The Investor

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

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Time to understand how to time the market

In the past few issues I have illustrated how, by applying a series of simple statistical tests, we can draw up a short-list of ten top performers that could form the basis of a long-term top growth portfolio. But, even had he the cash to do so, the smart investor would never simply go out and buy a complete portfolio at once.

Assembling a portfolio takes time and patience while you wait for your chosen share to come into your pre-determined price range; that is the price which you, the investor, believe offers fair value. Attempting to determine in advance a fair price to pay for a share is a complicated process for in essence the investor is attempting to guess what the likely low point will be of a share's annual price cycle. My ShareFinder programme makes this process of share selection easy by each day re-calculating which shares offer the highest dividend and share price growth rates and predicting when and at what price it will be best to buy them. Furthermore it daily scans portfolios to highlight any shares whose growth rates have begun to fall behind the blue chip average, similarly predicting the date and the best price you are likely to get for them in the next 12 months.

The programme takes this process further by listing shares that, in relative value terms, are fundamentally underpriced and which are overpriced. Determining such values requires that you apply a large number of tests which compare a plethora of balance sheet statistics with their averages in order to create an individual share grading and in turn, by comparing this grading with the current dividend yield of the share, allows one to see which are underpriced and which are overpriced at any particular time.

In the ShareFinder Quality List this valuation is expressed by the abbreviation "F Und" as illustrated in the example overleaf. It is, however, beyond the scope of the amateur investor to attempt the calculation of this value and so, if you want to go it alone, I have, alongside the "F Und" column, offered you the next best and readily available alternative; the dividend yields of all

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the shares in our list together with a few others in the same quality range.
Users of the ShareFinder programme who are familiar with the "F Und" column in the Quality List would immediately see from this display that, highlighted in green, all the Grand Old Favourites at the time of writing with the exception of Clicks and Growthpoint were offering value inasmuch as they are priced below the average. Sasol at -38.51 and BHP Billiton at -19.45 were thus by calculation the cheapest Grand Old Favourites followed by Capitec at 0.24 (which means this share is almost exactly correctly priced compared with its peers). Thus the most overpriced share among the Grand Old Favourites is Growthpoint at 604.45.
Now compare that rating with Growthpoint's dividend yield of 5.4%. As a rule of thumb, the higher the dividend and earnings yields, the cheaper the share. However, this is not always true. To illustrate this point, if you compare Growthpoint's 5.4% dividend yield with the Grand Old Favourite average dividend yield of 2.6% you might, like most inexperienced investors, conclude that this share is cheap. You need to recognise, however, that Growthpoint is an exception to the usual rule. Growthpoint is a property unit trust, a category of investment from which the market has always

Name	DY	EY	F.Und/Ov	Grade
Grand Old Favourites				
Group Avg.	2.6	6.2	146.64	792.4
SASOL LTD	4.1	11.1	-38.51	1 023.9
BHP BILLITON PLC	3.1	9.8	-19.45	1 040.0
CAPITEC BANK H...	2.0	5.3	0.24	1 292.0
WILSON BAYLY ...	2.2	8.0	65.07	727.7
SABMILLER PLC	1.9	3.7	97.95	696.9
SHOPRITE HLDG...	1.6	3.8	100.78	790.6
CLICKS GROUP L...	0.8	4.7	362.58	700.3
GROWTHPOINT ...	5.4	2.8	604.45	68.1
Mid-Cap Companies				
Group Avg.	3.3	6.8	-2.61	834.5
HUDACO INDUST...	4.1	9.5	-22.18	818.0
FAMOUS BRAND...	2.6	4.0	16.96	850.9
Tightly Held Mid-Cap Companies				
Group Avg.	0.8	6.7	25.91	979.5
EOH HOLDINGS L...	1.5	6.5	25.91	1 350.5
SYCOM PROPER...	0.0	6.8	- - -	608.6
Blue Chips				
Group Avg.	3.4	7.6	271.91	455.8
COMPU CLEARIN...	6.2	7.3	-40.27	706.0
ACUCAP PROPER...	6.3	4.0	-33.32	621.7
TRANSPACO LTD	4.5	12.9	-3.46	592.6
PREMIUM PROPE...	6.3	6.2	18.76	346.6
RAINBOW CHICK...	4.2	6.9	26.81	488.0
TRUWORTHS IN...	2.9	5.6	30.06	679.8
MMI HOLDINGS L...	5.0	14.1	32.65	391.9
CASHBUILD LTD	3.5	8.2	32.79	566.7
INVICTA HOLDIN...	3.1	8.3	36.04	619.0
MR PRICE GROU...	2.4	4.2	50.38	733.3
SPUR CORPORA...	3.7	5.9	52.54	457.7
BOWLER METCA...	4.9	12.3	58.23	332.9

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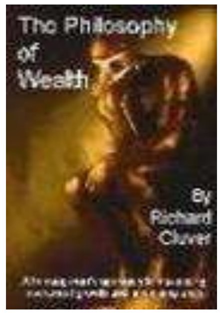

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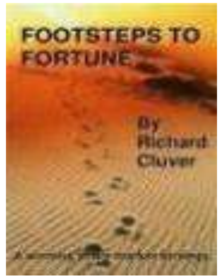

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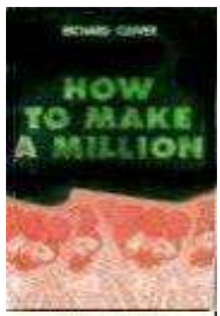

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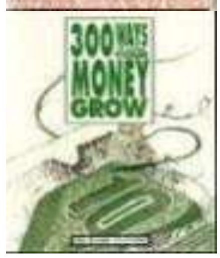

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expected a much higher return than it does from blue chip shares. Call it prejudice if you like, for Growthpoint has made it into the Grand Old Favourites list because its balance sheet fundamantals are among the most favourable in the marketplace. Its fundamentals are, however nothing like as good as those of the other Grand Old Favourites, a fact that is amply borne out by ShareFinder's Grading value of 68.1 compared with Shoprite's 90.6 (which appears in black because it sits on an average grading) and the most highly-graded share of all in this list, Sasol with a grading of 1023.9.

Name	DY	EY	F.Und/Ov	Grade	10YrGro	10YrDiv	5YrGro	5YrDiv
Grand Old Favourites								
Group Avg.	2.6	6.2	146.64	792.4	27.65	22.94	17.66	26.35
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BHP BILLITON PLC	3.1	9.8	-19.45	1 040.0	18.13	23.63	3.89	25.48
CAPITEC BANK H...	2.0	5.3	0.24	1 292.0	60.59	35.63	40.43	47.39
WILSON BAYLY ...	2.2	8.0	65.07	727.7	32.85	34.64	4.57	35.32
SABMILLER PLC	1.9	3.7	97.95	696.9	17.21	13.82	13.58	14.51
SHOPRITE HLDG...	1.6	3.8	100.78	790.6	37.79	27.47	34.34	31.23
CLICKS GROUP L...	0.8	4.7	362.58	700.3	23.95	20.59	29.18	27.71
GROWTHPOINT ...	5.4	2.8	604.45	68.1	18.51	8.59	10.52	9.41

Now Sasol, with such a towering grading is, somewhat surprisingly, sitting at a dividend yield nearly twice the Grand Old Favourite average of 2.6 which makes it clear to all observers that it was extremely cheap at the time of writing, a position it enjoyed alongside of BHP Billiton which enjoyed the second highest grading value and was rated the second most underpriced share among the Grand Old Favourites. Here I need to digress a little to point out the obvious fact that both Sasol and BHP Billiton are commodity companies and at the time of writing most commodity companies were trading at very depressed levels as a consequence of a stagnant world economy.

So, the smart investor might take the logical view that both Sasol and BHP Billiton would be good shares to buy at the time of writing and, taking a long view, he would be correct. But let us pause to consider the dividend and share price growth rates of both these shares. Here you need to understand that dividend and earnings growth rates are heavily-weighted ingredients within the ShareFinder share grading calculation and so the fact that Sasol was the slowest-growing share price of all the Grand Old Favourites at that time, highlights the fact that the prejudice against commodity shares goes a lot further back than the last economic cycle. And the same observation goes for BHP Billiton. And here we should also note that Growthpoint was similarly prejudiced by its comparatively low dividend and price growth rates.

So we have another observation! Dividend and earnings yields are an important measure of share pricing, but on their own they should not be sufficient grounds for buying. The most important reason for choosing a share for inclusion in your portfolio should be a combination of high dividend and earnings growth over an extended period of time.

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The facts and figures

- **Fund manager: Richard Cluver and Anchor Capital**
- **Asset class: Offshore developed market long-only portfolio of equities, initially limited to those listed on the London Stock Exchange**
- **Minimum investment: R500,000**
- **Nature of product: Segregated portfolio with shares owned in the investor's name. These are held on the Saxobank platform, with a London domicile.**
- **Default currency: Pounds**
- **Risk profile: Medium**
- **Management fee: 1% per annum**
- **Investment horizon: 3-5 years**
- **Liquidity: Investors can sell their portfolio at any time**

Nature of the equity investment portfolio

This is an investment in offshore listed shares following a model portfolio compiled and regularly updated by Richard Cluver, in collaboration with Anchor Capital. The initial focus will be on London-listed equities.

The shares are purchased in an account in the investor's name on the Saxobank platform—in other words, the investor owns the shares directly. This is the ultimate protection in the volatile investment world, and there is complete transparency for the investor.

