THE STERLING TIMES 3

MARCH 2012

STERLING
PRIVATE WEALTH

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Introduction
Graydon Morris

Dear valued clients

Welcome to our first newsletter of 2012!

We hope the year ends as well as it has begun. We purposefully delayed this publication until the Budget speech had been presented. We are disappointed to report, that from our client's perspective, there was not a lot of good news contained therein. We have provided an overview of the key features of this budget within Sterling Times. The changes to the rate of Dividend Tax and CGT inclusion rates will continue to place greater demands on a few select tax-payers to service the growing social service grants and administrative salaries of government employees.

A few very interesting insights are included within this 3rd Sterling Times.

A piece by Andrew Headley of Veritas Asset Management in terms of the state of play of global equities has been included for your interest. Andrew manages the Veritas Global Equity Fund. This fund is named the Nedgroup Global Equity Fund in SA, where it forms part of Nedgroup's Best of Breed range, and enjoys FSB approval for distribution to SA investors. We have recently included this fund on our "Approved Fund List". As a result, we thought the views and notes of this highly acclaimed team would be worthwhile sharing.

Sterling advisors are avid readers of the views of Jeremy Grantham and James Montier, of GMO. These two gentlemen are highly acclaimed market commentators and strategists. Jeremy Grantham's latest note is reproduced to provide a few key principles. These are principles consistent with the messages our wealth managers share with clients continuously. All in all Jeremy provides ten key points for success. We tried to highlight a few of these as being more pertinent than others, but this was found to be impossible. All 10 points require acknowledgement and application. We shall continue to assist you in achieving this.

As previously detailed, 2012 marks our tenth year in business. Many of you have been with us for much of this time, others we have met more recently along the way. We value each of our clients' custom tremendously, and are humbled by the Trust placed in our business.

We have begun to form a closer alliance with Hugo Capital, a smaller advisory business, founded by the current Key Individual, Janet Hugo. Janet has built a successful organisation over a number of years and has been looking for a partner that shares a similar outlook and philosophy for some time. We believe her skills will greatly benefit our team. Janet enjoys a high media profile and is very active as a committee member of the Financial Planning Institute. We have included an article on topical planning issues, by Janet.

We look forward to sharing more of the year's events with you in due course. As you know, we assisted a group of needy people in the Berea area via Reel Gardening as our Christmas contribution on behalf of our clients. Rather than include significant detail around this in this Sterling Times, we have attached a separate piece on his specific issue for you as an attachment to this covering e-mail. This attachment is also included on our website.

In closing, I thought I would share with you an e-mail I recently shared with my colleagues on 11 February 2012:

"I have been reading Steve Job's book and came across the following comment he had on when Microsoft tried to develop their own "iPod", called the Zune.

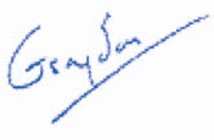
The older I get, the more I see how motivations matter. The Zune was crappy because the people at Microsoft don't really love music or art the way we do. We won because we personally love music. We made the iPod for ourselves, and when you're doing something for yourself, your best friend or family, you're not going to cheese out. If you don't love something, you're not going to go the extra mile, work the extra weekend, and challenge the status quo as much.

It struck me that this is why Sterling has been so successful, over nearly 10 years. Each of us cares deeply and are fascinated by investment and planning issues. Our motivations are not monetary, but rather on gaining the respect and admiration of clients and the industry for doing things in a manner that will not compromise, in the long term, our client's results. Think about it, we all care deeply about what our clients think of our service and integrity. This should not be taken lightly. "

Have a great year.

Regards

Graydon Morris
Founding Director



National Budget Summary 2012/2013

Mishka Gamiet

The following is a summary of the tax related budget proposals announced by the Minister of Finance on 22 February 2012. Highlights of key points are summarised below:

Budget Deficit

Budget deficit projected at 4.6 percent of GDP for the fiscal year to March 2013, below economists' expectations of 5.4 percent. The deficit is projected to fall to 3 percent by 2014/15.

