The Investor

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

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"I want in now...the mindset that has enslaved the world

By Richard Cluver

Everybody understands compound interest. After all we all learned about it in primary school arithmetic………..or did we?

Do readers really comprehend the dramatic power of compounding and how they can choose to either harness it to their personal benefit or, as the vast majority actually are, be enslaved by it?

To put the subject into perspective we can do worse than turn to Albert Einstein, the father of relativity and nuclear fission who, when asked to name mankind's greatest invention is reported to have answered: "Compound interest; it is the most powerful force in the universe."

Used to its best advantage, compound interest has the power to make billionaires of the lowliest of men and to effectively enslave the great majority who choose to borrow money to fund the perceived necessities of life. To illustrate the point, if you are an average middle-income South African earning around R200 000 a year and you are prepared to save half of your income each year and invest it compounding at a very modest 10 percent a year, you will achieve a million Rands in under six years; enough to pay cash for your first suburban house.

If, instead, assuming again that you earn R200 000 a year, and that on the day you first start work you manage to secure a R1-million home loan which you elect to repay at an even lower compound interest rate of just 8 percent, you will need to pay a monthly instalment of R8 333 – **that is half your pre-tax salary** -- and you will have to keep it up for the next 50 years.

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on your original loan of R1-million you will actually repay the bank a total of R5-million. So the first option of saving just one fifth of your income offers you the promise of early freedom while the latter commits you to paying most of your after-tax salary just to pay off the loan. The latter can only be described as bondage…. just another word for slavery. And for what? R1-million even in these times of depressed property prices will only buy you a very modest home in a working-man's district. So the choice is yours; freedom at small cost in just nine years or a life-time of bondage!

Now it is time to recognise that our society has been seduced by a wicked illusion. The Hollywood dream of the young man who claims his just reward for the years of effort in studying for a university degree: a well-paid job, a home with a white picket fence and marriage to the sweetheart who has patiently waited for him through their student years; in reality these are collectively really a trap for the unwary.

To marry before you have had a chance to save a respectable nest egg might be OK if both are prepared to work and save together. But add in a home and a car and furniture all paid for on credit and you have a classic formula for modern slavery: the perfect mechanism to ensure that society's brightest and most hard-working young people will be obliged to keep on working day after day for the rest of their lives with the major benefit of their labours actually flowing to the very few who are smart enough to see through the plot and earn for themselves the title of 'Capitalist'.

And it is but a short step from this point to see why people enslaved by debt can so easily turn revolutionary; why for example there are currently Greek people marching in every village and town demanding the overthrow of a system which has allowed them for decades to spend money that they have not earned while as a nation they have built for themselves a mountain of debt for which they are now demanding that someone else should pay.

And lest we get too smug about this thought, we should also remember that eight out of ten South Africans are in the same boat! So, if I have held your attention so far, it is time to take one of the biggest decisions of your life. Do you, like most people you know, want to be a slave for the rest of your life? Or are you prepared to expend a minimum amount of effort to master the financial system of the modern world? Would you like to walk with me down the road to untold wealth.

Would you like to become a 'Ten Minute Millionaire'….ten minutes a day. That's all it takes.

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.*

Using ShareFinder Effectively

By Richard Cluver

As distinct from this publication which is free to anyone who requests it and which aims at educating readers in the art of investment, I also publish the Prospects newsletter service, a paid-for weekly column backed by a monthly analysis in which I tell readers which shares to buy and when to both buy and sell them.

Provoking considerable discussion from readers of Prospects lately has been the Prospects Portfolio which has gained 31.6 percent in value since it was launched just a year ago. And with it came a problem: investors who woke rather late to the performance of the portfolio and wanted to replicate it at a stage that many of the ingredient shares had soared in price rendering them not nearly as attractive as they were when I bought them.

The answer, of course, is to buy immediately whenever I add new shares to the portfolio. As an alternative, we could consider injecting another R1-million into the portfolio which would provoke fresh buying activity. So I have asked readers for their opinion. And since most Prospects readers are also readers of The Investor, I am repeating that query here.

An early response came from Mr HM who said he was happy with the Prospects 2011 portfolio as it was though he criticised the inclusion of two of its shares and he offered his personal selection strategy: “Every 2 to 3 months I export an Excel report from ShareFinder "Quality List". Then I sort them in order of 5 years Annual Growth from top to bottom, and <u>throw away everything below 15%.</u>Then I add data to give me 15 (or fewer) Years [1], 5 Years [1.5], 1 Year [2] and 6 Months [2.5] <u>annual</u> growth; and I also check 1 Year Earnings % growth. Then I calculate with the weights in brackets an average figure for each share and sort from high to low. This gives one quite a good idea which are the best shares.”

I thought readers would be interested in his process which is nearly identical with that employed in developing the Index of Value which we used in early ShareFinder modules.

Judging shares by their appearance

When, a few years ago, I discovered that my wife was no longer buying her groceries at PicknPay, I wondered why. At the time I held a significant number of their shares, and so I started asking her friends where they shopped and, upon learning that PicknPay no longer figured on their lists, I went looking for myself and concluded that the Natal branches were looking a little tired. So I went back to my charts and saw that PicknPay was losing ground to the other food chains….and I sold the shares early last year, saving myself the pain pictured on the right.

Among the shares I bought with the proceeds were Clicks whose business model I had long admired. So imagine my consternation when I learned that a number of my friends were no longer shopping at Clicks because, they said, they had received unhappy treatment at the hands of Clicks staff. Well I went to check it out for myself and was so rudely treated by the Westville branch staff that I felt moved to advise them that I would no longer do business with them. Worse, I have twice e-mailed CEO David Kneale to express my concern and had no response whatsoever.

So I ran a Base 100 comparison graph comparing Clicks (red trace) with Aspen (blue trace) in the graph on the right illustrating just how in a comparative sense the investing public has been treating Clicks lately.

What do readers think? Does it make sense to judge a book by its cover? Warren Buffet certainly thinks so and I am beginning to believe this is a vital additional test.

By Invitation

Dr Cees Bruggemans
Chief Economist First National Bank

After being missing in action for two years, ever since the World Cup soccer ended, with civil engineering turnover dropping 40% in 2010 and barely lifting off the floor last year, it would seem the nation is being prepared to get another adrenaline boost in what remains of this decade through infrastructure construction and other accompanying efforts.

The winning of the World Cup Soccer bid in 2004 unleashed a wave of focused infrastructure commitment. Across much of the public sector the carrot was held high. If the nation was going to be a successful host, much was needed to be done. This resulted in many major infrastructure projects being launched in close wave-like proximity by mid-decade. The operational term was 'bunching'.

It turned out the private sector was after all quite capable (as steadfastly predicted) of meeting this increased workload but many public sector entities experienced capacity problems in sustaining the pace. In too many instances it turned out to have been too much of an effort, with not enough public means to sustain the challenging pace. As projects were completed, there was too little follow-through. A period of consolidation followed.

But with the economy struggling, political promises not being met and many infrastructure pressures mounting, political focus appears to have finally been regained. The earlier indigestion has sufficiently receded for a new effort to be possible? Thus we find in recent months apparently a renewed focus on infrastructure needs and the imperative of launching another wave of major projects to strengthen the longer term growth performance of the country and thereby reinforce political continuity. This practical push follows an extended period of policy conceptualisation, in which petty bickering was a major feature. Looking back, one can see the shrill demands from the fringes for nationalisation being denied and the push from the Left for a New Growth Path being eventually subsumed in a counter-push from the Centre for its Vision 2030, a common sense based approach offered up by the National Planning Commission.

This synthesis seems to be close to complete, with the "new-new" policy emphasis offering a clearer picture of greater state intervention in the economy across a wide spectrum of initiatives. There is a wish for more import-substitution and export-beneficiation to push industrialisation, with a greater regional use of export-zones, a greater emphasis on resource nationalism to gain greater state rents, a massive infrastructure effort to debottleneck export capacity the old-fashioned way and for private finance to fund most of it (about which presumably more in this week's budget as institutional means are invited to get mobilised).