Richard's investment process has been developed and fine-tuned over decades. The approach is:

⇒ Firstly, to apply a number of **fundamental filters**, which identify shares of sufficiently high quality which are trading at attractive valuations.

⇒ Secondly, a **technical overlay** is applied which assists in timing the purchase of the shares and setting target prices for purchase.

⇒ A portfolio is the constructed taking the overall mix and exposure into account. Shares are **patiently accumulated**, with acquisition target prices in mind.

⇒ Shares will normally only be sold in the event of a deterioration in balance sheet fundamentals or unjustified valuations.

The objective of the portfolio is **capital growth over the long-term** and is appropriate for investors who wish to have a managed offshore equity component to their portfolio.

The risk profile is considered **"medium"**, as equities are volatile by nature.

Contact: FJ Veldman (012-666 8461); Peter Armitage (011-783 4793); info@anchorcapital.co.za

Anchor Capital (Pty) Ltd, FSP number 39834. www.anchorcapital.co.za

By Invitation

Dr Cees Bruggemans
Chief Economist First National Bank

It is four years since interest rates peaked, with prime reaching 15.5% in late 2008 (remember such excruciating pain, given a crushing debt load?).

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Since then, we have had four years of interest rate declines, prime since July having been 8.5%. And like every year this time, the question presents itself for the new year: should one fix or stay naked a little longer, either way gambling on a hunch that interest rates will start to rise fairly soon, and then enough so as to make fixing now worthwhile, or rather stay naked, thinking rates will remain low for longer, never mind still declining.

South African interest rates have now for a lifetime shown a very volatile pattern. Ever since the start of a steady build up in inflation in the course of the 1960s and especially the 1970s as the apartheid state entered its declining years and became increasingly pressured, the interplay between stressed government finances, strained monetary policies and currency shocks, along with periodic global upheavals, saw regular doublings and halving of the prime interest rate as yet another cycle made itself felt, with peaks and troughs trending higher with every cycle.

Such interest rate behaviour makes for extreme exposure for the many indebted businesses and households. Much South African private debt is variable rather than fixed in terms of its interest rate, variable being more risky and therefore quoted more cheaply day-to-day. But one has the option of fixing the rate for a period, usually one or more years ahead, but then pays the penalty of a higher rate for the duration of the fixed period compared to today's variable rate, thus in effect taking out insurance against rising rates and paying a risk premium to the counterparty offering the fixed rate. Ultimately short term interest rates mirror the condition of the economy and the world at large as well as policymaker intentions of steering the economy, both in good and bad times. How will the future differ from the past and how will this become reflected in rates shortly?
Inflation (the general change in prices over time) was still very low single-digit in the early 1960s. Thereafter the long apartheid death struggle saw a steady increase in inflation, peaking in February 1986 at 21.6% after yet another traumatic Rand decline following the national debt "standstill" (technical default) of August 1985. Yet that proved to be the inflation high tide. Thereafter things changed. The long inflation buildup was over, though not the dramatic doublings and halving in interest rates, with 1984's traumatic prime rate peak of 25% still to be matched once more during the catastrophic disruption of the Asian Contagion fallout of 1998. Effectively, however, cyclical interest rate peaks and troughs henceforth would be lower after having risen serially in the 1960-1986 era. After the 1986 peak, our inflation entered on a long decline, mirroring the Great Becalming globally, reaching a low of 3.2% in September 2010, completing a 50 year journey, by then nearly reminiscent again of the early 1960s when this long journey had started.

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However, the country had not come close in its inflation ambitions to those of the developed world where the 2% inflation norm has now reigned for many years, or for that matter really vesting low single-digit inflation as per the early 1960s.Instead, when we switched to an inflation targeting regime for SARB interest rate policy in the late 1990s, the eventual inflation target was with limited ambition fixed at 3% to 6%. Yet this showed a shrewd understanding of our structural realities, granting SARB enough flexibility in its interest rate decisions, and allowing for the wide fluctuations in the Rand as much as volatile price items such as food and energy, and bearing in mind the relative long-term stickiness in SA labour wage determination.

Since reaching its 50 year low two years ago, inflation has rebounded again, eased anew this year, and is now rebounding once again, currently being at 5.6% with an expected mid-2013 high of 6.0-6.5% mainly due to a combination of food, oil and Rand shocks and technical reasons (price basket reweighting) before likely easing once again back into the target range later next year. Such recent and expected inflation behaviour would normally by now have seen an interest rate response from the SARB, probably raising rates higher, especially as we are expected to go outside the target range shortly on the upside and rates are negative in real terms.

But the times aren't normal. The economy exited recession as long ago as mid-2009 and has ever since underperformed its long-term average GDP growth norm of 3.5% (achieving 3% on average, until this year relapsing back towards 2%). As a consequence there remains much slack resource in evidence, left over from the 2008/2009 recession, in unemployed and underemployed formal and informal labour, office vacancies and industrial capacity utilisation. This relatively poor growth performance has many causes, some global but mostly homebred, much of it supply-linked (especially infrastructure and regulatory) but also demand based (a prevalent lack of confidence impacting private investing in business inventories, new capacity creation, housing and of late also in other consumer durable purchases).

The main point is that the economy has still potential to grow without straining the price-making process. As SARB is trying to achieve optimality with regard to both inflation and growth/output behaviour, the weakly performing economy is no reason for now to raise interest rates at all. Indeed, if anything, its demand-side weaknesses and ample resource availability remains a reason to cut rates further, in partial imitation of what we have seen happening on this score worldwide.

When looking forward, to 2013, 2014, 2015, the main question facing the SARB is how bad or how well inflation and the economy will be behaving and whether a change in interest rates is in order (and in which direction). Although inflation is still expected to rise through mid-2013, it is probably going to ease anew thereafter as oil and food inflation ease following improving global demand/supply conditions, technical reweighting effects fade and the Rand turns out less weak than in 2012. Indeed, the Rand could be firmer nearer 8:$ as the Dollar weakens further and other central banks such as ECB, BoJ and BoE respond to the so-called global currency war by trying to ease their monetary policies, and consequently try to prevent their currencies from firming too much. One major risk to this outlook is global, as renewed US, European, Chinese or food or oil shocks could im-

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pact unfavourably on the Rand and our inflation. However, positive risk also prevails on all these fronts, and though it is wise to be ready for all eventualities, building in some risk premium for bad news, the world on balance may continue to find workable solutions to its many problems, giving less fallout strain for us. But even if the outside world works out better for us than in 2012, there still remains our own behaviour at home. Here SARB has expressed concern about a possible wage-price spiral in 2013, following events in 2012.

These are serious concerns, and SARB will want to see how things play out on this score. Clearly, if labour demands and unrest were to keep escalating and businesses would have to reflect such cost escalation in prices, inflation would lift more durably and SARB might have to take action by raising interest rates despite the weak state of the economy. However, reality may see such labour strains being absorbed in various ways, and not only in uncontrolled increases in private wage bills and product prices.

The upshot of all these many realities is likely to be an inflation performance in 5%-6.5% territory through 2015, in other words very much at the top end of the SARB inflation target (and at times just outside it). The flipside of this is likely to be an economy that will struggle to get its growth performance to improve much and its resource slack reduced, with private job growth especially slow (and negative in critical sectors). Global growth is unlikely to ignite any time soon. Domestic confidence is likely to remain strained by events and spending and investment behaviour generally to stay defensive. That is a condition in which one would expect some understanding and support from our policymakers for our general economic plight. With the national finances strained on account of slow tax revenue growth and having to reduce budget deficits further without cutting spending unduly, the main support can probably only come from SARB even with interest rates already at 40 year lows and cyclically very supportive (effectively mildly negative in real terms).

But then global conditions as much as our own remain rather unusual, and will take time repairing. It is this feature which suggests that in the absence of fresh shocks and their inflation fallout (always a possibility) SARB will likely want to remain on hold for (much) longer, possibly even support the economybility some more by further policy easing. Therefore when it comes to interest rate risk for heavily indebted households and businesses, and the question whether the interest rate cycle is now far advanced enough to warrant fixing rates, for the next step is up, sooner rather than later, the complexity of the situation is rather more challenging than traditionally the case.

For we and the world seem to be struggling with remarkably long fuses. Growth repair may still take a long time, even some years, while global inflation is likely to remain low (the potential for deflation considered a bigger short term evil in some regions). Our own inflation is more complex, a mixture of global shock potential via food, oil and the Rand (for better or worse) coupled to domestic dynamics such as having to put infrastructure charging on a more sustainable basis and rather aggressive labour demands, potentially across more sectors than seen in 2012.

Labour market conditions will keep the SARB cautious (with always a wary eye watching out for global crisis surprises) as inflation could still badly disappoint. But then the struggling economy will likely solicit SARB sympathy, potentially cutting rates when it things this is justifiable, taking account of all risks (and incidentally confirming our position in the global "currency war" lineup, with many countries trying to weaken currencies or at least prevent overvaluation).

And this will likely play throughout 2013, possibly also in 2014 and may even so far out as 2015 determine the weather guiding SARB interest rate policy. All this appears good reason to stay firmly naked, but to review all evidence quarterly to see which way things are shifting and whether or not this is changing the balance of probabilities regarding SARB action. And in which way.

