

# Temple



# Alliance

## March 2009

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### Significant Numbers

**2009-03-13**

Exchange	Last	Change
Dow *	7223.98	53.92
Nasdaq	1431.50	5.40
S & P 500	756.55	5.81
MerVal	1043.33	17.94
Bovespa	39015.37	-136.49
TSX	8303.39	21.12
IPC	19437.01	572.14
AEX	211.74	0.43
FTSE 100	3753.68	41.62
DAX	3953.60	-2.62
CAC 40	2705.63	11.38
Nikkei	7569.28	371.03
Hang Seng	12525.80	524.27
Shanghai	2128.84	-5.03
Straits	1577.52	83.99
Jakarta	1327.43	17.02
NZX 50	2523.39	31.77
TSEC	4897.39	142.74
Sensex	8756.61	412.86
Nifty	2719.25	101.80

### COMMODITY FUTURES

	VALUE	CHANGE	% CHANGE
Oil	46.25	-0.78	-1.66
Gold	930.10	6.10	0.66

### Quote

**I have not failed. I've just found 10,000 ways that won't work – attributed to Thomas A. Edison**

## Commentary

### Optimist, Pessimist, Realist or Barking MAD!

The sage of Omaha, Mr. Warren Buffett has recently admitted that he has made some bad investment decision. I'm sure his holdings in AIG are one of his regrets. Realistically even the 'best' have not got it right.

As all the financial gearing unwinds and affects the global sentiment, Porsche CEO through intelligent business deals with 'parent' VW has effectively given Porsche ownership and control of VW. This has resulted in the CEO being awarded the Business man of the year for Europe, 2008.

The loss of some of the big car makers in the US may seem like the greatest disaster for the US. However these companies have not been competitive, have not produced the whole package and without financial support in the past would not be around today. But congressmen and senators rely on votes, and in these 'motor cities' the voters are the workers in the factories. Go figure! The result is protectionism of bad industries.

Protectionism is not unique to this industry or to the US. However in an environment where liquidity is limited, a lot of the companies that have had protection are the first to suffer. As is evident in the present environment. And protectionism will most likely increase, as countries attempt to protect their people. This is not what the global economy needs but realistically political figures are elected and one way to ensure re-election is to find favour with the electorate.

So is it optimistic to buy stocks, should we be pessimistic and be selling any holdings, what is realistic? Are advisors barking Mad to advice a client to invest?

January and February have seen significant inflows from the private investment fraternity. Some administrators have had to work overtime to accommodate inflows. What do these investors know that others don't?

Despite the market index being at a level it was 6 years ago, no account is taken for dividend earnings in an index number. At its highs in 2008, these earnings levels were at around 5%. With a 50% drop in value and sustained earnings that would take earnings to 10%. Earnings are based on historic work; present share price is a reflection of the expected earnings. So to conclude from this statement we can expect earnings to halve. This will maintain the average of 5% earnings yield.

But what happens if earnings don't halve? Then your ownership of that stock will return a dividend of greater than 5%. And if you have held the stock for 5 years your earnings are already banked.

The *pessimism* is justified on future earnings; we can expect these to come down. Spending is not what it used to be. Therefore corporate earnings will reduce. But what about industries that are quite resilient in their earning capability? Property is a good area to look at. Blue chip companies will continue to pay their rent. A national retailer or a bank will have a 15 or 20 year lease. They will continue to pay rent, despite their drop in profits. Earnings in this sector will remain strong.

The *optimism* I have is that there was good value out there, now there is excellent value to be found. Prior to this credit crunch most portfolios were defensively positioned. Stock holdings were in sectors that were not exposed to gearing, fancy financial derivatives or 'cleverly' constructed portfolios. Many of the good companies are still going to take pain, but they will come out stronger and wiser, and growth will be rapid for these businesses.

Realistically, holding cash will not outperform inflation. So what is the alternative? Bonds, property, equities, art, commodities...? At the end of 2008 the US\$ holdings in money market accounts was \$3.9Trillion. I think that is **\$3,900,000,000,000**. And this cash is earning close to ZERO in interest.