Growth

Growth forecast trimmed to 2.7 percent for 2012 GDP, from 3.4 percent expected in October last year. GDP is projected to grow 3.6 percent and 4.2 percent in 2013 and 2014.

Inflation

Inflation to average 6.2 percent in 2012, above the 3-6 percent target range, before falling back to 5.3 percent in 2013 and 5.1 percent in 2014.

Current Account

Current account deficit to widen to 4.3 percent of GDP in 2012, from 3.3 percent in 2011. Expected to expand to 4.5 percent in 2013 before easing to 4.4 percent in 2014.

Debt

Total net government debt to hit 1.35 trillion rand ($175.5 billion), or 36 percent of GDP, by the end of 2012/2013, rising to 1.54 trillion rand, or 38.5 percent of GDP, by the end of 2014/2015.

Borrowing Requirement

Net borrowing forecast at 169 billion rand for 2012/13, easing to 158 billion rand the next year and 141 billion the year after that.

Revenue

Total government revenue for 2012/.13 estimated at 905 billion rand, or 27.4 percent of GDP.

Spending

Total government expenditure in 2012/13 seen at 1.1 trillion rand, or 32 percent of GDP. Spending seen at 1.1 trillion and 1.2 trillion rand over the next two years.

Infrastructure

Infrastructure spending seen at 844 billion rand over the next three years. The government has 3.2 trillion rand of potential or existing "mega-projects".

Main tax proposals for 2012 include:

- Increase effective capital gains tax rates to 13.3% for individuals, 18.6% for companies and 26.7% for trusts from 1 March 2012.
- Dividends tax becomes effective from 1 April 2012 at a rate of 15%
- Conversion of remaining medical tax deductions to tax credits from March 2014.
- From March 2014 an employer's contribution to retirement funds on behalf of an employee will be treated as a taxable fringe benefit in the hands of the employee. Individuals will from that date be allowed to deduct up to 22.5 per cent of the higher of taxable income or employment income for contributions to pension, provident and retirement annuity funds with a minimum annual deduction of R20 000 and an annual maximum of R250 000.
- For individuals at least 45 years of age the deductible amounts will be up to 27.5% with a minimum annual deduction of R20 000 and an annual maximum of R300 000.
- Tax preferred savings and investment vehicles for individuals are to be introduced from March 2014.
- Reduction in the rates of tax on small business corporations.
- Reduction in the compliance burden of micro businesses.
- Additional tax on gambling from 1 April 2013 at 1 % on a uniform provincial gambling tax base.
- Discussion paper on carbon emissions tax to be published in 2012.
- General fuel levy increases by 20c a litre, the Road Accident Fund levy increases by 8c a litre.
- Sin taxes: A packet of 20 cigarettes will cost 58c more, a 750 ml bottle of liquor (spirits) R6 more, a 340 ml can of beer 9c more and a 340 ml can of cider will cost 8.84c. A litre of wine will cost 18c more.
- A new tax credit will replace the tax reduction for medical aid contributions.
- Tax incentive to encourage savings that may replace the current interest exemption thresholds.
- A 15% dividend withholding tax to kick in on 1 April. Pension funds, companies are exempted from this tax.
- Significant tax concessions and reduced red tape for small businesses.
- Electricity levy increased by 2.5c/kWh.

Economic Outlook

- Budget deficit of 4.6% in 2012/13, 4% in 2013/14 and 3% in 2014/15.
- Government spending to reach R1.1 trillion in 2012/13.
- National government's net loan debt to reach R1.5 trillion in 2014/15.
- The national treasury expects economic growth of 2.7% in 2012, 3.6% in 2013 and 4.2% in 2014.
- The national treasury expects headline inflation to be 6.1% in 2012, 6.2% in 2013 and 6.1% in 2014.

Government Spending Plans

- R9.5 billion for the Economic Competitiveness and Support Package, including R2.3 billion for dedicated special economic zones;
- R6.2 billion for job creation;
- R3 billion for equalisation of subsidies to no fee schools and expansion of access to Grade R;
- R1 billion for National Health Insurance Pilot project;
- R1.4 billion for Early Childhood Development;
- R4 billion for Passenger Rail Agency of South Africa for coaches, as the start of a programme to replace the current fleet;
- R1 billion for Signalling and depot infrastructure related to this new rail transport programme;
- R4.7 billion for Electricity demand side management grant: Eskom for the installation of solar water geysers;
- R1.8 billion for municipal water infrastructure;
- R3.9 billion for upgrading informal settlements.