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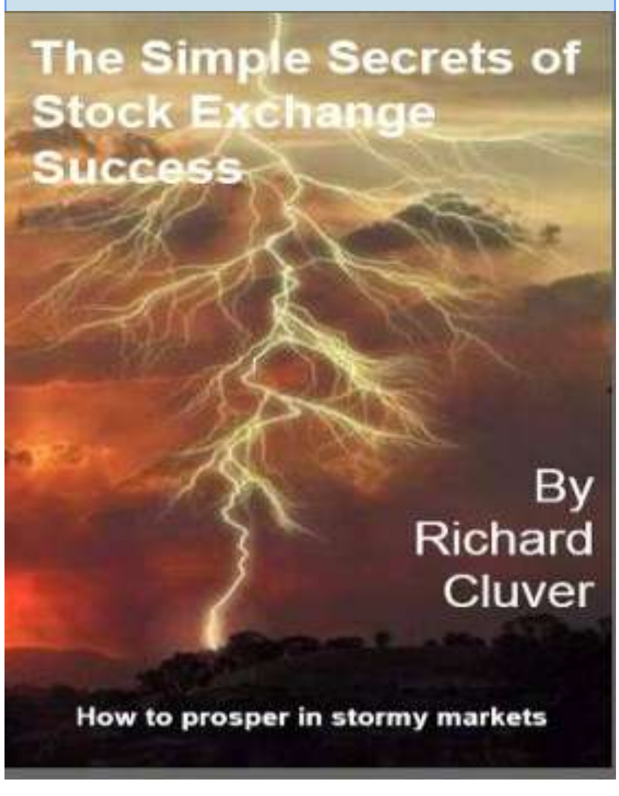

The precarious South African perch

Living in South Africa carries major risks, whether for instance from crime, Hiv/Aids, road misbehaviour or being subjected to poor state delivery of basic education.

There is a less visible but equally lethal danger apparently taken mostly in stride by many, except by the central bank and possibly by foreign investors when they stop long enough from smelling the roses. This is the risk of a sudden catastrophic reversal of national fortune via the balance of payments and a consequent Rand collapse, whether from a sudden fall in the price of precious metal/stone export earners (gold, platinum and diamonds account for 45% of mining output, down from 60% in 1995/99 but still a major concentration risk) or from a major reversal of capital flows.

And to make things really interesting, foreign investors tend to get cold feet most of all when there is a sudden reversal of fortune in our exports, their capital flow reversal so to speak piggybacking on such trouble, doubling up the commodity risk. And seeing that our precious metals and stones tend to carry a large speculative premium, this leverages the overall event risk yet more.

That is a lot of risk to carry around while contemplating that next car purchase or power station investment, refitting the navy, replacing a fleet of aircraft or dreaming about visiting the snowy Alps, hilly Tuscany or the family in Perth. Never mind the running costs of a car, with petrol now R12/l but capable of doubling overnight if the Rand where to go walkabout in response to catastrophic events.

So how do we do it? The short answer is probably by getting lucky again and again. Not that the odd catastrophe doesn't catch us once in a while, but surprisingly often the world keeps smiling at us, seemingly effortlessly catching the falling knife on our behest, or otherwise keeps acting silly enough in its own right to keeping our commodity prices high and rising and the ready cash rolling in, seeking out our choicest assets.

This isn't something of recent origin but has been with us for a long time, the true basis of our modern breakout into full modernisation. For the past 150 years we have steadily kept unearthing natural riches in great demand by the outside world. Today, the biggest five commodities (platinum, coal, gold, iron ore, diamonds) still account for 83% of our total mining output and a large part of our export proceeds, raw and when beneficiated. And though global breakdowns, whether into recession or depression, has tended to knock commodity prices heavily, we have tended to discover new riches, extending the reach of our export spectrum, in addition to which the world has tended to incur so much general and inflation risk as to boost our fortunes before long anew.

The past decade has been special in other respects, rather new to many of us in our

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modern setting. For in the decade post-1994 we became politically acceptable again after decades in the global wilderness, at a time that global investment appetites had been wetted by globalised prosperity, low inflation, much leverage and growing yield hunger favouring remaining high yielders. And when that global party went abruptly into decline, instead of hitting us with a triple negative header, something quite different played.
For while our commodity prices, as much precious metals as energy and basic metals, had played well during the global commodity super-cycle through 2007, Chinese momentum kept basic things going for a while longer even as Mid East tensions and natural shocks kneecapped Japanese and German nuclear ambitions and kept oil priced high, and with it coal. But even more did the wave of fear following the onset of global crises favour our precious metals, reaching for very much higher new price levels. Also, the emergency support actions of central banks fuelled yet more money anxiety (further boosting precious metals) while pushing global yield closer to the zero bound, elevating high yielders yet more in the eyes of those seeking yield.
Instead of the triple reverse jammy therefore hitting us with a vengeance once the global water broke in 2007, the world's troubles actually ended up giving us multiple tail boosts in ways only the really lucky know how to fully appreciate. In retrospect, something similar had happened in the 1970s when South Africa was the ONLY non-oil producing country to benefit hugely from global mayhem unleashed by the multiple oil shocks and other developments of that disturbed decade.

There is of course a flipside to this picture. For if South Africa was not immediately also laid low by such global shock events in the 1970s (indeed, it ended up benefitting hugely), South Africa had to SUBSEQUENTLY discover that a repaired world fully recuperating was short on shock and fear, more balanced and far less inclined paying us premiums for our choicest exports or deluging us with capital. And if such a period happened to coincide with us being at our worst political behaviour at home, the triple witching brew would after all still kick in and floor us expertly.

And such were the early 1980s to early 1990s, counting roughly from 1982 to 1992. We were going through the worst of our apartheid death struggle, the US turned responsible at the hands of Fed chairman Volcker throwing the switches at US monetary policy, oil prices eased and global growth resumed after the disturbed 1970s decade and the world felt a lot less at risk and more critical about where it wanted to invest. So despite getting lucky regularly during our 150 year modernising epoch to date, and doubly and triply so during global upsets such as the 1970s and the present decade, there tend to be dark moments too, which can last just long enough to drive us all to drink for a while.

The present lucky phase has probably still some years to run as Western repair will still take years in its own right, its caution and extreme monetary policy support favouring our precious metals and capital inflows even as rebounding China tends to underwrite the remainder of the commodity export mix. But the writing is on the wall. Domestically we have indulged heavily in politics in so many ways these past two decades that much else has taken a backseat, in critical ways contributing to undermining our growth performance and societal progress, earning us black marks in risk

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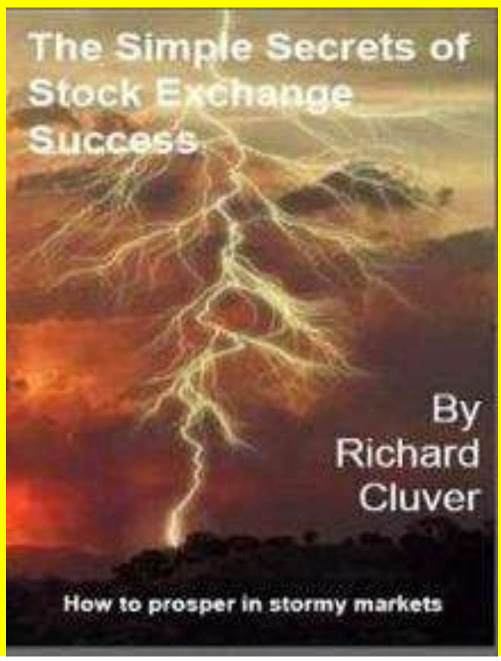

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terms. As these sentiments evolve yet further they could coincide with the global repair phase eventually ending, less extreme global policy support forthcoming, less fear resulting and the present yield hunger moderating in favour of more sustained investment choices. That paints a nice yellow brick wall across our collective path somewhere post-2015 and pre-2020.

However, before slashing wrists prematurely, danger can also provide opportunity, according to Chinese, Korean and Japanese folklore. There remains time to launch a new generation of political leadership (possibly even starting this Xmas) that may eventually succeed from later in the decade to more effectively tame some of our main domestic developmental challenges, such as the state competently fulfilling its role in support of a struggling society.

Labour market reform may turn out to be a long term fuse. Externally, the yield-hungry capital inflows will at some point ease off while certain commodity exports may demand less of an excessive fear premium. But coincidentally or not, all of this may come to full fruition roughly about the time we should know more about our full energy endowment, particularly its Karoo shale component. Shades of East Africa here where especially Mozambique and Tanzania are turning out to be energy treasure coves starting to drive major development efforts.

Of course, Africa itself is becoming a developmental locomotive, new commodity exploitation driven, in its own right for South Africa, reversing the relationship role of recent decades. Such African contribution to our national welfare, and especially listed company fortunes, should not be underestimated for coming DECADES. Even so, our main opportunity apparently still resides at home, however much it challenges our imagination to appreciate its full potential reach and riches. If our shale energy endowment turns out to be as promising as what it already sounds at this premature stage, a new chapter post-2020 looms, possibly even richer than the entire Witwatersrand complex has ever been to us.

That should make one pause. It would be a straightforward continuation of utter national luck now already in its 151st inning (if with a few dry holes now and then). Yet we can't be sure that the present lucky decade will smoothly ease over into the next lucky century.

