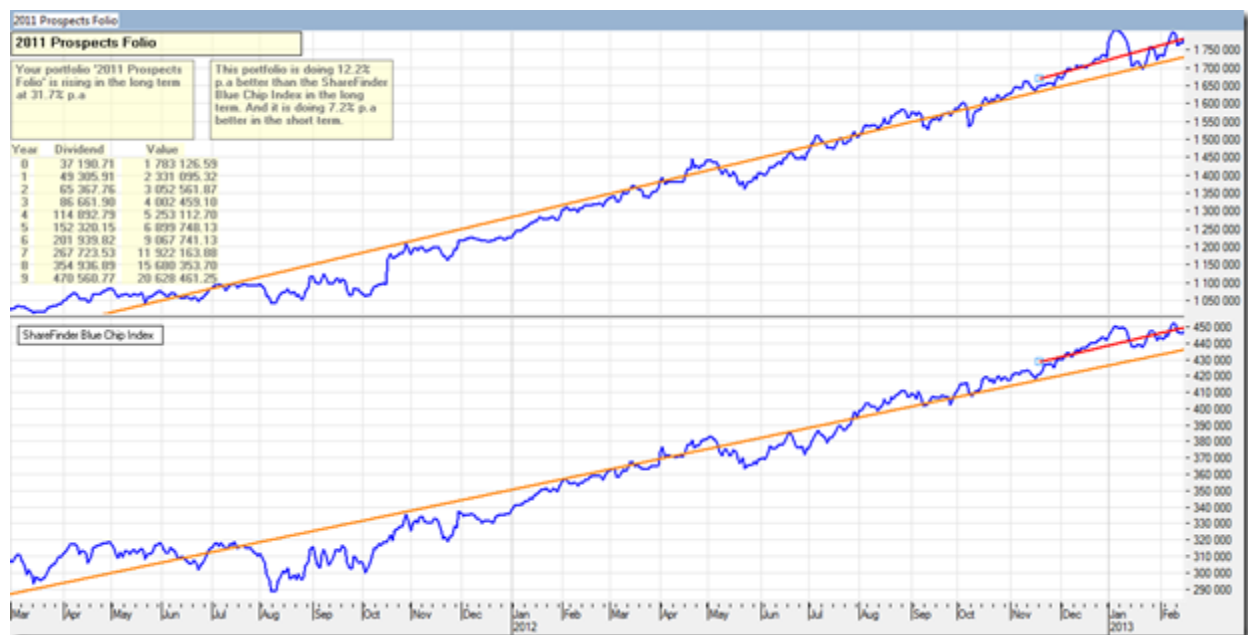


# The Investor

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

by Richard Cluver

In the January issue of *The Investor* I highlighted the 44.85 percent aggregate price growth during calendar 2012 achieved by the portfolio which I have constructed month by month since January 2011 for readers of my Prospects investment newsletter. It is, furthermore as the graph below well illustrates, continuing to comfortably outperform the market.



That 44.85 percent is nearly four times – or 349 percent - greater than the 12.86 percent achieved during the same period by the average South African unit trust and 26.7 percent better than the best unit trust performer of 2012, Metropolitan Global Property which achieved 35.4 percent.

SIM Global Financial achieved 32.1%, Sefikile Property 32.1 and PSG Konsult International 26.14.

Since only 14 investment grade companies achieved a higher than 44.85 rate of corporate earnings growth – and earnings growth is the prime mover of share prices - I was comfortable in believing that very few South African investors could have beaten my achievement and so, as usual, I challenged readers to, in confidence, tell us what they achieved and, more importantly, to explain the methodology they used to beat me.

Quite a number of you did respond detailing a strategy which in each case involved using the ShareFinder programme to manage their buying and selling decisions, but only one reader, Mr HM of Benoni, managed to beat my portfolio. Based simply on the increased value of his portfolio between January 2011 and January 2012, Mr HM achieved 46.2 percent and if his dividend income was included he achieved a total return of 49.5 percent.

Moreover, I am humbled to say that to achieve this growth rate he employed pretty much the same methods that I use...those outlined in my series The 10-Minute Millionaire which has been running in The Investor and which is now available to the public in the form of a very modestly-priced correspondence course which you can order by going to the RCIS website and signing up.

That result makes Mr HM someone very special because in achieving that 49.5 percent he has beaten the world's best hedge fund performer of 2012; Tiger Global which achieved a total return of 45 percent. But then the fund which is managed by US-based Bill Hwang, only achieved 8.6 percent in 2011 whereas over the past three years to December 31 2012 Mr H has achieved a compound annual average growth rate of 33.5 percent.

Compare his achievement against research by [Bloomberg Markets Magazine](#) that the industry average return was 1.3 percent. Moreover, Bloomberg's research found that the average 2012 return by the five best hedge fund performers worldwide was 20.2 percent.

But to put those figures into a proper perspective, I should add that had my readers merely bought a cross section of the 39 shares that constitute my Blue Chip Index, they would have achieved aggregate price growth of 31.6 percent and would have thus beaten every hedge fund manager in the world with the sole exception of Bill Hwang. Furthermore they would have received dividends totalling an additional 3.1 percent making a total return for 2012 of 34.7 percent.

However, there is a down side to Mr Hwang's fund performance. In December he was charged by the US watchdog body, the SEC of illegal trading which

enabled his fund to reap \$16.7-million in illicit profits. His hedge fund has since agreed to pay \$44-million to settle the SEC's civil charges.

So it seems very likely that our Mr HM might have been one of the world's top performers of 2012.

So what did Mr HM do in order to beat my 2012 record? Summarising his experience he wrote; "Some of my choices in the past were not by means of ShareFinder, but from listening to friends or reading in the newspaper (everybody MUST have some ANGLO shares!!) I have learnt my lesson, and these days I only make my choices based on ShareFinder.

Step one is to export the ShareFinder Quality List into an Excel spread sheet where he sorts on 5YrGrowth discarding any shares with less than 15 percent compound annual average growth. Next he calculates annual growths for 15Yr, 5Yr, 1Yr and 6Months and determines a weighted average and sorts these into descending growth order. Finally, after factoring in the five-year dividend growth rates of these top price-growth performers, Mr H makes his selections;

The shares he selected by this method were Coronation, Capitec, EOH, Exxaro, Famous Brands, Mr Price, Naspers, Pinnacle, Shoprit, Spar and Truworths. That is not much different from the Prospects portfolio which consists of AVI, Capitec, Clicks, Coronation, Famous Brands, Massmart, Mr Price, Naspers, Pinnacle and Shoprit.

Here I should note that it is unnecessary to export ShareFinder's Quality List to a spread sheet. In order to sort any of the columns into either descending or ascending order, you merely need to left-click on the title of each column.

Additionally, many readers have been asking about the performance of the offshore portfolio which I am managing in association with Anchor Capital. It has only been in operation since October so it is very early days yet. However the graph below indicates that it is already putting in a solid performance:



More to the point, before launching the London Stock Exchange portfolio, I built in early 2011 a theoretical portfolio based upon 100 000 pounds invested equally over 10 blue chip shares. Just 26 months later that portfolio, without re-investing dividends is now worth 158 132 pounds representing a compound annual average growth rate of 25 percent and is yielding an aggregate dividend of 2193 pounds a year. The graph below tracks its performance since January 2011.

More remarkably, if you factor in the fact that the value of the Rand to the British pound fell from R10.249 to R13.779 then in Rand terms the value of the portfolio grew from R1 024 920 to R2 036 361 which represents a compound annual average growth rate of 41 percent a year.



Finally, to complete the hat trick, I have from time to time written about the pension fund which I manage which, in addition to delivering an annual payout considerably in excess of its aggregate dividend income, has nevertheless over the past decade grown at a compound annual average rate of 22.9 percent a year putting it way ahead of all of South Africa's pension fund performances. The graph below tracks its performance over the decade. Note the sharp downward spikes which represented annual cash withdrawals. In addition to a R150 000 cash withdrawal in the past 12 months, my pension fund grew by 43.2 percent.



That my pension fund significantly underperformed my share portfolio should not surprise anyone. Governed by the requirements of South Africa's Financial Services Board which requires that the so called Prudential Rules should apply to all local pension funds, they cannot be expected to achieve the same rates of growth that pure equity portfolios achieve.

Exerting a brake on this portfolio is the fact that close to half of the capital is spread over two property funds, Growthpoint and Hyprop. The balance of the portfolio consists currently of cash (5.1%) ABSA (10%) Clicks (5.5%) Mr Price (23%) and Sasol (7.9%).

Seeking comparable international figures I found a British study which disclosed that over the decade ended August 2009 – that is during the period that the London Stock Exchange experienced one of its greatest ever growth surges, the aggregate increase in value of ALL British pension funds was a TOTAL of 21.8 percent.