Individuals

Personal Income Tax - Relief for Individuals

The 2012 Budget proposes direct personal income tax relief to individuals amounting to R9.5 billion, of which 54% of

the relief will go to taxpayers who earn less than R260 000 a year.
The tax threshold for individuals younger than 65 will be R63 556 and for individuals 65 up to 75 will be R99 056 and older than 75 will be R110 889.
Exemption for interest and dividend income remains the same

- The annual exemption on interest earned for individuals younger than 65 years is raised from R22 300 to R22 800.
- The exemption for individuals 65 years and older increases from R32 000 to R33 000.
- The threshold for the tax-free portion of interest and dividends from foreign investment stays unchanged at R3 700 from the 2010 budget.

Medical Expenses

- As announced in the 2011 Budget, income tax deductions for medical scheme contributions for taxpayers below 65 years will be converted into credits.
- Monthly tax credits will be increased from R216 to R230 for the first two beneficiaries and from R144 to R154 for each additional beneficiary with effect from 1 March 2012.
- From that date onwards (apart from those with disabilities), where medical scheme contributions in excess of four times the total allowable tax credits plus out-of-pocket medical expenses combined exceed 7.5 per cent of taxable income, they can be claimed as a deduction against taxable income.
- To ensure improved equity of the tax system and to help curb increases in health costs, additional medical deductions will be converted into tax credits at a rate of 25 per cent for taxpayers aged below 65 years with effect from 1 March 2014.
- Also with effect from the same date, employer contributions to medical schemes on behalf of ex-employees will be deemed a taxable fringe benefit and such ex-employees will be able to claim the appropriate tax credits. Taxpayers 65 years and older, and those with disabilities or with disabled dependants, can currently claim all medical scheme contributions and out of- pocket medical expenses as a deduction against their taxable income.
  The tax credits will, as from 1 March 2014, apply to all taxpayers. However, taxpayers 65 years and older and those with disabilities or disabled dependants will be able to convert all medical scheme contributions in excess of three times the total allowable tax credits plus out-of-pocket medical expenses into a tax credit of 33.3 per cent. Note that the 7.5 per cent threshold will not apply in the case of taxpayers 65 years and older and those with disabilities or with disabled dependants.

Other Tax Proposals Affecting Individuals:

- Dividend Withholding Tax
  As announced previously, the dividend withholding tax will come into effect on 1 April 2012, bringing an end to the secondary tax on companies. Pension funds that are exempt from income tax will receive their dividends tax free. For equity reasons it is proposed that the dividend withholding tax come into effect at 15 % – five percentage points higher than the previous secondary tax on companies' rate. Income from capital can be derived as interest income, dividends or capital gains, all of which should be taxed equitably.
  Removal of the proposed passive holding company regime: Government initially proposed a passive holding company regime to come into effect with the implementation of the dividend withholding tax to correct potential arbitrage between different tax rates. With the dividend withholding tax coming into effect at a 15% rate, these arbitration concerns are greatly reduced. The initially proposed passive holding company regime will be dropped.

Increase in Effective Capital Gains Tax Rates

To enhance equity, effective capital gains tax rates will be increased. The inclusion rate for individuals and special trusts will increase to 33.3%, shifting their maximum effective capital gains tax rate to 13.3%. The inclusion rate for other entities (companies and other trusts) will increase to 66%, raising the effective rate for companies to 18.6% and for other trusts to 26.7%. These changes will come into effect for the disposal of assets from 1 March 2012.

Are people paying too much for safety?