Our politics are rather self-indulgent (you may have noticed I like understatement now and then), our national aims at times less than focused (except for those with their eyeballs firmly glued to the main chance personally, thinking of the Ice Age squirrel going after his golden nuts) and the global transition from cautious and fearful repair into relaxed full recuperation may be accompanied by a few disruptive shifts for us.

Still, even if politicians don't always seem to fully appreciate this, markets are discounting mechanisms ready to absorb or discount informed futuristic guesses. If we keep smelling of roses, now increasingly of a gaseous nature (no puns or whatever intended), it may well be that we will be forgiven much (as the past 110 years have seen so regularly).

The world may this decade turn on its axis once again, our export commodities may have various experiences (hopefully positive Chinese growth-based ones, probably less positive when Western-fear and excessive policy stimulation based eventually?) and the capital inflow can expect to become less yield frenetic and more discerning once again.

But one doesn't argue with a boom smell, whatever its origin. One forgives erring politicians much as long as they don't stand in front of the bus (however often this may be wished) and as long as the country proves willing to keep experimenting with its natural riches as a true mining bohemian (notwithstanding much environmental objection which this time should ensure it will proceed much more responsibly than during our early origins).

Even so, environmentally any proposed shale exploitation sounds a lot less disruptive or damaging than the Witwatersrand mining experience ever was. That, too, counts in its favour.

So despite the remarkable risks wired into our collective DNA, something that should give foreigners pause and frighten the wits out of locals if only they stopped long enough to think about it, we may after all be okay for another couple of decades, if not centuries, despite the world returning to a more even keel and we having to earn our way again the old-fashioned (hard) way.

Provided the gas and oil potential is real. For I can see little else really saving our bacon, at least for an interim decade or more, once global repair ends and if our politics hasn't yet by then fully recovered from its own created vacuum.

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Stockbroker's views

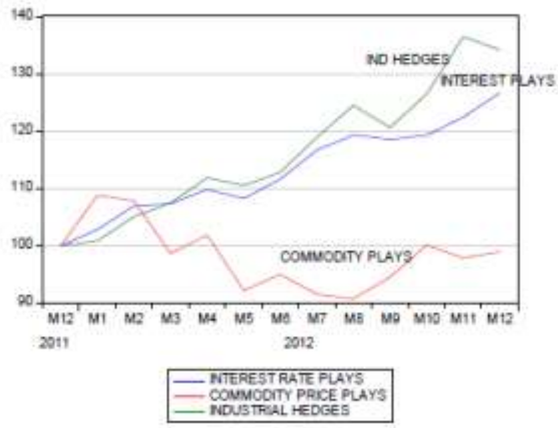
By Brian Kantor

The competition for investor interest on the JSE that matters is that between JSE listed stocks and their emerging market peers – not between SA economy plays and resources counters. How to best categorise the stocks listed on the JSE

We have suggested that the JSE - which is normally divided into industrials, financials and resources counters - is better divided and analysed as interest rate plays (retailers, banks and property companies etc), commodity price plays (resources companies, excluding gold mines) and industrial hedges (those stocks not much affected by either interest rates or commodity prices). The industrial hedges are companies listed on the JSE that undertake much of their sales and incur most of their costs outside of the SA economy. They therefore depend on the state of the global economy rather than the SA economy.

British American Tobacco, SABMiller and Richemont are among the most significant of these companies. Naspers, Aspen and MTN have recently joined their ranks. Their global operations have made them much less sensitive to SA interest rates and economic conditions. The problem with the companies that make up the JSE industrial index is that they combine companies with very different characteristics – that is companies that are very sensitive to SA interest rates and economic conditions; and other industrial companies that do not much depend on SA economic developments. In the figure below we group the Top 40 companies accordingly.

JSE Interest rate plays vs commodity price plays vs industrial hedges; Valuations in rands (January 2012 = 100)



The interest plays have outperformed consistently. We have created indices of these groupings going back to 2003. As may be seen below the interest rate sensitive and industrial hedges have significantly outperformed the commodity price plays in recent years and again this year. Moreover the price to earnings multiples of the interest rate plays and especially the industrial hedges have reached record levels while that of the commodity price plays have lagged well behind.

Price/earnings multiples 2009-2012; JSE interest rate plays vs commodity price plays vs industrial hedges

This has led many a South African commentator and fund manager to regard the interest rate sensitive stocks and industrial hedges as very expensive and the commodity price plays as offering value. Such judgments have proved fallible as the industrial hedges and the SA interest plays have continued to forge ahead while the commodity price plays have continued to underperform.

We would argue, with the help of Chris Holdsworth of Investec Securities, that the comparisons SA fund managers are inclined to make - that is between the relative merits of apparently expensive Industrials and apparently valuable resource companies quoted on the JSE - is the wrong place to look for under- or outperformance. Rather, the comparisons to make are those made by global investors who have become increasingly important in determining valuations on the JSE. Global investors compare the relative merits of companies listed on the JSE with their peers, especially emerging market peers listed on other stock exchanges. In other words comparing interest rate sensitive stocks on the JSE with interest rate sensitive stocks listed on other emerging equity markets or JSE commodity price plays with their peers listed on other exchanges. Accordingly Holdsworth undertook the following exercise:

- Recreate the interest rate play/commodity price play segregation for each of the countries in the FTSE Emerging Market (EM) index; and
- Aggregate all of the interest rate plays and commodity price plays into an EM interest rate play index and a EM commodity price index.

Market cap weighted indices were used, but the results are similar for equally weighted indices. The JSE interest rate sensitive stocks as an outperforming emerging market Holdsworth was able to show (see below) that across all emerging markets (not only the JSE) commodity and interest rate plays have performed similarly, with the exception of the period before the global financial crisis (when commodity price plays outperformed) and more recently, when the interest rate sensitive stocks have offered far superior returns.

But for the spike in 2008 the commodity price plays have underperformed consistently, as is shown below: Holdsworth was also able to show, going back to 1970, using the conventional JSE Resources Vs Industrial distinction, that relatively high or low price earnings multiples for Resources compared to Industrials provided very poor predictions of subsequent returns. This result held whether subsequent returns were measured over a 12 month or five year period. In other words, just because resource companies or commodity price plays have underperformed to date, does not mean that they will perform well in the months to come. What will matter for relative performance will be subsequent trends in interest rates and commodity prices.

The important exercise therefore is not the comparison between interest sensitive stocks and commodity price plays, but to compare SA interest plays with their EM peer groupings. By this comparison, SA interest plays compare very well indeed and as Holsworth shows, fully deserve what has become their premium rating compared to the EM peer group. When comparing the performance of the group of SA interest sensitive stocks to their EM peers Holdsworth found that:

• The monthly correlation of returns all measured in US dollars is very high (0.73);

• Despite a low beta, the SA interest rate plays have outperformed their EM peers; and

Outperformance is just over 2.2% p.a. (18.8% vs. 16.4%).

As is shown in the figures below that compare the earnings/price relationship of SA interest rate plays with their EM counterparts, the following outcomes are to be observed:

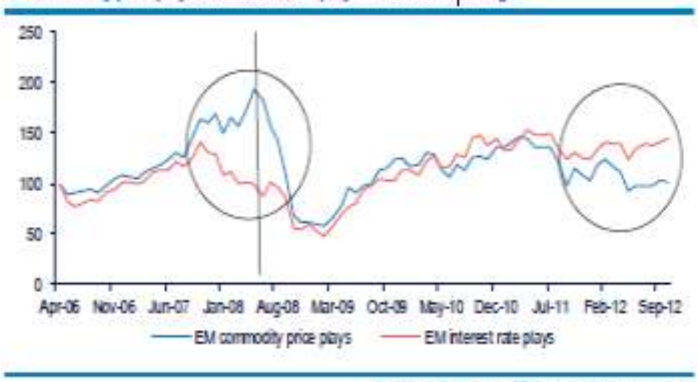
• The marked rerating of interest rate plays has not been isolated to South Africa. Interest rate plays across all emerging markets have been re-rated - that is to say, they have enjoyed lower earnings yields and higher price to earnings multiples; • The SA interest rate plays currently trade in line (and historically have traded in line) with their EM peers; and

SA companies have, however, marginally outperformed on an earnings basis, that is they have grown their earnings per share in US dollars at a slightly faster rate than the average EM market.

SA interest rate plays moreover have consistently paid out more of their earnings as dividends, as we show below. In a world of low interest rates the ability to pay dividends and to

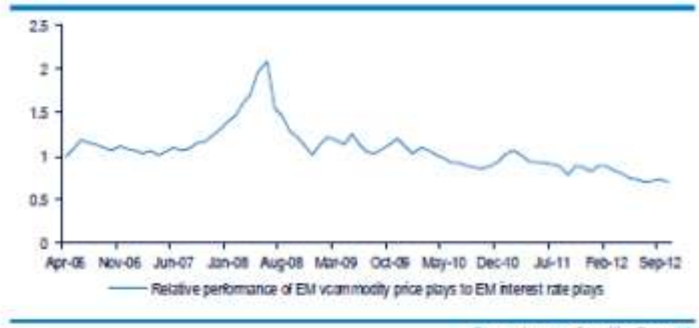
increase them over time is particularly prized:

EM commodity price plays and interest rate plays haven't often diverged



Source: Investec Securities Research and Bloomberg

EM commodity prices plays have persistently underperformed with the exception of a spike in 2008



Source: Investec Securities Research

Total return indices for SA interest rate plays and other EM interest rate plays

Source: Investec Securities Research and Bloomberg

Earnings yield for SA interest rate plays in line with that of EM peers

Source: Investec Securities Research and Bloomberg

SA interest rate plays' earnings performance marginally better than EM peers

Source: Investec Securities Research and Bloomberg

• The dividend yield of the SA interest rate plays is roughly 1.6 times that of their EM peers; and
• $100 invested in December 2002 would have yielded $16 from the SA interest rate plays while only yielding $9 from the EM interest rate plays.

