The Investor

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

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How to build a market-beating share portfolio!

In the September issue, before digressing in October to explain the problems of sovereign debt issue, I explained a simple process which could make an average income person earning R200 000 a year a multi-millionaire in just ten years.

It involved a few very easy steps starting with the **first** golden rule of all future millionaires which is to ALWAYS save at least a tenth of your income and invest the proceeds in the fastest-growing shares on the stock exchange.

That's easier said than done argue most critics. Everyone loses money on the stock exchange, say the cynics. And finding the top performers is not as easy as it sounds, after all there are hundreds of companies listed on the stock exchange. How, other than by sticking a pin in the newspaper, is one to choose the very one that is destined to outperform all the others? Furthermore, it is never wise to invest all your money in just one stock-exchange listed share. Prudent share market investors always try to spread their investments over a portfolio of at least ten different shares. So how can one choose a list of ten or more top-performers?

Well I will reiterate the process I have so far outlined in this series of articles. Thus my **second** investment golden rule is "Only invest in Blue Chips." I define a Blue Chip as any share that has paid constantly-rising dividends over at least a decade. A little bit of homework in the library using back copies of the Stock Exchange Handbook will help you find them. Alternatively, you can subscribe to my ShareFinder Mobile computer programme which for just R1 400 a year will provide you with a Quality List of all the top performers. Indeed, at the touch of a button it will create a portfolio tailor-made to your personal needs and, furthermore, once you have bought its selected shares, it will watch over your portfolio instantly identifying any shares that are beginning to run out of steam

My **third** golden rule is to only invest in those Blue Chips that are regularly traded in large quantities and **forth rule**, select from this list ten whose dividend growth rates have outperformed all the others for

WHAT'S INSIDE

Name	IssTrad	10YrDiv	5YrDiv	5YrGro
Grand Old Favourites				
Group Avg.	18.21	22.94	26.35	17.66
CAPITEC BANK H...	8.56	35.63	47.39	40.43
WILSON BAYLY ...	12.42	34.64	35.32	4.57
SHOPRITE HLDG...	28.43	27.47	31.23	34.34
BHP BILLITON PLC	13.35	23.63	25.48	3.89
CLICKS GROUP L...	31.99	20.59	27.71	29.18
SASOL LTD	24.85	19.15	19.76	4.74
SABMILLER PLC	7.74	13.82	14.51	13.58
GROWTHPOINT ...	18.29	8.59	9.41	10.52
Mid-Cap Companies				
Group Avg.	10.61	30.07	37.59	19.26
FAMOUS BRAND...	11.18	30.25	37.94	33.90
HUDACO INDUST...	10.04	29.88	37.25	4.62
Tightly Held Mid-Cap Companies				
Group Avg.	8.38	16.86	18.69	19.62
EOH HOLDINGS L...	8.26	28.33	31.17	30.37
SYCOM PROPER...	8.49	5.40	6.22	8.87
Blue Chips				
Group Avg.	518.34	26.95	17.42	12.29
MEDICLINIC INT...	7.82	89.77	-0.60	13.19
ACUCAP PROPER...	9.63	42.28	10.89	9.02
CASHBUILD LTD	16.98	37.69	31.36	19.93
THE FOSCHINI G...	32.49	35.86	23.00	17.77
COMPU CLEARIN...	0.17	35.64	51.20	3.71
KAGISO MEDIA L...	4.07	35.02	9.63	6.87
MR PRICE GROU...	60.51	33.21	27.49	36.15
TRUWORTHS IN...	26.12	32.52	25.09	21.90
NASPERS LTD -N-	25.32	29.03	18.81	22.89
BRIMSTONE INV...	15.32	28.17	18.09	13.94
INVICTA HOLDIN...	6.13	27.57	25.84	24.21

the past five years. To make this process easier for you, I have selected the list that appears alongside taken directly from the latest ShareFinder Quality List.

To explain, the "Iss Traded" column lists the average number of shares traded during the past 90 trading days expressed as a percentage of the issued share capital of the company. From this list I would, if I were to strictly follow the golden rules I have so far mentioned, immediately exclude the third group which, within the Quality List are named the "Tightly-Held Mid Caps." However, to have made it to this position, both companies named here have exceptional balance sheet statistics which, for the purposes keeping things simple, I will not detail here. Suffice to say, however, that the performance of these companies is so good that nobody ever wants to sell the shares. So, if you are lucky enough to pick up a few, you can be sure that in this instance you will never have any difficulty selling them again if ever you need money in a hurry.

So now, consider the list of 23 companies which are ranged in their quality groupings in descending order of their compound annual average dividend growth over the past ten years. The best shares to buy are those which in my fourth column of numbers headed "5-Year Growth" have achieved the highest compound annual average share price growth over the past five years. And of these, since dividend growth is actually more important to the average investor than share price growth once you actually own the shares, you want those that have achieved the highest compound annual average dividend growth rate over the past five years. So I have included in the third column of figures this latter requirement.

Now the ShareFinder programme makes everything very simple for its users because any number that is above average is coloured green, average black and below average red. So, if you wanted to choose a top-ten portfolio your choice would be Capitec, Mr Price, Shoprite, Famous Brands, EOH, Invicta, Naspers, Truworths, Cashbuild and Foschini.

However, as I have previously observed, capital growth is not everything. For those who rely upon dividend income to fund their retirement years, it is clearly much more important to see dividends rising steadily than to achieve capital growth. For such people I would prefer to select the top eleven shares in descending order of appearance. Here note that when sorted in descending order of their ten-year dividend growth rates, all top eleven did even better in the most recent five-year dividend growth period; evidence of really good companies getting progressively better at what they do as the years progress.

One additional observation, the process has provided us with a diverse series of industries. Were it, as sometimes happens, to throw up a concentration of companies trading in the same sphere, it would be wise to prune the lesser performers. So, for example, I would not consider it prudent to include Mr Price, Foschini and Truworths in one portfolio.

ANCHOR CAPITAL

RICHARD CLUVER OFFSHORE MANAGED PORTFOLIO

The Parties

Richard Cluver is a legend of the SA private client investment world. Over many years his Sharefinder programme and regular publications have been guiding SA investors on the JSE and offshore markets. Richard is also the author of numerous investment books.

SAXO BANK

Saxobank is a Denmark-based bank, which focusses on providing trading platforms to investors all over the world. This portfolio is managed on the Saxobank platform and provides investors with 24-hour online access (PC, iPhone or iPad) to their segregated portfolios.

Anchor Capital is SA's fastest growing asset manager, and is the FSB-registered entity which will implement the Richard Cluver Offshore portfolio on the Saxobank platform. Anchor Capital has offices in Durban, Sandton, Irene and London.

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.

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By Invitation

Dr Cees Bruggemans
Chief Economist First National Bank

It must have been one of the more interesting Monetary Policy Committee meetings, at which labour intruded yet more centrally, changing the playing field, with as yet to be tested consequences down the road.

There was no surprise in the interest rate decision, which kept things as they were (repo 5%, prime 8.5%), but clearly the ground has shifted below our collective feet. Will it shift some more, and in what direction?