Andrew Headley
Portfolio Manager and Co-Founder, Veritas Asset Management

There is something about the dawn of a new year that encourages otherwise sensible people to make predictions about the year ahead. In the investment industry predictions are given for the level of stock markets, interest rates, GDP growth rates and foreign exchange rates to name a few. The historic inability to predict any of these factors, with any consistent degree of accuracy does not dissuade these 'seers' from trying each year. Looking back at some of the predictions made last year, the most noticeable and frequent predictions were for a continuation of the recovery that most economies were then enjoying. Consequently most of the prognosticators expected 2011 to be a year of recovery with growth accelerating through the year leading to an especially robust final quarter. Having re-read a number of these forecasts from January 2011, I have not found one that predicted the severity of the Euro crisis, the Arab Spring or that the US would see its credit rating downgraded.

Do not be surprised by the lack of success

Human psychology involves heuristics – these are basically short cuts that the brain used to process information in an efficient way to prevent us from suffering information overload (though many of us may feel we suffer this despite heuristics). However these short cuts often prevent us from correctly processing and interpreting information. Two particular traits encourage us to make (and believe) erroneous forecasts. These traits are known as anchoring and overconfidence (perhaps particularly common in financial markets). Anchoring is the tendency of individuals to stay close to a piece of factual information whether relevant or not. For example forecasts for the S&P 500 index for the end of 2012 are typically based off the current level so there is 'anchoring' around the current level in forecasts. As a result, forecasters are very good at telling you what has just happened. Overconfidence should need no explanation but put simply is the situation where people are surprised more often than they expect to be. Unfortunately 'experts' tend to be most prone to overconfidence as the illusion of knowledge encourages it. Studies have demonstrated that armed with more information, experts are far more likely to make erroneous predictions and also have more confidence in their predictions than laypeople.

So, why bother?

Instead of making worthless predictions, time would be better spent by considering the present situation and what that implies for the future, what events could occur, how likely such events are and what the implications are for investment of each possible outcome. Furthermore, this should be a continual process look out over a suitable timeframe which in most cases is not an arbitrary 365 days (or 366 in 2012). Such an analysis should then operate in conjunction with a consideration of what to do about the opportunities and risks identified (Buy? Hedge? Sell?). For investors, this final part involves focusing on individual companies and then analyzing and valuing these companies.

Finding and keeping the balance

At Veritas we continually consider the environment in which we are investing and express this through our use of themes. These are adaptive and so are amended or change when relevant. These themes are then used to both identify potential investments for further analysis that will benefit from the environment we envisage and also to help us skew the portfolio to such beneficiaries (when available at attractive valuations). Our themes help us to deal with the likely environment we envisage and also help us assess some of the risks and identify companies that are protected against these.

Are people paying too much for safety?

While the current economic malaise affecting developed economies has been beneficial for our dependable compounders theme, it is becoming increasingly difficult to find such companies at attractive valuations. The past two years' uncertainty has led many investors to want the dependability offered by these companies and consequently valuations now reflect that. While we still own a number of these dependable compounders that we believe will deliver attractive returns over our investment horizon, there are few we would buy more of today.

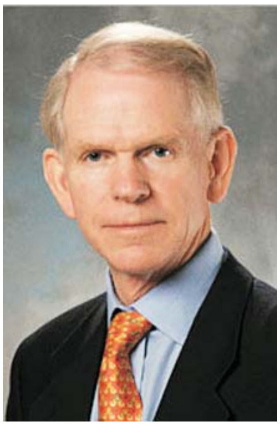
In fact in the three months to the end of 2011, we sold our sizeable position in US pharmaceutical company Merck on valuation grounds following strong share price performance. As a consequence, we are now working to identify and analyse more economically sensitive companies that we consider to be industry leaders in their respective areas. As other investors have sought 'defensive' companies over the past year (benefiting many of our holdings) some of the more cyclical areas have been ignored leading to some 'quality' cyclical now appearing to offer the prospect of attractive returns over our investment horizon. We are currently in the process of analyzing these in more detail but believe that holding some more economically sensitive positions would help hedge the portfolio in the event of a reflationary cycle taking hold. Given the possibility of this outcome combined with the dangers of being too concentrated on 'one side of the boat' we believe a more balanced portfolio at this juncture is appropriate and are working to this aim.