The figures below illustrate how much better the SA interest rate plays have performed on the dividend front - growing their dividends in US dollars at a faster rate than their peers and consistently paying out a larger proportion of their US dollar earnings. A better rating is perfectly understandable given such economic outperformance.

SA interest rate plays USD dividend performance well ahead of EM peers

Source: Investec Securities Research and Bloomberg

In other words, SA companies have been able to achieve rapid earnings growth despite a high payout ratio. At the heart of this ability to outperform has been the superior returns earned on equity capital employed by the SA interest sensitive cohort, as we show below:

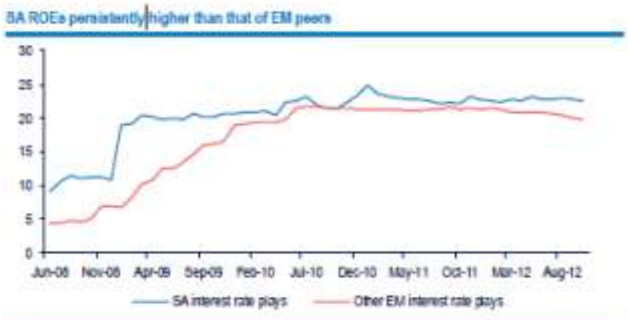
SA interest rate plays consistently pay out more of their earnings as dividends

Source: Investec Securities Research and Bloomberg

Future performance will depend on comparative interest rate trends

Past performance is not necessarily a guide to future performance. But since we are comparing interest sensitive stocks across the emerging market world a key ingredient in determining future performance will be the (relative) behaviour of interest rates across the EM universe of stocks followed by global fund managers. Will interest rate trends in SA be helpful or harmful to the interest rate sensitive counters on the JSE? Global investors directly influence interest rates as well as equity prices. When they show an appetite for local currency bonds or the local money market they not only influence yields at the longer end of the market but they will also, as is the case when they invest in equities, influence the emerging market currencies and so the outlook for inflation. The stronger the currency, the better the outlook for inflation, and so the lower interest rates will trend at both the long and short end of the market. A comparison between SA and other emerging market interest rates is highly relevant in this regard. The wider the spread between SA and other emerging market interest rates, the more attractive will be SA interest rates to the foreign investor

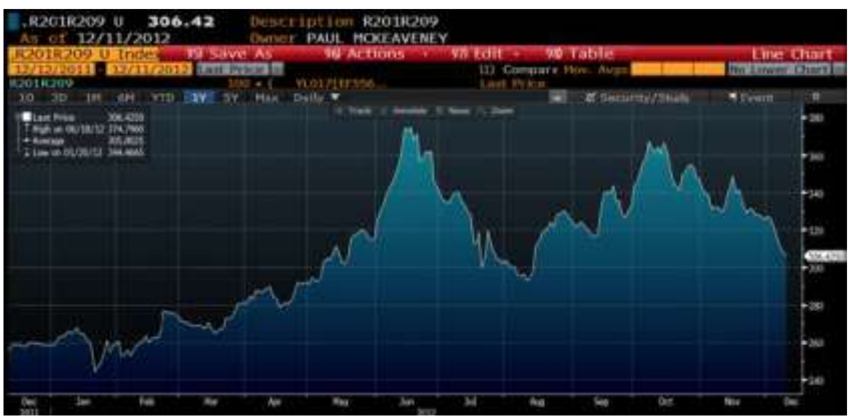
SA ROEs persistently higher than that of EM peers



Source: Investec Securities Research and Bloomberg

SA interest plays have come through a period of rand weakness and a steeper yield curve very successfully. Our sense is that these now wider spreads in comparison with other EM fixed interest markets could attract flows of funds from offshore and cause both a degree of rand strength and a flatter yield curve. Very recent trends in the SA bond and currency markets have been helpful in this regard. We show a narrowing the gap between the long and short term interest rates in SA since October 2012:

If we are correct in these predictions for interest rates and a flatter yield curve, the outlook for the interest rate sensitive stocks on the JSE remains promising. The key risk to the interest rate plays remains the opposite trend, that is the possibility of rand weakness, more inflation and higher interest rates, especially when compared to other emerging markets. We are however confident that in the absence of faster economic growth, interest rates at the short end of the market (even if there is rand weakness) will not rise. We have demonstrated that the performance of the SA interest rate plays is fully justified by their excellent economic fundamentals. Future good performance will remain dependent on support from lower interest rates; or at least the absence of higher interest rates.



USA Comment

By John Maldin

"*For every complex problem there is an answer that is clear, simple and wrong*."– H. L. Mencken

Possibly, the question I am asked the most is, "What do you think about gold?" While I have written brief bits about the yellow metal, I cannot remember the last time I devoted a full e-letter to the subject of gold.

Longtime readers know that I am a steady buyer of gold, but to my mind that is different from being bullish on gold. In this week's letter we will look at some recent research on gold and try to separate some of the myths surrounding gold from the rationale as to why you might want to own some of the "barbarous relic," as Keynes called it. My personal reasons for owning gold have evolved over the years. I will tell you the story of my own journey, and you can decide for yourself whether to think about coming along.

I wandered as an innocent bystander into the world of investment newsletter publishing in 1981-'82. Back then it was a world inhabited to a great extent by "gold bugs" of one variety or another. The investment newsletter world was in its infancy, and I was something of a direct-mail wizard, brought in to weave my magic with mailing lists and fluid copy. You can't write effectively about something you don't know, so I plunged in head first, learning all about Austrian economics and the problems of fiat money.

I was soon a partner in what was then a small research and publishing house called the American Bureau of Economic Research, founded by Dr. Gary North. He inoculated me with reams of material on the case for gold and free markets – things I had not learned in college! I had never heard of Ludwig von Mises or Friedrich Hayek (whom I later got to meet in Austria, but that is another story).

I attended my first New Orleans Conference back in the early '80s. It was then a rather large gathering of people (4,000 or so) who wanted the US to go back on the gold standard. Remember, it had been only a little more than 10 years since Nixon led us down the path to a fiat currency.

It is hard for younger generations to imagine now that it was once illegal to "hoard gold." Franklin Roosevelt issued Executive Order 6102, which required all persons to deliver on or before May 1, 1933 all but a small amount of gold coin, gold bullion, and gold certificates owned by them to the Federal Reserve, in exchange for $20.67 (equivalent to roughly $370 today) per troy ounce. Owning gold would remain illegal until President Gerald Ford signed a bill which went into effect on December 31, 1974, re-legalizing the owning of gold. Gold began trading in 1975, just in time for the inflation of the late '70s.

A gold bubble soon developed, which popped (or imploded, depending on your view) in 1980 with the coming of Fed Chairman Paul Volcker, who broke the back of inflation. But that did little to dampen the enthusiasm of the gold crowd. They were still remembering the very recent past.

A young man in a wheelchair, James (Jim) Blanchard, influenced by Ayn Rand and other *laissez faire* economic writers, had formed the National Committee to Legalize Gold in 1971. He saw gold ownership as a fundamental human right, a hedge against government mismanagement of money, and the first essential step down the long road to monetary integrity. He hired a biplane to tow a sign saying "Legalize Gold" over President Nixon's 1973 inauguration.

In 1975, after gold became legal, Blanchard organized a conference in New Orleans for his fellow gold enthusiasts. He was expecting 250 people, but 750 showed up. By the time I arrived at the conference in

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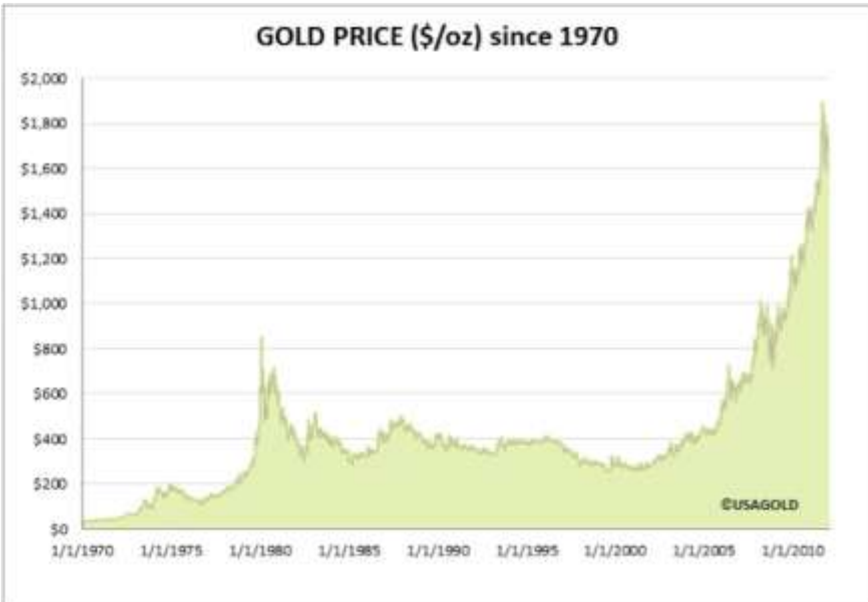
the early ’80s, it was packed with a bevy of characters straight out of central casting – colorful, often funny, but very serious about the subject of gold and free markets. The memory of the inflation scare in the ’70s was still quite fresh, and inflation was still very high. I got to meet and become friends with some of the true intellectual leaders of the free-market world. (I was the “marketing guy” back in those days, still absorbing and learning.)