During the course of this year, SARB along with the rest of us had to regularly recalibrate its bearings. Growth progressively disappointed, requiring downward outlook adjustments, while inflation entered a rebound that has become more vigorous towards the end of the year.

As things stand today, GDP growth for 2012 was lowered to 2.5% and 2013 is seen as 2.9%. These may remain down-payments on a somewhat greater downside yet to come into view. But it doesn't behove to cut forecasts too abruptly, instead preferring to move in small incremental steps, gradually sensitizing the senses to a changing world view, thereby also lessening the impression of having been rather deeply wrong. This of course applies to all of us in the forecasting business.

Believing less in precision but more in direction, I paint 2012 as being 2%-2.5% and 2013 to be 2.5%-3% (in both instances favouring the lower end of the range. In contrast, the inflation forecast was revised up to 5.6% for 4Q2012 and 5.7% for 1Q2013, yet curiously omitting inclusion of the CPI reweighting effect (except opining it might be a relatively little 0.2%, which would be less than private estimates of up to 0.5%).

In the process, inflation was continuously seen within the target zone (a comforting view), yet it was allowed that next year there could be a breach on the upside. Main inflation drivers were food, the Rand (having lost nearly 6% on trade-weighted since the last meeting), technicality (reweighting) and labour trends.

Nowhere did I gain the impression that SARB really believes in a spontaneous growth revival soon (despite the suggestive positioning of the decimal point) nor being prepared to assume the worst about inflation even if apparently thoroughly worried about where inflation thought it was going (leaving some leeway for inflation to relapse eventually back into the target zone). This as preliminary observation.

Central to the controlled concerns of the SARB, however, is now the domestic labour issue, joining the old concern about disruptive global crisis potential, especially out of Europe and the US. Whereas the outside world continues to be mentioned as highly risky for us (the SARB would be negligent if it didn't do so, though this is different from actually predicting another global crisis relapse), the real focus today understandably fell on our own doings. Here we saw a prim reprimand being handed out to labour, in so many ways asking what it thought it was doing. There is clearly upward pressure on wages, yet it remains to be seen how much the wage bill will grow, given employers' likely inclination to shave employment. Thus a gentle admonishment, for what is the use of slightly more real money for some if it comes at the expense of others losing their livelihood in a country saddled with 35% structural unemployment?

Be that as it may. As with global crisis potential, SARB felt it necessary to warn about domestic wage-spiral potential and its possible impact on inflation, something it is clearly worried about and something it would react to, were it to take hold over and above the present 7.4% nominal wage trend and 6% unit cost tendency (accepted as being in line with a 3%-6% inflation target).

The inflation potential is clearly to the upside, possibly still food-aided, but more labour based, directly through excessive wage and input cost increases, and indirectly if foreign investors were to keep walking away, further weakening the Rand. If it wasn't for the rising inflation outlook, the weaker growth prospects may have tempted SARB by now into more rate cuts. Equally, if it wasn't for the weakening growth outlook, the inflation upside now coming into view might have triggered talk of higher interest rates to come.

Instead, we are getting this straddling of no-man's land, with rates unchanged, as befits a flexible inflation targeter simultaneously wanting to resolve inflation gaps and output gaps as per the Taylor Rule. As with the rest of us, SARB needs more time to see where all this is likely to lead, with focus on labour, employers and foreign capital driving the Rand. If despite ongoing sporadic labour rumblings employers keep succeeding in managing their wage bills in a mostly inflation-neutral manner (somewhat more money for some, less jobs for others, worsening the structural unemployment and thereby the strategic growth challenge to government), the impact from labour on inflation next year may remain muted, with inflation spiking occurring at midyear towards 6.5% mainly only for technical reasons (and to be ignored as such) and thereafter renewed easing, hopefully back into the target range.

There seems less reason to assume that growth next year can be more vigorous than assumed. Even if global growth were to improve a notch more than assumed by the SARB, our domestic realities will likely be paramount. Labour will be the key to output lost and business confidence subdued with its downside impact on private fixed investment, even with the political leadership pick behind us (as by then the 2014 election will loom large). SARB specifically notes an absence of demand inflation (no surprise), the inflation rise is all supply-shock stuff, and provided a wage-spiral can be prevented the upward inflation potential could be contained.

If so, attention from early 2013 (post the US cliff and our leadership pick) may increasingly focus on slowing real income and faltering household spending growth, strained exports and restrained investment behaviour, with fiscal policy as accommodating as it can be. If the Rand does not give way unduly (and support may be forthcoming from a post-cliff resumption of global risk-on confidence, continuation of Fed QE actions, and our domestic labour issue remaining more containable than perhaps now foreseen), the scope would remain alive for more monetary easing.

But for that to happen SARB will probably first want to taste the 2013 pudding, to see just what ingredients are being served up, something that isn't yet quite clear at this early stage. And so with the SARB we should watch our unfolding labour scenery in 2013, and the response of employers and foreign providers of capital, looking for evidence of a budding wage bill spiral and more loss of foreign confidence feeding into a yet weaker Rand, or these features all remaining more manageable than perhaps now feared.

This is serious stuff, with especially our own doings next year tellingly shaping the prospect despite improving global prospects. In turn, it should decisively determine whether rates remain unchanged through 2013 or whether downside is created. Upside for rates is to my mind for now still a bridge too far, as I don't expect either runaway wage bills or Rand.

The Good News and the Very Bad

There is some really good news out there even if you have to pinch yourself blue recognizing it, but that shouldn't be so difficult for true believers.

The really good bit of news concerns oil. Forget about peak oil (for now). Rather focus on what's coming out of the spout. The US alone is producing 1 million barrels a day more now than a year ago. That's close to being revolutionary. This, along, with the fracking gas story, has got legs. It may be giving Canada huge headaches (for what to do with all those lovely thar sands?) but that's minor, something that will invite more investment in pipelines going West, offering it to Chinese consumers.

There is a global oil surplus now, and a glut appears to be on its way, despite Iranian exports having been badly squeezed. This is due to a combination of very slow global demand growth and higher energy conservation. US oil demand is 10% below it last cyclical peak. Europe is in recession, with oil demand likewise off. Everybody else is slow steaming. This demand picture isn't oil-friendly and may not be for some while. Add to this the revolutionary changes (again) taking the supply side by storm (for it isn't the first time in its 150 history, as The Prize and The Quest will tell you), and you get some real downside on price.

But why are we then still sitting north of $100? This is mainly blamed on fear. Even slow steaming consumers are still ordering some more inventory out of safety precautions for you can't be too careful, about Iran, Syria, Israel, the Palestinians and who knows what else. The region has surprised us before (by blowing, as it did so spectacularly, in 1967, 1974, 1979) and may do so again at some point. Yet scare stories have currency only for so long. At some point it is check and stalemate (peace seems too much to ask for). Only two weeks ago new conflict erupted in the region, which late last week seemed to be dying down, brokered through the intervention of Egypt and others

With global oil supply/demand getting more out of wack every passing day, downside price breaks may become feasible. As to timing, futures are looking down (but aren't falling off a cliff, yet). Another downward move towards $60-$80 territory would be hugely consumer-positive, lifting an artificial energy tax, boosting global growth prospects (providing austerity bound countries don't use the opportunity to harvest this possible bonanza by boosting their fuel levies, something the perfidious are quite capable of doing, as they did in the 1970s).