The entire effort isn't without its contradictions. From the moment the new political dispensation took hold in 1994, the new government's main choice was for power maximisation, given the historic backdrop and the non-negotiable determination to secure the long-term future in her own image, leading to cadre deployment on such an overwhelming scale that over the intervening years it prevented growth maximisation due mainly to a mismatching of skill and talent in the economy. This focus hasn't apparently changed much (if it hasn't intensified). Power maximisation remains the main objective even if alongside it there remains the outspoken wish for growth maximisation to address poverty and inequality, except that the latter has struggled to be achieved, given the many supply side handicaps put in its way (as if it was some Sea Biscuit capable of still outperforming even against the greatest odds).

Instead of growth maximisation flowing naturally from the country's resource deployment, the pace at times had to be forced despite debilitating weaknesses, not unlike a budding Olympic athlete following the wrong diet and lifestyle, yet forcing herself from time to time to compensate through extraordinary effort and focus (though with no results guaranteed). Despite woeful education results, mounting supply side bottlenecks in electricity, rail, municipal and water capacity, underperforming exports relative to EM peers, with the public sector struggling to meet its targets as too many of its cadres favour operational over capex budgets, and the private sector intimidated as much by awesome global risks as the many domestic political agendas, the economy has nevertheless struggled onwards, achieving modest growth of 3%, maintaining financial stability and even achieving some structural change through very limited employment expansion.

Be that as it may. The objective of power maximisation isn't going to go away, while need for performance and social delivery continues to mount. And thus again the wish for yet another redoubled effort, another wave of focused trying, as the country attempts to boost its performance in the coming decade, with important leadership decisions ahead.

Certain import-substitution efforts in public procurement linked to long-term energy and rail transport investment makes an awful lot of sense. There are natural economies of scale, the technologies aren't beyond us, there are long lead times, was done before for decades to great effect (prior to 1985) and why it took so long to restart these efforts is anybody's guess.

Export beneficiation is more challenging, for the state seems to know more than private market interests as to how to channel the fruits of our endeavours, and possibly willing to spend extra on incentives to steer such efforts. But whether this will amount to genuine value-added maximisation, when taking all costs into consideration, remains to be seen. The same applies to increased resource nationalism, where the state appears to want to increase its rent from the natural resource endowment, but hopefully without causing private participants to withdraw, or becoming unwilling to participate in future.

More promising is to focus anew on debottlenecking our now very tight infrastructure constraints in order to get a much greater traditional export effort going. Presumably this is in addition to the existing R800bn three-year public infrastructure budget (mainly incorporating Eskom power station, municipal, provincial and existing rail and road efforts).

We were told in the State of the Nation speech earlier this month that there will be major rail, road and water/dam efforts in the east, north and west of the country over the next five to seven years that look like being additional efforts. To this picture we can quietly also add the next wave of Eskom commitments beyond its current two coal-fired power stations and private electricity efforts, which will be in a class of their own in the 2020s (some coal-based, much of it presumably nuclear, along with renewable).

But where's the money going to come from? Presumably not from an increased tax burden (unless you want to add increased disincentive to insult in hobbling the economy yet further), while saving on operational budgets is likely to be vigorously resisted by the many cadres so preoccupied.

That leaves institutional means, provided it doesn't become an invitation for higher tax burdens by refusing to pay market finance charges and thereby impose a social-minded contribution. This brings other contradictions to the fore. We would apparently love to be like China, another developmental state, which has organised its affairs in such a way that it has access to unlimited pools of citizen savings at minimal costs, as citizens are starved of consumption alternatives while the absence of social safety nets forces them into desperate levels of saving, with alternative personal investment capabilities carefully limited, leaving only low-return cash deposits.

Such a feature marking true developmental states doesn't apply to us, and neither does the notion that unions will be tame or non-existing and public sector bureaucrats proving superior in allocating investment funds and running industrial projects. It just doesn't describe our many complex realities. Yet this apparently may not prevent anyone from trying. This week will show whether our capital market will be pushed into action, tapped by public corporations and government issuing a lot more debt and on what terms.

The political will seems to be gearing up for another big infrastructure push and it will be interesting to see the time-tables unfold, and business, markets and public taking time to absorb the magnitude and adjust their thinking. It would seem 2013-2016 could see a major industrial effort underway, which if it materialises would rub off on the private sector, encouraging it to extend its planning horizons and gearing to meet the opportunities on offer, in the process upping the growth rate yet further and creating more employment opportunities which would also bolster household incomes and consumption (and government tax coffers).

Still missing in action for some time is likely to be household credit-based consumption as the new credit culture will take some years fully vesting. This should limit household consumption growth to its pace of the recovery to date. This would free available resource space in the economy for the public and private investment effort and export catch-up. So there is promise beyond 2012 as the country gears up for yet another wave of focused effort. It now remains to be seen just how focused we will get this time.

Restoring European Equanimity

This is not the story about a Europe Restored as after the Congress of Vienna following the Napoleonic Wars in which Metternich figured so prominently, a topic best left to Henry (Kissinger).

But there are parallels. And though it isn't a Austrian who plays the strategist du jour (thank goodness, remembering the last Austrian who tried), there is much that reminds of all that distant haggling, even if it is more modern and the technical aspects of today (but not the principles) totally foreign to that earlier world.

Breaking into the story at a similar moment, just after a devastating Great War, we do no longer find ourselves negotiating the post-war world (for that had been done) but we already encounter the first germs of efforts that would fundamentally redefine that world within a generation, and then much more thoroughly within another generation – our modern epoch. But to start with those early stirrings, a free trade zone is the lowest-cost trading opportunity for otherwise sovereign national states.

Instead of naturally trying to protect one's own producers and making things difficult for outsiders, far more benefits flow towards both when allowing free unencumbered trade between them.

Beyond this lie even greater transactional and scale benefits to be won when not only trading as one market but also having one currency, the lowest risks due to the backup of a common tax base and borrowing ability, the lowest interest rates made possible by large liquid capital markets and the forced convergence of structural rules due to common competition and social policies. It is difficult enough, after millennia in the nationally-independent trading jungle, to get all stakeholders to agree to a regime of free trade, allowing foreigners in without hindrance (and gaining access to their markets), especially when talking age-old enemies.

But for these same people to get even more intimately involved, giving up cherished local rights in favour of a Common Home where one's own cultural values no longer prevail or are even recognized, is an order of magnitude more complex and challenging (and totally impossible according to a very large number of people).

This may be easier to achieve when still in a raw state of development (the United States a mere 150 years after the first English settlers arrived), but quite a different challenge in a very old continent with many historic cross-currents. An act of war may achieve it if thorough and long-lasting enough, though neither French nor German attempts succeeded in overcoming internal (and external) resistance. Empires have always been so doomed. So when in the post-WW2 period Europe ever so hesitatingly moved towards greater voluntary cooperation and integration, there were a few ardent champions and dreamers and many coldly realistic naysayers, theoretical and nationalist.

This isn't going to work. But a fearful past that made many willing to look for new anchors with which to tie potential belligerents, the economic benefits of greater integration and the future challenges offered by a changing world dominated by a few behemoths exerted more and more pressure to make historic compromises and dissolve into a greater European whole.

This is not to say that everyone came to the party with pure intentions. Some felt a historic urge to domination, others a historic guilt, yet others a historic urge to self-preservation among neighbourly bruisers, and yet more with a wish to divide and rule. This made for a playing field rich in political trade-offs and manoeuvring, much more disagreement than agreement and a very longish gestation with no certainty of eventual success. It was to be a process akin to overcoming gravitational bonds keeping atoms together and electrons bonded to them. Prying these apart would require much energy, just as forcing them together would release much energy.

Anyway, in painful step after painful step the few became many as they integrated economically, eventually progressing to currency arrangements which were never stable enough, all the while with a distant goal before them of fully integrating all their societal rules, get one currency and one central bank and also succeed in governing their national finances in a way that all adhered to the same disciplines, as if being one country instead of still being many sovereigns representing very diverse peoples and cultures under one common roof. By the 1980s the Common Market ideal had progressed remarkably and the remaining shortcomings were obvious, as regular financial strains and stresses showed.