Gold was seen as an inflation hedge, a currency hedge, and a shield against government iniquity in the form of deficits and monetization. I will admit I took the bait – hook, line, and sinker. I became an unabashed gold bug. By 1986 I was writing a newsletter on gold stocks. “Research” back then consisted of running up a large telephone bill and buying all the subscriptions to newsletters on investments and gold stocks I could get my hands on.



By 1986, gold was again in a bull market, having seen a dip below $290 in March of 1985, from its blow-off high of $850 on January 21, 1980. All the charts show gold dropping in 1980, but few remember that gold actually closed up $30 for the year at $589.75. Picking natural-resource stocks was not all that hard in a bull market, but avoiding the Vancouver gold bandits was not as easy. You really had to know who was involved in any gold stock you invested in. Information was not as easy to get as it is today.****************************

For personal and business reasons, I had to stop writing the letter and sold it to another established writer. I remember telling my readers that, since I was selling the letter, it was likely that gold would be in a bull market for years to come. As it turned out, though, it was a good time to exit.

I started writing again for a general audience in late 1998, but I did not turn bullish on gold until 2002, when I turned bearish on the dollar. Gold had been in a 22-year bear market and during that time had been anything but an inflation hedge – or a hedge against anything, for that matter. But the supporters of gold held fast to the party line. I still understood the reasons for investing in gold, but some of the data simply did not support the reasons.

So let’s get this out of the way. For quite some time I have not been a gold bug. There are times to be bullish on gold as an investment, and I have been (as in 2002), but as of this moment I do not see gold as having the potential it did in 2002. But if that is the case, then why am I still buying gold every month?

I am going to draw freely on a very solid paper by my friend Dr. Campbell Harvey of Duke University. Cam and I have communicated since the early part of the last decade. He did the original research on the correlation between the yield curve (the relationship between long-term and short-term interest rates) and recessions, which I learned he had done after I quoted others who had not acknowledged his work. We have since compared notes on numerous topics. He sent me his writing on gold last month, and I now share it with you.

Sidebar: the yield curve is not currently predicting a recession. But interest rates are obviously a manipulated market. It will be interesting to see if we can have a recession with a positively sloped curve. This to me would be just another clear danger signal that monetary policy is no longer working.

Back to gold. Here is a summary from Campbell’s abstract:

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1)Investment Without Tears
2)Making Money With The Mutuals
3)300 Ways to Make Your Money Grow

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“Gold objects have existed for thousands of years but gold has only been an actively traded object since 1975. Gold has often been described as an inflation hedge. If gold is an inflation hedge then on average its real return should be zero. Yet over 1, 5, 10, 15 and 20-year investment horizons the variation in the nominal and real returns of gold has not been driven by realized inflation. The real price of gold is currently high compared to history. In the past, when the real price of gold was above average, subsequent real gold returns have been below average.

“As a result investors in gold face a daunting dilemma: (1) ignore the past and seek inflation protection by paying a high real gold price that almost guarantees a decline in the future inflation-adjusted purchasing power of gold or (2) embrace the past, avoid gold and run the risk of a greater decline in the future purchasing power of other assets relative to gold if inflation surges. Given this situation, is it time to explore ‘this time is different’ rationalisations?

“We show that new mined supply is surprisingly unresponsive to prices. In addition, authoritative estimates suggest that about three quarters of the achievable world supply of gold has already been mined. On the demand side, we focus on the official gold holdings of many countries. If prominent emerging markets increase their gold holdings to average per capita or per GDP holdings of developed countries, the real price of gold may rise even further from today’s elevated levels.”

Exhibit 2. The Real Price of Gold since the Advent of U.S. Futures Trading

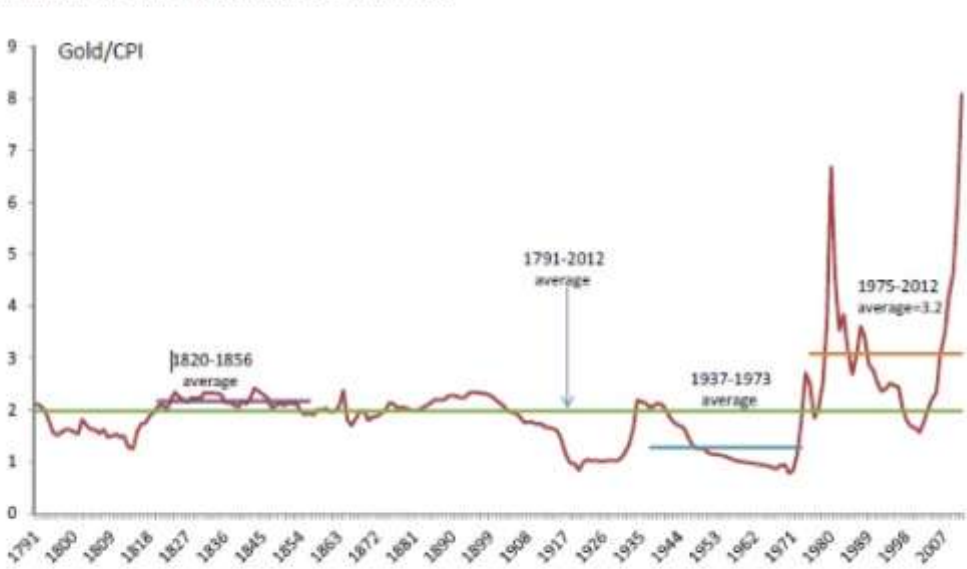
Campbell shows us that gold has been erratic as an inflation hedge. Sometimes it is and sometimes it isn’t, depending on what time period you look at.Want to go back beyond 1975? The real price of gold is well above it long-term average in terms of inflation. Look at this next chart. Of course, this assumes you believe official inflation statistics. If my health insurance costs are a measure of inflation, then gold is barely keeping up. Not to mention the costs of private school tuition and colleges. (I paid my first private school bill in 1980 when Tiffani started the first grade. And now my youngest, Trey, is in his final year of high school. Can you believe a 15x rise in private school costs? Gold is also trailing badly on that front!)

But what about gold as a long-term currency hedge? Campbell has some interesting material:

“The Romans were skilled at building roads and aqueducts as well as recording how much it cost to staff a Roman legion. Legionnaires were the lowest-ranking soldiers in a Roman legion, similar to a private in the U.S. Army. A centurion commanded a century of 80 legionnaires and had a rank somewhat similar to a captain in the U.S. Army.

“In the era of Emperor Augustus (reigned from 27 B.C. to 14 A.D.), a Roman legionnaire was paid about 2.3 ounces of gold a year (225 denarii) and a centurion was paid about 38.58 ounces of gold a year (3,750 denarii). Converted to U.S. dollars, the pay of a Roman legionnaire was about 20% that of a modern-day private in the U.S. Army, and the pay of a centurion was about 30% greater than the pay of a captain in the U.S. Army.

Exhibit 8. The Real Price of Gold over 200 Years



“… Similar to the U.S. aggregate experience since 1791, there is little or no income growth in military pay over 2,000 years. Interestingly, this conclusion is not that sensitive to the final price of gold.

“There are two insights here. First, incomes denominated in gold might be a very long-term hedge – in that the real purchasing power of some wage rates is roughly preserved. Second, it helps us to begin to understand what the expected return on gold is not. Even though 2,000 years is only a fraction of the time that gold has been mined, it provides a lot of compounding periods. A claim that gold could have ‘equity-like’ returns in the future needs to be reconciled with the past.

Starting in the year 12 A.D., one dollar compounding at just 1% a year turns into $439 million over 2,000 years. If the rate of return is increased to 1.62%, the ending value is $100 trillion – more than today’s capitalisation of world stock and bond markets.

“In ‘normal’ times, gold does not seem to be a good hedge of realized or unexpected short-run inflation. Gold may very well be a long-run inflation hedge. However, the long run may be longer than an investor’s investment time horizon or life span.”

Indeed. I have often seen writing which shows that the buying power of a gold coin is roughly what it was 100 years ago or during whatever period the writer chooses. And that is in fact true. And I dare say that in 100 years an ounce of gold will still buy about what it does today in terms of commodities. (Technology, on the other hand, will get cheaper.)

But that makes gold a store of value, not an investment. Stocks have readily outperformed gold over the last century, and a thousand dollars in gold bought in 1980 when Volcker was chairman of the Fed would be up roughly twice from the 1980 peak and three times from that year’s average. But a 30-year bond would be up many multiples of that. And a zero-coupon bond? That would beat either stocks or gold, hands down. The yield on gold, which is nothing, is one of the reasons that Buffett does not like the stuff. But then gold has performed better than his stocks in recent years, so he may just be jealous. But a 1980 dollar won’t buy near what it would back then, nor would one from 1900. Inflation does erode buying power. (And to be fair, since it was formed, Berkshire Hathaway has massively outperformed gold.)