Investment Advice from Your Uncle Polonius

Your Grandchildren Have No Value (And Other Deficiencies of Capitalism)

*Market Review**

Jeremy Grantham



For individual investors setting out on dangerous investment voyages

1. Believe in history. In investing Santayana is right: history repeats and repeats, and forget it at your peril. All bubbles break, all investment frenzies pass away. You absolutely must ignore the vested interests of the industry and the inevitable cheerleaders who will assure you that this time it's a new high plateau or a permanently higher level of productivity, even if that view comes from the Federal Reserve itself. No. Make that, **especially** if it comes from there. The market is gloriously inefficient and wanders far from fair price but eventually, after breaking your heart and your patience (and, for professionals, those of their clients too), it will go back to fair value. Your task is to survive until that happens. Here's how.

2. "Neither a lender nor a borrower be." If you borrow to invest, it will interfere with your survivability. Unleveraged portfolios cannot be stopped out, leveraged portfolios can. Leverage reduces the investor's critical asset: patience. (To digress, excessive borrowing has turned out to be an even bigger curse than Polonius could have known. It encourages financial aggressiveness, recklessness, and greed. It increases your returns over and over until, suddenly, it ruins you. For individuals, it allows you to have today what you really can't afford until tomorrow. It has proven to be so seductive that individuals en masse have shown themselves incapable of resisting it, as if it were a drug. Governments also, from the Middle Ages onwards and especially now, it seems, have proven themselves equally incapable of resistance. Any sane society must recognize the lure of debt and pass laws accordingly. Interest payments must absolutely not be tax deductible or preferred in any way. Governments must apparently be treated like Polonius's children and given limits. By law, cumulative government debt should be given a sensible limit of, say, 50% of GDP, with current transgressions given 10 or 20 years to be corrected.) But, back to investing …

3. Don't put all of your treasure in one boat. This is about as obvious as any investment advice could be. It was learned by merchants literally thousands of years ago. Several different investments, the more the merrier, will give your portfolio **resilience**, the ability to withstand shocks. Clearly, the more investments you have and the more different they are, the more likely you are to survive those critical periods when your big bets move against you.

4. Be patient and focus on the long term. Wait for the good cards. If you've waited and waited some more until finally a **very** cheap market appears, this will be your margin of safety. Now all you have to do is withstand the pain as the very good investment becomes exceptional. Individual stocks usually recover, entire markets always do. If you've followed the previous rules, **you will outlast the bad news**.

5. Recognize your advantages over the professionals. By far the biggest problem for professionals in investing is

*Polonius, a character in Hamlet, a verbose, self-important advisor to the King, was clearly intended to be a real loser, but curiously in the end Shakespeare couldn't resist making most of his ponderous advice actually useful and memorable. His famous speech to his son Laertes who is embarking on a dangerous sea voyage to France (from Denmark) is reproduced as an Appendix. (Hamlet makes genocidal if rather unintentional war on the Polonius family, accounting for Laertes, his sister Ophelia, and poor Polonius himself: a clean sweep.)

dealing with career and business risk: protecting your own job as an agent. The second curse of professional investing is over-management caused by the need to be seen to be busy, to be earning your keep. The individual is far better-positioned to wait patiently for the right pitch while paying no regard to what others are doing, which is almost impossible for professionals.

6. Try to contain natural optimism. Optimism has probably been a positive survival characteristic. Our species is optimistic, and successful people are probably more optimistic than average. Some societies are also more optimistic than others: the U.S. and Australia are my two picks. I'm sure (but I'm glad I don't have to prove it) that it has a lot to do with their economic success. The U.S. in particular encourages risk-taking: failed entrepreneurs are valued, not shunned. While 800 internet start-ups in the U.S. rather than Germany's more modest 80 are likely to lose a lot more money, a few of those 800 turn out to be today's Amazons and Facebooks. You don't have to be better; the laws of averages will look after it for you. But optimism comes with a downside, especially for investors: optimists don't like to hear bad news. Tell a European you think there's a housing bubble and you'll have a reasonable discussion. Tell an Australian and you'll have World War III. Been there, done that! And in a real stock bubble like that of 2000, bearish news in the U.S. will be greeted like news of the bubonic plague; bearish professionals will be fired just to avoid the dissonance of hearing the bear case, and this is an example where the better the case is made, the more unpleasantness it will elicit. Here again it is easier for an individual to stay cool than it is for a professional who is surrounded by hot news all day long (and sometimes irate clients too). Not easy, but easier.