The other bit of good news concerns the US, where even Fed chairman Bernanke got into the act. He would, wouldn't he? Anything to talk up prospects. It makes life so much easier for him, safeguarding his historic legacy before he goes to make way in January 2014 for Janet Yellen, his deputy chair, as the betting now goes.

There isn't going to be a US fiscal cliff, not with everybody getting this close on tax and spending plans, and not really having the appetite (for now) for more brinkmanship. That fun was had during the four-year campaign to undo President Obama and it didn't work. Besides, a cliff would hurt and the electorate is not apparently in the mood for more tomfoolery. Even politicians seem to be taking note of that.

While on the one hand promising that the Fed can't neutralize any cliff effects (anything to return the hospital pass back to deserving politicians), Bernanke on the other hand sees a post-non-event-cliff offering great potential for better performance.

The housing situation in the US is now steadily improving. If there is no cliff, a very large uncertainty will be taken off business shoulders. Such fears have kept back US investment plans in 2012. With greater certainty returning, relief about cliff absence but also greater clarity about taxes and the way forward, would create a voluble sigh of relief. That's growth-boosting. Read in conjunction with collapsing gas prices changing the US industrial landscape potential, with oil possibly also joining this parade, you can see where the sun is starting to break through.

In contrast, Europe keeps raining on everybody's parade, but aside of Fed officials one wonders how many US businesses really lay awake about a bad European surprise still hitting them squarely between the eyes. China is a far greater concern for many, not only in the US, yet it apparently keeps humming. The Aussie central bank this past week kept rates on hold, arguing it saw glimpses of something good in China, today paramount to Aussie output. When their policy goes on hold, it must be because China is about to gear-change for the better (although let's not overstate this, as so much else, even as their PMI went back above 50 last week, suggesting manufacturing output is accelerating again, with the same happening coincidentally in the US).

Anyway, Draghi in his understated way is doing a minor Bernanke, claiming Europe will come out of recession in 2013 (though hardly roaring). When you add together all these bits and pieces around the world, you get a sense of 2012 being a pit-stop, the low point in a cyclical slowing, and 2013 could see some acceleration, faster in some places than elsewhere, but don't let that be a crowd-stopper.

How different our news at home where business apparently is left holding the baby. Nothing new here, but it doesn't get our growth story galvanized like other parts of the world are now preparing to do. The labour unrest this year didn't happen in isolation, but built on the shoulders of giants, meaning the steadily rising crescendo of 2005-2011. Especially mining in the North-West Province and agriculture in the Western Cape Province was badly affected this year.

In the case of the mining unrest, the government response was to urge business to do more for its workers, also in terms of housing, while apparently anything serves the purpose of punting a greater government participation in mining through the state mining company. Instead, one would have liked to have heard how the country is going to be made to grow faster, increasing the national income as well as absorbing more labour productively. That is the real answer to the plight of so many languishing at low income levels (if they have income at all).

Interesting was the audit reportedly conducted among 45000 employees at one gold mining company. It was found at least 250 (0.5%) of them had a zero pay-cheque every month, the salary being eaten up by the multi-

ple garnishee orders. Even more interesting would have been to hear the age composition, in other words how many miners at this company found their pay money running out at day 2 of the month, how many at day 3, and so on to day 30. That might be the really shocking story. Safe to say many are in a pickle, and this story probably repeating itself among a very large percentage of the working class throughout other sectors of the economy as well. It makes for a tinder-dry veld.

This makes more labour unrest in 2013 a worrisome prospect and is something that keeps many businesses scratching their heads for they are left to somehow square the circle while having to also face labour unions desperately trying to regain their relevance.

Simply declaring there needs to be more money given isn't the way of the world. A business runs at a cost and is forever facing the danger of losing its markets or capital providers, whoever comes first ending the fairytale. So if some workers are going to be given wage increases against an unchanging productivity and output story, others will find that work has become less plenty. Hardly a viable strategy for a country whose unemployed and discouraged amount to over 35% of the labour force, and whose workers all demand more. But that is how circles get squared in the real world while the political elites debate who may cover which plush chair in the coming year.

We are steadily getting more distant from 1994 and its many promises. There may be total freedom now, but the country simply isn't focused on producing, investing, hiring more. Instead, the focus is on sharing. But that doesn't provide incentive to grow the cake. Instead, one is encouraged to eat one's cake BEFORE someone else claims that privilege in the name of a greater ideal than yours.

The world is tuning its engines, ready for faster growth performance in 2013 as Bernanke contemplates his exit and Greece supposedly tries very hard to prevent hers.

South Africa faces the legacy of low productivity wages in a world increasingly impressing its enticing consumer plenty on many workers and their households via television and visits to town on pay day.

When continuously told that we have the right to more, even as the country doesn't really succeed in getting ahead fast enough to match such rising aspirations, we are being set up for disappointment and yet greater cycles of disgust and violence.

Aside of any unscrupulous employers, the great majority of businesses are merely the messenger in this greater make-believe story. Our reality is one where more for some means less for others.

It is up to government to provide the leadership that gives us ordinary mortals a reason and confidence to invest and hire more labour rather than undoing such willingness by its very actions.

As things stand, more and more companies are doing so, investing aggressively in Africa now. In comparison, home is turning into a tough backwater where less and less happens.

It doesn't have to be like this, but wishful thinking won't change it.

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.*

Stockbroker's views

by Annabel Bishop,
Investec SA group economist

The RMB/BER business confidence index (BCI) has fallen below its long term average since 1980 of 46.7, to 46 from the third quarter's 47 (see figure 1). Strike action, resulting in substantial work stoppages and significant foreign disinvestment from SA equities, along with the downgrades of SA's sovereign and key corporate credit ratings and policy uncertainty in a continued slow global growth environment, pushed business sentiment deeper into negative territory.

Figure 1: RMB/BER confidence index

	Q4.12	Q3.12	Change
Retail sub confidence index	54	46	8
Wholesale sub confidence index	57	53	4
New vehicle dealers sub confidence index	54	79	25
Manufacturing sub confidence index	38	33	5
Building sub confidence index	28	26	2
RMB/BER BCI	46	47	1

Source: BER

Companies need to be able to price risk in order to operate successfully. To improve this ability (i.e. to improve business confidence) government needs to remove policy uncertainty and engender firm leadership in an environment of improved property rights, regulatory efficiency, reduced state intervention and open markets. Economic freedom, i.e. the right to self determination (including the right to work or strike peacefully) must improve.