And then came the historic moment, ending the post-WW2 era, made possible by the failing of Russia and its communism, where in the course of a dangerous interlude leading who-knows-where historic deals might be tried. Germany, divided after WW2, saw an opportunity to re-unite if it could obtain agreement from Russia (in return for considerable economic assistance) but also from its old enemies and now allies on the continent in the West. Her main Western adversary (France) wanted to tie her down in a net of interdependencies so that the past could not repeat itself, with France in a position of strength to influence the way forward.

Germany herself, in terms of her then leader Kohl, felt it advantageous to be tied into Europe more permanently for not altogether different reasons. And so their deal was done, both agreeing to a monetary union of the willing in return for allowing German re-unification. The smaller and weaker European states also promised not to oppose German re-unification in return for considerable economic development assistance. And America gave its distant blessing, preferring a stronger Europe next to a weakening Russia. Only Britain had very long-running doubts about all of this, but after a millennium of strife this was understandable, though not allowed to stand in the way of the Deal.

And so Russia washed its hands of East Germany and in the process of all of central and eastern Europe, Germany reunited and started the long and costly process of integrating what were by then totally alien societies, the payoff to the weaker European states was set in motion with infrastructure subsidies as similar monies flowed to Russia and other central and eastern European countries, and the concept of a monetary union started to be fleshed out in the West. This ultimately cold-blooded marriage of convenience between hugely diverging states had absolutely nothing to do with first-rate solutions to economic problems.

It had everything to do with history, politics and safety concerns, though never losing sight of the opportunity of gaining advantage or a few easy bucks, nor for the Germans ever to lose sight of the view that certain things were far more valuable than the mere money that it would cost to achieve them (and that in any case the money so needed came more effortlessly to them because of their innate abilities and discipline than to any of the other sovereigns).

And so, on the back of a cigarette box, the outline of the biggest deal in European history could be sketched, arguably even outranking Yalta and Vienna, with the eventual economic and financial agreements similarly simplistically agreed. For though the eventual monetary union, its single currency and single central bank, with all the rules governing their behaviour carefully thought out and submitted to paper and signed off by all participating (and there was increasingly a growing legion of those throughout Europe seeing the advantages of belonging to such a rich club), it didn't mean that everyone necessarily wanted to pursue all the ideals equally in spirit. But we mustn't run ahead.

As the EMU (European Monetary Union) was launched, and the ECB (European Central Bank) was created, eventually followed by the single Euro currency, seemingly only benefits started to flow. The initial Russian payoff, smaller European payoffs and the start of East German integration had set in motion such huge transfer monies from Germany, boosting spending all round, that monetary overheating was judged problematic, inviting the Bundesbank to conduct a tight money (high interest rate) policy (the very thing the French finally wanted to overcome) and effectively causing all of Europe to struggle with growth in the 1990s while all these geographic changes were digested.

But the bigger payoff for the entire continent came after the millennium crossover once ECB and Euro were launched, for the huge subsidies still flowed south and west, feeding infrastructure booms. More importantly, institutional investors treated Europe now as indivisible and as a whole much less risky than the individual parts, allocating the entire region effectively German risk premiums. For many countries this meant a dramatic decline in interest rates and a dramatic increase in leverage and economic activity, with such booms favouring the Germanic tribes substantially, too, through strong export trade.

The subsequent prosperity throughout Europe hid much. It was only after the Anglo-Saxon banking crisis of 2008 unhinged markets and economies, triggering a major recession, and setting in motion huge fiscal rescue efforts ballooning national debts (bank-based in Ireland, property-driven in Spain, recession-caused in Portugal and Italy, and much more complex in Greece), in the process causing all EU banks to become deeply enmeshed in its snares, that a deeper horror realisation dawned.

The Monetary Union was fatally flawed. Few had played by the rules. Many had overreached. Many sovereigns were in over their heads and most EU banks in deep trouble. Large financial losses were already a fact, to be felt by EU bank and insurer shareholders and EU pension fund participants, while taxpayers everywhere faced rapidly mounting national debts. Worst of all, structural divergences between member countries led to divergent trade competitiveness and growth, and the ability to sustain fiscal debt burdens. Electorates of the richer countries were furious at countries which had not kept to the original agreed rules. Financial markets were eager to safeguard their interests, minimising exposures. Few knew what it was like to really play by the rules.

Only from late 2009 a disarmingly honest acknowledgement by an incoming Greek prime minister that all was not well with his national finances had started the ball rolling, in stages unmasking the deeper rot there and elsewhere. Especially Germanic electorates were appalled. Markets in stages became uncertain and anxious. Politicians feeling their way through many complexities tried to buy time, but in the process fed the suspicions on all sides, causing the angry reactions to deepen.

Out of this terrible conflagration came eventually a very clear Germanic directive, if like an onion delivered and peeled in stages and having to be tearfully translated to the unwary and those in denial. As richest region, the Germanic tribes were not going to bail out anyone upfront. Instead, why waste a perfectly good crisis to get some really needed changes going? Breaking up would be the easiest thing to do, but also the costliest (the longer everyone thought about this option, except when residing across the Channel).

The cheapest option was for everyone to get into line soonest, achieve fiscal rectitude (even if they had never known it before), learn to play by common rules (even if they had never done so before) and reform their economies to the highest standards of common flexibility (even if they had never known or thought about it before). This clearly was going to be a drawn out process. Going by earlier British (Thatcher) and German experiences, at least 10 to 20 years.

For the duration, markets would have to be kept at bay and electorates in different locations on board. This would require both fiscal and monetary support actions and simultaneous messages denying the irresponsibility of doing so, a remarkable Janus-like performance by many heads of state, finance ministers and ECB board members (a coterie of at most 60 people). In the process, space was being created in which focus could be placed on the weakest Eurozone members, now known as peripherals, not primarily to bail them out but to first and foremost get them to reinvent themselves and as part of this process perhaps in the most exceptional cases in the end bail them, too. This spectacle is now, after 30 months, already far advanced. The markets have panicked and stampeded but have been reined in, so far for less than €1 trill in outlays by politician lifeboats (EFSF), ECB and IMF. In need all foreigners could presumably be bought out with a few more trill (but hopefully it won't come to that).

In some wonderment markets have watched and been wooed, hardly totally convinced yet but sometimes these affairs take time to blossom and conviction to settle. Electorates remain as angry as ever at what has happened though the anger tends to differ, depending on location, exposure and sense of the future. Remarkably, majorities everywhere seem to sense the advantage of sticking together into the future, even as elites don't always dare consult their voters directly or too often.

As things stand, politicians are hewing to their course of not giving up on Europe or the Euro and so far this has worked. In at least five countries governments have been replaced in elections or voluntary sidestepped on demand from the outside, in all cases followed by even more earnest reformers. Greece is presumably about to become a complete ward of Europe after agreeing to the most painful fiscal austerity (undoing years of misplaced largesse) and agreeing to fundamentally reform its economy (after 170 years of having been unable to do so once it had escaped from Ottoman rule). In lieu, it gets its national debt halved sustainably through 2020 at bearable interest rates and is allowed to continue participating in the Euro while its financial and structural reforms are seen to be implemented.

Others, such as Italy, Spain, Ireland, Portugal, Slovenia, France and Belgium are all hard at work reining in their national finances, tightening up on governance and reforming their economic rules so as to make their societies more flexible and trade competitive and able to participate in the modern Europe that is now slowly taking shape (with many in central and eastern Europe still ambitious to join in the longer term). As each country works on its own profile, a few more Greek-like moments are quite likely where the outcome is unclear and more support from rich neighbours and from the ECB for banks may be needed.

But as time goes by, and results vests, the Europe taking shape may be a more robust version of what had stepped so light-heartedly into its marriage of convenience back in the early 1990s (Treaty of Maastricht 1991) or the one that delighted many beyond belief when it started to thoroughly enjoy the innocent advantages of monetary union from 2000 onward, not knowing what awaited at the end of the decade. People still ask whether Europe will collapse and fragment or that individual countries could fall off the wagon, taking the entire House down with them. One should never say never. But the European determination on display in every dimension is impressive. Perhaps foolhardy to some, but for as long as enough Europeans see greater advantage in sticking together one must expect that to be the main inclination.