7. But on rare occasions, try hard to be brave. You can make bigger bets than professionals can when extreme opportunities present themselves because, for them, the biggest risk that comes from temporary setbacks – extreme loss of clients and business – does not exist for you. So, if the **numbers** tell you it's a real outlier of a mispriced market, grit your teeth and go for it.

8. Resist the crowd: cherish numbers only. We can agree that in real life as opposed to theoretical life, this is the hardest advice to take: the enthusiasm of a crowd is hard to resist. Watching neighbours get rich at the end of a bubble while you sit it out patiently is pure torture. The best way to resist is to do your own simple measurements of value, or find a reliable source (and check their calculations from time to time). Then hero-worship the numbers and try to ignore everything else. Ignore especially short-term news: the ebb and flow of economic and political news is irrelevant. Stock values are based on their entire future value of dividends and earnings going out many decades into the future. Shorter-term economic dips have no appreciable long-term effect on individual companies, let alone the broad asset classes that you should concentrate on. Leave those complexities to the professionals, who will **on average** lose money trying to decipher them.

Remember too that for those great opportunities to avoid pain or make money – the only investment opportunities that **really** matter – the numbers are almost shockingly obvious: compared to a long-term average of 15 times earnings, the 1929 market peaked at 21 times, but the 2000 S&P 500 tech bubble peaked at 35 times! Conversely, the low in 1982 was under 8 times. This is not about complicated math!

9. In the end it's quite simple. Really. Let me give you some encouraging data. GMO predicts asset class returns in a simple and apparently robust way: we assume profit margins and price earnings ratios will move back to long-term average in 7 years from whatever level they are today. We have done this since 1994 and have completed 40 quarterly forecasts. (We started with 10-year forecasts and moved to 7 years more recently.) Well, we have won all 40 in that every one of them has been usefully above random and some have been, well, surprisingly accurate. These estimates are not about nuances or PhDs. They are about ignoring the crowd, working out simple ratios, and being patient. (But, if you are a professional, they would also be about colossal business risk.)

10. "This above all: to thine own self be true." Most of us tennis players have benefited from playing against non-realists: those who play to some romanticized vision of that glorious September day 20 years earlier, when every backhand drive hit the corner and every drop shot worked, rather than to their currently sadly atrophied skills and diminished physical capabilities. And thank Heavens for them. But doing this in investing is brutally expensive. To be at all effective investing as an individual, it is utterly imperative that you know your limitations as well as your strengths and weaknesses. If you can be patient and ignore the crowd, you will likely win. But to **imagine** you can, and to then adopt a flawed approach that allows you to be seduced or intimidated by the crowd into jumping in late or getting out early is to guarantee a pure disaster. You must know your pain and patience thresholds accurately and not play over your head. If you cannot resist temptation, you absolutely MUST NOT manage your own money. There are no Investors Anonymous meetings to attend. There are, though, two perfectly reasonable alternatives: either hire a manager who has those skills – remembering that it's even harder for professionals to stay aloof from the crowd – or pick a sensible, globally diversified index of stocks and bonds, put your money in, and try never to look at it again until you retire. Even then, look only to see how much money you can prudently take out. On the other hand, if you have patience, a decent pain threshold, an ability to withstand herd mentality, perhaps one credit of college level math, and a reputation for common sense, then go for it. In my opinion, you hold enough cards and will beat most professionals (which is sadly, but realistically, a relatively modest hurdle) and may even do very well indeed.

Investing These Days.
By Janet Hugo CFP

Awards season for the fund management industry attracts lots of curiosity from investors and advisers alike. We are all curious to know if there are good or "better" funds out there. What we should be asking though, is how the fund managers added value - and most importantly, what are the probabilities of that method being successful again, going forward? Asset allocation and selection are key - and significantly so.