The study found that: “By calculating a weighted average for the whole market we have found that the weighted total return for the £200 billion invested in these areas is 21.793% over the past ten years, which is almost precisely 2% per year.

And British pension funds have been among the world’s best. The most comprehensive of all studies was one conducted by the OECD which found the of 23 countries studied, the highest arithmetic mean returns over the ten years ended 2005 were achieved by Uruguay at compound 15.3 percent and the lowest by the Czech Republic with 1.1 percent. The US average during that period was 6.5 percent, Canada 6.2 percent, Britain 9.5 percent, Japan 3.7 percent and Australia 9.1.

Over the decade ended December 2012 South Africa’s big managed pension funds put in similar performances with Momentum having achieved an average annual increase of 6.86 percent for its pensioners. Old Mutual was next best with an average of 6.7 percent and Sanlam came in far behind with average increases of 4.76 percent. So my pension fund beat the best of these by 334 percent. Furthermore, during calendar 2012 when Momentum gained 7.9 percent for its pensioners, my personally-managed pension fund grew by 43.2 percent, doing 547 percent better!

# THE 10-Minute Millionaire

## A simple way to time your buying and selling

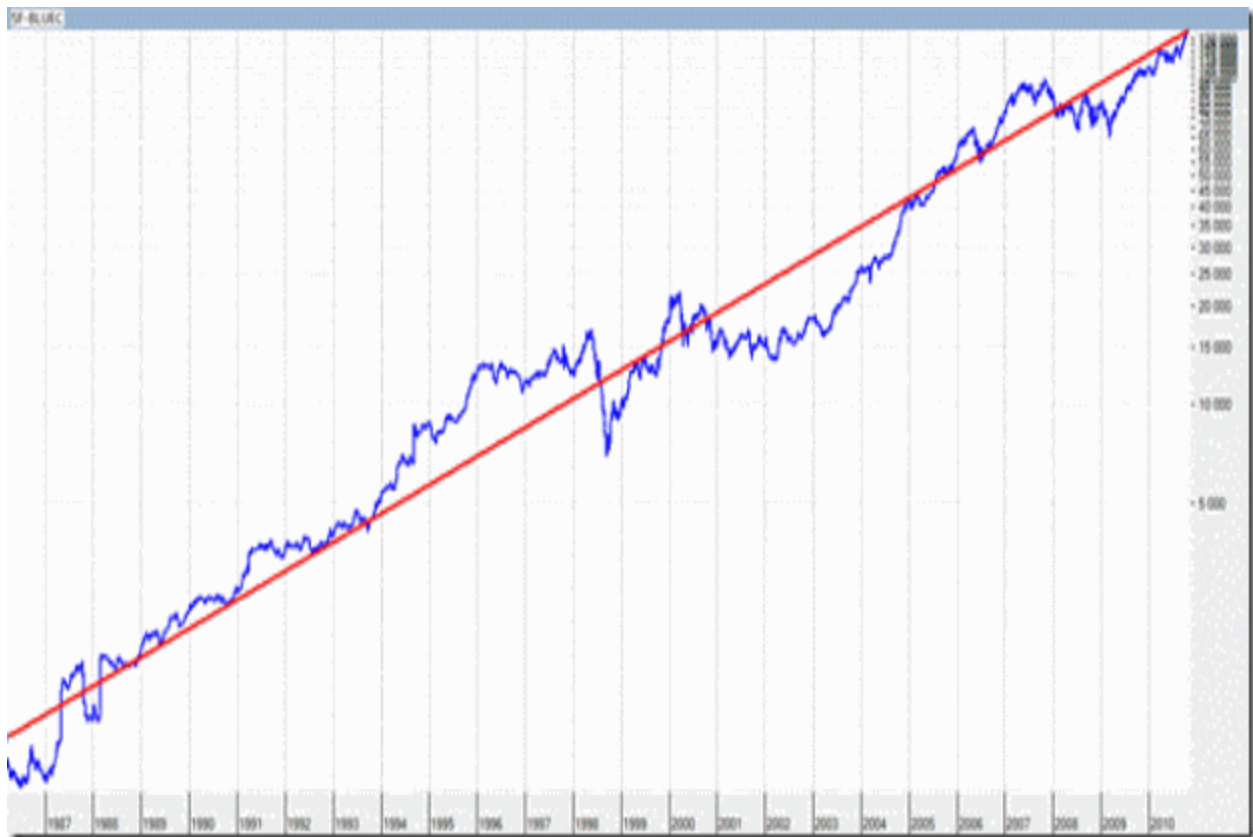
**Over the past few issues I have outlined a series of very simple tests that will allow you to select a blue chip share portfolio that, as I proved in the last issue, beat the best unit trust by 34.3% and the second best by 71.1%.**

Now, of course, my critics would immediately argue that the reason this portfolio achieved such dramatic growth was because it was bought at the very bottom of the last bear market and, in the real world, one seldom manages to buy a whole portfolio at the very lowest prices achieved by the market. So, having explained how you should go about selecting the best shares to invest your money in, the next task is to teach you how to select the optimum moment to buy.

So how accurately can one predict a probable market direction change? Well, those who subscribe to my weekly Prospects newsletter service will be aware that at the time of writing I had for the past nine years each Friday made predictions about the likely direction of eight market indices and over that time had achieved a cumulative average accuracy rate of 81 percent. Now you might argue that I have been around a long time and therefore have a wealth of accumulated experience to draw on. And there can be no argument that experience does count for a lot.

However, in my case my accuracy rate is entirely dependent upon the accuracy of my automated ShareFinder computer system so the truth is that anyone can be accurate in their short-term market timing if they equip themselves with a ShareFinder programme. Using the system means that you can thus be right four times out of five when you decide to buy a share.

However, now is the time to let you into a little secret. It is quite simply that making short-term market direction decisions is probably 100 times more difficult than making long-term ones....and long-term buying is what real share market investing is all about. So let me introduce you to a super simple way of buying and selling shares for long-term investment.



Just consider for a moment the graph above which traces the performance of the ShareFinder Blue Chip Index over the past 25 years. I have displayed it on logarithmic scale in order to eliminate a phenomenon known as exponentiation which causes percentage graphs to curve upwards when displayed over a lengthy period like this.

Next I have drawn a trend line drawn that intersects the greatest possible number of graph turning points, thus providing me with a simple Overbought/Oversold line and this is the only tool that the Super Simple Long Term Investor needs in order to decide when he should be buying and when he should be selling.

You can create such a line on any market index and the buying and selling rules couldn't be more simple. If you have money to invest and the graph is ABOVE the red line you should keep your money in the bank (or under your bed or wherever). You ONLY buy if the index is below the red trend line and, preferably as far as possible below the red line such as happened in June 1986, February 1988, July 1992, September 1993, September 1998, September 1999, April 2000, September 2001, March 2002, March 2003, March 2004, March 2005, June 2006, July 2008 and March 2009.



If you care to work those dates out you will quickly see that good buying opportunities existed once every 20 months on average. Now go back to the allocation table I created in the last issue of The Investor and you will be able to calculate that the average price of 100 blue chip shares is around R1 400. So if you are Mr Average South African earning around R120 000 a year and you regularly save a tenth of your income, you can calculate that every 20 months you should have approximately R20 000 to invest; quite enough to enable you to enter the share market as a buyer whenever it is reaching one of those cyclic lows that so regularly occur.

So the simple secret of rags to riches now lies before you. If I can re-iterate:

- 1) Step one is to clear yourself of all short-term debt.
- 2) Step 2 is to commit to saving one tenth of your income.
- 3) Step 3 is to create a wish-list of blue chip shares using the rules I have described in this column.
- 4) Step 4 is to use a trend line to guide you to buy only when the market is at its lowest ebb.

*Next issue I will put this process to the test and show you how, if you follow this Super Simple Set of Rules you can start now planning for an early retirement. It is easily within the reach of everyone!*

### **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](http://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.

**Continue reading on the next page below...**



**FNB**  
First National Bank

**By Invitation - Dr Cees Bruggemans**

Though binding supply constraints (electricity, credit access, public sector manpower) and poor export dynamics explain much of South Africa's 2.5% subpar growth performance during 2012-2013, there is enough of a business confidence restraint to also keep demand back.

With inflation averaging near 6% this year there is more real household income erosion ahead at a time that credit support (unsecured) is being cut back, implying more of a consumption slowdown than perhaps expected.

Furthermore, leading global central banks are conducting ultra loose monetary policies, with their super liquidity boosts reflating global equities and causing huge bond inflows to higher yielding EM markets, potentially also boosting Rand firmness and giving rise to asset bubbles (at least in our bonds and equities).

Globally, these tendencies are depicted as currency wars, with EM countries with rising currencies inclined to ease monetary policies to prevent currency overvaluation.

Together, such excessive domestic strains and external liquidity injections suggest the potential for further SARB interest rate easing.