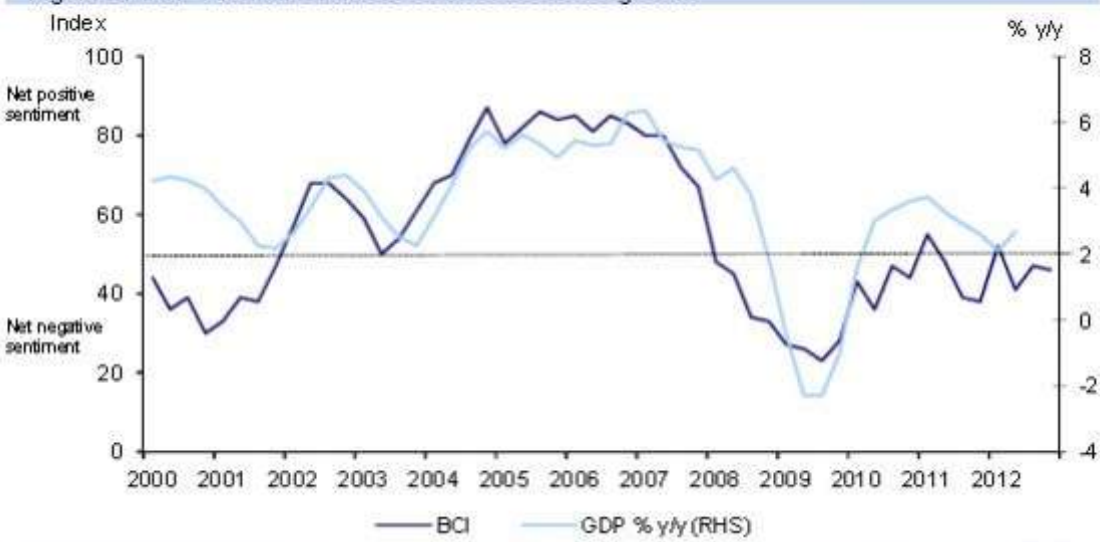
As a matter of urgency SA must return the mining industry to profitability and growth, restoring its attractiveness as a foreign investor destination. New mines (and foreign companies) are needed to create jobs, key in resolving SA's problems of unemployment, poverty and inequality. SA corporates also have a social responsibility in their community.

The percentage of businesses rating prevailing business conditions as satisfactory has fallen; the majority of respondents are downbeat about the current environment. Nevertheless, retailers are still confident on the back of consumer spending – the majority of consumption is accounted for by higher income earners. Retail confidence rose by 8 points to 54 and wholesale business confidence by 4 points to 57 while new vehicle dealers saw confidence drop 25 points to a similar 54, although this was partly the result of seasonal factors.

However building contractors' and manufacturing confidence remained depressed, at 28 and 38 respectively (below the key 50 mark that denotes net negative sentiment amongst respondents). The close relationship between manufacturers and miners means that the wildcat strikes had some impact, although the manufacturing industry still saw confidence climb 5 points in the run up to Christmas as it appears it may be a promising season for retailers.

As a key leading indicator (see figure 2), the drop in business confidence is yet another confirmation that 2012 growth (we expect 2.5% year on year at most) will be weaker than that of 2011 (3.1% year on year). We still expect interest rates to remain unchanged in this quarter.

Figure 2: GDP vs. BCI: Business Confidence leads growth



Sources: BER

Consumer price inflation on track to reach 6% by year end

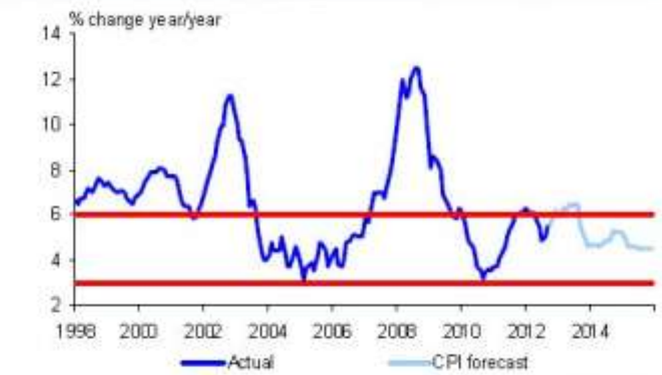
October's CPI inflation rate came out above consensus expectations (of 5.4% year on year) at 5.6% year on year, also up from September's 5.5% year on year. The rise in the CPI was due to price pressure coming from the food and non-alcoholic beverages component as higher grain prices at the agricultural level fed through into higher bread and cereal prices, while meat and dairy prices also experienced upward pressure due to higher feed prices.

The differential between the repo rate and the CPI inflation rate is in negative territory, -0.6%, and this gap will widen toward -1.5% by the middle of next year, meaning the SARB may have proved to offer excessive stimulation by trimming interest rates in July this year. It is unlikely to hike interest rates in the foreseeable future and has no option now but to leave the repo rate unchanged despite the slow-down in growth due to work stoppages in the second half of the year.

Upward pressure came from the 23c/litre petrol price increase in October (partly driven by higher oil prices) but this will not be repeated in November, as a small (10c/litre) cut occurred. The current over recovery (likelihood of a cut) in the fuel price is 30c/litre, but this could change as the exchange rate or oil prices fluctuate before month end.

Food price inflation rose to 6.7% year on year, driven by sharp rises in grain prices at the producer level. These prices are driven by international prices which are running at high levels due to the drought earlier in the year in the US.

Figure 1: SA Consumer Inflation: History and Forecasts



Sources: Stats SA, Investec

Figure 2: Contribution of different groups to the annual change, y/y in the CPI

	Sep 2012	Oct 2012
Food and non-alcoholic beverages	0.9	1.0
Alcoholic beverages and tobacco	0.4	0.4
Clothing and footwear	0.1	0.1
Housing and utilities	1.4	1.4
Household contents and services	0.1	0.1
Health	0.1	0.1
Transport	1.1	1.1
Education	0.2	0.2
Recreation and culture	0.1	0.1
Restaurants and hotels	0.2	0.2
Residual	0.2	0.2
Miscellaneous goods and services	0.7	0.7

Source: Stats SA

Figure 3: Change in CPI weights for all urban areas and total country (%)

	Old CPI weights	New CPI weights Price updated[1]
Food	13.57	13.77
Processed	6.82	6.96
Unprocessed	6.75	6.81
Bread and cereals	3.37	3.45
Meat	4.34	4.42
Fish	0.35	0.37
Milk, eggs and cheese	1.89	1.72
Oils and fats	0.54	0.55
Fruit	0.22	0.20
Vegetables	1.51	1.48
Sugar, sweets and dessert	0.84	0.66
Other food	0.91	0.92
Non-alcoholic beverages	1.25	1.22
Alcoholic beverages and tobacco	5.46	5.52
Clothing and footwear	4.23	4.08
Housing and utilities	24.08	24.64
Rentals for housing	4.87	4.77
Owners' equivalent rent	11.72	11.46
Maintenance and repair	1.33	1.32
Water and other services	2.60	2.88
Electricity and other fuels	3.56	4.21
Household contents and services	4.99	4.79
Health	1.51	1.47
Transport	15.80	16.53
Purchase of Vehicles	6.56	6.06
Private transport operation	6.48	7.29
Petrol	4.91	5.71
Other running costs	1.57	1.58
Public transport	2.76	3.18
Communication	2.94	2.66
Recreation and culture	4.53	4.10
Education	2.98	2.97
Restaurants and hotels	3.55	3.46
Miscellaneous	15.11	14.78
Personal care	2.43	2.29
Insurance	10.10	9.99
Financial services	1.22	1.21
Other services	1.36	1.29
All items	100	100

Source: Stats SA

1 = Weights shown in this column are price updated to the month of September 2012. The final price updating will be done to the average of 2012

CPI inflation is likely to reach 6.0% year on year by year end, and close to 6.5% year on year in mid-2013, if no moderating influences are brought to bear (i.e. significant petrol price cuts). The reweighting of the CPI basket in 2013 means Eskom's 16% year on year hike in electricity prices (the weighting will be doubled see figure 4) will add directly and indirectly to the CPI.