Plexus and Morningstar rank fund performance on a risk adjusted basis and award managers "stars or crowns" for performance. But how does one use these rankings and are they useful? The answers can be confusing or are often too touchy feely, for my liking.

Yet there are some hard facts behind rankings that give some comfort as well. They may well be a fine indicator of core competencies, but then again you need to find out what delivered the performance that earned the rating. The bottom line is that you shouldn't be buying or selling a fund on a ranking alone. It is far more important to understand the investment strategy of the manager and the strategy's prospects of success going forward.

The first problem with rankings is that you need to actually assess what the ranking is relative to. Is the ranking relevant to your process of choosing a fund? Is the fund's benchmark relevant to your requirements? To rank well against funds that have a mediocre strategy has obvious pitfalls.

Then there is the old problem that rankings relate to past performances, which may or may not be good indicators of future performance. Most of us already realise that last year's outperformer is not likely to be next year's outperformer. Risk and opportunities change, markets and economies change, managers and their strategies change. No matter how good the fund managers of your favourite funds are, the unspoken truth is that they cannot be completely mechanical in their processes – and much depends on their asset allocation, their selection decisions and whether the prevailing financial environment suits their styles.

So despite all the marketing that goes into telling us which fund manager to pick - the most important choice that has to be made is your personal asset allocation.
How much and when do you invest in what types of asset? This will be determined by your goals and risk capacity, by your investment time frames, by your return expectations and cash flow.

Yale professor Roger Ibbotson and Morningstar researcher Paul Kaplan analysed both pension fund and balanced mutual fund (unit trust) data. They came to the conclusion that approximately 90% of the variability of returns across funds is explained by the funds' asset allocation decisions. Think about that. If that is right – not only must you choose a fund well - but your personal asset allocation decisions are vital!

In other words the right asset allocation is very likely to be the most important determinant of returns over time. But it is by no means the only important decision you will make with your advisor. In an earlier study - Goetzmann and Ibbotson suggested that active management can earn above average returns. It's logical that actively investing for the environment you are in will decide both the risk taken and the reward earned along the way. This is where working with an adviser who has investment expertise can make a significant difference.

Okay so asset allocation, fund manager selection and strategy are powerful factors. But also make sure you invest tax efficiently, especially in the light of the recent budget changes. The narrowing gap between CGT and income tax means that you and your advisor need to pay attention to investing in the right investment vehicle. Returns from dividends, cash, bonds and property will not be taxed in your retirement funds (RA's, living annuities, preservation and pension funds). If held personally, the returns will be taxed. In the case of dividends, that's a 15% tax saving and all other income will be taxed at your marginal tax rate.

Market performance

investment market performance

period to 31 Jan 2012	Index	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
South African equity	JSE All Share Index	10.8%	21.2%	8.8%	18.1%	15.90%
South African equity	SWIX	12.7%	21.6%	8.9%	17.9%	17.6
South African fixed interest	SA All Bond Index	13.5%	9.0%	8.9%	8.5%	11.20%
South African property	SA Listed Property Index	19.1%	19.5%	13.5%	21.7%	n/a
South African cash	STefI (3 month NCD's)*	5.5%	6.7%	8.3%	8.0%	8.80%

*Short Term Fixed Interest Index**

investment market performance

period to 31 Jan 2012	Index	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
international equity	MSCI World (unhedged) Index (USD)	1.5%	12.3%	-2.0%	2.8%	3.7%
international fixed interest	Barcalays Capital Global Aggregate (unhedged) Index (USD)	6.3%	7.9%	6.0%	5.0%	6.9%
international property	UBS Global Investors Index	4.7%	27.0%	-5.1%	4.2%	10.4%
	"(USD, unhedged, net divs)"					
US dollar	LIBID 7 Day (USD)	0.2%	0.2%	1.6%	2.4%	2.1%
euro	LIBID 7 Day (EUR)	1.0%	0.7%	2.0%	2.1%	2.3%
pound sterling	LIBID 7 Day (GBP)	0.6%	0.6%	2.4%	3.1%	3.4%