Holding up such moves in the short term are a humping SA inflation rate (rising mostly for technical reasons, but also carried along by longer term infrastructure repricing), higher food and oil commodity price levels, the unruly labour climate potentially generating more excessive wage demands (even to the point of becoming a wage-inflation spiral) and the fears as to what all this domestic unruliness could do to foreign capital inflows (any sudden stops capable of generating a Rand shock weakening, in turn detonating our inflation yet higher).

But will these concerns last out the year? And if they don't, would that clear the way for SARB to lower SA interest rates by another notch?

The global monetary policy picture is unlikely to change this year or next (or for that matter soon thereafter). Rich world repair will take a long while during which leading central banks can be expected to stick with ultra loose monetary

policy, despite the many misgivings aired daily on the subject in some quarters, with free and frank advice flowing furiously without yet seemingly converting the leading central bankers.

Similarly, our binding internal supply constraints do not show evidence of lifting quickly.

Despite many influences playing in on our inflation, such as oil, food, infrastructure repricing and global trade disinflation (and outright deflation), our inflation will seemingly remain mostly in the upper part of the 3%-6% SARB target range, except for short periods off the reservation (such as expected through mid-2013).

Such relative inflation stability probably also owes much by now to a credible inflation-targeting record of the SARB, in the process causing expectations to increasingly converge and remain anchored in the SARB's target range.

This achievement is not limited to ourselves, but is mirrored in firmly anchored inflation expectations in many countries.

Though the inclination of inflation to stay near the upper reaches of the target range is not wholly satisfactory, SARB can likely live with such an inflation performance (considering the historic backdrop and the structural strains weighing on the SA economy), relative to an underperforming economy capable of doing better if only for a bit more demand, yet fiscal policy being played out and unable to assist.

This makes the two key tactical concerns of the SARB this year the labour climate and foreign investors deciding our volume of capital inflows and the level of the Rand.

If the labour unrest, in line with 2003-2012 tendencies, were still to deteriorate further, living off a menu of increased violence, clashing unions, flaunting of the rule of law and excessive demands fired up by a sense of expectation and entitlement, the SARB is likely to lean into such unwelcome tendencies.

If, accompanying such labour unruliness, foreign investors were to acquire yet more cold feet about investing in our assets, in the process causing even more Rand weakness, also stoking inflation pressure higher, SARB would have double reason to hold back on any further policy easing in support of a weaker economy.

But it isn't written anywhere that these are the only certain outcomes this year guiding the SARB.

On the labour front, the cold common sense of employer adjustments to excessive labour demands will likely continue to be to manage their wage bills carefully in line with strenuous import and local competition.

Any above-average wage increases not matched with labour productivity improvement is likely to be matched with greater mechanisation and labour shedding, and a yet greater focus on foreign expansion in friendlier climes.

For what it is worth, the State of the Nation speech in a rather understated manner (and perhaps for that reason the more ominous) promised swift application of the law for any citizens not staying with peaceful protest.

Between the state and employers, the spreading culture of labour violence in support of extreme demands may meet its match this year.

Wishful thinking? Perhaps.

Let's see how coming months play. There will be major wage rounds between now and 3Q2013, during which the patience of many will be severely tested.

Yet it need not all go one-way as was perhaps the main impression gained last year. There are countervailing realities, not least if jobs are progressively axed, and the law makes a stand as vaguely promised.

If by 3Q2013 there clearly isn't a wage-inflation spiral taking hold, and ultra-loose global monetary policies keep matching higher risk premiums demanded by foreign investors, causing a kind of suspended animation for the Rand in 8.50-9.50:\$ territory, the SARB's worst concerns could start to abate gradually.

It is then that the weak demand condition of the economy may regain centre stage, also by that time still 6-9 months away from the next general election.

Local financial institutions on the whole do not really believe in further SARB easing these next 12 months, yet some foreign financial institutions apparently do. With inflation staying acceptable, yet growth increasingly not, their focus is on more SARB easing.

To which I would add that the risk of rate lifting may be receding beyond 2015, in line with leading countries overseas and our long period of subpar growth performance still very much remaining a reality for long.

On balance, I am not assuming a shock deterioration shortly (labour and/or Rand based). Instead, I expect our inflation to remain bearable while subpar growth and zero formal job growth like last year won't be acceptable.

It is a combination that might invite more policy easing ere long, with a constrained fiscal policy and a Rand stuck in suspended animation not giving enough support, leaving it for SARB to apply a bit more thrust to the economic engines, assuming that our asset markets aren't yet so white-hot as to pose concern for SARB.

The easy thing in such an environment is still not to do anything, explaining that enough has been done and any more would be irresponsible, in line with such thinking in certain quarters overseas.

But more EM central banks seem now to be preparing for some more interest rate easing in line to their own domestic and external circumstances.

Our SARB may not turn out to be the exception also doing so. But first let's see what this labour round brings, and what foreigners will do with their capital (and in the process with our Rand).

This doesn't preclude an early policy response these next four months, all these things ultimately being in the realm of opportunistic policing.

But it is more likely that 1H2013 will be spend watching and learning, while 2H2013 could offer opportunistic windows of policy activism, especially if a flock of EM brethren were to lead with their chins, clearing the way for us to follow in their wake without getting too heavily penalised in the process.

Prime to 8% in 2013?

**Continue reading on the next page below...**

## **Stockbroker's views - by Brian Kantor**

### **Investec Securities**

#### **Real exchange rates: All about capital flows**

*Explaining the rand ? don?t look to Purchasing Power Parity (PPP), but to capital flows to explain the value of the rand*

When exchange rates conform to Purchasing Power Parity (PPP), that is the exchange rate moves to compensate for differences in inflation between two trading countries, the exchange will not have any real effects on the economy. Given PPP, what is lost, say, for an exporter or gained by an importer in the form of faster or slower inflation, is fully offset by what is gained or lost by compensating movements in the exchange rate. This would leave importers or exporters no more or less competitive in their home or offshore markets. PPP exchange rates are however at best a very long run equilibrium rate to which exchange rates may trend but seldom conform.

The SA experience with exchange rates is one where large deviations from PPP exchange rates are the rule rather than the exception. The starting point for any calculation of PPP equivalent exchange rates is of crucial importance. The date should be one when the exchange rate appears very close to its long term PPP value.

This was the case for the rand/US dollar in 1995. Before 1995 the value of the commercial rand (this was used to pay for imports, dividends and interest and dividend payments abroad and received for exports) was protected by exchange controls on both foreign and domestic investors. Flows of capital to and from SA were conducted through the transfer of a more or less fixed pool of so called financial rands. These financial rand movements, usually expressed as a discount to the commercial rand, left the value of the commercial rand largely unaffected by capital flows and insulated against changes in investor sentiment. Hence foreign trade driven commercial rand exchange rates stayed very close to their PPP values, as was the case in 1995.

The capital controls applied to foreign investors in the form of the financial rand were abandoned in 1995. Ever since then, flows of foreign capital to or from SA, driven by levels of SA or global risk tolerance, came to influence the value of the unified rand. The rand became less a trading and more a capital driven currency in the short run.



We show below (starting our calculation of the PPP equivalent rand/US dollar exchange in 1995) that the rand had become deeply undervalued by 2000. If PPP had held between 1995 and 2013, the US dollar that cost R3.35 in January 1995 would have cost a mere R6.66 in January 2013, leaving the rand about 28% undervalued compared to its PPP value.

If we start the same calculation in January 2000, when the US dollar fetched R6.31 and had PPP equivalent exchange rates been maintained, the US dollar would now cost R9.68, making the rand appear 10.5% overvalued. However, as we have shown, the PPP equivalent value of the rand in January 2000, using January 1995 as the starting point, was as little as R4.36, not the R6.31 it cost. The rand, as a result of freed up capital movements after 1995, was already deeply undervalued by 2000. It was to become much more deeply undervalued in 2001, but thereafter began to recover with improved investor sentiment.

The real commercial (then unified) rand has fluctuated wildly over the years. It was slightly overvalued during the gold boom seventies. It weakened significantly when SA failed to cross its political Rubicon in 1986. The largest burst of weakness came in 2001 for SA specific reasons, largely related to the panic demands for asset swaps when they first became available, and the real rand lost as much as 40% of its value. Thereafter it began a more or less consistent recovery, helped by large foreign flows into the JSE (though it was interrupted by the Global Financial Crisis in 2008 that weakened all riskier emerging market currencies). The strength of the rand and the JSE after 2003 was not at all coincidental. The recent weakness of the rand, very much SA specific, has moved the real rand from near parity with the US dollar to about 10% undervalued.

Clearly it is investor sentiment that has come to drive movements in the exchange value of the rand. Sometimes these perceptions are SA specific and at other times much more generally explained by global attitudes to risk taking.

