint venture, for a minimum period of thirty (30) years. The production of coal will commence in 2014 and will ramp up over a period of five years to 10mtpa. The Waterberg Coal Project comprises eight farms in the Waterberg coalfield totalling some 7 979 hectares with a proven JORC resource of 1.8 billion tonnes. The Project entails the construction of an opencast coal mine on the Smitspan farm together with infrastructure linking the mine to the Transnet rail system which is approximately 7 km from the proposed mine site.

BEIGE 2012/03/26

Shareholders were referred to the SENS announcement dated 19 March 2012 wherein they were advised that the Takeover Regulation Panel had issued a ruling on Friday, 16 March 2012 to the effect that the comparable offer of R1.28 per preference share made by Lion Match to the preference shareholders of Beige is not a "comparable offer" as contemplated in terms of the Companies Act, No 71 of 2008 (as amended)(the "Act") and that in order to be comparable, the offer price for the preference shares must be no less than the see through value of the ordinary shares. Shareholders are advised that Lion Match has exercised its right to apply to the Takeover Special Committee for a hearing regarding the executive director's Ruling in accordance with Regulation 118(8) of the Companies Regulations of 2011, promulgated in terms of the Act. The process and timelines in respect of the hearing remain to be determined by the TRP in consultation with the Takeover Special Committee and shareholders will be advised of these in due course.

Withdrawal of cautionary announcement

Shareholders are advised that following the release of this announcement all information relating to the Lion Match offer to preference shareholders is in public domain and the cautionary announcement is accordingly withdrawn.

RICHEMONT 2012/03/23

On 27 May 2010, Richemont announced a programme envisaging the buy-back of 10 000 000 of its own 'A' bearer shares over a two year period. On 18 May 2011, the board of directors decided to extend the buy-back programme by an additional 5 000 000 'A' bearer shares. The extended buy-back programme thus amounted to 15 000 000 'A' bearer shares. At a meeting held on 22 March 2012, the board of Richemont considered the progress made to date and the requirements of the executive stock option plan. At that meeting, it was decided that the current programme should be terminated with immediate effect. 12 690 200 'A' bearer shares have been repurchased within the scope of the extended programme up to that time. As a consequence of the board's decision, no further shares will be bought back in terms of the scheme. The shares acquired are held in treasury to cover the obligations arising from the stock option plan, which benefits certain executives of the Richemont. The repurchased shares will not be cancelled.

ILLOVO 2012/03/23

Further to the announcement dated 20 March 2012 regarding the Markala Sugar Project in Mali, news emanating out of Mali confirmed that a military coup d`et at has been effected in that country and that a curfew is in place in the capital, Bamako. Illovo's presence in Mali is currently unaffected by these developments and adequate precautions have been taken to safeguard Illovo's personnel deployed in the country. Information to hand indicates that the situation in Mali appears to be calm. Illovo will continue to monitor the position closely in order to assess the impact on its proposed involvement in the Markala Sugar project.

SHOPRIT 2012/03/23

Shoprite announced the pricing of its offering of 27.1 million new ordinary shares (the "shares") of Shoprite (the "equity placing") and the concurrent offering of convertible bonds due April 2017 (the "bonds") in a nominal amount of R4.5 billion (the "bond placing"), to be issued by Shoprite Investments (Pty) Ltd. (the "issuer") and guaranteed on a joint and several basis by Shoprite (subject to the approval of Shoprite's ordinary shareholders) and Shoprite Checkers (Pty) Ltd. The combined total proceeds from the equity placing and the bond placing (together "the transaction") amount to approximately R8.0 billion. Shoprite has agreed to issue 27.1 million shares at a price of R127.50 per share (the "equity placing price"), for gross proceeds of approximately R3.5 billion. The equity placing price represents a discount of 5.8% to the 30-day volume weighted average price of Shoprite shares, prior to the launch of the offering. The shares represent 4.99% of the number of existing Shoprite ordinary shares in issue before the equity placing and 4.75% of the number of Shoprite ordinary shares in issue after the equity placing. The bonds will be convertible into shares (subject to the approval of Shoprite's ordinary shareholders) at an initial conversion price of R168.94, representing a 32.5% premium to the equity placing price. The bonds will have a semi-annual coupon of 6.5% per annum and will be issued at 100% of their nominal amount and, unless previously converted, repurchased or redeemed, will be redeemed at par in April 2017. Shoprite will have the option to call the bonds after the first three years, if the price of the Shares exceeds 130% of the then prevailing conversion price over a specified period.