We continue to believe that the Reserve Bank will leave interest rates unchanged at the November MPC meeting. Inflation is likely to continue to rise this year on the back of higher food price inflation. CPI inflation is likely to exceed the target for a significant period in 2013, particularly given the impact of the re-weighting exercise (see figure 3) on the left.

Core inflation has remained at 4.7% year on year as the rise in the CPI inflation rate was driven by food and fuel price increases. Administered price inflation is now running at 9.5% year on year, providing significant, upward pressure on the cost of living in SA. The new CPI weights released by Statistics SA on 6 November indicate that CPI inflation may rise somewhat next year purely as a result of the recalculations, although likely by only 0.3% year on year. The new weights (see figure 3) are to be implemented in the January 2013 CPI data (which will be released in February 2013).

Under the current weighting system, we expect CPI inflation will come out at 5.8% in January 2013 (due to base effects), but under the new weighting system it could be 6.1%. The reason for this expected rise in inflation is that some of the key drivers of consumer price inflation (such as electricity) will see their weightings (contribution to the overall inflation rate) rise significantly.

USA Comment By John Maldin

Let's look at a few facts put forth by the Young Entrepreneur Council from their list of 43 :

1 out of 2 college grads – about 1.5 million, or about 53.6 percent, of bachelor's degree holders age 25 or younger – were unemployed or underemployed in 2011. For high school grads (age 17-20), the unemployment rate was 31.1 percent from April 2011-March 2012; underemployment was 54 percent**.** For young college grads (age 21-24), unemployment was 9.4 percent last year, while underemployment was 19.1 percent.

According to some researchers, **up to 95 percent of job positions lost** occurred in low-tech, middle-income jobs like bank tellers. Gains in jobs are going to workers at the top or the bottom, not in the middle. **More college graduates are getting low-level jobs, period.** U.S. bachelor's degree holders are more likely to wait tables, tend bar or become food-service helpers than to be employed as engineers, physicists, chemists or mathematicians combined – 100,000 versus 90,000.

· According to new U.S. government projections, **only three of the 30 occupations with the largest projected number of job openings** in the next eight years will require a bachelor's degree or higher. Most job openings by 2020 will be in low-wage professions like retail sales, fast food and truck driving.

While there may not be a bubble in education, there is definitely a growing debt bubble in student loans. More than 1/3 of young Americans of college age went back to school because of the economy, and in doing so have contributed to the $1 trillion in student loans. People are clearly going back to school and taking out loans as a way to make ends meet. The average college graduate has $25,000 in debt. Default rates are up 31% in the last two years. Student loans are relatively easy to get. They are like the old NINJA subprime mortgage loans available toward the end of the housing bubble: "No income, no job, no assets." And they are just as likely to end up in default. But Congress recently passed new bankruptcy laws, and unlike housing loans, student loans cannot be discharged in a bankruptcy. The law of compound interest means that borrowers, mostly young, will be paying back this debt for many, many years.

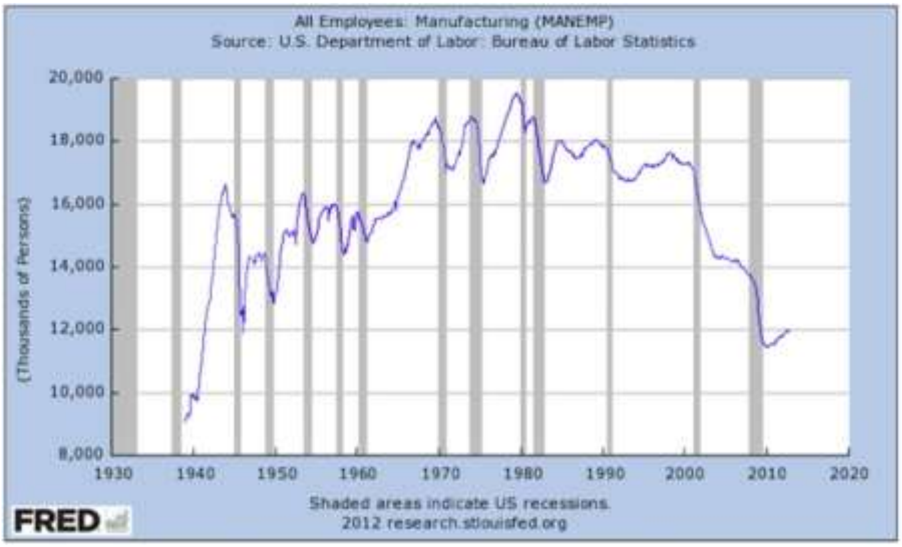
We have told our children that education is their ticket to a better life. And the data still shows that there is a clear advantage to having a college degree. But our recent experience suggests that not all college degrees are created equal. Tom Friedman, writing in this weekend's *New York Times,* highlights the problem of education and jobs. He quotes Traci Tapani, who with her sister runs a sheet metal company in Wyoming with 55 employees."About 2009," she explained, "when the economy was collapsing and there was a lot of unemployment, we were working with a company that got a contract to armor Humvees," so her 55-person company "had to hire a lot of people. I was in the market looking for 10 welders. I had lots and lots of applicants, but they did not have enough skill to meet the standard for armoring Humvees. Many years ago, people learned to weld in a high school shop class or in a family business or farm, and they came up through the ranks and capped out at a certain skill level. They did not know the science behind welding," so could not meet the new standards of the U.S. military and aerospace industry.

"They could make beautiful welds," she said, "but they did not understand metallurgy, modern cleaning and brushing techniques" and how different metals and gases, pressures and temperatures had to be combined. Moreover, in small manufacturing businesses like hers, explained Tapani, “unlike a Chinese firm that does high-volume, low-tech jobs, we do a lot of low-volume, high-tech jobs, and each one has its own design drawings. So a welder has to be able to read and understand five different design drawings in a single day.”

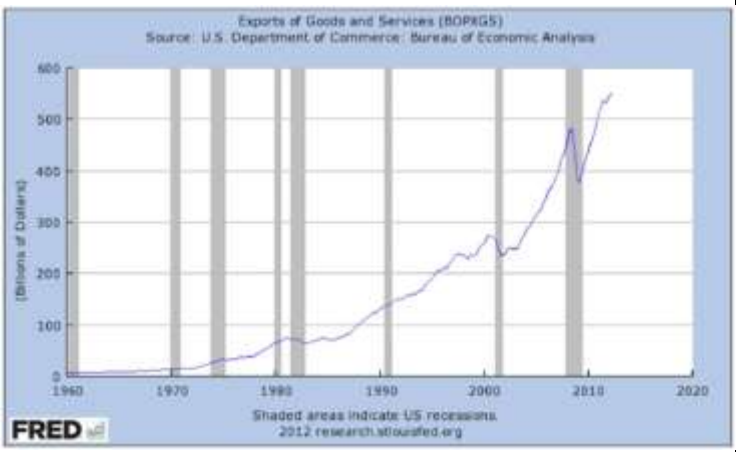
She ended up training her new potential employees and eventually was able to train someone to train welders. But even getting the right raw recruits is not easy. Welding “is a $20-an-hour job with health care, paid vacations and full benefits,” said Tapani, “but you have to have science and math. I can’t think of any job in my sheet metal fabrication company where math is not important. If you work in a manufacturing facility, you use math every day; you need to compute angles and understand what happens to a piece of metal when it’s bent to a certain angle.”