The reality for SA exporters and importers post 1995 is that they have had to cope with a highly variable real exchange rate. It is instructive to note that the extreme moves between 1983 and 1986 can also be explained by capital flows: the financial rand was temporarily abolished in 1983 and then reinstated in 1986.

It is these exchange rate fluctuations that greatly complicate the business of importing and exporting. Ideally, given consistency of economic policies, the real exchange rate would stabilise. Unfortunately fiscal and monetary policy in SA has been far more consistent than expectations of them. It is these

expectations of policy that drive capital flows more than the policies themselves. Until SA can convince investors of the permanence of investor friendly policies, such real exchange rate volatility will continue.

The advice for SA policy makers is to maintain investor friendly policies, including the freedom to move capital in and out of the SA economy. The depth of the SA capital markets and the consequent liquidity it offers has been a major attraction for foreign investors, upon which the SA economy remains highly dependent for its growth, given the lack of domestic savings. The economy will have to trade off exchange rate instability against easy access to foreign capital.

Resorting to capital controls would drive capital away over any long term view. Moreover improved labour relations would be highly investor friendly. It would lead to a stronger real rand and a stronger economy supported by larger capital inflows.

**Continue reading on the next page below...**

## **The Keynesian Depression**

### **A Premonition From a Halcyon Era**

By Scott Miner, Chief Investment Officer, Guggenheim Funds

In 1968, America was literally over the moon. Apollo 7 had just made the first manned lunar orbit and the nation would soon witness Neil Armstrong's moonwalk. The United States was winning the war in Southeast Asia and the Great Society was on the verge of eliminating poverty. I remember my father taking me to the Buick dealership that summer in Connellsville, Pennsylvania, where he bought a 1969 Electra. As we drove home I asked him why we had bought the 1969 model when we had the 1968 one, which seemed equally good.

"That's just what you do now," my father said, "Every year you go and get a new car." "Wouldn't it be better," I asked as a precocious nine year-old, "if we saved our money in case a depression happened?" I will never forget my father's reply: "Son, the next depression will be completely different from the one that I knew as a boy. In that depression, virtually nobody had any money so if you had even a little, you could buy nearly anything. In the next depression, everyone will have plenty of money but it won't buy much of anything." Little did I realize, then, how prescient my father would prove to be.

Five years have passed since the beginning of the Great Recession. Growth is slow, joblessness is elevated, and the knock-on effects continue to drag down the global economy. The panic in financial markets in 2008 that caused a systemic crisis and a sharp fall in asset values still weighs on markets around the world. The primary difference between today and the 1930s, when the U.S. experienced its last systemic crisis, has been the response by policymakers. Having the benefit of hindsight, policymakers acted swiftly to avoid the mistakes of the Great Depression by applying Keynesian solutions. Today, I believe we are in the midst of the Keynesian Depression that my father predicted. Like the last depression, we are likely to live with the unintended consequences of the policy response for years to come.

### **This Depression is Brought to You By...**

John Maynard Keynes (1883—1946) was a British economist and the chief architect of contemporary macroeconomic theory. In the 1930s, he overturned classical economics with his monumental *General Theory of Employment, Interest and Money*, a book that, among other things, sought to explain the Great Depression and made prescriptions on how to escape it and avoid

future economic catastrophes. Lord Keynes, a Cambridge- educated statistician by training, held various cabinet positions in the British government, was the U.K.'s representative at the 1944 Bretton Woods conference and, along with Milton Friedman, is recognized as the most influential economic thinker of the 20th century.

Keynes believed that classical economic theory, which focused on the long-run was a misleading guide for policymakers. He famously quipped that, "in the long run we're all dead." His view was that aggregate demand, not the classical theory of supply and demand, determines economic output. He also believed that governments could positively intervene in markets and use deficit spending to smooth out business cycles, thereby lessening the pain of economic contractions. Keynes called this "priming the pump."

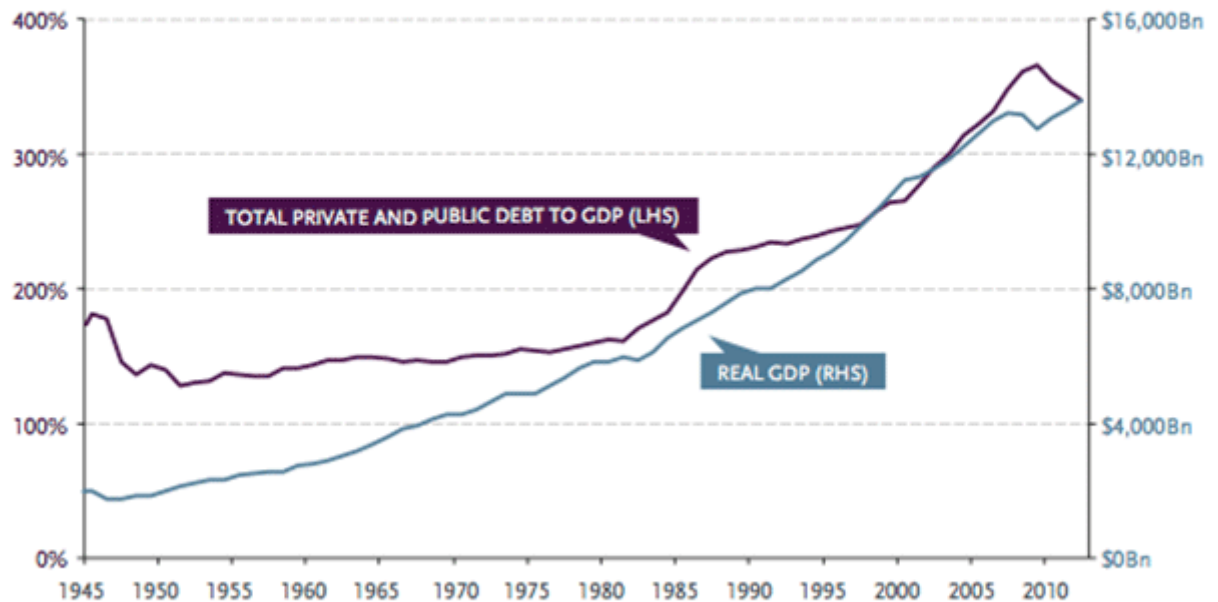
### **On Your Mark, Get Set, Spend**

Since the Second World War, policymakers concerned with both fiscal and monetary policy have opportunistically followed certain Keynesian principles, particularly using government spending as a stabilizer during periods of economic contraction. In 1968, steady economic growth and low inflation had led optimists to declare that the business cycle was dead. When President Nixon ended gold convertibility of the dollar in 1971 he justified it by declaring that he was a Keynesian. Even Milton Friedman, founder of the monetary school of economics, told Time magazine that from a methodological standpoint, "We're all Keynesians now."

In dampening each successive downturn, authorities accumulated increasingly larger deficits and brought about a debt supercycle that lasted in excess of half a century. The complementary aspect of Keynes' guidance on deficit spending – raising taxes during upswings – was rarely followed because of its political unpopularity. As a result of the constant fiscal support without the tax increases, businesses and households became comfortable operating with continuously higher leverage ratios. The conventional wisdom was that this government backstop could never be exhausted.

## A MOUNTAIN OF DEBT

*Investors gorged on debt during the 60 years following World War II, believing that corrections in the business cycle would always be softened through a "policy put" that set a floor below which economic productivity could not fall.*



Source: Historical Statistics of the United States, Federal Reserve, Guggenheim Investments. Data as of 9/30/2012. Note: Data before 1946 is from the Historical Statistics of the United States.

The calamity in the financial system in 2007 and 2008 signalled the beginning of the unravelling of the global debt supercycle. The Keynesian model dictated that the best way to fix the problem was to run large deficits and increase the money supply. Keynes had based his prescriptions for this type of action on the early mismanagement of the Great Depression which he felt had prolonged the losses and hardship during that time. As is the case with most ground-breaking philosophies, Keynes' disciples carried his views much further than could have been imagined during the period in which the master lived.

## The Depression My Father Knew

Keynes viewed governments' attempts at belt-tightening during the Great Depression as ill-timed. Although President Roosevelt invested in massive public works projects under the New Deal starting in 1933, almost four years into the crisis, the U.S. government maintained a policy of attempting to balance the budget as the depression raged on. Keynes's response was: "The boom, not the slump, is the right time for austerity at the Treasury." The other problem, according to Keynes, was that the Federal Reserve's attempts to lower real interest rates and inject cash into the system were too modest and

too late to avoid what he referred to as a liquidity trap, leading people to hoard cash instead of consuming.

To illustrate the dynamics of the liquidity trap Keynes cleverly invoked the analogy of “pushing on a string.” He said that at some point, attempting to stimulate demand by easing credit conditions is like trying to push a string that is tied to an object you want to move. Whereas you can easily pull something toward you by the string to which an object is tied (raising interest rates to slow growth), attempting to carry out the opposite by reversed means (lowering interest rates to try to induce lending to otherwise unwilling borrowers) is not always successful. This is especially true when the rate of inflation becomes so low that it becomes impossible to set interest rates below it.