As the *Barking Mad* comes out in me, the conditions experienced in the tech boom of the late 90s, the equity hype of 87, the oil spike of 74 all had a remarkable similarity to each other, and a marked difference to today's financial situation. The present position is being compared to the 1931 to 1933 depression. Note I have not compared the 1929 crash. The similarity is lack of liquidity.

The banks and other institutions have received government funding, but they are still not lending. The gearing ratios for the banks are now not in an insolvency position. But the fear of the unknown is causing the pure 'banker' mentality to come out. We will not loan any more money.

Now for many good companies using short term or medium term financing is critical to their survival. They are being forced to retreat, or seek private financing. Most businesses or not in the 'business' of banking, and therefore cannot offer extended credit to clients. Cash flow becomes a problem.

The number above, and graphically represented below, \$3.9Tr, is a sizable sum. I am not predicting a 'V' recovery, but over the next few months this money will be earning zero income. So will it go into Gold, bonds, property, or equity? The question is which elevator do we get in?

We can expect noticeable increases in savings. As pension positions have lost 50%, so has this affected the planning for retirement. But much of this saving will go into cash type instruments, not the equity markets. Only once sentiment turns in favour of the economy will this change.



Drip feed investing in volatile or flat markets is a productive means of achieving gains. I will maintain this strategy going forward. It is also imperative to maintain tactical asset allocation with a view to the long term.

***And a prediction for the long run. The Dollar will fall to levels never previously seen against other currencies and a new currency standard will emerge in the next 10 years. (NB to note is that portfolios invested in non US territories but denominated in US\$ will simply adjust their reporting currency)***



## Estate Planning, Life Policies and Trusts The Need for a WILL

The need for an Estate plan is not limited to the wealthy person; it is an important feature of all persons who have any assets, dependents or who plan on leading a responsible life and a comfortable life in retirement. Why, because Estate planning takes into account all aspects of your personal well being. Your present situation, your need for medical insurance, risk cover, wealth planning for the future and more immediate contingency events and for the distribution of wealth in the event of death as well as covering the costs associated with death.

However people don't like addressing these issues. Firstly because many of the solutions are a 'grudge purchase'. Secondly because we all believe in our own immortality. And last but not least, because it will never happen to us!

An Estate plan identifies planning errors for bequests, liquidity shortfalls either as a result of asset to liability ratio, the way bequests have been made or commonly the requirements left behind being under funded.

Further to the risk associated with the day to day event, the future planning is also critical. If you intend on building up a large portfolio it may be wise to look at the use of trusts or other means of capital protection from Estate duty.

The formation of a Trust does not in itself create a tax avoidance vehicle. And in many cases can result in increased taxation. Therefore due process and planning must be considered, all part of a good estate plan.

A poorly written Will can be extremely detrimental to the survivors and beneficiaries of an Estate. The choice is yours to create a smooth process after death. The alternate should be unthinkable.



Market projections:

<b>GDP growth (%)</b>	<b>2008</b>	<b>2009*</b>	<b>2010*</b>
US	-0.2	-2.7	1.9
Japan	0.2	-2.1	1.1
Euro-area	0.9	-2.0	0.5
UK	0.7	-2.8	0.5
G7	0.3	-2.4	1.0
Asia ex Japan	6.7	4.0	6.3
World	2.3	-0.5	1.7

(Source Hendersons)

This leaves very little room for manoeuvring in the short run. But there are sectors we expect to do worse than the overall predictions here. By eliminating these sectors we believe that we will be able to capitalise on future growth and present and future earning capabilities.

With only one of the territories having a positive prediction on growth in 2009 it makes it a tough call to buy equities. However the comparison between the markets and the GDP has been statistically shown to be uncorrelated in the short and medium term. This period may present some of the best opportunities for the astute investor over the next decade.



*On the lighter side*

At Sunday School they were teaching how God created everything, including human beings.

Little Johnny seemed especially intent when they told him how Eve was created out of one of Adam's ribs.

Later in the week his mother noticed him lying down as though he were ill, and she said, 'Johnny, what is the matter?'

Little Johnny responded, 'I have pain in my side. I think I'm going to have a wife.'

Wish you good health and great wealth

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Thank you to all those who have contributed to this commentary.