Who knew? Welding is now a STEM job – that is, a job that requires knowledge of science, technology, engineering and math. Employers across America will tell you similar stories. It’s one reason we have three million open jobs around the country but 8 percent unemployment. We’re in the midst of a perfect storm: a Great Recession that has caused a sharp increase in unemployment and a Great Inflection – a merger of the information technology revolution and globalization that is simultaneously wiping out many decent-wage, middle-skilled jobs, which were the foundation of our middle class, and replacing them with decent-wage, high-skilled jobs. Every decent-paying job today takes more skill and more education, but too many Americans aren’t ready. This problem awaits us after the “fiscal cliff.’”

There is a continual complaint that US manufacturing has been “hollowed out.” Where manufacturing jobs once were tickets to the middle-class lifestyle, there are now fewer and fewer such jobs available. Indeed, the next chart on then right shows that manufacturing jobs are down almost 40% from the peak in 1978 and back to roughly where they were during World War II.



Yet the number of manufacturing employees doesn’t tell the whole story. The US is still the number one manufacturing country in the world. We are an export powerhouse. Indeed, the growth of exports in the last 20 years has been nothing short of phenomenal. Exports have doubled and then doubled again. Total manufacturing in the US has almost come back to where it was prior to the Great Recession. Productivity in the last 20 years is up over 50%. We are producing as much as or more than we did in the past but with far fewer people. Taken alone, US manufacturing would be the ninth largest economy in the world. See the next three charts:



The chart at the bottom of this column below shows the average growth in productivity over various periods during the last 65 years. Note that after the post-war boom productivity growth fell and then began to increase again, up until the Great Recession. Greenspan was right to call it the Productivity Miracle.

We've Seen This (Manufacturing) Movie Before

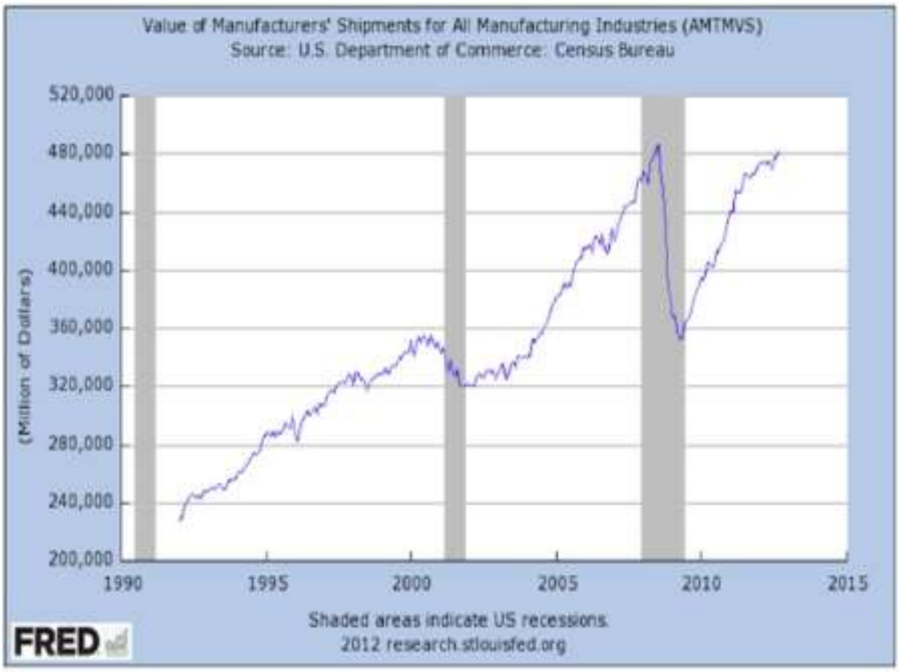
At the dawn of the 19th century, farm workers were somewhere between 75% and 80% of the entire labour force. That number was still over 50% in 1860. It was not just the Industrial Revolution that increased the number of manufacturing workers in the US, it was an agricultural productivity revolution that allowed more food to be produced by fewer people. Even so, productivity growth was not all that exceptional in the first 60 years of the 19th century.

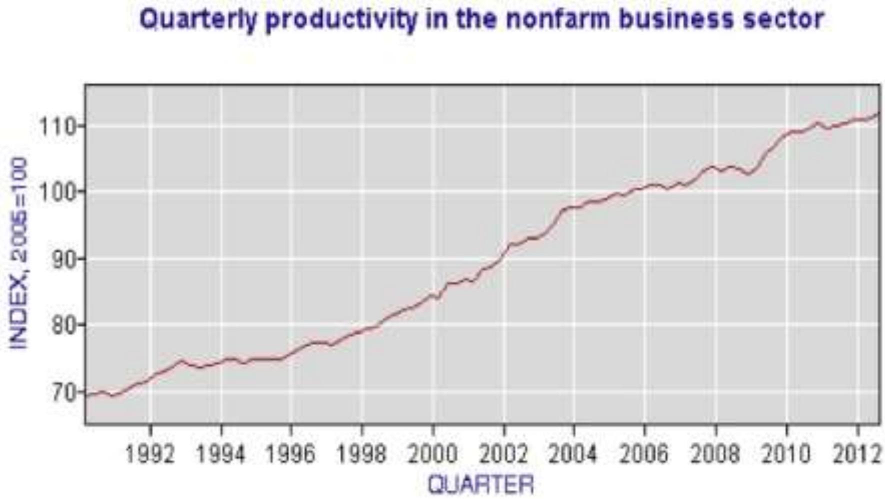
But that was then and this is now. Today the percentage of the labour force employed in agriculture is less than 2%. Agricultural productivity is up some 16 times since 1880, but we barely have more than two million people working on the farm, about the number working in agriculture in 1820. Take a look at the charts below:

The Industrial Revolution and the shift to a manufacturing economy was clearly disruptive to employment. Yet who would advocate going back even 40 years to when the farm labor force was three times the relative size it is today? Especially if you had to be the farm labor? Been there, done that. Not interested in hoeing spuds.