### **This Time It's Different**

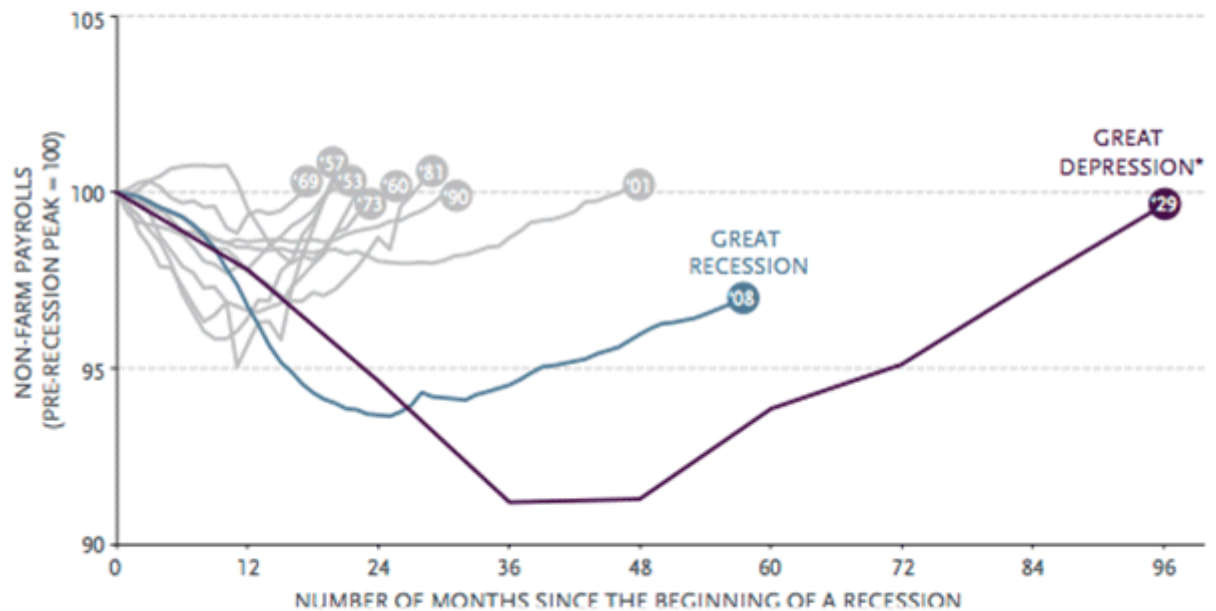
What sets the current downturn apart from any other since the Great Depression is that, for the first time since the 1930s, we have had severe asset deflation (declining real prices) in the face of relative price stability. Periods of asset deflation occurred between the 1960s and 1990s, but nominal prices were supported by rising inflation levels. Against the backdrop of a rising price level, nominal asset prices remained stable or continued to increase as real asset prices declined. This protected asset-based lenders from severe losses resulting from declining nominal prices.

During the 2008 crisis, inflation levels were close to zero and unable to offset falling real asset values to stabilize nominal prices. This caused a debt deflation spiral to take hold as nominal prices fell. In contrast to the Great Depression, policymakers took extreme measures in 2008 to prevent a total collapse of the financial system and head off a deflationary spiral like that experienced in the 1930s. These policies included sharply increasing the money supply and engaging in an unprecedented amount of deficit spending.

In many ways the swift policy action proved highly effective. Instead of the 25 percent unemployment seen in the 1930s, joblessness reached only 10 percent. While unemployment now stands at roughly eight percent, if one uses the labor force participation rate from 2008, the level is still higher than 11 percent. Although there was a 3.5 percent decline in the price level between July and December of 2008, policymakers immediately tackled and reversed the deflationary spiral. This compares with the Great Depression, when between 1929 and 1933 the general price level declined by 25 percent.

## THE GREAT MALAISE

*The Federal Reserve, empowered by a compliant Congress and White House, averted the complete ruination of the financial sector that could have occurred in 2008. The world did not enter another Great Depression. Instead it entered, and remains in, a Keynesian Depression.*



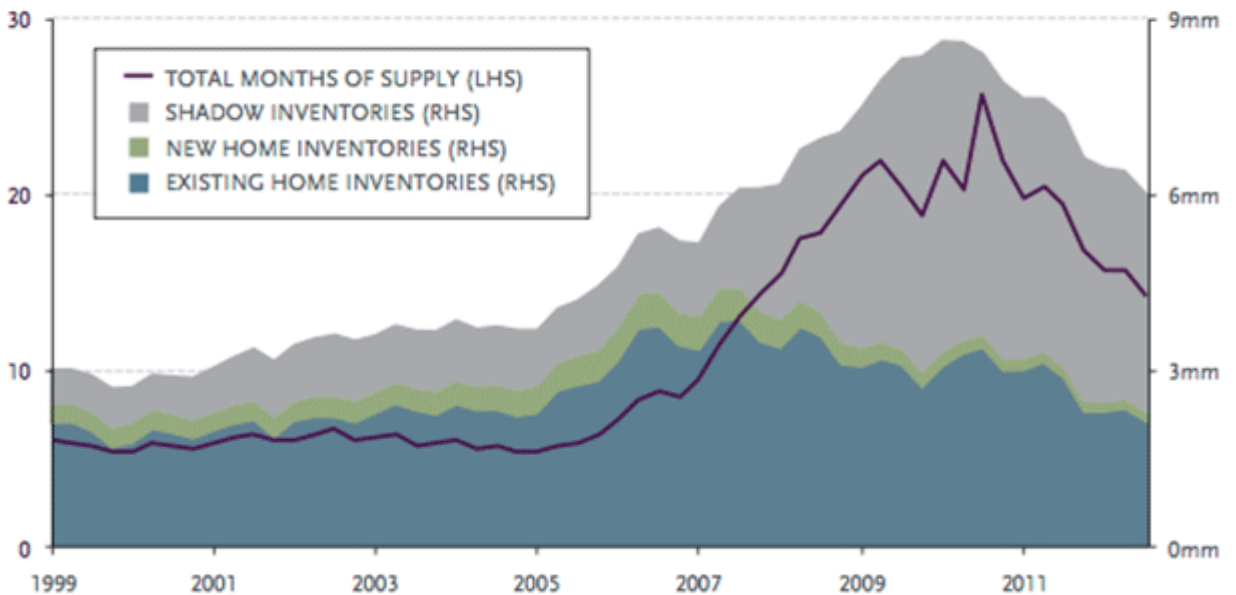
Source: Historical Statistics of the United States, Bureau of Labor Statistics, Bloomberg, Guggenheim Investments. Data as of 10/31/2012.  
\*Note: The payroll in Great Depression era has been adjusted for the change in nonfarm population.

## The Aftermath

Though some may be cheered by the relative policy successes this time around, at the current trajectory it will still take almost as long for total employment to fully recover as it did in the 1930s. While job loss was not as severe this time, the recovery in job creation has been much slower. Although nominal and real gross domestic production have returned to new highs on a per capita basis, we are still below 2007 levels. In the same way the Great Depression and the depressions before it lasted eight to 10 years, we will likely continue to see constrained economic growth until 2015-2016 (roughly nine years after U.S. home prices began to slide). Only then will the excess inventory in the real estate market be absorbed, allowing the plumbing of the financial system to function, and supporting an increase in the economic growth rate.

## HOME GAME

The excess inventory in the housing market is an important factor upon which the potential for the United States' economic recovery hinges. Housing cycles typically unfold over an 18-year period, with bull markets often lasting somewhat longer than half of that time.



Source: Bloomberg, Guggenheim Investments. Data as of 3Q2012.