Dr. Harvey’s work seems to suggest that gold is not a currency hedge *per se*. Quoting: “Exhibit 12 shows how the local currency real price of gold has fluctuated in a number of countries: Australia, Canada, Germany, Japan, New Zealand, Switzerland, the U.K. and the U.S. In each case the local currency price of gold is divided by a local inflation index and the resulting ratio is normalised to an initial value of 1.0. Since 1975 the real price of gold in these eight countries seems to have moved largely in tandem.

The real price of gold reached a high level in 1980 amongst all eight countries. The real price of gold fell to a low level in each of the eight countries in the 1990s, and more recently the real price of gold has risen to very high levels in all eight countries. The historical evidence of a seemingly common local currency movement in the real price of gold does not lend itself to a convenient ‘gold as a currency hedge’ explanation. In fact, the change in the real price of gold seems to be lar gely independent of the change in currency values. Furthermore, since the real price of gold seems to move in unison across currency perspectives, it is unlikely that currency movements help in explaining why the real price of gold fluctuates.”

If gold is not a long-term inflation hedge or a currency hedge, and if it produces no income, then why buy it? I can think of three main reasons. First is that the price of gold might go up. It is a very scarce commodity relative to the demand. All the gold ever mined is estimated to be only about 171,000 tons, and less than a third of that amount is estimated to still be recoverable. Overall, gold demand does not seem to vary with price. As Campbell explains:

“The USGS keeps track of estimated annual global gold mine production. Exhibit 18 presents the USGS gold mine production time series, which starts with the year 1900. Annual global mine production has averaged about 2,500 tons per year for the last few years. In 1900, about 30,000 metric tons of gold had already been mined. This means that over 80% of the current aboveground supply of gold has been mined since 1900 and that the aboveground stock of gold has increased by about 1.5% per annum. If global production of gold continues at a rate of 2,500 metric tons a year, and if the USGS is correct in its estimate that there are only 51,000 metric tons of exploitable gold reserves, then gold production will be exhausted in about 20 years.”If gold is not a long-term inflation hedge or a currency hedge, and if it produces no income, then why buy it? I can think of three main reasons. First is that the price of gold might go up. It is a very scarce commodity relative to the demand. All the gold ever mined is estimated to be only about 171,000 tons, and less than a third of that amount is estimated to still be recoverable. Overall, gold demand does not seem to vary with price.

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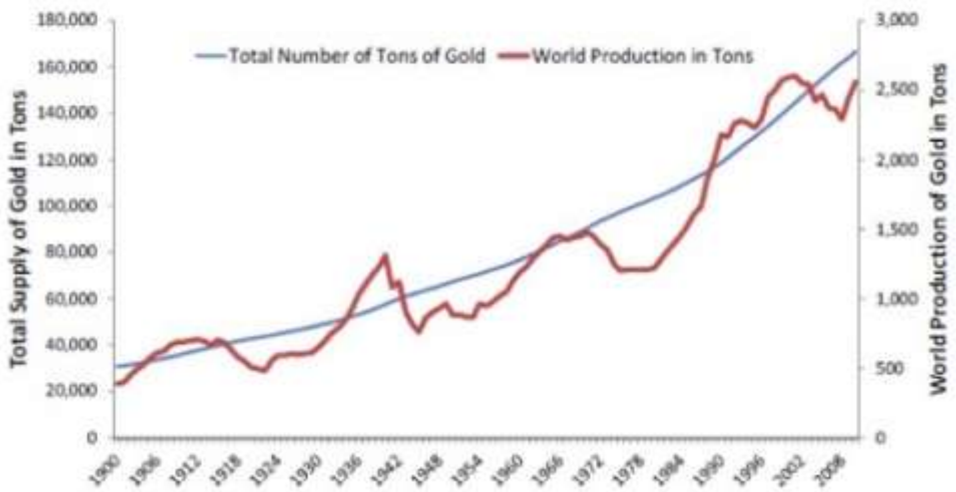
Exhibit 18: Annual Gold Mine Production and the Total Supply of Gold



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There is simply not enough gold in the world that has been mined or will be mined in the next few decades to meet the demand for gold by central banks if they all decide to diversify their portfolios. If the BRIC countries decide to bring their gold-to-currency ratios up to the standard of the US (a standard admittedly declining of late), they would need to find 78,000 tons, not quite half the gold ever mined. If they decided that Switzerland was the "gold standard" for central banks, they would need to buy more than twice the amount of gold ever mined. Neither is possible – and that is just the BRIC countries.

Which brings us to the second reason to buy gold: "central bank insurance."In a perfect world, gold would be a collector's item, shiny jewellery, or an industrial metal. But this is not a perfect world. Central banks can print money and debase currencies. They don't have to; it's a choice, but it's one that is made all too often.

It seems to me that gold rises and falls in relation to any given currency in concert with general concerns about the long-term viability of the obligations of the government issuing the currency. In the US, the price of gold fell after Volcker slew inflation and then Clinton/Gingrich balanced the budget and the US continued to do so until Greenspan began to openly implement a policy of financial repression at about the same time the Bush administration began to run large deficits and lose control of spending. Then gold rose again, and it has gone up even more as the current administration has showed no sign of wanting to rein in spending.

If I were in Japan right now, I would be buying gold or dollars or anything not denominated in yen. I would not worry so much in Norway. I think there are better investments than gold in terms of future buying power. But I am not certain. At the end of the day, I simply don't trust the b*st*rds who run this place. (That is supposed to be a laugh line.) I buy gold as insurance against a government and voting population that cannot get its deficit under control and refuses to control entitlement spending. The numbers are clear: the current system is not sustainable.

While I think (hope?) that wisdom will prevail in the face of certain disaster, the history of governments suggests that it will not happen without a crisis. Governments can do foolish things. It is all too possible that governments worldwide will try various forms of protectionism and a currency war in order to try to boost their own exports. That is not a prescription for stable currency valuations. Just in case things don't go smoothly, I buy a little gold every month.

If the US were to behave responsibly and bring its deficit and entitlement spending under control, then I rather imagine that the dollar would become quite strong over time and that gold would fall in dollar terms. I hope I can decide to pare back my gold purchases next year, as we make good political choices. Right now, that seems unlikely. Taxes are going up, because Republican Senator John McCain and his friends decided not to make the Bush tax cuts permanent back when they were passed. But I see no compromise that will solve the deficit problem. At best, we'll get maybe 30% of the way there, at least with what I see and hear being discussed.

To get the rest of the way there we will need to see even more tax increases in one form or another. The next phase of deficit control will not be done just with spending cuts and reforms. If you believe it will, I have some swamp land to sell you. The current "compromise" that is being attempted is just the beginning of tax increases, not the end of them. The alternative to tax hikes is that we risk a *real* fiscal cliff in a few years. If that plays out, I might want to own even more gold.

Finally, let's assume that we do get a reasonable political solution. Would I sell my gold? No, as it is not an investment, at least not for me. It is insurance against a difficult situation. Can I think of reasons I might sell gold? Yes, but not because things were just so wonderful that I could peer into the future and see a world in which gold would not be needed as a form of insurance against unforeseen events.

I have health insurance, fire insurance, life insurance, and so on. I dearly hope I never use any of them. But I keep buying insurance anyway, because I don't know the future. And the same rationale is what keeps me accruing gold as a portion of my assets.

What portion should that be? It varies with individuals and their circumstances. When I was younger and made less and had seven kids to feed, educate, and clothe, I had less money available to buy gold. Now I am catching up a little. I tend to buy the same amount every month. I take delivery and put the coins in a vault.

I can't tell you what you should buy, but mostly it has to do with your own circumstances and comfort level. Is 5% of your portfolio holdings enough? 10%? I guess it depends on what you might need it for. I see gold as a bridge from what would be a fairly bad scenario (either because of governmental or personal circumstances) to a situation where I could earn an income to cover the daily needs of my family. If everything goes right, on the other hand, I will one day hand over those quaint gold coins to my great-great grandkids.

I truly hope the value of gold goes down. First, that would mean everything else in my list of assets was appreciating. Since gold is a small portion of my net worth, the loss would not be all that great. Second, it would mean I could get more gold-coin insurance for the amount I am spending each month. A hypothetical $10,000 used to buy more than 30 coins; today it only gets you five or six. I am not certain I will like a world where it only gets me three. And I am certain I will not be happy if it only gets me one.

One more thought. *If* things turn out well with the US deficit, I might hedge my gold against another currency managed by a government that was not doing the right thing. There will always be one or two of those around. But we will have to wait a year or so to get to that point.

With regard to buying gold, a few thoughts. I buy gold one-ounce coins (typically US Eagles) and take delivery. You don't need a very large safety deposit box for a rather shockingly small physical amount of gold, relative to the dollars you spent. Would that we could have the problem of owning too much gold for our bank vaults to hold! I want my gold near me and readily available.

I would shop around for the best price I could get. You see ads where companies are selling gold at spot. They can't stay in business long and not make a profit. Someone has to inventory that gold for you to be able to buy it, and that means costs of storage as well as hedging. Markups can cost you as high as 15-20% if you are not careful. A few points in commissions is much more like it. There are any number of reputable dealers.

But do not get talked into semi-numismatic coins. In a crisis those coins will only be worth their gold content. If a dealer tries to "bait and switch," then find another dealer. If you want to collect coins, and many people do (I used to, and understand the pleasure of collecting coins), then by all means go for it. But remember that a collectible of any type is not generally good insurance in a crisis. A crisis is when you want to *buy* collectibles, whether coin or art or antiques.