Perhaps all this with remarkable offers made by some as they are required to reform in an instant what took others much longer to achieve, but that is an expressed preference rather than face the horrors of being bankrupt and in the wilderness with few friends, many foes, and known politicians from hell, as known in the past.

Markets will remain cautious, and will need to be delicately handled, presumably now somewhat easier after all the Germanic wrath has been largely spend (on Greece) but there even so remaining remarkable sensitivities that need to be carefully handled. Other than that, reform is a hard long and painful slog taking many years, during which few things (politically, economically, financially, socially) will remain the same, making one wonder where all this is likely to end.

The historic irony, though, is that first principles are likely to prevail, of financial discipline, good governance and sound structural policies aiming to achieve best performance.

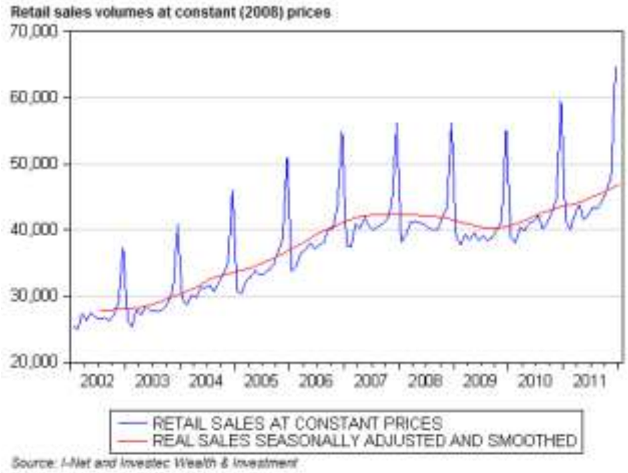
A stronger Europe will likely emerge, to face an ever changing and more intimidating world. Its modern Germanic makeup will probably serve it well in maintaining itself in that unfolding world.

It will indeed again be a Continental World Restored when it gets there, even if Henry will have to search long and hard to recognize 19th century Europe in its modern 21st century successor.

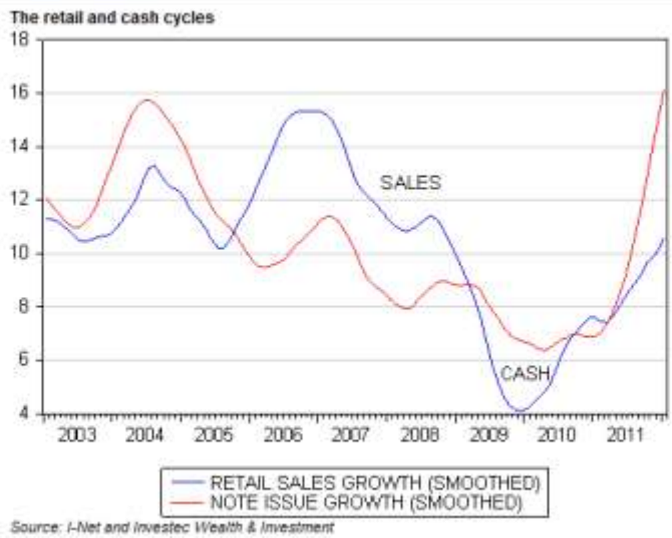
Stockbroker’s views

by **Brian Kantor**
Investec Securities

Stats SA has confirmed the strength of retail sales volumes in December 2011. Strong intimations of this had been provided by cash in circulation and by the trading statements of the retailers themselves - and indeed by the share prices of the retailers themselves to which we have drawn attention. As we show below, retail sales volumes have recovered strongly from the mild recession of 2008-09. As we also show, the growth cycle in retail volumes, having seemingly peaked in mid 2011, appears to have picked up momentum again. Real growth in December was of the brisk order of an 8% annual rate.



On a seasonally adjusted basis, growth in retail volumes for the three months up to December was at an even more impressive 16.4% annual rate, up strongly from growth recorded in November 2011. In money of the day terms, retail sales were 13.25% up in December on a year before and retail prices were 4.23% up on a year before (compared to headline inflation of 6.1%).



In the figure on the right we show the relationship between the cash cycle and the retail sales cycle (both cycles represent smoothed growth). If the past is anything to go by, the recent surge in demand for and supply of cash bode well for retail sales growth in the months to come. A further up to date hard number, in addition to the note issue and unit vehicle sales, has been released for January 2012. These are cement volumes sold in the month. These sales too have shown very strong recent growth despite weakness in mortgage lending and flat house prices. Perhaps house building activity as well as renovation activity have picked up. However information on building completions and renovations is months out of date (latest data is for November 2011) and we will have to wait for confirmation of any such improving trends.

USA Comment

By John Maldin

We are coming to the point in the United States when even the US government will no longer be able to borrow at very low long-term rates. That point is a few years off, and we have time to change paths; but as I have shown in previous letters, the longer we wait to get the deficit under control, the fewer choices we have and the more painful they are.

NO country can run deficits the size we are currently running, along with unfunded deficits over four times the size of the economy and a growing overall debt burden, without consequences. At some point, investors in bonds will start wondering exactly what the process is by which they will be repaid. And what will the value of those future payments be? One by one, the countries of Europe are losing their ability to sell their bonds at an interest rate that is sustainable for their economies and revenue bases without severe and socially disruptive restructuring, even if a central bank that will accommodate their spending by printing money or other countries will tax their citizens to pay for someone else's debts.

The US will soon be faced with that same problem if we do not act soon. Will it be 2014? 2015? 2016? I think it will be earlier rather than later, as the bond market will look at Europe and what will soon be an imploding Japan and decide that the US is only different in size and scale. The interest on the debt is a growing part of the overall budget, and any rise will put severe constraints on spending or force large tax increases or require the Federal Reserve to monetize the debt. None of those have positive outcomes. Ignored long enough, it will bring about another Depression.

This week we will explore some options to actually resolve the deficit and debt crisis. Cutting spending or raising taxes have consequences, but not all cuts and not all taxes are the same. For those who have been wanting more specific solutions from me, I am going to address the issues surrounding taxation and offer my thoughts as to what we should do. Let's see how many friends and readers I can upset this week. And I close with a few brief thoughts on writing, the coming employment crisis (will two billion jobs really disappear?), and advice for younger readers.

Before we dive in, I want to respond to a lot of letters and blogs about last week's letter, which also handily works as a preface to this week's musings. There were a lot of comments pro and con about my thoughts on various historical events. In quick review, I offered numerous thought experiments about what would have been different ***economically*** following a presidential election if their opponent had won. It was mostly an alternative-history type of speculative process. There are whole book series written with such a premise. What would have happened if the South had won the Civil War or Germany World War II? Total speculation as to the details, open to much disagreement.

And disagreement there was over certain interpretations of history. Would Al Gore (or pick your alternative president) have done certain things differently? Possibly, and maybe even probably. Such speculations are totally open for debate. But nearly all disagreements missed my main point, which was (and is) that presidents take the credit for good economic times and get blamed for bad times, when the reality is that they don't have all that much control over the economy, especially in their first four years in office. They take the oath of office and their first budget isn't even offered until 13 months later and then maybe adopted later in their second year, with lots of changes. With lots of compromises. Hardly time to radically affect the economy by year four of their term. Some changes? Yes, of course. But the main direction is already set, and they are really affecting the future more than their present time.

I argued that you really have to go back to Reagan to get serious change of direction, and even then you can argue that it was Carter that appointed Volcker (though I doubt he thought Volcker would create a major recession in an election year). Does anyone really think Reagan wanted a second double-dip recession in his second year in office? The legacy of Reagan was just beginning in 1984, and I will argue below that it was the restructuring of taxes in 1986 that provided the largest and most lasting contribution in terms of economics.

The Answer We Don't Want to Know

Further, I believe that dealing with the deficit crisis is the single most important factor for the future of the Republic This (upcoming) election is ultimately about dealing (or not dealing) with the deficit, and putting the country on a path to a sustainable budget deficit, one that is less than the growth rate of the country. As I have argued elsewhere, and will argue in future letters, that is the paramount issue. Not dealing with the deficit runs the very real risk of the bond market treating us just as it is treating Italy and any other country that gets to the point where its debt is unsustainable. Not this year or the next for the US, but almost certainly before 2016. And once the bond market loses faith in a country, it takes a massive restructuring to restore that confidence. And we can see how that is playing out in Europe.