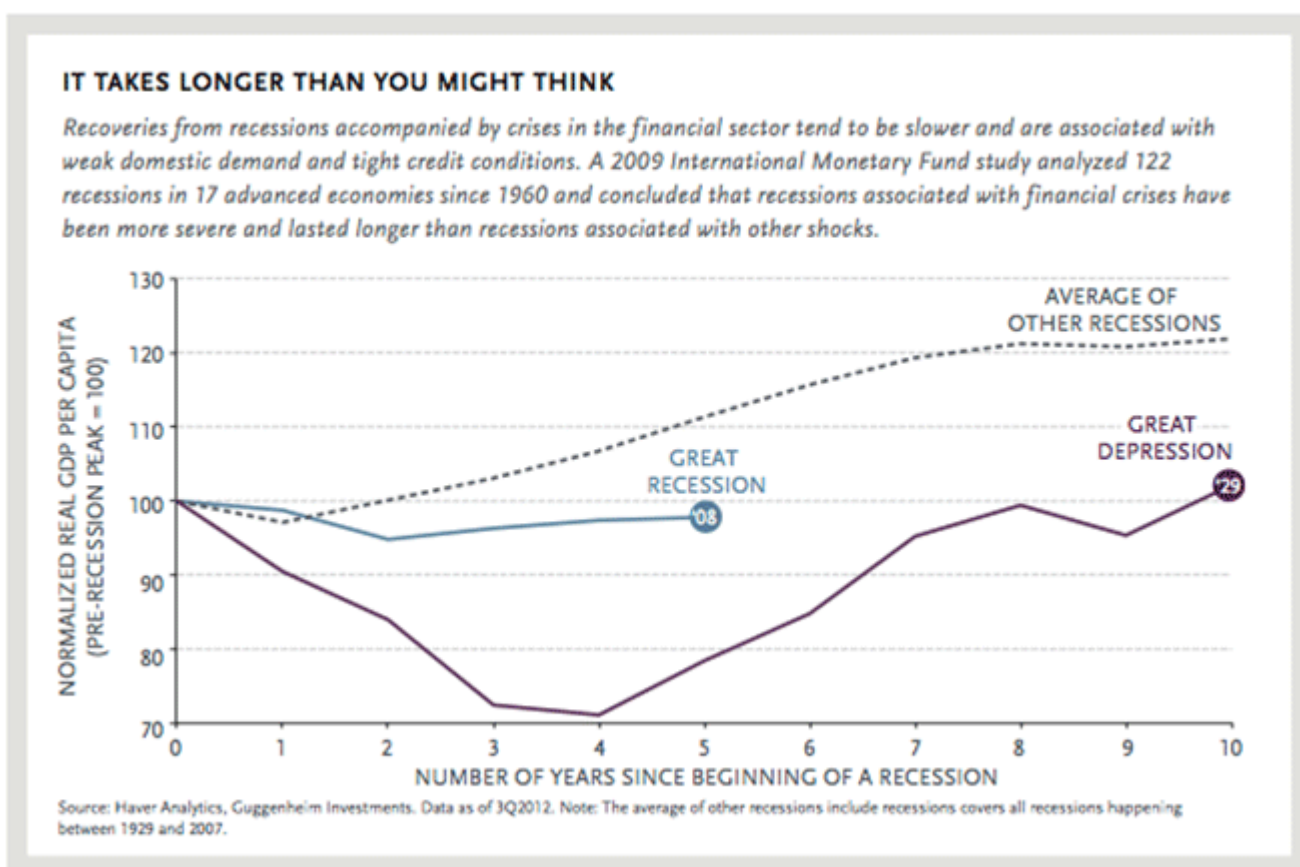
At what cost did we attain this “success”? Like any strong medicine, the policies pursued since 2008 have had, and are continuing to have, unintended side effects. The most glaring feature of today’s global landscape is that governments around the world have exhausted their capacity to borrow money and have turned to their central banks to provide unlimited credit. In the United States, it has taken an average annual deficit of \$1.2 trillion and multiple rounds of quantitative easing just to keep the economy growing at a subpar rate since 2009.

In their 2009 book, *This Time It’s Different: Eight Centuries of Financial Folly*, the economists Carmen Reinhart and Kenneth Rogoff catalogue more than 250 financial crises and conclude that the U.S. cannot reasonably expect to circumvent the outcome that has befallen all overleveraged nations. In the authors’ words:

...Highly leveraged economies, particularly those in which continual rollover of short-term debt is sustained only by confidence in relatively illiquid underlying assets, seldom survive forever, particularly if leverage continues to grow unchecked.



Sovereign powers saddled with debt loads as large as those of the U.S., Europe, and Japan today are jeopardizing their long-term economic wellbeing.



In an October 2012 whitepaper, Reinhart and Rogoff re-emphasized their findings that the U.S. cannot expect to quickly emerge from what occurred in 2008. They point out that 2008 was the first systemic crisis in the U.S. since the 1930s so the consequences have been much more significant than fall-outs from normal recessions.

### What Comes Next?

The most important question for investors concerns how public sector debt levels, which have risen exponentially over the past half-decade, will ultimately be discharged. As Reinhart and Rogoff discuss, there are three options to reducing debt levels. The first is restructuring, also known as default. For obvious reasons this is painful and typically avoided except under the most dire circumstances. Governments can also pursue structural reform, which in today's case would mean greater austerity. Implementation of this would stand in stark opposition to Keynes's recommendation that the fiscal and monetary spigots be kept open during hard times. Although tightening is arguably the

best long-term path, it appears unlikely that it will be the primary policy of choice in the near future. The third method, toward which I see global central bankers drifting, is to keep interest rates artificially low and permit increasing levels of inflation in the economy.

Pushing down the cost of borrowing and allowing the price level to rise is known as financial repression. The real value of debtors' obligations is reduced by financially repressive policies. Keynes warned of the dangers of inflation in his early work, *The Economic Consequences of the Peace*, which presciently criticized the harshness of the Treaty of Versailles:

...By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens ... As inflation proceeds and the real value of the currency fluctuates wildly, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless.

Keynes re-iterated his views in the mid-1940s when he visited the United States and saw programs that were touted as Keynesian although he viewed them as primarily inflationary.

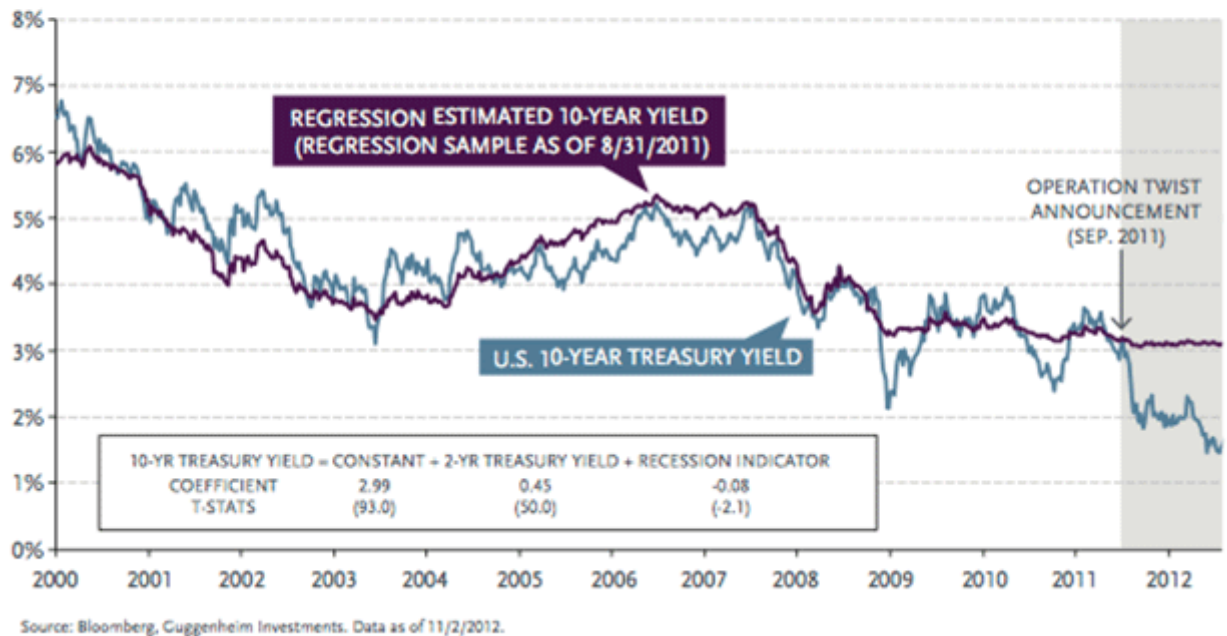
Financial repression is nothing new. Between the 1940s and the early 1980s, the United States reduced its national debt from 140 percent of GDP to just 30 percent while continuing to run sizable deficits. The difference between then and now is the magnitude of the debt mountain on the Federal Reserve's balance sheet that will need to be eroded. A subtle shift has begun in which policymakers are starting to think of inflation as a policy tool rather than the byproduct of their actions. Despite Keynes' warnings, it appears that higher inflation will continue to be the monetary tool of choice for central bankers tasked with cleaning up sovereign balance sheets.

### Investment Implications

The long-term downside of mounting inflationary pressure will ultimately accrue to bondholders and income-oriented investors. The case can be made that we are marching headlong into a generational bear-market for bonds. During the next decade, holders of Treasury and agency securities will likely realize negative real returns. Despite this, these assets continue to trade at extremely rich valuations. Exactly when the market will awaken to this anomaly in securities pricing remains to be determined. The analogy I would use for the current interest rate environment is that of a balloon being held underwater. When the Fed withdraws from the market and allows interest rates to find their economic level, the balloon will inevitably ascend.

## A TIME TO SHORT?

Although U.S. government bonds are overvalued from a fundamental standpoint, it is difficult to time a short position. There is no better description of the current distortion in the U.S. Treasuries market than the Keynesianism "Markets can stay irrational longer than investors can stay solvent."