Second, if you are buying physical gold, you should not be planning to sell any time soon. Commissions can eat up a lot of the price. Gold is a true buy-and-hold asset. If you want to trade on the price of gold, use the gold ETF, GLD.

Finally, a brief commercial. Mauldin Economics is a member of the Hard Assets Alliance. This a group of firms (generally publishers) that have come together to combine buying power to offer gold in an unusual format. The Hard Assets Alliance gives you the ability to buy gold and either take delivery or have it stored in the US (New York or Salt Lake City) or Australia, London, Switzerland, or Singapore. Prices are very transparent. There are typically four large dealers involved, which will bid to either buy or sell at any given time. The price quoted is the average of the lowest three, and the price you get is the lowest at the time of purchase. The price will vary with the price of gold. You can clearly calculate commissions. Storage fees are typically 0.6-0.8%, depending on the country. You can buy gold and have it stored in one of the cities listed above, and then take delivery at some future point in those cities, should you so choose.

Company reports

CITYLDG 12/14/2012

New Sens Announcement (12 Dec 2012):

CITY LODGE HOTELS LIMITED
"City Lodge"
(Reg. No. 1986/002864/06)
(Incorporated in the Republic of South Africa)
Share Code: CLH
ISIN Code: ZAE 000117792

TRADING STATEMENT

In terms of rule 3.4(b) of the JSE Listings Requirements, a listed company is required to publish a trading statement as soon as a reasonable degree of certainty exists that the financial results for the next reporting period to be reported on will differ by at least 20% from those of the previous corresponding period.

In this regard normalised basic earnings per share and normalised headline earnings per share for the six month period to 31 December 2012, are anticipated to be 20% to 35% higher than the previous corresponding period. A further trading statement will be issued, in compliance with the JSE Listings Requirements, once there is further clarity following the balance of the December trading period.

The information on which this trading statement has been based has not been reviewed or reported on by the group's auditors, KPMG Inc. and it is anticipated that the interim results will be released on SENS on or about 13 February 2013.

STANBANK 12/13/2012
Relaxation of certain restrictions on Standard Bank's black share ownership initiative

Given the strategic importance to Standard Bank of its black share ownership initiative, shareholders are hereby advised that the board of directors of Standard Bank has approved the conditions under which refinancing to facilitate the redemption of the preference share debt funding provided by Standard Bank to the scheme participants may be undertaken.

The black share ownership initiative, implemented in October 2004, has been significantly successful to date with value created for black shareholders in the structure in excess of R5.4 billion and cash distributions that have flowed to participants exceeding R1.6 billion.

Standard Bank facilitated the acquisition of Standard Bank ordinary shares by the participants by subscribing for fixed rate redeemable preference shares with a 20-year term (subsequently reduced to 15 years in late 2009). The preference shares were issued at a fixed rate of 8.5% nominal annual compounded semi-annually. Since the implementation of the Tutuwa transaction in 2004, interest rates in South Africa have fallen to historic lows.

A number of participants have approached Standard Bank with a view to refinancing their preference share debt obligations through structures that would entail partially hedging their exposure to the Standard Bank Group share price, thus taking advantage of the prevailing low levels of interest rates.

With approximately two years remaining until the expiry of the initial lock-in period of the scheme on 31 December 2014, Standard Bank has given approval for scheme participants with vested rights to enter into refinancing and/or hedging transactions subject to, inter alia, the following conditions:

- The proceeds of any refinancing must first be applied to redeeming the preference shares held by Standard Bank in the respective structure/s;
- A maximum of 49% of the respective Standard Bank shares held by beneficiaries may be hedged to give share price protection to facilitate a refinance transaction;
- The black ownership levels of the group may not be diluted as a consequence of any transaction, prior to the existing lock-in date of 31 December 2014;
- Beneficiaries are to retain their voting rights; and
- Any such transactions may only be entered into subsequent to the release of the annual results of Standard Bank for 2012 (scheduled to be on 7 March 2013).

Should participants choose to enter into such approved arrangements, any redemption of the preference share funding will improve the group's Tier 1 capital adequacy due to the fact that this funding is treated, under International Financial Reporting Standards ("IFRS"), as an impairment against the group's Tier 1 capital. There will also be a corresponding increase in the number of the group's reported IFRS shares in issue, as held by the structure/s. The number of shares in issue for the purposes of reporting the group's normalised results will be unaffected

COTYLDG 12/12/2012
TRADING STATEMENT

In terms of rule 3.4(b) of the JSE Listings Requirements, a listed company is required to publish a trading statement as soon as a reasonable degree of certainty exists that the financial results for the next reporting period to be reported on will differ by at least 20% from those of the previous corresponding period.

In this regard normalised basic earnings per share and normalised headline earnings per share for the six month period to 31 December 2012, are anticipated to be 20% to 35% higher than the previous corresponding period. A further trading statement will be issued, in compliance with the JSE Listings Requirements, once there is further clarity following the balance of the December trading period.

The information on which this trading statement has been based has not been reviewed or reported on by the group's auditors, KPMG Inc. and it is anticipated that the interim results will be released on SENS on or about 13 February 2013.

NEDBANK 12/10/2012
NEDBANK GROUP AND NEDBANK - CREDIT RATINGS ACTION FROM

On Monday, 10 December 2012, Standard & Poor's Ratings Services issued a media release statement assigning its BBB/A-2' long- and short-term counterparty credit rating to Nedbank. This rating is in line with the rating for FirstRand Bank Limited and Standard Bank of South Africa Limited. Standard and Poor's also assigned its zaAA/zaA-1'South Africa national scale ratings and a negative outlook on the ratings reflecting that of the South Africa sovereign rating.

Following the assignment of Nedbank's ratings at the same level as the previous unsolicited rating of Nedbank Group, Standard & Poor's has affirmed and withdrawn its BBBpi (public information) ratings of the group as this has been replaced by the assignment of ratings to Nedbank.

Nedbank Group's Chief Executive, Mike Brown, said "Nedbank Group has continued to strengthen all aspects of its balance sheet and we are well-positioned to weather a tough economic environment. Our coverage ratios are amongst the highest in the industry. At 29 October 2012, the group's common equity tier 1 improved to 10,7% and the group's funding position also remains solid."

The ratings score snapshot is provided at the end of this announcement.

HYPROP 12/4/2012
NOTIFICATION IN TERMS OF SECTION 45 OF THE COMPANIES ACT 2008

As previously announced, Hyprop has entered into an agreement with the Atterbury Group as a co-investor in a Mauritian based property investment company, Atterbury Africa Limited ("Atterbury Africa"). Hyprop's initial shareholding in Atterbury Africa is 37.5% with a commitment to invest R750 million in the fund over the next 5 years. Atterbury Africa's primary strategy is to develop and own quality shopping centres in Africa. Hyprop has received exchange control approval for its investment in Atterbury Africa.

At the annual general meeting of Hyprop, held on Wednesday, 20 June 2012, unitholders authorised by way of a special resolution, the provision of direct or indirect financial assistance to related or interrelated companies, as contemplated in terms of section 45 of the Companies Act 2008 (the "Act").

Hyprop unitholders are advised that pursuant to such authority the company has provided security on behalf of a wholly-owned subsidiary, Hyprop Investments Mauritius Limited ("Hyprop Mauritius"), for a loan of USD40 million (the "loan"), which Hyprop Mauritius has raised by way of a bank loan and which will in turn be advanced to Atterbury Africa as a shareholder loan (the "financial assistance").

In terms of section 45 of the Act, the board has satisfied itself that:

- the terms under which the financial assistance is to be given are fair and reasonable to Hyprop; and that
- Hyprop meets the requirements of the "Solvency and Liquidity Test" as contemplated in secti

DISCOVERY 12/4/2012
RESULTS OF GENERAL MEETING

Shareholders are advised that the special resolutions approving the change of the Company's name from Discovery Holdings Limited to Discovery Limited and the adoption of the Company's Memorandum of Incorporation were passed by the requisite majority of votes at the general meeting held today.

The special resolutions will be lodged with the Companies and Intellectual Properties Commission in due course.

ASPEN 12/3/2012

COMPLETION OF ASPEN GLOBAL'S ACQUISITION OF AUSTRALIAN PRODUCT PORTFOLIO FROM GSK

Shareholders are referred to the Aspen Holdings SENS announcement of 15 August 2012 in which shareholders were advised that Aspen Global Incorporated ("Aspen Global"), a wholly owned subsidiary of Aspen Holdings, had reached agreement with GlaxoSmithKline plc ("GSK") for the acquisition of a portfolio of 25 established pharmaceutical products ("the Products") distributed in Australia ("the Transaction").

The Transaction was subject to the following conditions precedent:
-The approval of the Australian competition authorities; and
-The approval of the Australian Foreign Investment Review Board.

Aspen Holdings is pleased to announce that both these conditions precedent have been met and that the Transaction has, as a result, been completed with effect from 30 November 2012. Shareholders are further advised that the final consideration in respect of the Transaction has reduced from GBP 172.0 million to GBP 163.8 million. This reduction was due to the completion of the Transaction being subject to one of the pharmaceutical products originally included in the Transaction being excluded and the completion of the Transaction being delayed beyond 31 October 2012.