The next president must have the ability to get a consensus. Let me shock a few of my fellow Republicans and say that I think the deficit is such a deadly disease that it would be better for the country for the Democrats to be in power and forced to deal with the situation than to do nothing. I would not like their solution, and I think it would be harmful, but not as harmful as a second Depression, brought on by not dealing with the deficits and entitlement problems.

As a businessman, I would rather pay higher taxes on profits than to have no profits at all. Just tell me the rules and I will figure out how to adjust. A Depression 2 would mean 20% unemployment (at least) and a real lost decade, with the Boomer generation trying to figure out how to deal with no money and no jobs and being old.

And the choices we would be forced to make? The spending cuts would be far deeper than anyone can now imagine, and the taxes needed far greater. Think what happens when any country has hit that debt limit. Greece is not having fun. And either Italy is going to be unhappy with the longer-term recession it will have, or Germany is going to be unhappy with the ECB backing Italian debt at below-market rates for a long time, which means printing money and a much lower euro. Actually, I think both must happen if the euro is to remain a viable currency. That's just what happens when you don't deal with deficits before they become a problem.

If Italy is to remain in the euro, there must be a back-door bailout by the ECB, accompanied by Italian austerity (is that an oxymoron?). And don't forget Spain.

What would the Fed do in such an event? Does it succumb to the worst fears of the Austrian economic crowd and monetize the debt in an effort to fight deflation and depression? Does it trash the dollar and make gold bugs happy? Or does it find its inner Bundesbank (Austrian) core and eschew the easier way out, forcing the federal government to cut spending and raise taxes while interest rates are rising? This is a question to which we do not want the answer. Whether it's yes or no, the answer is a disaster. Just choose the form of disaster you prefer. To the unemployed, retirees, and the young, it will make little difference. Ask our grandparents (or my father and mother), who lived through the Depression. And doing nothing will mean that we find the answer to that question. The very answer we want to never know in real life. It makes for interesting speculation now, but living through it will be hell."

The Cancer of Debt and Deficits

The growing debt and the deficit is a deadly cancer on the economy. It will deliver a mortal blow to the economy if not dealt with. As I recently experienced in my family, it is better to deal with a cancer as soon as possible. Putting off treatment will not make the cancer go away by itself, and the cancer of our debt is clearly growing and malignant. It will soon overwhelm our national economic body. But dealing with a cancer is not without cost and pain, whether on a real personal level or a metaphorical national level.

The problem is solvable. It is not that there are not a lot of solutions. It is that we have not yet found the political will to decide what course of treatment is needed. Let's start with a few basic presuppositions that I think must be addressed in order to marshall an effective set of choices.

1.**It has to be politically feasible.** The Right would like to address the problem with spending cuts and reforms. Reforms and spending cuts are necessary but not sufficient to deal with the problems. For instance, disability payments are now running $200 billion a year and growing rapidly. Some 25% of those unemployed since the beginning of this crisis have somehow qualified for disability payments. We can cut the time allowed for unemployment benefits, but that does not offer large numbers. Government transfers now account for 22% of household income. Cutting that will be politically difficult.

The real problem is health care. How much do we want and how do we want to pay for it? Health care must be thoroughly reformed, but the will (the votes) to go back to the 1990s is just not there. Rising costs can be controlled but not eliminated. The same goes for Social Security.

We can raise the retirement age, do means testing, and make other changes; but the fact is that there are more Baby Boomers retiring each year. There is no Social Security Trust Fund. The money was spent on other projects, and now Social Security runs in the red each year. What Republican is running on a platform of taking away Social Security from those who are presently receiving it or will be eligible for Social Security within 10 years? Want to cut defense? Military pensions? Government pensions.

And the Left wants to solve the problem by raising taxes on "the rich." We are down well over $1 trillion a year in our deficit. Obama's new plan raise taxes a lot and still has $1.3 trillion in deficits, with very rosy assumptions.

According to the New York Times, the president's plan to abolish the Bush tax cuts for those making more than $250,000 is expected to bring in merely $0.7 trillion over the next decade, or about 0.4 percent of Gross Domestic Product per year [about $60 billion in the coming years, under optimistic projections that assume higher growth and no recessions]. As a comparison, the Congressional Budget Office estimates that the deficit over the same period is going to be $13 trillion, more than 6 percent of GDP per year.

The rich in America obviously have lots of money, but there are simply not enough of them to fund the president´s preferred level of spending." (American.com) The hard reality is that the rich just don't make enough to cover our current deficit. If we raised taxes to something like 60% on the top 10% of income earners, not just the 1%, we might get enough tax revenue, if the "rich" cooperated by making the same income they do now. That type of tax rate is just not politically feasible under any conceivable elected Congress.

It will require both spending cuts AND different and higher forms of revenue to get a deficit reduction plan through Congress, even a majority Right or Left Congress. If Obama could not get higher taxes (except for health care in the future) in his first two years, with a decidedly Democratic Congress, it is very unlikely to happen in time to deal with the deficit crisis. Something must be done SOON. We don't have another five election cycles to debate this. We have unfunded liabilities that simply cannot be paid under any tax scheme. Those promises will not be kept, because we will not have the money in future years, and it gets worse with each passing year.

2.**Tax rates matter to the growth of the economy.** Even a low estimate of the results of raising taxes by 10% reduces GDP by about 0.4% of the increase in taxes. There are studies by very credible economists of both political parties, which I have written about in detail, that show that tax cuts and increases have a multiplier of as much as 3, as to their effects (Romer, as an example). An average estimate would give you something like a multiplier of 2. I have read no studies based on actual statistics and not some untested theory that suggests that taxes have a neutral effect. To suggest taxes have no effect on the economy makes for good sound bites and is nice in theory, but the studies of actual statistics simply do not support that idea. Increasing the taxes on the rich may be "fair," but it is not GDP-neutral.

Kennedy, Reagan, and Bush cut taxes, and the economy grew and more taxes were collected in total within a few years. But we are no longer able to cut marginal income tax rates and borrow to pay the deficit, waiting for growth to happen to make the cuts "pay for themselves." We have simply borrowed too much. We are close to the limit. We must find other options.

3.**Some taxes appear to have less effect on economic growth,** although I cannot argue that we have enough data points or serious academic studies to prove it. Reagan cut marginal income tax rates in 1986, but paid for it by getting rid of numerous tax deductions; so the overall affect was revenue-neutral, but the economy sure did grow after that. People (at least US citizens) clearly adjust their spending, investments, and incomes in response to marginal income tax rates. I am not arguing "fair share" or the morality of income distribution, simply observing a fact.

The principle is if you want more of something, then lower the taxes on whatever it is, and vice versa. If you want to increase overall national income (again not talking about the fairness or how it is distributed), then tax it less.

1This idea is not radical. Rather, it is well accepted by nearly all political types. Congress (both parties) has passed over 3,000 laws giving tax breaks to encourage certain types of economic behaviour they deem to be good. Mortgage interest-rate deductions, charitable deductions, tax breaks for married couples and children, and so on down to very minor and industry-specific breaks. They all assume that taxes affect behaviour.

Income Measures What You Contribute to Society

5.There are some ideas that are fundamental to the growth of the economy, capitalism, and free markets as we know them today. Thomas Hobbes argued that income measures what you contribute to society and spending measures what take from it. Adam Smith argued that it is the wealth of nations and not the wealth of governments (or kings) that matters. His idea was that it was more important to grow the economy than the government.

Without economic growth the average person will be left worse off. If our population grows 1% a year, then if GDP does not grow by 1%, there is less for each person to share. And private-sector growth is what is needed for general prosperity. Notice in the chart below (courtesy of Rob Arnott and Research Affiliates) that private (non-government) GDP has not grown for well over 10 years. This is about the same time period in which wages and private incomes have been flat. There has to be growth in the private economy (in total) for those employed in the private economy to make more money (in total).