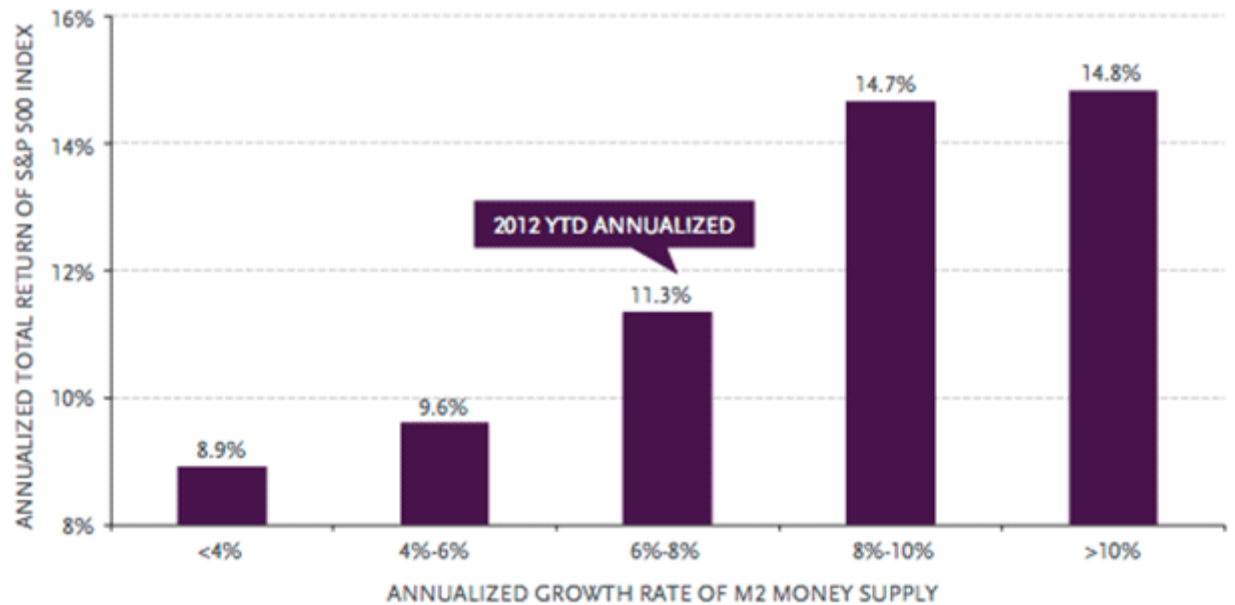


If investors need to stay in fixed-income assets, they should consider transitioning into shorter-duration credit and floating-rate products like bank loans and asset-backed securities. If duration targeting is a concern for liability-matching purposes, adjustable-rate assets can be bar-belled with long-duration securities like corporate bonds or long duration agency mortgage securities. Equities and risk assets are likely to rise as the money supply grows.

Gold, as I discussed in my October 2012 Market Perspectives, "Return to Bretton Woods," has significant upside potentially and should be considered for inclusion in any portfolio designed to preserve or grow wealth over the long-term. Depending on the scale of the current round of quantitative easing and the decline in confidence in fiat currencies, the price of an ounce of gold could easily exceed \$2,500 within a relatively short time frame and could ultimately trade much higher.

## STRIKE WHILE THE PRESS IS HOT

*Equity indices outperform during periods of monetary expansion. The continued accommodation from the Fed bodes well for stock investors.*



Source: Bloomberg, Guggenheim Investments. Data as of 3Q2012. Note: Data is quarterly frequency from 2Q1959 to 3Q2012 after excluding recession periods.

## The World is Waiting

The Great Depression brought about the Keynesian Revolution, complete with new analytical tools and economic programs that have been relied upon for decades. The efficacy of these tools and programs has slowly been eroded over the years as the accumulation of policy actions has reduced the flexibility to deal with crises as we reach budget constraints and stretch the Fed's balance sheet beyond anything previously imagined. Nations have exceeded their ability to finance themselves without relying on their central banks as lenders of last resort and increasingly large doses of monetary policy are required just to keep the economy expanding at a subpar pace. Some have referred to this as reaching the Keynesian endpoint.

Keynes would barely recognize where we now find ourselves. In this ultra loose policy environment we are limited by our Keynesian toolkit. Today, the world is waiting for someone to come forward and explain how we are going to get out of our current circumstances without suffering the unintended consequences created by so-called Keynesian policies.

Early in his life, Abraham Lincoln wrote that he regretted not having been present during the founding of the nation because that was when all the

positions in the pantheon of great American leaders were filled. By resolving America's Imperial Crisis through the Civil War and the abolishment of slavery, Lincoln would go on to join those lofty ranks himself. Much like that crisis needed Lincoln, the current crisis needs someone who can identify new tools to resolve the present economic crisis. Until then we are condemned to a path which leads to further currency debasement and the erosion of purchasing power, with the result being a massive transfer of wealth from creditor to debtor. Without a new economic paradigm, the deleterious consequences of the current misguided policies are a foregone conclusion. It would seem my Dad could hardly have been more correct when he described the next depression from behind the wheel of his 1969 Buick.

**Continue reading on the next page below...**

NEDBANK 2013/02/25  
NEDBANK GROUP LIMITED

Audited financial results for the year ended 31 December 2012

- Headline earnings increased 21,4% to R7 510m(1)
- Diluted headline earnings per share up 19,0% to 1 595 cents(1)
- Strong NIR growth of 12,4% to R17 324m(1)
- ROE (excluding goodwill) increased to 16,4% (2011:15,3%)(1)
- Common equity Tier 1 ratio increased to 11,4% (2011: 10,5%)
- Full-year dividend per share up 24,3% to 752 cents(1)

'In a tough economic environment Nedbank Group's strong franchise and growth orientation together with the momentum built in the first half of the year resulted in the group delivering diluted headline earnings per share growth of 19,0%. This performance was achieved through strong revenue growth, an improved credit loss ratio and responsible expense management while strengthening the balance sheet and investing for growth.

We are committed to sustainable stakeholder delivery and contributing to SA's development through our support of the National Development Plan objectives. In 2012 we created over 450 new permanent jobs in South Africa and our great-value banking offerings led to 655 000 more clients banking with Nedbank, taking the total number of clients who choose to bank with us above six million. We continue to lead in transformation as the JSE's most empowered large company under the Department of Trade and Industry codes, and to make a difference as South Africa's green bank.

Nedbank Group has strongly growing and diverse annuity income streams, a long-term record of disciplined expense management, a sound funding base, improving asset quality trends and higher coverage ratios, strong capital levels and stable management teams. These attributes, together with a multiyear focus on the importance of culture and values, position us well to continue to deliver to all our stakeholders in 2013 and to adapt to a volatile and challenging economic environment.'

FAMBRANDS 2013/02/25  
DEALINGS IN SECURITIES

In compliance with section 3.63 to 3.65 of the Listings Requirements of the JSE Limited ("Listings Requirements"), we hereby advise of the following transactions by a director in the company's securities:

Name of director: Panagiotis Halamandaris  
Date of transaction: 23 January 2013  
Number of shares: 96 744  
Average sale price 7385.69 cents per share  
Highest sale price 7440 cents per share  
Lowest sale price 7325 cents per share  
Total value: R7 145 211.93  
Class of securities: Ordinary shares  
Nature of transaction: Sale  
Nature and extent of director's interest: Direct beneficial

Name of director: Panagiotis Halamandaris  
Date of transaction: 24 January 2013  
Number of shares: 103 256  
Average sale price 7417.21 cents per share  
Highest sale price 7428 cents per share  
Lowest sale price 7400 cents per share  
Total value: R7 658 714.36  
Class of securities: Ordinary shares  
Nature of transaction: Sale  
Nature and extent of director's interest: Direct beneficial

The above transactions were done on market. Clearance to deal was received in terms of paragraph 3.66 of the Listings Requirements.

NEDBANK 2013/02/20

NEDBANK GROUP - TRADING STATEMENT

The following statement is made with reference to paragraph 3.4 (b) of the JSE

Listings Requirements:

Following the release of Nedbank Group's third quarter trading update on 29 October 2012, the group continued to perform well in the fourth quarter.

Consequently, shareholders are advised that headline earnings per share ("HEPS") and basic EPS ("EPS") for the year ended 31 December 2012 are expected to be between 18% and 23% higher than the 1 365 cents per share and 1 367 cents

per share, respectively, reported for the comparative period to December 2011.

The financial information on which this trading statement is based has not been reviewed or reported on by the group's auditors. Nedbank Group's results for the year ended 31 December 2012 will be released on SENS on Monday, 25 February 2013.