breakdown of local share market performance by sector

period to 31 Jan 2012	% of ALSI	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
Top 40	84.0%	10.2%	20.6%	8.4%	17.7%	14.8%
Mid Cap	14.0%	14.7%	25.3%	11.7%	20.3%	23.9%
Small Cap	2.0%	9.4%	19.6%	7.7%	18.2%	24.3%
oil and gas	5.0%	19.2%	16.9%	14.0%	n/a	n/a
basic materials	34.0%	-0.2%	16.7%	6.1%	13.9%	14.3%
industrials	6.0%	10.4%	19.0%	5.5%	14.8%	19.1%
consumer goods	17.0%	21.9%	29.5%	17.4%	25.3%	16.3%
health care	2.0%	17.5%	28.6%	12.7%	21.2%	19.7%
consumer services	9.0%	22.0%	33.9%	15.8%	21.4%	27.9%
telecommunications	6.0%	15.4%	14.8%	10.2%	17.7%	26.3%
financials	20.0%	15.6%	22.3%	4.7%	13.2%	15.4%
technology	0.0%	31.1%	46.2%	17.4%	20.4%	9.7%

The FTSE Group and the Dow Jones Indices have created a new definitive industy classification standard. The Industry Classification Benchmark indices were implemented by the JSEon 1 January 2006

Market performance

breakdown of international market performance by country

period to 31 Jan 2012	1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
United States: S&P 500	2.0%	16.7%	-1.8%	1.5%	1.5%
Germany: DAX	-8.7%	14.2%	-1.0%	6.1%	2.4%
United Kingdom: FTSE 100	-3.1%	11.0%	-1.7%	2.3%	1.0%
France: CAC	-17.6%	3.5%	-10.1%	-2.4%	-3.0%
Japan: Nikkei	-14.0%	3.3%	-12.7%	-3.6%	-1.3%
Hong Kong: Hang Seng	-13.0%	15.4%	0.3%	5.8%	6.6%

all returns are calculated in the respective local currencies and are based on index levels

currency exchange rates

period to 31 Jan 2012		1yr	3yrs pa	5yrs pa	7yrs pa	10 yrs pa
ZAR/USD	7.7900	-7.9%	9.3%	-1.4%	-3.8%	3.9%
ZAR/EUR	10.1960	-3.5%	8.8%	-1.6%	-3.8%	-0.4%
ZAR/GBP	12.2858	-6.5%	6.6%	2.9%	-1.3%	2.8%
ZAR/JPY	0.1023	-14.5%	3.7%	-10.1%	-7.9%	-1.9%
USD/EUR	1.3073	4.9%	-0.6%	-0.1%	0.0%	-4.1%
USD/GBP	1.5763	1.7%	-2.5%	4.5%	2.6%	-1.1%
USD/JPY	0.0131	-7.1%	-5.4%	-8.8%	-4.3%	-5.5%

Market performance

economic indicators

economic growth	%	inflation	%
SA real GDP growth "(3rd quarter '11, annualised q-oq) "	1.4%	SA CPI (y-o-y change for October)	6.1%
US real GDP growth "(4th quarter '11, annualised q-oq) "	2.8%	US CPI (y-o-y change for October)	3.0%
Euro area real GDP growth "(3rd quarter '11, annualised q-oq) "	0.6%	Euro area CPI (y-o-y change for November)	2.7%
Japan real GDP growth "(3rd quarter '11, annualised q-oq) "	5.6%	Japan CPI (y-o-y change for October)	-0.2%
global developed markets real GDP growth "(3rd quarter '11, annualised q-oq) "	2.1%	G7 CPI (y-o-y change for October)	2.5%
interest rates		**commodities**	
SA repo rate	5.50	gold (London PM fix in USD as at 31 January)	1744.00
SA prime overdraft rate	9.00	y-o-y % change	31.4%
US Fed Funds rate	0.25	platinum (London PM fix in USD as at 31 January)	1624.00
ECB refinancing rate	1.00	y-o-y % change	-8.8%
BoJ overnight call rate	0.10	brent crude oil (USD)	110.63
BoE repo rate	0.50	y-o-y % change	11.5%

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