6.Keynes did indeed argue that deficit spending was a good thing in recessions. But he also assumed that the debt would be paid back in the next growth cycle. We forgot that latter part and now must deal with the consequences.

7.I am not going to argue here how we should spend the tax revenues. I am simply going to suggest how we might collect them with as little negative impact as possible. That is not to argue there will be no impact. Taxes have consequences.

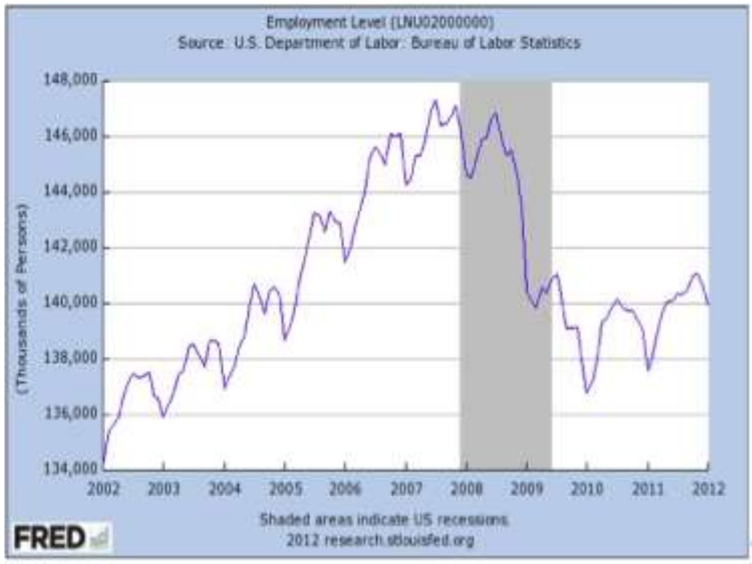
Taxing Consumption

So let's get down to details. I met with Marc Sumerlin for breakfast a few weeks ago, and he later sent me a book he coauthored back in 2007 with Larry Lindsey, called *What a President Should Know … but most learn too late.* Both men are serious economic thinkers, and Lindsey is a specialist in tax policies. They both worked as economic advisors in the White House, and Lindsey was on the Board of Governors of the

Federal Reserve. They do understand some of the mechanics of politics and economics. They now work together at The Lindsey Group, an economic advisory service based in DC. They do excellent work.

Marc outlined to me their thoughts on reforming the tax code. I read the chapter in the book on reforms, and like it better than anything else I have seen.

What they suggest is to tax consumption with a 20% Value Added Tax (VAT). There would be no taxes for incomes under $100,000. None. No Social Security. No Medicare. If you make less than $100,000 you pay nothing.



All income over $100,000 is taxed at 20%, no matter what the source. No capital gains rate or dividend break. I assume that also means no municipal bond exemptions. No exemptions for anything. Every last tax expenditure goes away. Corporate tax rates would be 20%, and again I assume no exemptions. If you make a profit, you pay taxes.

Although they did not say it in the book, they essentially agree with Hobbes that income measures what you contribute to society and spending measures what you take from it.

What society wants (and needs) is more income, as that grows tax revenues and general wealth. Consumption – what you get from society – is taxed. We don't just need to tax millionaires more, we need more millionaires that we can tax. And you get that by encouraging growth in the economy.

They also note that their proposal was revenue-neutral in 2007, and included a $2,000 per child tax credit. Every worker would get an approximate 7.5% pay raise from the removing of Social Security and Medicare taxes. While businesses would also get that same tax break, they would have to pay a VAT on salaries, which would be an increase in cost. Welfare, the social safety net, and health care would all be funded.

As the VAT would not be paid on exports, it would put us on a more even ground with those nations that have a VAT and certainly lower business taxes, both of which would make us more competitive and increase exports and thus employment.

While they did not suggest it, I would change the tax code over four years, although phasing out tax expenditures faster to help the current budget crisis. A sudden change might be disruptive, and it would take time to get the mechanism in place for collecting a VAT. States with individual income taxes would need to adjust the sources of their incomes. (It would also give my tax-accountant and tax-lawyer friends time to find a different career focus.) Businesses would need some time to adjust their costs and sales.

This is different from the so-called "Fair Tax," which is essentially a national sales tax. While I like the idea of taxing consumption, a 20% sales tax on top of state and local sales taxes of 8-10% would encourage much of our economy to move to either a barter system or a cash economy. A VAT might provoke similar reactions on a smaller level, but I think overall it is more readily collectible.

One can adjust the levels of both the VAT and income taxes to match the desired level of government spending. I might prefer less, but that is not the point here. Match these taxes (along with the normal excise taxes) with entitlement reform, a properly structured health-care system, and some cuts in other areas, and you are close to a balanced budget.

One caveat. It may surprise a few readers, but I met with David Krone yesterday for a long breakfast in Washington, DC. David is chief of staff for Senate Majority Leader Harry Reid. He is passionate, articulate, savvy, and an all-round nice guy. We found many areas of common ground and concerns. When I broached the idea of the tax proposal above, he seemed open to it, but came back with one thought.

“It has to have a trigger." I must admit, I had to ask what a trigger is.

"A trigger is a pre-agreed-upon outcome if the desired budget outcome does not happen. Either spending cuts, tax increases, or some combination, but it must be automatic." Quite a reasonable suggestion.

I readily admit there is something for everyone to hate in a VAT tax. It would raise my costs for employees substantially. I would lose several nice deductions. But given our current tax code, I think it would be the better of two evils for the economy.

Do you hate the idea? Then come up with an alternative that collects enough revenue and doesn't have the problems of the current structure, and can get the votes.

Company reports

BHPBILL 2012/02/22

BHPBill has priced a five tranche Global Bond under its debt shelf registration statement, which has been previously filed with the US Securities and Exchange Commission. The Global Bond comprises USD1 000 million Senior Floating Rate Notes due 2014 paying interest at three-month US Dollar LIBOR plus 27 basis points, USD1 000 million 1.000% Senior Notes due 2015, USD1 250 million 1.625% Senior Notes due 2017, USD1 000 million 2.875% Senior Notes due 2022, and USD1 000 million 4.125% Senior Notes due 2042. The proceeds will be used for debt refinancing, including the retirement of commercial paper, and general corporate purposes. Business Report highlighted that Super Group is on the acquisition trail again after spending much of the late 1990's rationalising its operations and selling unprofitable and non core businesses to reduce its debt and refocus on its core competencies. Chief executive Colin Brown confirmed that the group had identified a few acquisition opportunities in the dealership and supply chain divisions and its fleet solutions business in Australia. The motivation for the acquisitions comes from Super Group's expected future strong cash generation across the group, which it believes will underpin a robust balance sheet and allow it to pursue earnings-enhancing and value accretive strategic opportunities.

REBOSIS 2012/02/22

Linked unitholders were advised that the company's annual report, incorporating the audited results for the year ended 31 August 2011, was dispatched on 22 February 2012 and contains no material changes to the information contained in the reviewed results which were announced on SENS on 7 November 2011. The annual report contains a notice of annual general meeting for Rebosis linked unitholders, which will be held at 3rd Floor, Palazzo Towers West, Montecasino Boulevard, Fourways, Gauteng at 10:00 am on Wednesday, 28 March 2012

BASREAD 2012/02/17

Read is pleased to announce that the company has been awarded the contract for construction of the works for phases 2C and 2H in terms of the Olifants River Water Resources Development Project. The client is the Trans-Caledon Tunnel Authority ("TCTA"). This award is the first phase of a two-phase project totalling R2.0 billion. Construction of phases 2C and 2H is to take place over a 21-month period at a contract value of approximately R1.2 billion, excluding escalation, contingency and VAT. The Basil Read group’s order book following this award is valued at R14.0 billion. Announcements relating to the award of the second phase of the project comprising phase 2D of the Olifants River Water Resources Development Project will be made in due course.

PINPOINT 2012/02/17

Shareholders were advised that a letter from the Lagos State Government, dated 8 February 2012, was received and stated that notice be given of the intention to terminate the Land Ownership and Development Agreement dated 14 July 2009 between the Pinnacle Point West Africa Ltd ("PPWA") and the Lagos State Government in respect of the Pinnacle Point Project, known as Lagos Keys. This intended termination comes as a result of the breach in terms of clause 14(c), 14(d), 14(e) and 14(g) of this agreement. PPWA has in terms of the agreement 30 days to remedy the breach failing which the agreement will be terminated. This project's carrying value in the most recent published preliminary financial statements amounted to R398 118 966, which represents a material component of the company's total assets.