BELL 2012/03/21

According to Business Report, Bell equipment has increased its workforce by 25 percent on the back of a turnaround in profitability resulting from the increased demand for products produced by the listed manufacturer of heavy equipment for the construction and mining sectors. Bell equipment increased its workforce to 3 300 people at the end of December. This means the company is close to its peak employment level of 3 500 people in 2008, following the retrenchment of 1 148 employees in 2009 in the wake of the financial crisis. The turnaround had its genesis in the Trade and Industry Department's retroactive readmission of the company to the Motor Industry Development Programme last year. This helped the group to narrow the loss in the second half of its financial year to December 2010 compared with the previous six months, and to start re-employing retrenched workers after running its manufacturing operations at less than 30 percent of capacity because of a lack of demand caused by the recession. Chief executive Gary Bell said last week that the increased demand for Bell's products resulted in significantly improved throughput in the group's two production facilities, which in turn required the rehiring of personnel following the downsizing that took place during 2009 and 2010. He said the turnaround in the profitability of the group could be attributed to a number of factors, including the 49 percent increase in sales revenue and improved gross profit margins in the year. He said the containment of group overheads was another meaningful contributor to the turnaround, particularly the improvement in manufacturing and services labour and overhead recoveries of about R265 million because of increased production. Bell said the group expected this trend to continue as a result of its sizeable rise in staff costs, which was directly attributable to the increased production requirements and the fact that most staff were rewarded with incentive bonuses.

SEKUNJALO 2012/03/16

Sekunjalo is vindicated as Smit Internationale N.V.'s subsidiary in South Africa, Smit Amandla Marine (Pty) Ltd is charged with corruption by the government. Sekunjalo Investments Ltd welcomed the announcements by government's department of Agriculture, Forestry and Fisheries as reported in the business newspapers that they have charged Smit Internationale's South African Subsidiary, Smit Amandla Marine (Pty) Ltd with corruption. Sekunjalo understands from the media announcement and its own sources that the National Prosecuting Authority has been asked to investigate Smit Internationale, Smit Amandla Marine (Pty) Ltd, as well as the BEE partners of Smit Internationale N.V. , Smit Amandla Marine (Pty) Ltd is the South African subsidiary of the

Dutch multinational, Smit Internationale N.V., and was the losing bidder in a marine engineering bidding process in which Sekunjalo Marine Consortium was the successful bidder.

Smit Amandla Marine (Pty) Ltd used technical arguments to contest their lost bid. Sekunjalo as per the SENS Announcements dated 24 February 2012 and 6 March 2012 asked the Department of Agriculture Forestry and Fisheries (DAFF) to withdraw the contract and its status as a preferred bidder and to reissue the tender as per our SENS Announcement

BRIKOR 2012/03/16
Shareholders are referred to the SENS announcement released on 14 October 2011 where shareholders were informed that Brikor has entered into a sale of immovable property agreement on 11 October 2011, for the sale of portion 5 and portion 26 (portions of portion 15) of erf 1250, Clayville Extension 14 Township and Erven 390, 391 and 392, Clayville extension 3 township. The condition precedent to the sale of immovable property agreement was not met and therefore the agreement has lapsed.

Withdrawal of cautionary announcement
Shareholders are referred to the cautionary announcements dated 12 January 2012, 28 November 2011 and 14 October 2011 and are advised that as the sale of immovable property agreement has lapsed, caution is no longer required to be exercised by shareholders when dealing in their Brikor securities.

EFFICIENT 2012/03/16
Shareholders are referred to the trading statement released on SENS on 2 March 2012 wherein Efficient stated that it was not in a position to give the specific guidance required by the JSE Listings Requirement for a trading statement but that the company expected its earnings per share ("EPS") and headline earnings per share ("HEPS") for the six months ended 29 February 2012 to be at least 20% lower than EPS and HEPS for the previous corresponding period. Efficient is now in a position to advise that it expects EPS to be between 0.30cps and 0.36cps and HEPS to be between 0.29cps and 0.35cps for the six months ended 29 February 2012, compared to EPS and HEPS of 6.8 cents in both instances for the six months ended 28 February 2011. The group's unaudited interim results for the six months ended 29 February 2012 are expected to be released on SENS on or about 30 March 2012.