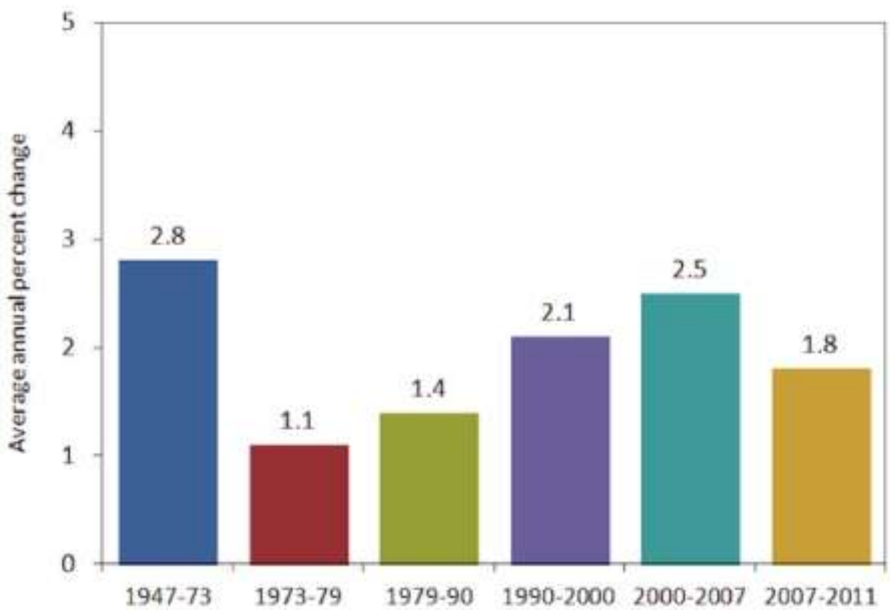
A Manufacturing Renaissance

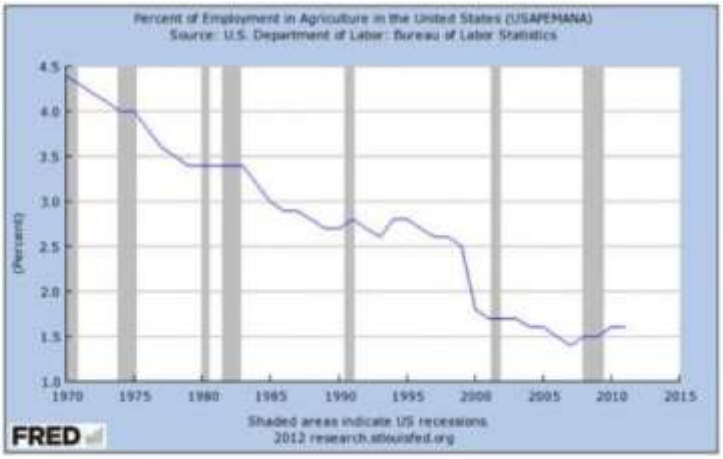
Just as agricultural output per worker has increased dramatically over time, I think that in the next 40 to 50 years we will see massive gains in manufacturing output without an accompanying large increase in manufacturing jobs.





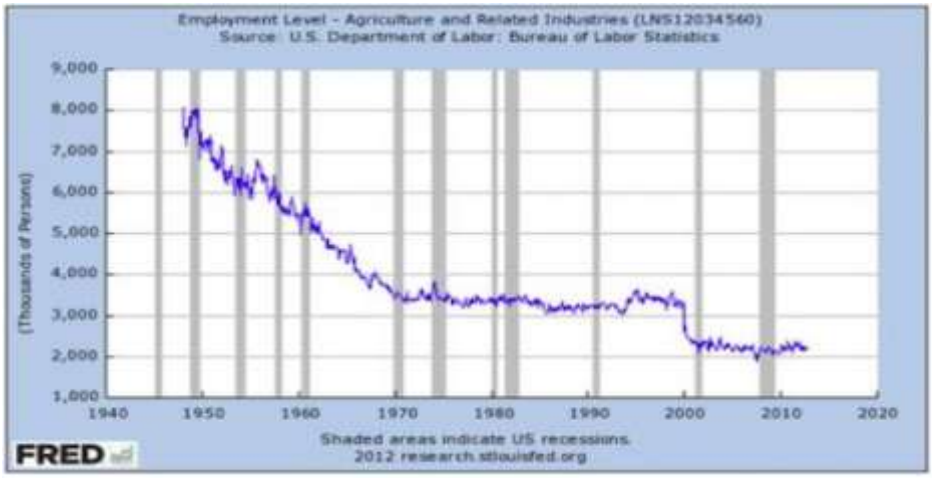
Note: Labor productivity is output per hour worked





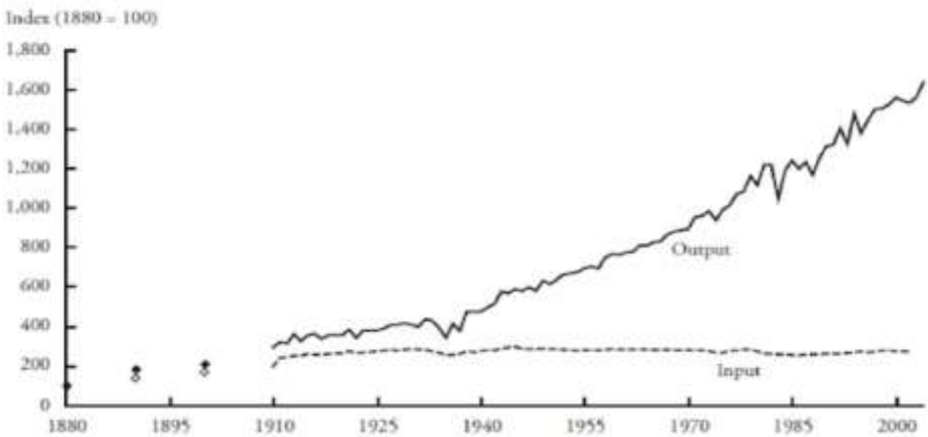
Companies are beginning to bring manufacturing back to the US because automation, robotics, and other new technology make it cheaper to manufacture products locally than to use inexpensive labour in other countries. I am told that Foxconn (in China) is beginning to use robotic manufacturing lines. When Foxconn is turning to robots rather than cheap labour, you know there is a revolution in the offing.

Yet even the manufacturing jobs that are left will not demand a "college degree." They will require serious skills and technical know-how, but that is different from the typical college degree. That is not to say college education will not be useful, but it is increasingly going to have to be an education that has a focus and goal of a marketable skill. What is going to be needed is the creation of brand-new industries, as well as the unleashing of the entrepreneurial skills of the younger generation.