Renewal of cautionary

Further to the SENS announcements dated 26 September 2011, 6 October 2011, 11 October 2011, 15 November 2011 and 3 January 2012, shareholders are advised to continue to exercise caution when dealing in the company's securities until a full announcement in regard to the final liquidation and potential delisting of the company is made

HARMONY 2012/02/17

Harmony's Doornkop mine is a single-shaft operation mining to a depth of just under 2 000 metres. Located 30km west of Johannesburg, Doornkop mines the South and Kimberley Reefs using both narrow-reef conventional and mechanised bord-and-pillar mining, with ore processed at its carbon-in-pulp plant. The majority of tonnes that are mined at Doornkop are from the South Reef and the balance is mined from the Kimberley Reef. The massive improvement in year-on-year production at Doornkop reflects the production build-up on the South Reef and introduction of new trackless machinery on the Kimberley Reef. The build-up in production on the South Reef has however reached a plateau. As a result, Harmony has considered various design changes and ways of improving production from the South Reef. It was decided that production at Doornkop's South Reef should be stopped for 17 days to upgrade the infrastructure. Production on the South Reef will recommence during the last week of February 2012. Although production at Doornkop will be 45% to 50% less than the December quarter, the upgrade will accelerate its production growth in the long term, allowing the operation to ramp up to full production in FY15.

WOOLIES 2012/02/17

Business Day reported that Woolies will open ten new large-format supermarkets. The first store will be on the same street where Pick n Pay set up its premium offering. Woolies CEO Ian Moir said there is a gap in the market. and that the first 2 450m2 sore will open in Bryanston in April 2012.

SPAR 2012/02/15

Shareholders are advised that the group experienced an improvement in trading for the quarter ended 24 December 2011 during which turnover increased to R10.98 billion, up 13.5% on last year. The performance reflected increased food inflation supported by solid volume growth. The competitive trading environment continues to have some impact on the group's profitability. The above information has not been reviewed by the company's auditors.

TIGBRANDS 2012/02/15

The trading environment continues to be characterized by the slow recovery of consumer spending in the domestic market and rising cost inflation, resulting in an overall market volume decline in the categories in which the company operates. The trading performance for the four months ended 31 January 2012 is reflective of this market contraction, although the power of the group's basket of leading consumer brands continues to strongly underpin the group's performance. Net sales have increased due to improved price realizations, thereby minimizing the impact of the volume declines on operating margins. The results for 2012 are expected to benefit from the acquisitions concluded in the second half of the previous financial year and the relative consumer buoyancy within the rest of the African continent. For the year to date, the weaker rand exchange rate has also had a positive impact on the export businesses. The acquisition of the Status brand became effective on 1 November 2011 and the group increased its shareholding in Langeberg and Ashton Foods to 100%, also with effect from 1 November 2011. Despite the difficult trading conditions, headline earnings per share is expected to show satisfactory growth for the year ending 30 September 2012 as compared to the 2011 reported earnings.

DRDGOLD 2012/02/15

Business Report highlighted that DRDGold planned to invest in technology, consolidate two of its biggest tailings facilities and begin drilling at its exploration project on the East Rand. Niel Pretorius, chief executive, said the company would pump R250 million into refurbishing the Ergo flotation plant, and constructing a fine grinding circuit. Mr Pretorius added that DRDGold would link its Crown and Ergo mines over the next few months. The company aims to grow its 11 million ounce surface resource and extend the life of the mine at Ergo. DRDGold is also conducting an exploration on 25000ha of land in Zimbabwe.

MONDI 2012/02/15

Mondi Ltd is currently finalising its results for the year ended 31 December 2011, which will be released on 23 February 2012. As announced in Mondi's interim management statement released on 31 October 2011, the group's underlying operating profit in the third quarter 2011 of EUR136 million (year to date EUR490 million) was well above that of the comparable prior year period but below that achieved in the previous quarter (EUR175 million). It can now be confirmed that the underlying operating profit for the fourth quarter of 2011 is expected to be similar to that of the comparable prior year period. Underlying operating profit for the year ended 31 December 2011 is expected to be considerably higher than that of the comparable prior year period. Furthermore, in the prior year, the group recognised a net special item charge after tax of EUR15 million. The equivalent special item charge for the year ended 31 December 2011 is around EUR53 million. A EUR4 million net special item gain was recognised in the first half, with a net charge of circa EUR57 million taken in the second half, mainly related to asset impairment costs in Aylesford Newsprint (EUR33 million) and restructuring and asset impairment costs in the Bags & Coatings business. As reported in the interim management statement of 31 October 2011, the recapitalisation and demerger of Mpact (formerly Mondi Packaging South Africa) and the related Mondi Ltd share consolidation have been completed. The results of Mpact will be presented as a discontinued operation in the financial results of the group at 31 December 2011 with comparative information restated accordingly. Accordingly, Mondi advises that it expects earnings per share ("EPS") for the year ended 31 December 2011 to be within the ranges shown below:

SKINWELL 2012/02/15

For the year ended 28 February 2011 Skinwell reported a loss per share and a headline loss per share of 0.22 cents and 0.15 cents respectively. For the year ending 29 February 2012, the company expects to report both earnings and headline earnings of between 1.0 and 1.2 cents per share. The company's improved performance can be attributed primarily to the improved performance of Skinwell's beauty salons and costs being well managed.

MERAFE 2012/02/14

Shareholders are referred to the announcement released earlier today and are advised that the Xstrata-Merafe Chrome Venture ("the Venture") is currently in discussions with Eskom in order to assist Eskom with their immediate power supply requirements. A further announcement will be made once these discussions are concluded. Contractual commitments to the Venture's customers for the second quarter of 2012 will not be affected as these contracts will be serviced from existing ferrochrome stock

SPAR 2012/02/14

Shareholders are advised that the group experienced an improvement in trading for the quarter ended 24 December 2011 during which turnover increased to R10.98 billion, up 13.5% on last year. The performance reflected increased food inflation supported

by solid volume growth. The competitive trading environment continues to have some impact on the group's profitability. The above information has not been reviewed by the company's auditors

SPAR 2012/02/14
SPAR shareholders ("Shareholders") are advised that at the annual general meeting of Shareholders ("Meeting") held on Tuesday, 14 February 2012, with the exception of Ordinary Resolution No. 2 regarding the adoption of The SPAR Group Ltd Forfeitable Share Plan, which was not approved by the requisite majority of Shareholders, all the resolutions tabled at the Meeting were approved by the requisite majority of Shareholders present or represented by proxy.

MERAFE 2012/02/14
Shareholders of the company are advised that the Xstrata-Merafe Chrome Venture ("the Venture") is currently in discussions with Eskom in order to assist the Venture with its immediate power requirements. A further announcement will be made once these discussions are concluded. Contractual commitments to the Venture's customers for the second quarter of 2012 will not be affected as these contracts will be serviced from existing ferrochrome stock.

DRDGOLD 2012/02/13
DRDGOLD shareholders ("shareholders") are referred to the announcement published on SENS on 8 November 2011 and in the financial press on 9 November 2011 ("announcement"). In the announcement, shareholders were advised that DRDGOLD had received and accepted, on a non-binding and in-principle basis, a non-binding expression of interest from Village ("EOI") in terms of which Village had expressed an interest in acquiring DRDGOLD's entire interest in Blyvoor. Pursuant to the EOI, DRDGOLD, Village, Blyvoor and Business Venture Investments No 1557 (Pty) Ltd (a wholly owned subsidiary of Village) ("purchaser") entered into a sale of shares and claims agreement ("agreement") on 11 February 2012. In terms of the Agreement, DRDGOLD has agreed to sell its entire shareholding in Blyvoor (which amounts to 74% of the total issued ordinary share capital of Blyvoor) ("sale shares") and its working capital and shareholder loan claims against Blyvoor ("sale claims") to the purchaser ("transaction").