SHOPRIT 2013/02/18  
SHOPRITE HOLDINGS: RESULTS FOR THE 6 MONTHS ENDED  
DECEMBER 2012

#### Key information

Trading profit was up 16,0% to R2,510 billion.  
Turnover increased 13,8% - from R41,054 billion to R46,723 billion.  
Headline earnings per share rose 12,5% to 315,9 cents (2011: 280,8 cents).  
Dividend per share declared was 123 cents (2011: 109 cents) an increase of 12,8%.

Whitey Basson, chief executive, commented:

The Group succeeded in increasing total turnover by 13,8% to R46,723 billion in a highly competitive market. The pace of growth in the first three months of the reporting period was not maintained in the second, when the retail sector as a whole experienced a slow-down in consumer demand, particularly in the month of December. The trading margin edged slightly higher to 5,4% compared to a year ago. The supermarket operation in South Africa grew sales by 11,5% and with internal inflation at 4,6%, this represents real growth of 6,9%. Seen against Nielsens reporting that sales for the food retailing industry in South Africa grew by 8,2% in the six months to December, it is clear that the Group has gained additional market share. At the same time it continued its strong growth on the rest of the continent, increasing turnover in constant currency terms by 23,5%. Overall, management is satisfied with the results achieved in the present climate.

ASTRAL 2013/02/14  
RESULTS OF ANNUAL GENERAL MEETING - THURSDAY 14 FEBRUARY  
2013



The annual general meeting of Astral Foods was held today, Thursday, 14 February 2013. All the ordinary and special resolutions, with the exception of Special Resolution No. 4 (dealing with the granting and issuing of share options), as set out in the notice of annual general meeting to shareholders dated 7 November 2012, were approved by the requisite majority of shareholders.

The special resolutions will be lodged for registration with the CIPC.

#### DISCOVERY 2013/02/13 TRADING STATEMENT

Discovery is currently finalising its results for the six month period ended 31 December 2012 ("current period"), which will be released on SENS on 21 February 2013.

Shareholders are advised that headline earnings per share will be between 15% and 25% higher than that of the corresponding reporting period of the previous year ("corresponding period"), while earnings per share will be between 10% and 20% higher than the corresponding period.

In the current period, Discovery has continued, as in prior periods, to focus on the progression of normalised headline earnings that excludes the accounting impact of the Standard Life Healthcare acquisition and the accounting for the puttable non-controlling interest financial liability. Management is of the view that this best represents the underlying operating performance. normalised headline earnings per share will be between 15% and 25% higher than that of the corresponding period.

The financial information on which this trading statement is based has not been reviewed and reported on by the Company's external auditors.

ASPEN 2013/02/04  
CAUTIONARY ANNOUNCEMENT - DISCUSSIONS WITH MSD

Shareholders are advised that Aspen is currently engaged in discussions with MSD (known as Merck in the United States and Canada) in respect of a possible transaction comprising the acquisition of an active pharmaceutical ingredient facility situated primarily in the Netherlands and a related portfolio of pharmaceutical finished dose form products.

These discussions may have a material effect on the price of Aspen's securities if successfully concluded and accordingly shareholders are advised to exercise caution when dealing in the company's securities.

FIRSTRAND 2013/02/02  
New Sens Announcement (01 Feb 2013):

FirstRand Limited  
(Incorporated in the Republic of South Africa)  
Registration number: 1966/010753/06  
B Preference share code: FSRP ISIN: ZAE000060141  
Income tax number: 9150201714  
("FirstRand" or "the Company")

DIVIDEND DECLARATION OF 320.25019 CENTS PER VARIABLE RATE  
NON-  
CUMULATIVE, NON-REDEEMABLE FIRSTRAND B PREFERENCE ("B  
PREF") SHARE

Shareholders of B Pref shares are advised that the directors have declared Dividend Number 17 for the period 28 August 2012 to 25 February 2013, both days inclusive, in the amount of 320.25019 cents per B Pref share.

The salient dates for this dividend are as follows:

Last day to trade Friday, 15 February 2013  
Shares commence trading "ex" the B  
preference share dividend from the  
commencement of business on Monday, 18 February 2013  
Record date Friday, 22 February 2013  
Payment date of the B preference share  
dividend Monday, 25 February 2013

B preference share certificates may not be dematerialised or rematerialised between Monday, 18 February 2013 and Friday, 22 February 2013, both days inclusive.

In the event that there is a change to the prime rate between the B preference share dividend declaration date ("the dividend declaration date") and the B preference share dividend payment date ("the dividend payment date"), the prevailing prime rate at the dividend declaration date will be applied from the dividend declaration date to the dividend payment date.

The effect of the aforementioned will be that the B preference share dividend will not be adjusted for any changes in the prime rate between the dividend declaration date and the dividend payment date.

The Company has utilized secondary tax on companies' credits amounting to 320.25019 cents per share. As a consequence, no dividends tax will be deducted from this preference dividend.

The issued share capital at the declaration date is 5 637 941 689 ordinary shares of one cent each and 45 000 000 B preference shares of one cent each.

DISCOVERY 2013/01/31  
New Sens Announcement (31 Jan 2013):

DISCOVERY HOLDINGS LIMITED  
(Incorporated in the Republic of South Africa)  
Registration number 1999/007789/06  
Share code: DSY and DSBP  
ISIN: ZAE000022331 and ZAE000158564  
("Discovery" or "the Company")

#### FINALISATION OF SALIENT DATES FOR THE NAME CHANGE

Shareholders are referred to the announcement released on SENS on Tuesday, 4 December 2012 advising, inter alia, that the special resolution to approve the change of the Company's name from 'Discovery Holdings Limited' to 'Discovery Limited' was approved by the requisite majority of votes at the general meeting of shareholders (the special resolution').

Shareholders are advised that the special resolution has been registered with the Companies and Intellectual Property Commission. There are no further conditions precedent outstanding.

Accordingly, the salient dates for the name change, as announced on SENS on Tuesday, 6 November 2012, still apply. The Company will begin trading under the new name 'Discovery Limited' with effect from commencement of trade on Monday, 11 February 2013.

CITYLDG 2013/01/30

Further to the announcement released on the Stock Exchange News Service of the JSE Limited on 12 December 2012, shareholders are advised that normalised headline earnings per share, which excludes the costs and effects of the BEE deal, are anticipated to be between 27% and 32% higher than the previous year.

Diluted / undiluted headline and basic earnings per share for the six months ended 31 December 2012, which include the costs and effects of the BEE deal, are anticipated to be between 60% and 65% higher than the previous year.

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

ASTRAL 2013/01/30  
TRADING STATEMENT

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

30 January 2013: Astral Foods Limited (Astral), one of South Africa's leading poultry producers, recorded its worst trading performance in its history as a listed entity, over the first quarter of the 2013 financial

year-end, which included the 2012 Festive Season. Astral's operating profit for the first quarter ended 31 December 2012, was 60% lower than the corresponding period. Astral's Chief Executive Officer, Chris Schutte said: "During our 2012 year-end results road show, we indicated that we were expecting poor trading conditions to prevail for the first half of the 2013 financial year-end. Unfortunately, the trading conditions during the first quarter of the 2013 financial year were more severe than anticipated. Indications are that the second quarter performance will be much worse than the first quarter and as a result, Astral's results for the six months ending 31 March 2013 will be severely impacted."

The factors that negatively influenced Astral's Poultry Division over the first quarter of 2013, and set to continue over the second quarter of 2013, include the high input costs relating to maize and soya procured at historic record price levels and only now being reflected in the production cost of poultry. The Poultry Division's ability to recover the high input costs in a depressed consumer environment was severely hampered by record poultry imports from Brazil and Europe, and subsequent high local poultry stocks led to excessive margin pressure over the same period. Astral's Feed and other African Divisions continue to report good performances. Astral has a reasonable degree of certainty, considering the current market environment, that earnings per share and headline earnings per share for the six months ending 31 March 2013 will be down between 45% and 65% and 75% and 95% respectively, versus the six months ended 31 March 2012. The results, on which this trading statement was based, were not audited or reviewed by the Group's auditors.

In light of the severe drop in forecast headline earnings the likelihood of payment of an interim dividend is uncertain. The Board of directors will give final consideration to the interim dividend at the Board meeting approving the financial results for the six months ending 31 March 2013.

Between November 2012 and January 2013, Astral experienced violent strike action by unionised labour in the Western Cape as well as in Gauteng. As a result of

this action, Astral experienced one fatality, six farms were affected by vandalism and three poultry sheds were burnt down by the strikers, in the process killing approximately 65,000 chickens. The damage to the poultry assets and resultant impact on production could lead to jobs being cut. The direct costs of the strikes are estimated to be in excess of R35 million. Operations in both regions are back to normal.

"More favourable feed costs are expected for the second half of the 2013 financial year and should be a major factor in reversing the Poultry Division's outlook. Astral is continuing with various operational cost-saving initiatives and also foresee improved trading conditions for the second half of the 2013 financial year," concluded Schutte.