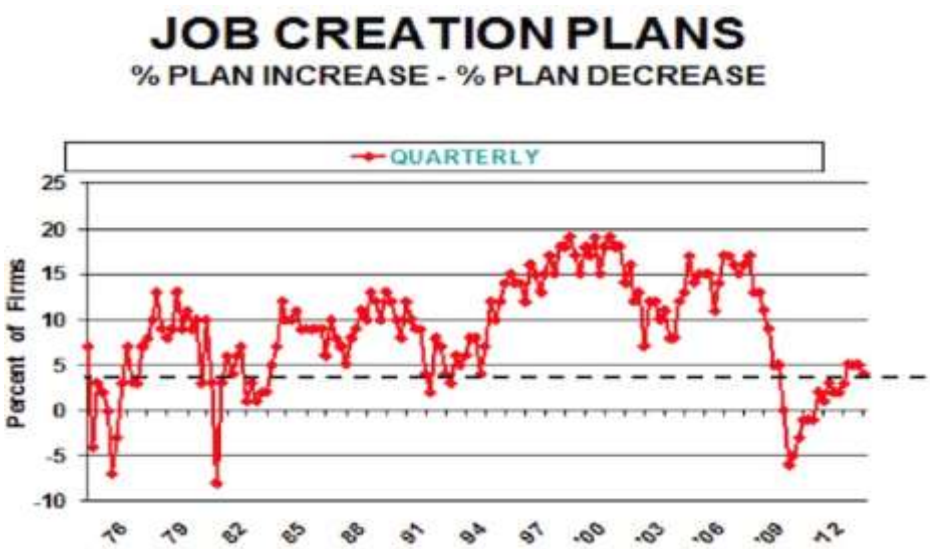


Small business is the engine of growth for jobs. It seems that all politicians can do is talk about the need to create jobs, yet the reality is that government doesn't create jobs. It can create the conditions in which jobs are created, but it is up to the individual businessman (or, increasingly, businesswoman) to make a decision to hire additional workers.

Figure 2-3 Aggregate Agricultural Output and Input Quantity Trends, 1880–2004



My friend Bill Dunkelberg is the chief economist for the National Federation of Independent Businesses. He's been doing regular surveys since at least 1974. His latest monthly survey shows that businesses are not terribly optimistic in terms of their plans to increase employment, which should be no surprise. The number one problem? Uncertainty.



Let's hope that our political leaders can give us a little more certainty and that it will not be the certainty of a recession.

Company reports

METROFILE 2012/11/27

Shareholders of Metrofile (Shareholders) are advised that at the Annual General Meeting of Shareholders held yesterday (the Annual General Meeting), all the ordinary and special resolutions as set out in the notice of Annual General Meeting dated 23 October 2012, were approved by the requisite majority of Shareholders present or represented by proxy. The special resolutions passed at the Annual General Meeting will be filed with, and registered where required, by the Companies and Intellectual Property Commission.

MINERESI 2012/11/27

Shareholders are advised that in compliance with IFRS 3: Business Combinations, the period that will be used by MRI in reporting its interim results will be the eight month period ended 31 August 2012, whilst the comparative period will be the results of Western Utilities Corporation (Pty) Ltd. ("WUC"), the wholly owned subsidiary company of MRI, for the six-month period to June 2011. WUC was reverse-listed into MRI during June 2012.

Notwithstanding the reporting methodology in the preceding paragraph, the Company is required insofar as a trading update is required, to compare the results of MRI for the eight-month period to 31 August 2012 with the results published by MRI under its former name, Capricorn Investment Holdings Ltd., for the six-month period ended 31 August 2011.

Accordingly, shareholders are advised that earnings per share and headline earnings per share for the eight month period ended 31 August 2012 are both expected to be between 80% and 90% lower than the earnings per share and headline earnings per share for the six-month period ended 31 August 2011.

MUVONI 2012/11/27

Shareholders are advised that the basic and diluted basic earnings per share will be approximately 2.17cents per share compared to a basic and diluted basic loss of 0.47 cents per share for the year ended 31 August 2011. The headline earnings and diluted headline earnings per share will be approximately 0.18 cents per share for the year ended 31 August 2012 compared to the headline loss and diluted headline loss of 0.24 cents per share for the year ended 31 August 2011. The reviewed results will be published by Friday, 14 December 2012. The directors believe that a solid foundation has been laid for long-term sustainable growth and remain confident of the company's growth prospects.

ARROWHEAD 2012/11/26

Shareholders are advised that Arrowhead has on 23 November 2012, posted revised listing particulars to its shareholders, which revised listing particulars have been issued as a result of Arrowhead issuing in excess of 25% of its issued share capital in the 3 month period ended 30 September 2012. An electronic copy of the revised listing particulars is available on the Arrowhead website - www.arrowheadproperties.co.za.

BEIGE 2012/11/26

Shareholders are advised that Mr Ron Weissenberg, an independent non-executive director of Beige has resigned with effect from 22 November 2012.

AMPS 2012/11/26

Shareholders are advised that the company is currently engaged in discussions, which if successfully concluded, may have a material effect on the price of the company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the company's securities until a further announcement is made.

SUNINT 2012/11/26

Shareholders were advised that at the annual general meeting of SunInt held on Friday, 23 November 2012, the ordinary and special resolutions proposed in terms of the notice of annual general meeting dated 25 October 2012 were all passed by the requisite majorities, with the exception of ordinary resolution number 4 which related to the non-binding advisory vote on the company's remuneration policy. The board has engaged with various shareholders and will address their concerns.

SYCOM 2012/11/26

Sycom unitholders were advised that the Registrar of Collective Investment Schemes has approved the appointment of Firstrand Bank Ltd. (Registration number: 1929/001225/06) ("Firstrand Bank") as trustee to Sycom with effect from 16 November 2012. Firstrand Bank replaces ABSA Bank Ltd. as trustee.

MMI AGM 2012/11/26

Shareholders were advised that all ordinary and special resolutions set out in the Notice of the AGM dated 1 November 2012, were duly passed by the requisite majority of MMI shareholders at the AGM held in Centurion today, 26 November 2012.

CIPLAMED 2012/11/26
Shareholders were informed that Mr Chris Aucamp has resigned as CFO and executive director of Ciplamed with immediate effect. Mr Aucamp has agreed to remain in the employment of the subsidiary Medpro Pharmaceutica (Pty) Ltd., where he will remain as a director, until at least 31 March 2013. Shareholders are further notified that Mr Mark Daly has been appointed as the CFO of Ciplamed and as an executive director of the company with effect from 26 November 2012

SABLE 2012/11/16
Shareholders are referred to the announcement released on SENS on 5 October 2012 regarding the possible delisting of the company's shares from the JSE Limited. Shareholders are advised that discussions in this regard are ongoing and accordingly shareholders are advised to continue to exercise caution when dealing in their shares in the company.

DORBYL 2012/11/16
Shareholders are referred to the announcement on SENS on 21 September 2012 insofar the mandatory offer being made by African Dune and are hereby advised that the circular in respect thereof was posted to shareholders today.

The Company will in due course distribute its response circular of which shareholders will be duly informed.

BUILDMAX 2012/11/09
Shareholders of Buildmax (Shareholders) are referred to the announcements dated 2 May , 22 August , 25 September and 17 October 2012 respectively. Shareholders are herewith advised that the special resolution, as approved at the Shareholders meeting held on 16 October 2012 to amend the Memorandum of Incorporation to allow for the consolidation of the ordinary shares in the share capital of Buildmax on a 1 for 19 basis (Share Consolidation), has been submitted by the Company, however has not yet been registered by the Companies and Intellectual Property Commission (CIPC). As a result of this delay, all conditions have not been met for the Share Consolidation to proceed in terms of the timetable as set out in the announcement dated 25 September 2012 and in the circular to Shareholders, dated 25 September 2012.

The duration of the registration process by CIPC is completely out of the Companys control and, as a result, Shareholders will be advised of the new timetable pertaining to the Share Consolidation as soon as CIPC register the special resolution.