IMPLATS 2012/02/13
According to Business Report, Impala Platinum had reached an agreement with the National Union of Mineworkers (NUM) to end the illegal strike at its Rustenburg mine, the union said yesterday. Mineworkers were dissatisfied with their pay and downed tools last month. An agreement to get the mine operational was reached on Friday, NUM spokesman Lesiba Seshoka said. Implats would rehire 17 200 workers dismissed for striking, he said. The company would also tighten security to prevent the intimidation of workers returning to work, Seshoka said. "The NUM strongly condemns those intimidating others and appeals to the law enforcement agencies to arrest those who do so as well as those who roam in the company premises when they are not employed by the company." The union would later discuss the treatment of the 5 000 rock drill operators believed to have instigated the strike. Implats spokesman Bob Gilmour was not available for comment yesterday

CAPITEC 2012/02/10
Capitec advised that a reasonable degree of certainty exists that earnings and headline earnings per share for the year ending on 29 February 2012 will exceed the comparable earnings and headline earnings per share for the previous corresponding period being 28 February 2011 by between 40% and 50%. The financial results for the year ending on 29 February 2012 are expected to be published on or about 28 March 2012.

SOVERIGN 2012/02/10

Shareholders are advised that the company disposed of a broiler farm, known as Accurate Farm ("the Farm"), to Simile Farmers (Pty) Ltd, a broad-based black economic empowerment ("BEE") company ("the Purchaser"), with effect from 31 March 2011 ("the transaction"). Furthermore, the Purchaser entered into a contract grower arrangement with Sovereign in terms of which the purchaser agreed to supply broiler chickens to Sovereign, subject to certain operational and quality requirements, thereby further contributing to Sovereign's BEE procurement.

NEPI 2012/02/10
Further to the dividend declaration announced on 08 February 2012, shareholders of the company are advised that shareholders on the South African sub-register will receive a final dividend per ordinary share of 106.18231 South African cents which is based on an exchange rate of 10.1319 South African Rand per e

ASTRAL 2012/02/10
The annual general meeting of Astral Foods was held today, Thursday, 9 February 2012. All the ordinary and special resolutions as set out in the notice of annual general meeting to shareholders, dated 10 November 2011, were approved by the requisite majority of shareholders. The special resolutions will be lodged for registration with the CIPC.

EXXARO 2012/02/09Business Day reported that Exxaro will know on 14 February 2011 whether it has gained control of an encouraging iron-ore deposit in the Republic of Congo. If Exxaro wins control, the mine will be the group's first iron-ore project. CEO Sipho Nkosi has said that he wants the Exxaro to add its own iron-ore projects to its existing coal and mineral sands operations in South Africa and Australia

IMPERIAL 2012/02/09
Imperial provide guidance regarding the range of the expected change in earnings per share ("EPS"), headline earnings per share ("HEPS") and core earnings per share ("Core EPS") for the half year ended 31 December 2011. Imperial performed well in the half year ended 31 December 2011 with strong revenue and operating profit growth. Revenue and operating profit is expected to be between 20% and 25% higher than the comparative period. The forecast financial information herein has not been reviewed or reported on by Imperial's auditors. This update is based on available information at the time of publication. Imperial's interim results are expected to be released on SENS on or about 22 February 2012

CLIENTL 2012/02/09
Shareholders are advised that the earnings per share ("EPS") of the group for the six months ended 31 December 2011 ("the period") are expected to be between 16% and 21% higher than the 26.76 cents per share of the six months ended 31 December 2010 ("the comparative period").

Headline earnings per share ("HEPS") are expected to be between 25% and 30% higher than the 26.69 cents per share for the comparative period. Diluted headline earnings per share from continuing operations are expected to be between 16% and 21% higher than the 29.98 cents per share for the comparative period.

Shareholders are advised that the information provided in this trading statement has not been reviewed and reported on by the group's external auditors. The publication of the results is expected in the latter half of February 2012

ABIL 2012/02/09
Further to the announcement released on SENS on 7 February 2012, shareholders are advised that reference to the special class meeting of preference shareholders therein was an oversight, and that no such meeting took place. Accordingly, and for the sake of clarity: At the annual general meeting of the shareholders of African Bank Investments Ltd held on 07 February 2012, at 11h00, all the resolutions proposed at the meeting were approved by the requisite majority of votes.

WBHO 2012/02/09
Further to the trading statement released on SENS on 9 February 2011 the directors advise that headline earnings per share included in the published results for the period ended 31 December 2010 had not been adjusted for the impairment of the loan to associate. The impairment of loan to associate was only adjusted for in the calculation of headline earnings per share included in the audited, published results at 30 June 2011.
However the headline earnings per share for the period ending 31 December 2010 was adjusted for the impairment of loans to associate when calculating the headline earnings per share for the period ended 31 December 2011, as detailed in the earlier trading statement. Had the adjustment not been made, headline earnings per share would have declined by 7.5% to 12.5% when compared to the comparative period. The release of the interim announcement of results for the six months ended 31 December 2011 is expected to be published on Monday, 20 February 2012.

OLDMUTUAL 2012/02/08
Old Mutual plc today announced that its asset management business, Old Mutual Asset Management (OMAM), has sold Dwight Asset Management (Dwight) to Goldman Sachs Asset Management (GSAM). Subject to certain conditions, Dwight is expected to become a wholly-owned subsidiary of GSAM in the second quarter of 2012. Dwight, an affiliate of OMAM, provides fixed income investment management services for institutional clients including retirement plans, corporations, public funds, insurance companies, financial institutions, endowments, foundations, and Taft-Hartley plans. Dwight had unaudited gross assets of USD22.2 million at 31 December 2011 and Assets Under Management of USD33.2 billion as at 30 September 2011.

PICKNPAY 2012/02/08
Pick n Pay announced that CEO Nick Badminton would resign from the board of Pick n Pay effective the end of the financial year but would be available to assist the company and its chairman in the transition period.

Further to the cautionary announcement dated 30 September 2010 and subsequent renewal of cautionary announcements, the last of which was dated 24 October 2011, shareholders are advised that negotiations are still in progress which, if successfully concluded, may have a material effect on the price of Thabex's securities. Accordingly, shareholders are advised to continue exercising caution when dealing in the company's securities until a further announcement is made.

PHUMELA 2011/12/07

Shareholders are advised that at the annual general meeting all the resolutions set out in the notice were passed by the requisite majority of shareholders. The relevant special resolutions will be submitted to the Companies and Intellectual Property Commission in due course.

DISCOVERY 2011/12/07

At the twelfth (12th) annual general meeting of the shareholders of Discovery held today, 6 December 2011, all the ordinary and special resolutions proposed at the meeting were approved by the requisite majority of votes

ZURICH-SA 2011/12/07

Zurich SA shareholders are referred to the announcement released by Escape Premium Collection (Pty) Ltd ("Escape") today regarding the process entered into by Zurich SA to dispose of its equity interest in Escape. "Escape announced that its shareholder, Zurich SA, has entered into an agreement to sell its interest to Premium Financing Solutions (Pty) Ltd ("PFS") ("the proposed Transaction").

The Escape business of premium collection has been a non-core activity for Zurich SA and the Escape Board has been investigating the possibility of aligning the business with that of a shareholder for whom the business provides a better strategic fit. The proposed Transaction is subject to regulatory sanction (which includes the approval of the South African competition authorities) and could take between 6 to 9 weeks to complete.

TRANSHEX 2011/12/07

Shareholders are referred to the cautionary announcements, dated 6 May 2011, 21 June 2011, 2 August 2011, 13 September and 26 October 2011 wherein Trans Hex announced that an agreement with De Beers Consolidated Mines Ltd ("DBCM") had been signed in terms of which, and subject to certain conditions precedent, its 50% held joint-venture company, Emerald Panther Investments 78 (Pty) Ltd, will acquire assets and liabilities relating to Namaqualand Mines, a division of DBCM ("the proposed transaction"). Shareholders are advised that Trans Hex is currently finalising certain aspects of the proposed transaction and therefore shareholders should continue to exercise caution when dealing in the company's securities until a full terms announcement is made.